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Research on the Motivation and Effect of Equity Incentive of Huiding Technology

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Abstract: Stock incentives can be considered one of the most commonly used long-term incentives in modern enterprises, and the study of the motivation and effectiveness of this incentive mechanism has also become an important aspect of the company's development process. Based on this, this article selects Hiding Technology Company as a case study to evaluate the motivation and effectiveness of its three restricted equity incentive plans implemented since its listing in 2017. I look forward to providing corresponding reference suggestions for listed companies in other similar businesses when implementing equity incentives.

Keywords: Equity Incentives; Market Response; Event Study.

1. Introduction

Equity incentives can not only reduce the problems that anse during the agency process, but also optimize the self-development and social value of the enterprise during this period. Therefore, equity incentives are also regarded by a considerable number of Chinese listed companies as one of the main means of market value management. For domestic countries, the exploration of equity incentives in overseas countries started relatively early, both in practical and technical aspects. In the early 1970s, equity incentive mechanisms began to rise in the United States, and subsequently developed rapidly in other developed countries, especially in European and American countries. The rise of equity incentive policies in China was relatively late and was in the process of exploration in the early stage. It was not until the end of 2005 that the promulgation of the "Enterprise Equity Measures ensured a good institutional environment for China's equity incentive policies, and with the rapid improvement of its economic growth efficiency. However, in recent years, a large number of financial crises have emerged, suggesting that equity incentive plans may not necessarily provide clear and good incentive effects for enterprises. Therefore, companies implementing equity incentives should focus on how to develop reasonable incentive mechanisms and fully leverage the effectiveness of equity incentives, in order to help improve the overall performance level of the company.

In terms of the basic principle of equity incentive mechanism, there are generally two theoretical concepts, namely "manager power theory" and "optimal Contractualism theory". The "optimal Contractualism theory" is generally considered as the traditional theory of equity incentive mechanism, and the basic research under this theory has been quite sufficient. According to the basic idea of "optimal Contractualism theory", the shareholder compensation mechanism will become the most effective way for enterprises to overcome the problem of operating agency.

Therefore, enterprises should establish equity incentive systems as accurately and reasonably as possible, and reasonably encourage employees to strive towards maximizing the interests of the enterprise. This article first explores the main reasons for the equity incentive mechanism implemented by Hiding Technology Enterprise, and then examines it from three levels: market economy response, financial performance, and non-financial performance of the enterprise. It specifically analyzes the effects of the implementation of the equity incentive mechanism. Finally, a case study is summarized and specific guidance is proposed, hoping to provide some reference for other enterprises when implementing the Equity incentive mechanism.

2. Introduction to Hiding Technology and Equity Incentive Content

2.1. Company Introduction

Huiding Technology was founded in 2002 and was listed on the Shanghai Stock Exchange in October 2016 under the securities code 603160. As a complete application solution provider through chip product design and services. Hiding Technology currently focuses on smart terminals, the Internet of Things, and vehicle electronics applications, providing world leading semiconductor solutions. So far, the largest shareholder of Hiding Technology is Zhang Fan, holding 206296376 shares with a shareholding ratio of 44.98%; The second largest shareholder is Huifa International (Hong Kong) Limited, with 27370760 shares held and a shareholding ratio of 5.97%.

2.2. Equity Incentive Plan

Huiding Technology has implemented the Restricted stock incentive plan for three consecutive times from 2017 to 2019, as follows:

1. In the first equity incentive plan, Huiding Technology released the draft of the first Restricted stock incentive plan on May 10, 2017, encouraging 619 employees, including senior and middle management talents, technology (business) leaders, or other employees recognized by enterprise shareholders as encouraged. Thirteen million Restricted stock were granted at a grant price of 48.39 yuan. The incentive mechanism requirement is based on the net profit and operating revenue of the enterprise for 16 years, that is, the net profit growth rate and growth rate in 2017, 2018, 2019, and 2020 shall not be less than 10%, 20%, 30%, and 40% respectively. The validity period shall not exceed 72 months from the date of grant of restricted shares to the day when the restricted shares granted by the incentive object have been lifted or repurchased and delisted.

2. The second phase of the equity incentive plan was announced by Hiding Technology on January 27, 2018. The draft of the second restricted equity incentive plan encourages a total of 189 employees, including senior managers, intermediate managers, technical (operational) managers, and other employees red&gnized by the company's shareholders as requiring encouragement. Obtained 4.5 million Restricted stocks at an authorized price of 48.04 yuan. The incentive clause is the same as the first installment, based on a 17-year period, which stipulates that the net profit growth rate and growth rate for 2018, 2019, 2020, and 2021 shall not be less than 10%, 20%, 30%, and 40%, respectively.

3. The third phase of the equity incentive plan was announced on December 4, 2019 and the incentive plan will mainly award 101 people to grassroots management cadres and high-tech backbone of the enterprise. The grant price this time is 98.58 yuan, and the number of shares is lower than the previous two periods, with on| 3250200 shares. The unlocking situation of this reward project is also relatively complex, and performance evaluations were conducted annually in the four fiscal years of 2020 to2023. Based on the scoring results and weights of each evaluation factor, determine the performance score at the enterprise level (X-0-120), and determine the proportion of lifting restrictions at the company level in the current year (M=0%~100%) based on the performance score at the enterprise level (X). The effective period of incentive measures shall not exceed 62 months from the date when the Restricted stock are handled to the date when the restricted shares granted by the incentive objects have been lifted or repurchased and delisted.

3. Analysis of the Motivation and Effect of Hiding Technology's Implementation of Equity Incentive

Huiding Technology has been providing equity incentives for three years, with the main goal of continuously increasing the company's performance and value, and achieving a win-win situation between the incentivized personnel and the enterprise. This article studies the motivation and effectiveness of Hiding Technology's equity incentive plan, which can help companies improve their performance.

3.1. Motivation Analysis

1. Establish a long-term incentive mechanism

Long term incentives for enterprises refer to the promotion effect of incentive mechanisms by incentive entities to improve the performance of incentive targets, in order to more effectively support the improvement of incentive targets' performance and the overall profitability level of the company. The equity incentive adopted by Hiding Technology has a relatively long period of time and many incentive objectives. Based om the specific operating conditions of the company, different performance goals are proposed at different incentive times, forming common interests within the enterprise and employees. This effectively alleviates the agency phenomenon of the enterprise and reduces the short-term behavior of enterprise managers, allowing employees to better grasp the company's long-term development goals. Implementing such a large-scale and wide-ranging equity incentive plan can not only provide sufficient funds for the company in the short term, but also enhance the confidence of incentive recipients in the future development of the enterprise. Equity incentives make them the main body of the enterprise, and to some extent, enhance the cohesion of the enterprise's team, form lasting incentives, and promote the long-term development of the company.

2. Retain core talents

Huiding Technology is a high-tech company. In order to maintain a leading position in the increasingly competitive international industry, its advanced technological strength will become a crucial part of the company's development, and the technology and innovation capabilities of outstanding talents will become an important source of continuous improvement in business performance. To fully mobilize the work enthusiasm of the company's leadership and technical backbone, to attract and retain more outstanding talents to work in the semiconductor field, the company will actively implement equity incentive plans, injecting more lasting strength into the growth goal vision of building the company into a world leading high-tech enterprise, and maintaining its core competitiveness in market competition.

3. Improve company performance

If the interests of the managers and owners of Hiding Technology are different, it is highly likely to lead to different decisions and damage the company's performance level. After implementing equity incentives, managers, like owners, will look forward to the long-term stable and healthy development of the company, strive to contribute to the company, and improve its performance; On the other hand, the equity incentive plan has performance evaluation conditions, and only when the evaluation conditions are met can one obtain the company's stock, so the incentive objects will work harder to improve their performance.

3.2. The Implementation Effect of Equity Incentives

1. Analysis of financial indicators

This article starts with the financial indicators of the enterprise, explores whether the equity incentive plan can promote the performance growth of the enterprise, and comprehensively studies the positive effect of Hiding Technology's equity incentive mechanism

(1) Debt paying ability analysis, this article selects asset liability ratio and equity ratio to measure the financial situation after equity incentives, which can directly reflect the financial leverage used and measure the strength of the company's debt paying ability. This article selects data from 2016 to 2021, and it can be seen that the company's asset liability ratio and equity ratio have been relatively stable in recent years. After implementing equity incentives in 2017 and 2019, both indicators have increased, but after the implementation of the second equity incentive, both values have decreased, showing a positive trend. This indicates that the enterprise has correspondingly increased its debt ratio within the controllable area to increase profits, and at the same time, the financial risk of the enterprise is relatively low, and the enterprise has good debt repayment ability.

(2) In the analysis of the enterprise's operation capability, this paper mainly selects two indicators, namely, the total asset turnover rate and the Inventory turnover rate, to evaluate the operation effect of the enterprise after equity incentive. The total asset turnover rate indicator mainly examines the asset management effectiveness of a company. From historical data, it can be observed that this indicator has maintained a long-term downward trend in recent years.

Table 1. Debt paying ability indicators

	2016	2017	2018	2019	2020	2021
Asset liability ratio	14.89%	21.10%	23.16%	17.95%	18.72%	18.95%
Property ratio	17.5%	26.7%	30.1%	21.9%	23.0%	23.4%

After the implementation of the second equity incentive plan, it briefly increased, but then continued to decline, indicating that the company's management quality and efficiency in the capital market are insufficient. Therefore, the company must actively explore investment potential to increase the market share of goods and increase the efficiency of asset management The Inventory turnover rate has increased since the implementation of the first two equity incentives, especially the second one, where the value increased significantly, and the third one slightly decreased, indicating that the company has strengthened its inventory management and improved the Inventor turnover rate.

Table 2. Operational Capacity Indicators (Unit: Times)

	2016	2017	2018	2019	2020	2021
Total asset turnover rate	1.336	0.965	0.762	0.981	0.754	0.554
Inventory turn over	4.700	3.619	3.831	6.662	6.492	3.719

(3) Profitability analysis evaluates a company's profitability level through earnings per share and operating net profit margin, as the company's operational performance and management level can be reflected through profitability. According to the following information, it can be seen that earnings per share continued to increase after the first and second equity incentives. However, in 2019, due to the late implementation of equity incentives, it significantly decreased and them slightly increased. On the surface, the equity incentive plan has a certain promoting effect on the development of the company. The change in operating net profit margin is not stable, but after the company implemented equity incentive measures, the highest rate reached 35.80%, which is relatively low. Therefore, enterprises should develop reasonable plans to reduce product costs, increase profits, and improve profitability.

Table 3. Profitability Indicators

	2016	2017	2018	2019	2020	2021
Earnings per share	2.1	1.91	3.67	5.17	1.65	1.95
Net operating Profit margin	27.82%	24.09%	19.95%	35.80%	24.81%	15.05%

4. Research Conclusion

Through the above analysis, it can be seen that the announcement of equity incentive plans can increase stock prices. The management and core technical key personnel of Hiding Technology have become key incentive targets, which can effectively absorb and retain outstanding talents and stabilize core technical talents.

However, due to the weak operating ability of the enterprise during equity incentives, it is necessary to improve the management and utilization of assets, and the company's operating profit margin is unstable. Therefore, the company needs to formulate appropriate measures to reduce commodity production costs, and the ability to invest in research and devourment must also be improved. At the same time, these changes in indicators are related to the activities of managers. Therefore, managers need to establish diversified assessment conditions, not only consider financial indicators and performance as assessment prerequisites, but also important non- financial indicators as evaluation criteria. Market reactions should also be taken as exercise requirements, fully leveraging the feedback role of the market, and making the company's evaluation index system objective and comprehensive.

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