

Analysis on Restricted Stock Incentive in Listed Companies

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Abstract: At present, more and more enterprises in China have launched restrictive stock incentive schemes. Because China's corporate governance mechanism, capital market and other factors are different from those of western countries, some new problems will inevitably arise in the process of implementing equity incentive. According to the specific market environment of China and the characteristics of companies in different industries, it is necessary to formulate equity incentive plans suitable for enterprises themselves, and set reasonable goals accordingly. This paper analyzes the principle of restricted stock incentive, discusses the role of restricted stock incentive, and puts forward effective suggestions from three aspects: improve the corporate governance structure, improve the stock market, and improve the relevant laws and regulations of equity incentive.

Keywords: Listed Company; Restricted Stock; Equity Incentive

1. Introduction

In China's economic development, the role of listed companies is becoming more and more obvious. Compared with other companies, listed companies are larger in scale and have better economic benefits. They are an important part of China's enterprises, and their division of technical personnel and business backbone is more clear. In terms of equity incentive policies, the state has successively improved various laws and regulations and actively provided policy norms and support. To build a successful incentive system, there are two crucial points: first, we need to understand the motivation of the incentive object and make it clear why they work hard; the second is to understand how the incentive process is carried out, which is the necessary theoretical basis for the design of enterprise incentive system.

As an important part of long-term incentive, equity incentive plays an obvious role in enhancing the working motivation of enterprise managers and improving the business performance from the results of theoretical research and the application of management practice. The equity incentive mode includes restricted stocks, stock options, performance stocks, virtual stocks, stock appreciation rights, etc. The market environment in China is special, which is quite different from that in foreign countries. The restrictive stock incentive has become a better choice in the long-term incentive way, which can adapt to the market environment and legal environment as one of the important means of incentive mechanism reform and innovation.^[1]

2. Overview of restricted stock incentive

2.1 The meaning of restricted stock incentive

Restricted stock means that the listed company gives a certain amount of company stock to the incentive object according to the preset grant conditions in accordance with the requirements of relevant laws and regulations and company policies. No accounting is required on the restricted stock grant date. On the date when the capital increase procedure is completed, the company issues shares to the employees and receives the subscription money. At this time, accounting treatment shall be made for the subscription money in place. It also needs to be recognized as a liability based on the company's future repurchase obligations. The restriction of stock is reflected in two aspects: one is the restriction of

obtaining stock, the other is the restriction of selling stock. In other words, after the incentive object qualified for stock acquisition obtains a certain number of shares, it cannot dispose of them at will. Instead, it needs to achieve certain business performance targets to sell the restricted stock it has already obtained and obtain corresponding earnings from it.

2.2 Principle of restricted stock incentive

The principle process of restricted stock incentive is as follows: it provides long-term incentive to operators, promotes their hard work, improves corporate performance, increases the company's stock price, and increases managers' remuneration. There is a continuous action process among managers' effort, corporate performance, stock price and compensation. The higher the correlation among the four, the better the incentive effect. If the whole market mechanism operates in an orderly way, the mechanism of action can be successfully achieved. Otherwise, it will be difficult to achieve the preset goals to be achieved by means of restricted stock incentive, and the corresponding incentive effect will be significantly weakened.

3. The role of restricted stock incentive

3.1 Standardize the corporate governance mechanism

Restricted stock incentive system is an important part of management compensation structure and internal governance mechanism. Restricted stock incentive system can not only solve the principal-agent problem, but also improve corporate governance to a certain extent. If the equity incentive mechanism is set correctly, that is, the interests of managers and shareholders are more closely combined with the pre-determined rules, the shareholders can be more assured that the managers can make full use of their insights and talents, choose the best way to act, maximize their own interests and the interests of shareholders, achieve win-win situation, and the enterprise can obtain long-term development.

3.2 Effectively control the problem of insiders losing control

Insider control means that the insiders of the enterprise actually control the enterprise, while the legitimate rights and interests of other owners of the enterprise will be damaged to some extent. The problem of insider control is essentially caused by the separation of ownership and management right. Regarding the causes of insider control phenomenon in our country, theoretically, the restrictive stock incentive can fundamentally solve the interest and objective difference between principal and agent, thus solving the principal-agent problem, thus eliminating the phenomenon of insider control.

3.3 Reduce behavioral deviation of managers

Human capital has the characteristics of difficult to supervise, owners can control their own decision-making behavior or degree of effort, subject to their own interests, so that different distribution systems will affect the operators to make different decisions. The restricted stock incentive system can fully enhance the working motivation of managers, effectively connect the managers' own interests with the long-term interests of the company, and solve the problem that the managers' income is not equal to their responsibilities and efforts under the traditional distribution system.

3.4 Enhance the core competitiveness of the company

In the increasingly fierce market competition, the company's core competitiveness is the most important for the company's survival and development. The improvement of the company's core competitiveness is inseparable from the working ability and stability of the management. ^[2] In today's information age, the importance of human capital has far exceeded that of physical capital, which plays a decisive role in the future development of a company. Under certain conditions, the restricted stock incentive system makes managers become owners, so as to unify the interests of managers and the company, form a reasonable correspondence between the value created and the risk taken by the managers, and establish a close connection between the current work effort and the possible future earnings, which will greatly improve the operation and management efficiency of the company.

4. Recommendations for restricted stock incentive

4.1 Improve the corporate governance structure

In the context of economic globalization, there are more and more listed companies. With the promotion of equity trading platforms such as the New Third Board and the New Fourth Board, the scale and management level of listed companies are also uneven. Good internal environment is an important condition for the effective implementation of equity incentive system, it is essential to improve the corporate governance structure. It is necessary to standardize the corporate governance structure, implement the step-by-step authorization system, and further improve the internal systems of the company. The board of supervisors and other management strictly supervise the production and operation of the company, and the performance of the management is regularly assessed by the compensation committee, so as to form an orderly corporate governance structure.

4.2 Improve the stock market

At present, the implementation of stock incentive to listed companies as the main body, closely related to the stock market. The rise in stock price makes the incentive holders appreciate their stocks, thus reflecting the incentive effect. Meanwhile, the rise and fall of stock price can also reflect the value of the company to a certain extent. Whether the stock price can fairly reflect the value is not only related to the company's own performance, but also related to the stock market. Only in a stable and sound operating stock market environment can the restricted stock incentive program be effectively implemented and achieve the incentive effect, thus contributing to the achievement of its incentive goals. The CSRC plays a vital role in maintaining the stock market. It should severely punish those who disrupt the order of the stock market, and strengthen the examination and supervision of newly listed companies, so that the stock market can operate stably. Enterprises should also be strict with themselves and make full and true disclosure of equity incentive plans to prevent financial fraud and reduce earnings management behavior, so that shareholders can make correct decisions, protect the interests of shareholders and maximize enterprise value.^[3]

4.3 Improve the relevant laws and regulations of equity incentive

In the West, the relevant laws and regulations of equity incentive are relatively perfect and have been practiced for a long time. Equity incentive has made further development in China after Company Law and Securities Law have been revised. The practice of stock ownership incentive and the improvement of laws and regulations are promoting each other. China's laws and regulations concerning stock ownership incentive, especially restrictive stock incentive, should be improved urgently, which is conducive to the effective implementation of stock ownership incentive, providing legal basis and support.

5. Conclusion

Although the development of equity incentive system in our country is not mature, with the improvement of our legal policy environment and the market environment day by day, more and more listed companies have begun to implement the equity incentive system. The stability of restricted stock is better than that of stock options, and the incentive effect is more obvious for mature enterprises. Restricted stock has strict regulations. Only when the unlocking period expires and both personal performance and company performance evaluation indicators are reached at the same time, the incentivize can sell the restricted stock to make real profit. Such setting encourages the motivated to work harder to achieve the unlock conditions, so as to obtain rich earnings, so that the managers will consider the long-term interests of the enterprise as much as possible during the tenure and make decisions, and effectively play the role of long-term incentive. In addition, the performance evaluation index of restricted stock incentive scheme should avoid single, and a multi-index value evaluation system should be built comprehensively. Including not only financial indicators, but also appropriate introduction of corporate governance indicators and other non-financial performance indicators, comprehensive and accurate measurement of the actual business performance of the incentive, so that it can truly reflect the value of the enterprise.

References

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