

Literature Review of Equity Incentive Based on the Perspective of Life Cycle Theory

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Abstract. Since the introduction of equity incentives into China, more and more domestic listed companies have used equity incentives as a main incentive mechanism to motivate employees and promote the stable development of the company, and most of them have achieved good results. However, equity incentives are diversified, and different equity incentives have different incentive effects. From the perspective of the company's long-term and stable development, it is particularly critical to select the most appropriate form of equity incentives according to the life cycle and its own development stage. This paper summarizes the relevant literature on equity incentives and life cycle at home and abroad, and finds that most scholars believe that equity incentives can often achieve the expected incentive effect, and the equity incentive plan based on the perspective of life cycle can also help to further enhance the positive effect of equity incentives.

Keywords: Equity incentive, life cycle, financial performance

1. Introduction

As early as the 1950s, the long-term incentive mechanism of equity incentive has been widely used in Western countries. After long-term theoretical research and practical application in European and American countries, the positive incentive effect of equity incentive has been fully affirmed. In 2006, the equity incentive system was officially introduced into China. In 2010, only more than 100 domestic companies had adopted equity incentive. Only ten years later, in 2020, a total of 1,171 listed companies in Shenzhen alone have implemented nearly 2,000 equity incentive. The single-stock incentive plan involved 28.652 billion shares at one point. From the perspective of growth rate, it is not difficult to find that more and more companies use equity incentive as a common long-term incentive method, but considering the huge number of listed companies in my country, compared with the ratio of nearly 70% in developed countries in Europe and the United States, The proportion of Chinese enterprises that use equity incentive as the main incentive method is still far less than that, which also shows that on the road of equity incentive, domestic enterprises still have a long way to go. As the saying goes, "Adjust measures according to local conditions", when enterprises choose the specific incentive method of equity incentive, it is not possible to copy them. Theoretically, companies in different life cycles have their own life characteristics and development goals in different periods, and different equity incentive models also have their own advantages and disadvantages. The fixed equity incentive model should have a certain positive incentive effect for the enterprise in the long run.

2. concept definition

2.1 Equity incentive

Equity incentive are often the company's own development considerations, combined with the current status of the enterprise, to grant stocks or other equity rights to employees. In fact, as a long-term incentive mechanism, equity incentive often give employees part of the shareholders' rights and interests in the form of additional conditions, so that they have a sense of ownership, thereby bundling employees with the enterprise, and then forming a community of interests, promoting the prosperity

of the enterprise and the employees. Lose and lose, grow together, and ultimately help enterprises achieve the long-term goal of stable development.

Compared with traditional incentive methods, equity incentive have three major characteristics: first, equity incentive can significantly reduce relevant agency costs; second, under the effect of equity incentive, both motivating employees and constraining employees go hand in hand; third, equity incentive The results are "uncertain". Under the influence of various internal and external factors such as market fluctuations, domestic and foreign environments, it is difficult to accurately predict the results of equity incentive.

2.2 life cycle

Most scholars believe that the development of enterprises also has certain laws of life. Marshall, a famous western economist, pointed out that enterprises, like all living substances in nature, have to go through the stages of birth, old age, sickness and death. Generally speaking, the life cycle of an enterprise can basically be divided into four stages: start-up, growth, maturity and decline. Finally, after the decline period, the enterprise often enters the three endings of extinction, transformation or return to stability. Although there are many differences between the industry and the lifespan of the enterprise, in the same enterprise life cycle stage, there are often many commonalities between enterprises. Understanding and grasping these commonalities will help enterprises to further understand their current life cycle and timely Adjustments have brought better development to the enterprise.

3. Literature Review on the Implementation Effect of Equity Incentive

3.1 Equity incentive are positively correlated with corporate performance

Jensen (2017) put forward the "interest aggregation" hypothesis after analyzing the company's overall financial indicators and equity incentive plans. In the hypothesis, he believes that a certain amount of equity held by the company's management will make the company's shareholders and management more consistent in many aspects of the company's development, which will not only reduce the related agency costs, significantly improve the company's operating performance, but also Conducive to the long-term and stable development of the company.

Nobuhisa (2017) used the data of Japanese companies during the period of corporate transformation around 2000 as a sample to empirically study the impact of Japanese companies' adoption of equity incentive on corporate performance. After analysis, it is found that the operating performance of companies that have carried out equity incentive earlier shows that equity incentive have obvious positive effects on improving corporate performance.

He Ruixian (2016) took ZTE as a case company, and based on the life cycle theory, he analyzed the equity incentive plans implemented in different life cycle stages, and believed that ZTE used shares in the two different stages of growth and maturity. The option model and the restricted stock model are used as incentives. From the perspective of the company's operating performance and market response, the equity incentives based on life cycle selection have achieved good results.

Lu Zhenghua and Wu Qizhi (2019) studied the three equity incentives implemented by Hengrui Medicine from the perspective of agent behavior and found that equity incentives on the one hand can improve corporate performance and create intrinsic value, and on the other hand, can promote the management of corporate market value.

3.2 Equity incentive are negatively correlated with corporate performance

Oyera and Schaefer (2012) also believe that there is a negative correlation between equity incentive and corporate performance. Based on the results of empirical research, they believe that if the incentive subject is not carefully selected, such as including ordinary employees, and the incentive scope is too large, not only will it not be conducive to the development of the company, but it will further increase the corresponding cost, and even lead to the company Performance declined.

Xiong Jian and Meng Qingjun (2019) conducted an empirical analysis of the 2010-2016 small and medium-sized board manufacturing enterprises based on the panel threshold model analysis method. They believed that equity incentive did affect the value of enterprises, and showed an inverse relationship. When the value is low, the value of the enterprise will increase; otherwise, the value of the enterprise will decrease.

3.3 Equity incentive have no significant impact on corporate performance

Pan Yongming et al. (2010) took the relevant data of Chinese domestic listed companies that released equity incentive plans in 2007 as research samples, conducted an empirical study based on SPSS, and found that there is no correlation between listed companies' corporate profitability and share incentive plans. Weakly correlated findings.

Bai Jie (2013) studied the implementation of equity incentives by listed companies on the Shanghai Stock Exchange and found that the operating performance of companies that implemented equity incentives was not significantly affected.

Cheng Qi et al. (2016) conducted a survey on listed companies in China's biopharmaceutical industry and found that the proportion of stock incentive has nothing to do with corporate performance.

4. Literature review on life cycle and equity incentive

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Ouyang Xiaoming, Chen Min and Fu Bowen (2017) found that large and medium-sized enterprises entering the mature stage in their life cycle are more suitable for restricted equity incentive schemes. Because at this time, the company's stock price tends to be stable, and the "restraint and incentive" characteristics of restricted equity incentives can firmly bind the employees of the company, allowing them to work together for the long-term development of the company, thereby helping the company. stable development. On the contrary, it is more appropriate for small and micro companies in the growth stage to use stock incentives. In the start-up stage, the company's funds are relatively tight. Considering that the incentive cost of stock incentives is low, and the development expectations of companies in the growth stage are better, the future can be foreseen. The increase is larger, so its incentive effect is also better, so that it can motivate employees and retain talents without taking up too much company development funds.

5. Conclusions

To sum up, at present, there is no unified conclusion on the research on the effect of equity incentives, but from the review of relevant literature, we can find that domestic and foreign scholars generally believe that setting up an equity incentive plan is necessary to achieve the incentive effect and promote the stable development of the company. fewer steps. However, different equity incentive methods have different impacts on enterprises. Therefore, it is necessary to prudently select the most appropriate equity incentive method based on the life cycle of the enterprise. When choosing an incentive method, an enterprise should not copy the same, but should proceed from the actual situation, understand the incentive cost and risk of different incentive methods, and choose according to the current development situation and strategic goals of the enterprise to maximize the incentive effect.

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