

# The Impact of Equity Incentive on Enterprise Performance: A Case Study of Jiuyang Shares

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**Abstract:** There are more and more listed companies that implement equity incentive in China, and most private listed companies take advantage of this favorable opportunity to speed up the implementation and launch of equity incentive schemes. However, due to insufficient prediction of the actual situation and development trend, the original incentive objectives can't be achieved smoothly and the corresponding effects can't be achieved. This paper takes Jiuyang as the research object, analyzes the implementation process of its equity incentive plan, and digs out the problems existing in the basic elements of the equity incentive plan design, such as unreasonable exercise price and conditions, single incentive object level, low performance index requirements and other common problems in the equity incentive plans of listed companies in China. This paper puts forward optimization suggestions from multiple dimensions, which is beneficial for listed companies to make reasonable incentive plans for themselves, and also for other listed companies in China. Division provides case experience support.

**Keywords:** Jiuyang Shares; Private Listed Companies; Incentive Effect, Equity Incentive

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## 1. Overview of equity incentive

In essence, equity incentive is an incentive measure, and it is the most commonly used long-term incentive mechanism adopted by major enterprises to avoid brain drain. Usually, by dividing some shareholders' rights and interests with employees, employees and enterprises are closely linked to form a community of economic interests, thus encouraging employees and enterprises to make progress and grow together, and finally achieving the strategic goal of promoting the long-term and stable development of enterprises.

## 2. Jiuyang Stock Equity Incentive Plan

### 2.1 The motivation of implementing equity incentive in Jiuyang shares

Optimize the governance structure. Using restricted stock incentive can weaken the interest balance between large and small shareholders, slow down the conflict of interests, reduce agency costs, and optimize the internal governance structure.

Enhance the company's value. Jiuyang Co., Ltd. needs to improve the salary distribution mechanism, no longer based on the original salary model, innovate and optimize to maximize the creativity of employees, strive to seize the market share, enhance the soft power of the company's operations, strengthen the subjective kinetic energy, and improve its performance, so as to achieve the goal of transformation and upgrading.

Stabilize professionals. At present, Jiuyang shares have a great demand for professional talents, and the existing new reward plan is not enough to attract a large number of core backbones. The company has the dilemma that the demand side and the supply side of talents are not suitable. At this time, if the company implements equity incentive, it can not only attract professionals, but also retain existing talents.

### 2.2 Contents of Jiuyang Share Equity Incentive Plan

In 2011, the incentive mode selected by Jiuyang Co., Ltd. in the announced equity incentive plan is restricted stock. If the core

members of the management want to acquire the company's stock through the equity incentive plan, they must, within a certain period of time, through their own efforts, maximize the value they create for the company into the company's benefits, and bind their own interests and the company's development. If the management and core management backbone fail to complete the set performance targets or leave early, it will lead to the inability to realize the stock, which will bring certain losses due to the failure of this part of the stock. It will also improve the job stability of the company's top management and core backbone to a certain extent, reduce the brain drain and stabilize the stock of talents. The details of the equity incentive plan of Jiuyang Company are shown in Table 1.

Table 1 Details of Jiuyang Share Incentive Plan in 2011

(full) name	post	Number of shares granted (shares)	Share of granted shares in the total number of underlying shares (%)	Proportion of shares granted to the total share capital of the company (%)
Jiang Guangyong	Director, Secretary of the Board of Directors	60000	1.4	0.01
Cui Jianhua	Director and deputy manager	60000	1.4	0.01
Yang ningning	Director, financial controller	60000	1.4	0.01
There are 243 key management personnel.		4080000	95.8	0.53
total		4260000	100	0.56

Among the equity incentive plans of listed companies in China, private placement is easier to operate and more common than other incentive methods, and the procedure is relatively simple. The stock source of this equity incentive plan is private placement, and its incentive targets mainly include 243 people including some directors, managers, financial leaders and core management backbones of the company, and a total of 4,260,000 shares are granted. In the Memorandum No.1 on Matters Related to Equity Excitement, the CSRC clearly pointed out that when private placement is used as the stock source, the issue price should be based on the pricing benchmark.

Table 2 Incentive Conditions and Period of Jiuyang Shares in 2011

Unlocking ratio	Unlocking time	Performance indicators (based on the previous year)
40%	Twelve months after the date of grant	Sales profit rate > 20% Net profit growth rate > 5% Net operating cash flow > net profit
30%	Twenty-four months after the grant date	Sales profit rate > 20% Net profit growth rate > 6% Net operating cash flow > net profit
30%	36 months after the date of grant	Sales profit rate > 20% Net profit growth rate > 7% Net operating cash flow > net profit

Source: 2001 Restricted Stock Incentive Plan (draft) of Jiuyang Company.

### 2.3 Equity incentive scheme implementation effect

After the release of the exciting plan of the first phase of Jiuyang Co., Ltd., it caused widespread discussion and concern in the market, and the voices of criticism came one after another, resulting in a negative market reaction. The company was questioned by a

large number of internal and external sources. For the sustainable development of the company, the board of directors of Jiuyang Co., Ltd. quickly stopped the incentive plan to avoid the company's longer-term loss of interests. On August 6, 2011, Jing urgently issued the Announcement of Cancelling the Restricted Stock Incentive Plan (Draft) of the Company in 2011. The Yin Quan excitement plan in 2011 came to an end, mainly because the incentive plan was released at the wrong time, and it was too optimistic to predict the trend of the stock price, and the expected market income was too high, so the equity incentive effect was essentially ineffective. The stock price of the first unlocking day set in the equity plan is 8.33 yuan per share, compared with the grant price of 7.59 yuan per share, the value-added is very meager, the attraction is insufficient, the creativity stimulated is insufficient, and it is impossible to generate an incentive response. From Table 3, the financial statement data of Jiuyang Co., Ltd. from 2008 to 2010, it can be seen that the requirements of business indicators are too low, and the key personnel can easily meet the requirements of indicators, and the incentive effect is weak.

Table 3 Net profit and sales growth rate of Jiuyang from 2008 to 2010

age	2008	2009	2010 years	average value
Sales growth rate of% based on the previous year	122.54	7.24	15.32	48.37
The net profit growth rate based on the previous year is%	76.41	11.61	-5.37	27.55

Source: Flush database

### **3. Problems existing in equity incentive of Jiuyang shares**

#### **3.1 The exercise price and conditions are unreasonable.**

The equity incentive of Jiuyang shares is mainly based on private placement. The state strictly controls the stock grant price obtained from this source, which must be greater than or equal to the basic market price. Future earnings in the stock market, lack of market research, lack of prediction and analysis.

Rigorous, the research on the development trend of the external environment is not in place, the future value of the stock can not be accurately predicted, and the actual market income seriously deviates from the expected income, resulting in poor implementation effect of the incentive plan. This kind of incentive form can't achieve the originally planned effect, can't generate incentive effect, and can't stimulate the enthusiasm of employees.

#### **3.2 incentive object level is too single, the effect is not prominent**

The company's economic benefits are the wealth created by the employees of the company together. Individuals who have made outstanding contributions to the company should implement the matching incentive plan, so that employees can get higher satisfaction, spur their work efficiency and inject stronger kinetic energy into the development of the enterprise.

The incentive plan of Jiuyang Co., Ltd. should be considered more diverse and comprehensive, and different incentive methods should be implemented for employees at different levels. Too single level of incentive objects will lead to unobtrusive results, which is not conducive to the internal stability of the company and easily leads to the loss of outstanding personnel. In addition, the incentive target set by Jiuyang shares only considers the current backbone of the company, but does not consider the new talents in the future, which is not conducive to talent introduction and education, and at the same time weakens the working passion of future management backbone to a certain extent. The incentive plan failed to arouse the working passion of the company's talents, failed to strengthen the sense of ownership of the company's employees, and the overall incentive effect deviated from expectations, lacking flexibility. The existing stock of talents could not meet the internal needs of the company's development, and it was urgent to inject fresh blood to promote the company's sustainable development. The novel management mode and technical skills were the important engines of the company's development, which could eliminate more obstacles for the company's development.

#### **3.3 Performance indicators are too low to achieve the incentive effect.**

According to the annual report of Jiuyang Co., Ltd., the sales situation in 2008-2010 was very optimistic, with an average growth

rate of 48.37% in three years, which was higher than the 20% sales growth rate required in the equity incentive report, while the net profit growth rate in 2008-2010 showed a good trend, with an average growth rate of 25.98%, far higher than the highest value of 7% in the equity incentive report. In the case of such a superior development of enterprise performance, the lack of detailed market research and the inability to correctly estimate the future development of the enterprise lead to the unreasonable formulation of performance indicators in the incentive scheme. Under the requirement of this index, the management of enterprises can obviously achieve these goals easily, and they can't achieve the incentive efficiency at all, and lose their substantive efficiency.

## **4. Conclusion and construction**

### **4.1 Conclusion**

This paper takes Jiuyang shares as the research object. This paper makes an in-depth study on the failure process of equity incentive of Jiuyang in 2011, summarizes the existing problems, and draws the following conclusions:

First, in terms of incentive targets, the distribution of core key personnel who are motivated by stocks is unreasonable, and the incentive plan does not consider the introduction of talents in the future. It is easy for the company's development team to lack detailed market research when determining the assessment objectives, and the forecast of the future development trend is inaccurate, and the business performance indicators formulated are low. The enterprise management can easily achieve these objectives, but it does not play an incentive role.

### **4.2 Suggestions**

First, the design of equity incentive scheme should be based on the nature of the enterprise. The motivation of implementing equity incentive is bound to be different due to the different nature of enterprises. For listed companies with state ownership, government departments play a leading role and have a policy monopoly position. Shareholders can't completely control and influence the direction of the company, nor can they play a decisive role in major decisions. Compared with private enterprises, the effort of senior staff is positively correlated with the performance of the company, and private enterprises are more willing to adopt equity incentive plan than state-owned enterprises.

Secondly, choosing the appropriate incentive mode is an important factor that affects the effect of equity incentive. The performance of private listed companies in the start-up or growth period will be in a fluctuating state for a long time, and the external market competition pressure is also great. It is an excellent measure to motivate employees to actively participate in the company construction, so as to realize the "exciting" demand for talents. Jiuyang Co., Ltd. is a listed company with a good growth and maturity. Its cash flow is relatively stable and its liquidity is good. The excited objects of joint ownership are mainly the core business backbones, including the personnel of the market, technology and R&D departments. Relatively speaking, restricted stocks can play a better role in restraining, and can achieve the corresponding incentive effect through dividend rights.

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