Promoting Enterprise Innovation through Equity Incentive

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Abstract. Innovation is the foundation for the survival and development of an enterprise. But the managers of the enterprise are not willing to increase the risk to innovate. In order to encourage managers to innovate and ultimately improve the performance of enterprises, Equity incentive is a very effective method. To promote enterprise innovation through equity incentives, We should first improve the corporate governance structure. Secondly, Enterprises should design reasonable and effective equity incentive plans according to their own conditions, and finally, Government management departments should strengthen supervision and support.

The Basic Theory of Equity Incentive

The Concept and Mode of Equity Incentive

Equity incentive is on the basis of contractual management and asset responsibility for enterprise managers and key employees, using various forms to give property rights incentives to enterprise managers and key employees, If they achieve the agreed performance, then they actually or potentially enjoy part of the property rights of the enterprise, and the encashment of such rights and interests is medium-and long-term. Equity incentive is a long-term incentive, which can guide managers to pay attention to the overall performance and long-term development of the enterprise. it is the sharing of value-added and profits, and enterprises do not need to pay cash directly.

The mode of equity incentive can be divided into three modes: current stock incentive, futures stock incentive and option incentive.

Stock Incentive Approval Process

The approval process for equity incentives is shown in the following figure:
Innovation is the Foundation of the Survival and Development of an Enterprise

Innovation is the foundation of the survival and development of enterprises. If you innovate, you will flourish; if you don't, you will die. Schumpeter, a famous American economist and management master, said: innovation is the reorganization of production factors by entrepreneurs. Innovation can promote the improvement of the organizational form of enterprises and the improvement of management efficiency, so that enterprises can constantly improve their efficiency and meet the requirements of economic development.

For an enterprise, innovation can include many aspects: technological innovation, institutional innovation, ideological innovation. Technological innovation can improve production efficiency and reduce production costs; system innovation can make the daily operation of enterprises more orderly and convenient for management, and at the same time, it can also get rid of some disadvantages of the old system; the ideological innovation of managers can ensure that the enterprise develops in the right direction, and the ideological innovation of employees can enhance
the cohesion of the enterprise, give full play to the creativity of employees, and bring greater benefits for the enterprise.

The cultivation of enterprise innovation ability is an important strategic deployment for the long-term development of an enterprise. Enterprise innovation requires not only the efforts of all employees, but also perfect institutional arrangements and capital investment. Managers' innovation consciousness, strategic decision-making, attention and employees' input and pay are very important to the innovation of enterprises.

The key to the smooth development and success of enterprise innovation is to improve the incentive system of enterprise innovation. only by establishing the incentive system of enterprise innovation and implementing it effectively can we fully mobilize the enthusiasm, creativity and initiative of all staff, to enable enterprises to maintain the ability of continuous innovation.

The Relationship between Equity Incentive and Enterprise Innovation

In modern enterprises, ownership and management rights are separated, and there is a principal-agent relationship between owners and managers. The ownership of the enterprise belongs to the owner, but most owners do not directly participate in the operation and management of the enterprise, but the managers manage the enterprise. The goal of the owner of the enterprise is to maximize the value of the enterprise, while the goal of the manager is to maximize the personal interests, and the two goals are inconsistent. Managers' hard work helps to achieve the goal of maximizing enterprise value. However, the realization of the goal of maximizing enterprise value does not mean that the goal of maximizing the personal interests of managers can be achieved. On the contrary, it may damage the realization of managers' goals, for example, managers are busier. Less rest time, etc. So sometimes in order to achieve their goals, managers may do some actions to harm the interests of the enterprise, such as not working hard, or enriching their own pockets, and managers are not willing to innovate, because innovation means trying new methods, develop new products and open up new markets. Innovation will not only make managers busier, but also have a great risk of failure, which will greatly damage the interests of managers. Therefore, in order to solve the contradiction of principal-agent theory, it is necessary to have certain incentive measures for managers, and equity incentive is the most effective way to solve the contradiction between the two.

Only so that managers can share the fruits of innovation success, then managers will strive to innovate and create more value for the enterprise.

Measures to Promote Enterprise Innovation through Equity Incentive

Enterprises should promote their innovation through equity incentives, and the specific measures include:

Improve the Governance Structure of Enterprises

If enterprises want to implement equity incentive measures, they must first improve their governance structure.

Only when the corporate governance structure is perfect and the operation of the "three meetings" is standardized, can we effectively play a corresponding role in all aspects of the implementation of equity incentives, and effectively avoid the problems that may exist in the process of implementing equity incentives, such as self-defined salary, high incentive cost and so on.

Design a Reasonable and Effective Equity Incentive Plan According to One's Own Situation

When an enterprise should design a reasonable and effective equity incentive plan according to its own situation, on the one hand, it should consider the competitiveness of its own industry and the size of the enterprise, on the other hand, it should consider the design of reasonable equity incentive provisions, such as the proportion of shareholding, the design of performance evaluation standards, and so on.
Government Management Departments Strengthen Supervision and Support

Equity incentive plan helps enterprises to attract and retain talents, stimulate the enthusiasm and innovation of technical and management personnel, and help to enhance the ability of independent innovation and core competitiveness of enterprises. However, on the one hand, the government management department should strengthen supervision, on the other hand, it should increase the support and guidance to enterprises, so that equity incentives can operate both standardized and effectively.

References


