A Study on Motivations and Effects of Equity Incentives in Automotive Enterprises: A Case Study of Great Wall Motors

Xiru Lei *

School of Economics and Management, China University of Petroleum, Qingdao, 266580, China

* Corresponding Author Email: 2108020114@s.upc.edu.cn

Abstract. In recent years, the automotive industry pattern of turbulence, talent changes are more and more frequent, the traditional strong car companies are difficult to return to the status of the fuel car era. In this context, many traditional automobile companies have tried to retain or even attract more talents through equity incentives, and Great Wall Motor is not the first one in the industry, but Great Wall is a bit different in terms of the specific implementation level. This paper takes the method of case study to sort out the basis of the content of Great Wall Motor's nearly three equity incentive programs, analyze their implementation effect in depth, and find that the equity incentive program creates more benefits for Great Wall Motor, which makes the company develop sustainably, steadily, and rapidly, and also sets a new model for the industry. Based on this, the company should utilize the medium- and long-term equity incentive methods to deeply explore the internal potential, so as to make the goals of employees, operators, and owners consistent and related to each other, and to realize better operation. Great Wall Motor's form of equity incentives will likely become a compensation model that traditional models will compete to emulate, and this way of retaining talent will also be a major trend in the industry's future development.

Keywords: Equity Incentive; Great Wall Motor; Automotive Industry; Implementation Effect.

1. Introduction

With the increasing dispersion of company's equity and the increasing complexity of management technology, large companies around the world in order to reasonably incentivize the company's managers, innovative incentives, have implemented stock options and other forms of equity incentive mechanism.

Equity incentive is a kind of incentive method to give certain economic rights to business operators in the form of company's equity through the operators, so that they can participate in corporate decision-making as shareholders, share profits, bear risks, so as to diligently and conscientiously for the long-term development of the company's services [1]. In addition to its excellent profitability and standardized management system, a quality company is also inseparable from the excellent talent, therefore, before and after the listing of equity incentives as well as the employee stock ownership plan system is increasingly becoming the standard of excellent enterprises.

The manufacturing industry itself, with the largest volume of listed companies, coupled with the rising demand for core talent in China's traditional manufacturing industry in the face of the transformation and upgrading process of modern industry, has become the industry that promotes the widest range of equity incentive business in 2023. The "Statistics and Analysis Report on Share Incentive Practices of A-share Listed Companies in 2023" shows that the industry with the largest number of share incentive plans is the manufacturing industry, announcing 472 plans, accounting for 70.87% of the total. Automobile is the industry with bright economic performance and is the "ballast" of stable growth of the industrial economy. The implementation of equity incentives by automobile enterprises will help to continue to consolidate and expand the industry's stable to good development trend, stimulate the innovation power of enterprises, promote the high-quality development of the industry, and help the automobile industry to realize a good start.

Based on the annual report of Great Wall Motor Company Limited, this paper observes Great Wall Motor's equity incentive plan in the past three times, and the completion of market and financial indicators collated with the conditions of exercising the right to try to reveal the effect of the implementation of the relevant plan, in order to provide a reference for the improvement of equity incentive plan for similar enterprises in China [2].

2. Case Overview: Equity Incentive Program of Great Wall Motors

2.1. Company Overview

Founded in 1998 and listed on the Shanghai Stock Exchange in 2011, Great Wall Motor Company Limited is currently the largest collectively owned automobile manufacturer in China. Its products cover three categories: Haval SUV, Great Wall sedan, and Fengjun pickup truck. It is known for its steady development, strong economic strength, high growth and profitability for more than 10 consecutive years, and international first-class research and development equipments and systems, which makes it an important force in the camp of China's national automobile independent brands.

In 2023, Great Wall Motor achieved steady growth in sales and operating results, reaching a new level of high-quality development. The Company's annual sales volume amounted to 1,229,982 units, representing a year-on-year growth of 15.85%, and its total revenue amounted to RMB173.212 billion, representing a year-on-year growth of 26.12%. The Company's patent disclosure in the field of intelligence was ranked the first among China's private automobile groups, and the Company's annual sales volume overseas was 314,010 units, representing a year-on-year growth of 82.37%, which was a new historical high.

2.2. Program Overview

Three equity incentive programs of Great Wall Motors are shown in Table 1 below.

Table 1. Three equity incentive programs of Great Wall Motors

	First equity incentive program		Second equity incentive program		Third equity incentive program	
Incentive staff	Senior management, core technical personnel or core business personnel of the Company, directors and senior management of certain subsidiaries, etc.		Senior management of the Company, directors and senior management of the Company's controlling subsidiaries, middle management of the Company (including its controlling subsidiaries) and core technical (business) backbones, etc.		Senior management of the Company, directors and senior management of the Company's controlling subsidiaries, middle management and core technical (business) personnel of the Company (including its controlling subsidiaries), excluding the Company's independent directors, supervisors and shareholders or de facto controllers who individually or collectively hold more than 5% of the Company's shares, and their spouses, parents and children	
First grant date	April 27, 2020		July 22, 2021		January 26, 2024	
Incentives	Restricted Stocks	Stock options	Restricted Stocks	Stock options	Restricted Stocks	Stock options
Award price	4.37 yuan/share	8.73 yuan/share	16.78 yuan/share	33.56 yuan/share	13.61 yuan/share	27.22 yuan/share
Number of persons awarded	282	1,666	557	8,147	715	1,131
Validity period	48 months					
Number of first grants	52.68 million	87.57 million	32.65 million	300.59 million	45.56 million	69.79 million
Percentage of total share capital	0.58%	0.96%	0.35%	3.25%	0.53%	0.82%
Unlocking conditions	2020: Company's automobile sales ≥ 1.02 million units Net profit ≥405 billion yuan 2021: Company's automobile sales ≥1.21 million units Net profit ≥5.0 billion yuan 2022: Automobile sales ≥ 1.35 million units Net profit ≥5.5 billion yuan Weighting: 40% sales volume, 60% net profit		2021: Company's automobile sales ≥ 1.49 million units Net profit ≥6.8 billion yuan 2022: Company's automobile sales ≥ 1.9 million units Net profit ≥ 8.2 billion yuan 2023: Company's automobile sales volume ≥ 1.6 million units Net profit ≥ 6.0 billion yuan Weighting: 55% sales volume, 45% net profit		2024: Company's automobile sales ≥ 1.9 million units Net profit ≥ 7.2 billion yuan 2025: Company's automobile sales volume ≥2.16 million units Net profit ≥ 8.5 billion yuan 2026: Company's automobile sales volume ≥2.49 million units Net profit ≥ 1.0 billion yuan Weighting: sales volume 50%, net profit 50%	

2.3. Implementation Results

Great Wall Motor's first equity incentive program: according to the announcement released by Great Wall Motor, in 2020, the cumulative sales volume of 1.12 million vehicles and net profit of 536 billion yuan; in 2021, the cumulative sales volume of 1.28 million vehicles and net profit of 673 billion yuan were achieved, which accomplished the goals set by the equity incentive program. in 2022, Great Wall Motor's sales volume of 1.06 million vehicles failed to meet the goals, but in the The national economy was hit by multiple over-expected factors and the complexity of the development environment, it still achieved the goal of steady growth, with a net profit of 827 billion yuan, a year-on-year increase of 22.72%, far exceeding the profit target set by the equity incentive plan.

Great Wall Motor's second equity incentive program: compared with the first phase of the equity incentive plan released in 2020, this incentive plan has a wider benefit, the number of incentive recipients and stock options has increased significantly, but the weighting of the sales target has increased, and the assessment target is more challenging.

In 2021, Great Wall Motor's sales volume of 1.28 million vehicles and net profit of 673 billion yuan did not reach the exercise target, but under the severe market environment, Great Wall Motor still exceeded the sales volume of one million vehicles for the sixth consecutive year. 2022 still did not reach the performance target set under the equity incentive plan. 2023, Great Wall Motor's sales volume of 1.23 million vehicles did not reach the exercise target, but under the change of the industry, the performance target was not reached. background, practicing high-quality development with long-termism, a year-on-year increase of 15.85%. The Company's net profit attributable to shareholders of the listed company for the year 2023 was RMB 702 billion, exceeding the profit target set in the equity incentive program.

Great Wall Motor's third equity incentive program: in this program, the number of restricted shares and stock options granted declined from the second one due to the addition of new non-incentive recipients as a result of the improvement of the Company Law in 2023. The results of this equity incentive are not stated as the performance evaluation date has not been reached.

3. Motivation of Equity Incentives

The need to enhance the company's core competitiveness [3]. By setting challenging performance targets, pressure and motivation coexist, which not only helps to enhance the competitiveness of the company, ensure the realization of the company's future development strategy and business objectives, thus creating more durable and lucrative returns for shareholders, further stimulating the company's innovative vitality, and injecting new momentum for the company's sustained and rapid development.

The need to build a talent team. Establish and improve the company and senior management, middle management and core technology (business) backbone incentives and constraints mechanism, to promote the transformation of employees from "wage earners" to "partners", effectively combining the interests of shareholders, the company's benefits and the core team's personal interests, is conducive to attracting and stabilizing the company. Combined together, it is conducive to attracting and stabilizing excellent management personnel and business backbone [4]. Through comprehensive and accurate coverage of high-value positions and key personnel, to meet the company's huge demand for core technical personnel and management personnel, enhance the company's cohesion, and establish the company's human resources advantage.

Maintaining long-term corporate strategy. In order to further establish and improve the incentive mechanism, effectively combine the interests of shareholders, the company's interests and the personal interests of the core personnel [5]. This is to realize the consistency of the interests of all shareholders, to improve the level of the company's operation and management, to promote the smooth and rapid enhancement of the company's performance, to promote the company's sustained, steady and rapid development, and to ensure the smooth realization of the company's long-term development goals [6].

4. Analysis of Equity Incentive Effect

In this paper, from the aspect of operating capacity, profitability and non-financial indicators, the financial indicators of Great Wall Motor 2019-2023 are selected to vertically assess the impact of equity incentives on the company's operating performance; and some of its financial indicators are compared with the average level of the automotive industry to horizontally assess the impact of equity incentives on the company's operating performance.

4.1. Impact of Equity Incentives on Solvency

As can be seen from Figure 1, Great Wall Motor's current ratio is relatively stable in 2019-2023, maintaining above 1, but with a downward trend; quick ratio maintains between 0.5-1.0, with an overall downward trend, indicating that the enterprise's ability to repay short-term loans is average. Great Wall Motors gearing ratio in 2019 maintained at a good level, in 2020 due to the impact of the epidemic supply chain of the quality of survival declined significantly increased, more than 60%, 2021-2023 are in a rising state, reflecting the decline in the long-term solvency capacity, or the risk of insolvency [7]. The equity ratio in the 2019-2023 rising faster, in 2023 reached nearly 2%, the It indicates that this Great Wall Motor has a high degree of debt operation, and the financial structure is not very stable.

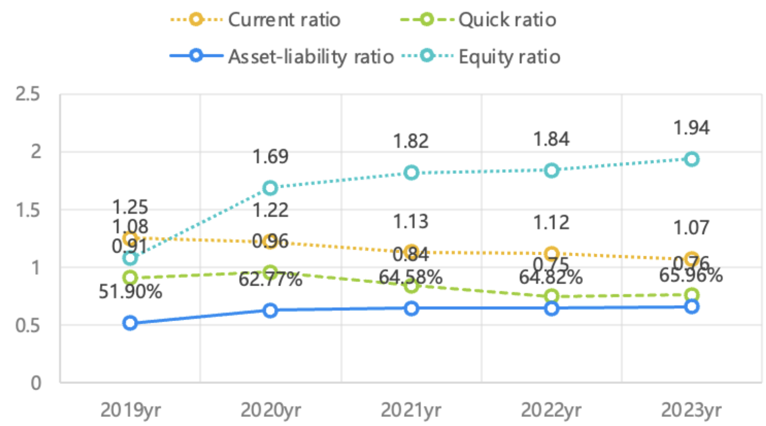

Fig. 1 Great Wall Motor's solvency position, 2019-2023 (Photo/Picture credit: Original)

As can be seen from Figure 2, Great Wall Motor's gearing ratio is higher than the industry average after 2020. It is inferred that three times of equity incentives have little effect on Great Wall Motor's solvency.

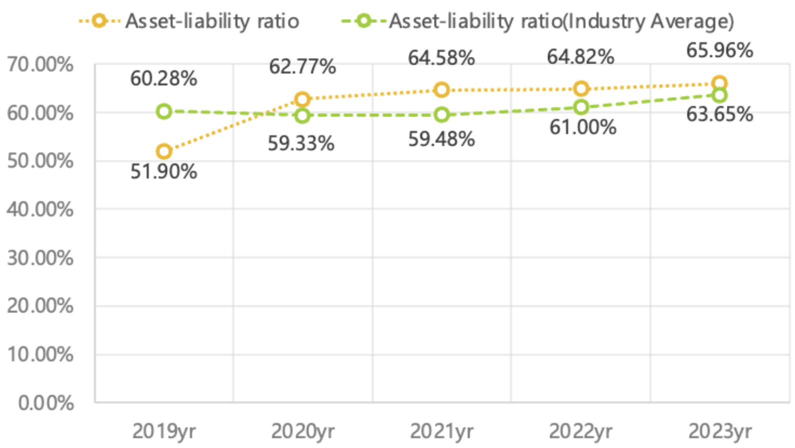

Fig. 2 Comparison of average gearing ratios of Great Wall Motor and the industry, 2019-2023 (Photo/Picture credit: Original)

4.2. Impact of Equity Incentives on Operating Capacity

As can be seen from Figure 3, Great Wall Motor's total asset turnover ratio is fluctuating in 2019-2023, of which it is lower than 0.8 in 2020 and 2022, with slower asset turnover, weaker sales capacity, and low asset utilization efficiency. Inventory turnover is below 20 times and has been in a downward trend in 2019-2023, decreasing as much as 61.5%, which is caused by the trade friction between China and the United States, scale expansion, excessive pressure on dealers' inventories in epidemic-controlled areas, and the sharpest decline in 5 years in 2022 due to the decline in demand for SUVs in the external market, the development of the auto leasing market, and the overly stringent conditions of the equity incentives. Accounts receivable turnover is relatively flat in 2019-2021, declines sharply in 2022 as asset flows weaken, and rebounds in 2023.

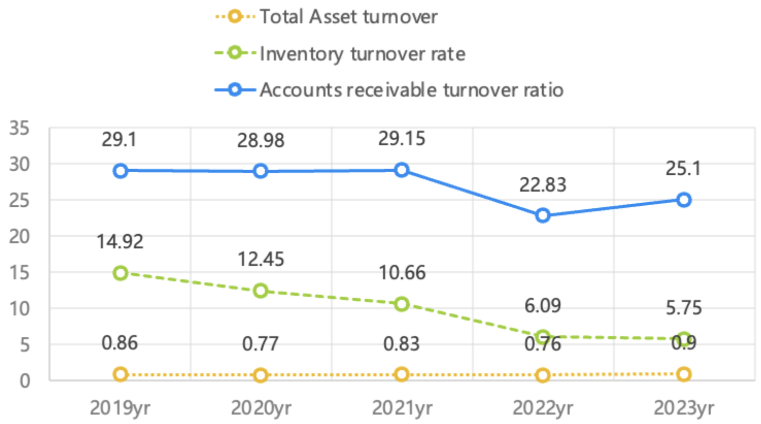

Fig. 3 Great Wall Motor's Operating Capacity Status, 2019-2023 (Photo/Picture credit: Original)

As can be seen from Figure 4, Great Wall Motor's total asset turnover ratio is far below the industry average in 2019-2023, and the trend is roughly in line with the industry average, indicating that the three equity incentives have essentially no impact on Great Wall's operating capacity.

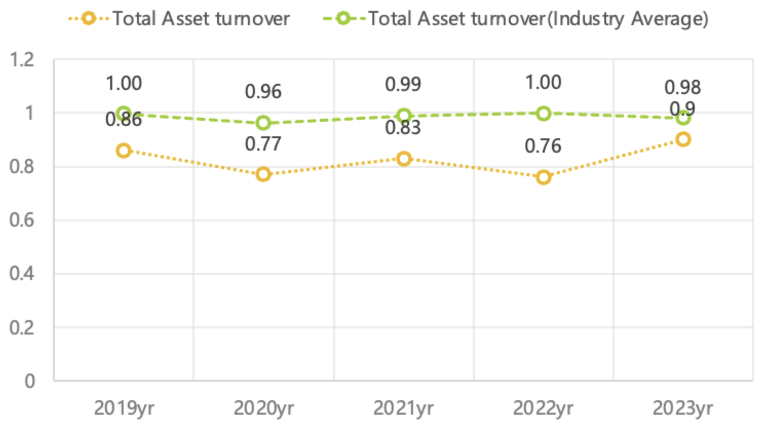

Fig. 4 Great Wall Motor's Operating Capacity Status, 2019-2023 (Photo/Picture credit: Original)

4.3. Impact of Equity Incentives on Profitability

As Figure 5 shown, Great Wall Motor's return on net assets rises steadily in 2019-2022 and falls back in 2023 due to a decline in net profit affected by exchange rate gains over the same period. Return on total assets and gross margin rise volatility in 2019-2022 and also fall back significantly in 2023. Net margin rises significantly in 2020 after the first equity incentive, falls back in 2021, and then falls back in 2022 due to the optimization of the product mix, and overseas market strength rose significantly, and fell back again in 2023.

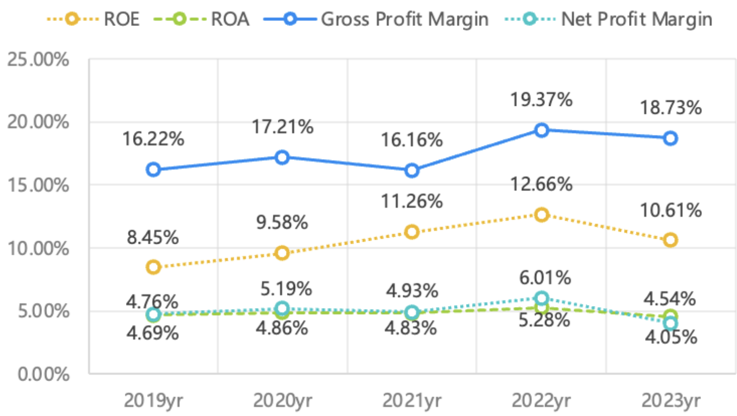

Fig. 5 Great Wall Motor's Profitability Status, 2019-2023 (Photo/Picture credit: Original)

As can be seen from Figure 6, although Great Wall Motor's total return on assets are all lower than the industry average, in 2020, when the automobile industry's total return on assets declined under the influence of the New Crown Pneumonia Epidemic, Great Wall Motor's total return on assets increased, indicating that the first equity incentives play a certain role. In 2022, when it was affected by the New Crown Epidemic, the increase in the price of raw materials, the lack of cores and the lack of souls, the high cost, the logistics obstruction, and other risks When the return on assets declined, Great Wall Motor withstood these pressures and moved steadily forward, realizing an increase in the total return on assets, indicating that the second equity incentive played a role.

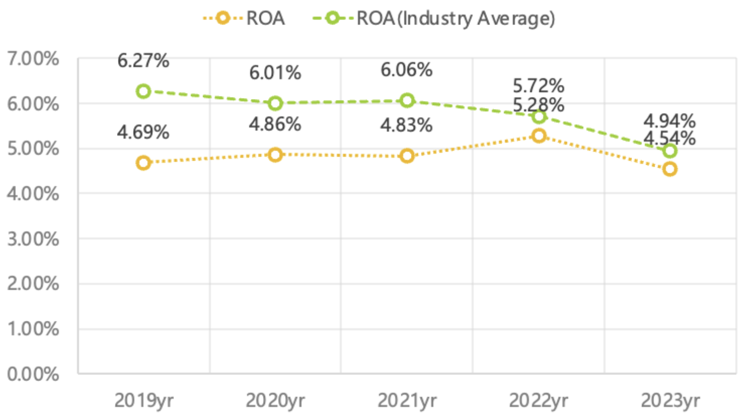

Fig. 6 Comparison of Great Wall Motor and Industry Average Return on Total Assets, 2019-2023 (Photo/Picture credit: Original)

4.4. Impact of Equity Incentives on Growth Capacity

As can be seen from Figure 7, Great Wall Motor's operating income, gross profit and net profit are all on an overall upward trend.

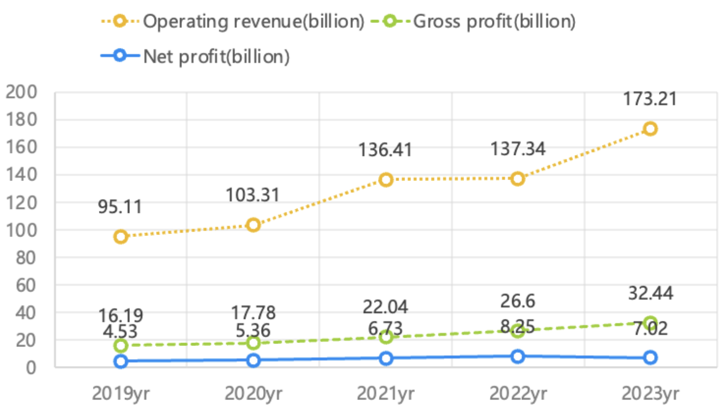

Fig. 7 Great Wall Motor’s Growth Capacity Status, 2019-2023 (Photo/Picture credit: Original)

As can be seen from Figure 8, Great Wall Motor's operating income in 2020 and 2021 rose much higher than the overall level of the industry, and the increase in 2022 slowed down due to high unlocking conditions of equity incentives and fierce market competition, and the increase in revenue in 2023 exceeded the average of the industry once again after the adjustment of the unlocking conditions of the second equity incentives, so the equity incentives have a relatively obvious positive impact on Great Wall Motor's growth ability. Therefore, equity incentives have a more obvious positive impact on Great Wall Motor's growth ability.

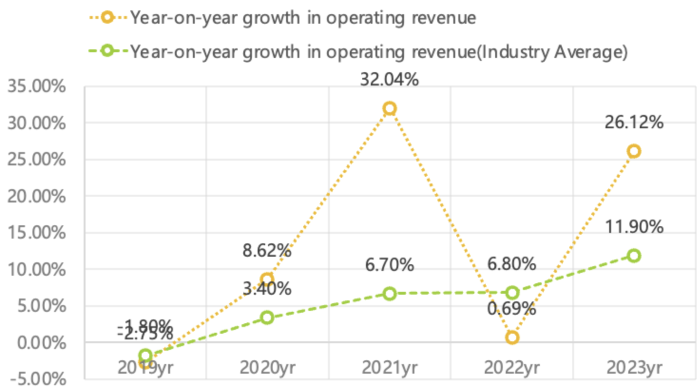

Fig. 8 Comparison of YoY Revenue Growth of Great Wall Motors and Industry, 2019-2023 (Photo/Picture credit: Original)

4.5. Analysis of Non-Financial Indicators

4.5.1 Business volume and market share

As can be seen from Figure 9, Great Wall Motor shows a more significant rise after both the primary and second equity incentives in 2019-2021, falls back in 2022 due to the high unlocking conditions of the equity incentives [8]. Blind pursuit of brand upward mobility and the general environment of price wars, and then picks up again in 2023 after adjustments to the unlocking conditions of the second equity incentives, a boost to the technological field, and a reshaping of the organization at the level of organizational structure [9].

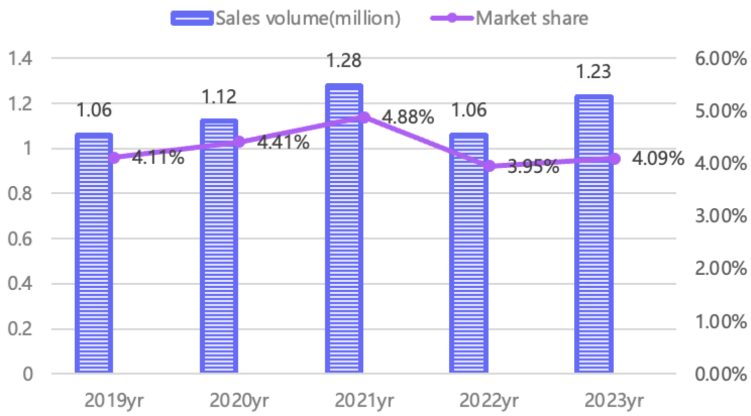

Fig. 9 Business volume and market share of Great Wall Motors (Photo/Picture credit: Original)

As can be seen from Figure 10, except for the sales decline in 2022 due to the rising costs of Great Wall Motor to increase the unit price of sales, the sales growth rate of the remaining years is higher than the industry average, indicating that the equity incentives have a more obvious positive impact on the sales of Great Wall Motor.

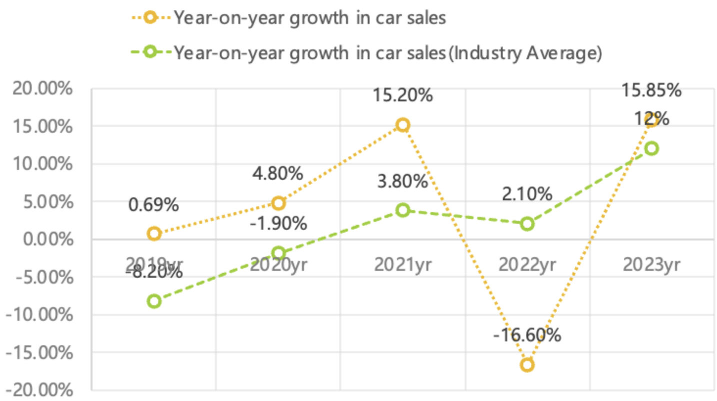

Fig. 10 Comparison of Average YoY Sales Growth of Great Wall Motors and Industry, 2019-2023 (Photo/Picture credit: Original)

4.5.2 Employee structure

For organizations, the ability of employees to learn and grow is one of the keys to maintaining strong momentum. The higher the education level of employees, their learning ability and personal performance tend to be more outstanding, and more likely to contribute to the development of the company [10]. With the rapid development of new energy vehicles, a new round of talent scramble war started, the automotive industry talent accelerated mobility, facing a major reshuffle in the talent pool, grabbing talent has become the top priority of car companies. In the face of the global economic downturn, the automobile market competition is getting more and more intense, in order to better adapt to the international market, Great Wall Motor put forward by "China's automobile manufacturing enterprises" to "globalization of science and technology mobility company" transformation of the goal [11]. It constantly strengthens the technology research and development capabilities. Figure 11 shows that Great Wall Automobile has a strong R&D capability. It can be seen that during 2019-2023, the proportion of the number of specialists and below in Great Wall Motors shows a general downward trend, while the proportion of undergraduates rises steadily from 2019-2022, and then declines in 2023, which may be due to the lack of competitive new cars, the decline in net profit, and the downgrade of the rating of Great Wall Motors by brokerage firms. The proportion of master's degree holders and above increases from 2019-2021, indicating that the first equity incentive has played a role in the development of the company's R&D capability. The ratio of master's degree and above rises in 2019-2021, indicating that the first equity incentive plays a certain positive role, and the ratio starts to decline in 2022, which may be due to the harsh assessment of car sales proposed in the second equity incentive program as well as the harsh non-compete agreement, and continues to decline in 2023 for the same reason as the decline in the ratio of bachelor's degree in this year. It can be seen that the first equity incentive has brought positive impact on the personnel structure of Great Wall Motors, and the second equity incentive and the third equity incentive have basically no impact on the personnel structure of Great Wall Motors.

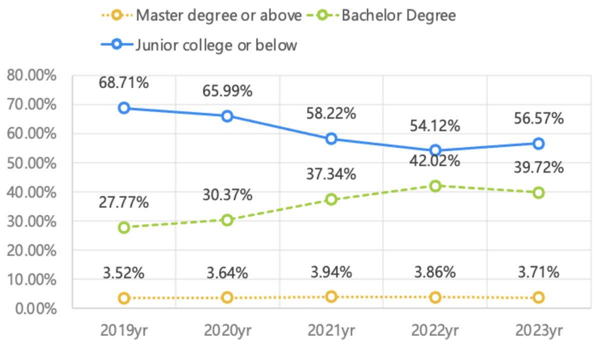

Fig. 11 Share of staffing structure of Great Wall Motors 2019-2023 (Photo/Picture credit: Original)

5. Conclusion

The limitation of this paper is that only one company, Great Wall Motors, is taken as the research object, the sample size of statistical measurement is not sufficient, and the information is collected only by reviewing the literature and the company's annual report, which is a single way and affects the accuracy of the research results.

From the perspective of equity incentives, this paper analyzes the equity incentives of Great Wall Motor for three times, and draws the following conclusions: the equity incentive program of Great Wall Company is overall more reasonable, which has a positive impact on the market, but the target sales set is too high; the equity incentives did not improve the company's solvency well, and the impact on the operating capacity cannot be seen; after the implementation of the equity incentives, the company's profitability and personnel structure have improved somewhat, and the growth capacity and sales volume have improved somewhat. There was some improvement, and growth capacity and sales volume improved significantly. The benefits of equity incentives are uneven, with the first equity incentive bringing a large positive impact on the company, the second equity incentive having a slight negative impact, and the third equity incentive having an insignificant impact. Overall, equity incentives can help Great Wall Motor to develop, play a positive effect, and realize the company's evergreen. Therefore, automotive companies should conduct a comprehensive analysis of the business situation, combined with the development of the market operating environment, the scientific and reasonable use of equity incentive mechanism, to develop an effective equity incentive program, and gradually enhance the attraction of talent, in order to achieve the strategic objectives of the business.

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