

Research on the Setting of Restricted Stock for Listed Companies: A Case Study of Huamai Technology Company in Nanjing

Jie XIONG*, Xiao-Yong HUANG^a

Finance Institute, Jiangxi Normal University, China

*402992822@qq.com, ^aXidu3721@sina.com

Keywords: Stock Incentive; Restricted Stock; Countermeasures.

Abstract. The essay takes the restricted stock incentive scheme of Huamai Technology Company as the research object, and the feasibility of stock incentive scheme of Huamai Technology Company has been studied and analyzed by using exploratory case study method. It is found that the restricted stock scheme of the company has a single setting condition, which fails to reflect the management level of the enterprise. Therefore, considering the setting of restricted stock of listed companies will affect the company's future performance, this paper puts forward countermeasures and suggestions for the conditional diversification of restricted stock of listed companies.

Introduction

In the middle of 20th century, a new form of corporate incentive -- equity incentive emerged in western countries, which was widely used in corporate governance activities, and then set off a global wave of equity incentive. It was not until 1990s that listed companies in our country began to use equity incentive policies. Considering the significance of equity incentive to the development and management of the company, Bebchuk et al. (2002) believed that equity incentive of management could not solve the problem of agency from the perspective of agency, and it provided a channel for management to seek rent [1]. In contrast to that, Gao Lei, Song Shunlin (2004) combined the panel data model and the average model, who found that the stock of the senior managers was proportional to the performance of the enterprise [2]. Wang Hua and Huang Zhijun (2006) chose high-tech listed companies as the research objects. The empirical research results show that there is a significant interval effect between managers' equity incentive and enterprise value in the consideration of the endogenous influence of the operator's equity [3]. Xin Yu, Lu Changjiang Chen (2012) analyzed the stock right incentive of Luzhou Laojiao, and found that the stock right incentive had three properties: incentive, welfare and reward. Of course, we should pay attention to the design of equity incentive to give full play to the role of equity incentive, Shao Shuai and so on (2014) chose the case of Shanghai domestication which experienced the transformation of property rights and state-owned property. The study found that the property right difference would affect the motivation design of equity incentive [5]. Chen Yanyan (2012) pointed out that when the target level of the grant condition was relatively low, management could get restricted stock without working harder, resulting in equity incentive became a disguised channel of interest transmission [6]. In the study of Wu Yuhui, Wu Shinong (2010), the comparative benchmarks used by companies are the company's average performance over the past three years [7]. However, the related literature researches show that the implementation of equity incentive companies will have more opportunities for future development, and the company's future performance will be better. It is too loose to use the results of the average performance of previous three years as a comparison basis. Based on the existing research, this study takes Huamai Technology Company as the research object to put forward scientific and reasonable countermeasures and suggestions for the listed companies setting up the restricted stock scheme through the study of the restricted stock scheme setting conditions.

Case Study

The Basic Business Composition of the Company

Nanjing Huanmai Technology Company LTD is in Nanjing, Jiangsu province, located in the Jiangning District Dongshan International Business Development Park, the registered capital of 136 million yuan. It was listed on the Shanghai Stock Exchange (Huamai Technology: 603042) on June 2017. Huamai Technology is professionally engaged in R&D and production manufacturing communication wiring equipment, integrated wiring equipment, terminal equipment and networking devices, indoor distribution and microwave passive antenna products, communication equipment, system integration, with the main optical fiber communication, wireless communication. The two big industries are the domestic leading physical communication network connection equipment manufacturer, communication power supply series of products; intelligent optical port management system; intelligent cable management system; outdoor communication equipment, optical fiber passive remote monitoring and control system; communication base station by pass protection system for domestic and foreign telecom operators, telecom equipment manufacturers and network integrator to provide first-class communication network connection, distributed and protected products and integrated intelligent ODN solutions. Wireless communication products base station antenna and various microwave passive devices and POI devices. Products are suitable for 2G / 3G / 4G communication network. It is an indispensable part of mobile communication.

Introduction of Company's Equity Incentive Scheme

The first form of the Huamai Technology incentives is the restricted stock incentive plan, it will grant a certain amount of restricted stock with the granted price according to the plan. Until achieving the company performance requirements can unlock the equity incentive object belonging to the personal name. The incentives include the board of directors of the company as (excluding independent directors, senior management, middle) management personnel, core technology (business) director of personnel and the company would think that should encourage the company's operating performance and future development of other employees have a direct effect on a total of 60, the incentive target incentive plan in accordance with the scope of the staff, the nomination and remuneration and appraisal by the board of directors of the company. From the incentive objects, management incentive object in the total number of 35%, including senior management personnel accounted for 5%, middle managers accounted for more than 30%, core technical personnel accounted for 65%, which fully reflects the characteristics as a high-tech enterprise and its core lies in the huge R&D team. A major purpose of equity incentive is to stabilize the core R&D team and create greater value for the company.

The number of shares issued is 3 million, accounting for 2.206% of the total share capital, awarded a price of 17.94 yuan per share. According to the 50% of the average price of a company's share price made on 1 day or 20 days prior to the release of the reserved restricted stock to the board of directors, choosing the higher one. The right time schedule of the equity incentive plan is shown in Table 1, and they are unlocked by three times, whose proportion of unlocking is 40%, 30% and 30% in turn.

Table 1. The Right Time Schedule.

Arrangement	Time	Proportion
The first time to discharge the restriction period	From the date of completion of the registration, the first trading day after 12 months shall be the day of the last trading day of 24 months from the date of the completion of the registration.	40%
The second time to discharge the restriction period	From the date of completion of the registration, the first trading day after 24 months shall be the day of the last trading day of 36 months from the date of the completion of the registration.	30%
The third time to discharge the restriction period	From the date of completion of the registration, the first trading day after 36 months shall be the day of the last trading day of 48 months from the date of the completion of the registration.	30%

However, the restricted stock equity unlocked condition is divided into two categories: (1) conditions of performance evaluation, as shown in Table 2; (2) individual performance appraisal requirements: performance evaluation results for D (unqualified) of the restricted stock incentive target current should lift restrictions on the sale of the company by share repurchase cancellation.

Table 2. Unlock Restricted Stock Conditions.

Time Period	Performance appraisal target
First	Based on the 2016 operating income, the growth rate of the company's operation income in 2017 is not less than 10%;
Second	Based on the 2017 operating income, the growth rate of the company's operation income in 2018 is not less than 10%;
Third	Based on the 2018 operating income, the growth rate of the company's operation income in 2019 is not less than 10%

Analysis of Equity Incentive Scheme

Analysis of Incentive Mode Selection

As for the mode of equity incentive, Huamai Technology Company choose the restricted stock, which means the incentive objects need to pay a certain percentage of the subscription before granting the stock. This way will give the motivating objects more obvious pressure and better incentive effect. But for most employees, the amount of the subscription is not small, so there will be some difficulties in the financing.

Analysis of Incentive Range and Share Allocation

Compared with the ZTE from the same industry, the incentive objects of Huamai Company accounted for the total number of employees is about 4%, which is similar with ZTE with a wide range of incentives and more object numbers. From the incentive employees, the proportion of core technicians is up to 65%, which fully reflects the characteristics of the industry of Huamai Technology Company.

Analysis of Granted Stock Price

The award price is the day before the board meeting of the company's first review of the proposed equity incentive, with Huamai Technology closing at 35.87 yuan per share on the stock exchange. But the company's employees only need to pay 50% of the subscriptions, that is, the equity incentive price is 17.94 yuan / share. A lower share price provides a larger profit margin for the company's incentive objects. Even if the company's share price falls, the incentive target still has larger profit

margins, which will reduce the incentive effect to some extent. But compared with the same industry ZTE award incentive target price is 38% of the subscription, the price of Huamai Technology is more reasonable.

Analysis of the Proportion of Unlocked Stock

Huamai technology incentive plan to unlock each accounted for 40%, 30%, 30%. Compared to other listed companies in the same industry, such as ZTE, it is also divided into 3 phases to unlock the stock, and the unlocking ratio is 20%, 35% and 45%. Compared with other enterprises, Huamai Technology’s share unlocking ratio is slightly less reasonable. Compared with ZTE’s set up, it will leave the largest share of restricted stock in the last unlock period, so that it can better avoid the short-term behavior of executives and technicians. Because putting the big share in the final stage of unlocking will make executives and core technicians more motivated to create company value and enhance company performance, so as to get the largest part of stock interest unlock. Huamai put the largest equity part in the first period unlocked, which may lead to the company’s motivational targets to improve the company’s performance in a short time. In the first two unlocking periods, the unlocking of most of the shares may lead to a substantial decline in the performance assessment of the last phase of the performance, which does not result in the corresponding incentive effect. In this way, it may lead to the loss of enterprise core personnel and increase the turnover rate of enterprises, which is not conducive to the long-term development of enterprises.

Analysis of the Conditions of Unlocking Stock

There is only one requirement for unlocking the restricted stock -- on the basis of the company’s 2016 operating income, the growth of business income for 2017-2019 years is not less than 10%, 20% and 30%. The company only asked for a growth rate of income and had no demand for other results. The unlocking condition was not difficult for the company’s top level. First of all, there is only one indicator of the growth rate of operating income, which is very single and can not fully reflect the management level of the enterprise, especially the capital structure of the enterprise. Compared with Kexin Technology Company, whose main business is similar with Huamai, the purchase cost of Huamai Technology is much cheaper. With this “advantage” to gain more orders to increase “high income” unlocking, Huamei deviates from the “technology content” it preaches. Compared with most of the listed companies’ equity incentive schemes, the net profit and other conditions of the company are generally required. But Huamai has the only requirement is the growth of operating income, which is difficult to promote all the actual performance of the company. From the equity plan, the influence of amortization of restricted stock incentive plan to produce the accounting cost as shown in *table 3*. We can see that in the next few years to amortize the total cost amount is high, four year amortization amount close to 40 million yuan, perhaps the company avoid net income due to the large amount of amortization. In this way, such loose unlocking conditions do not bring substantial performance to the company.

Table 3. Amortization Cost.

Unit: 10 thousand yuan

Stock Amount	Total Amortization	2017	2018	2019	2020
2,670,000	3,774.52	408.91	2,201.80	849.27	314.54

Analysis of the Effect of Equity Incentive

The use of Huamai Technology equity incentive can improve the company’s salary system, and reduce the cost of human resources. Huamai Technology as a high-tech enterprise, has a large number of R&D personnel, due to the special nature of the research work, this part of the staff’s work performance is very difficult to accurately measure. It is difficult to accurately reflect the work performance of the salary and bonus system, it is also not conducive to stimulating the enthusiasm of the R&D staff. The implementation of equity incentive can link the interests of R&D personnel with

the performance of the company, and enhance the enthusiasm of the work. If we want to use the form of bonus to achieve the same effect, the company will bear much higher costs, so equity incentive also reduces the cost of human resources.

The Countermeasures of Restricted Stock Scheme of Huamai Technology Company

Set up Multiple Performance Appraisal System

From the requirements of the Huamai Technology's equity unlock condition, only the income growth rate of a single performance index, which is too simple. Some managers in order to pursue their own interests may lead short-term behavior of the company. It is suggested that multiple conditions unlock mechanism should be adopted, which can be unlocked by income combined with net profit, net asset yield and cash flow statement. At the same time, according to the characteristics of their own industry, we can select the relevant assessment indicators, and multiple assessment indicators can avoid the pursuit of excessive income and harm the long-term interests of the company.

Set a Reasonable Time Limit for the Exercise

In the setting of equity incentive scheme, the setting of exercise period is a very important link: too short term is easy to cause short-term performance whitewash behavior of enterprise executives, which is not conducive to the long-term development of the company; too long exercise time is easy to cause the failure of achieving the desired results. Huamai Technology's equity incentive locking period is one year, and then unlock it for three years. This paper believes that the Huamai exercise period may be extended for one year.

Increase Incentive Numbers Principle

The original intention of equity incentive is to make employees better create value, in which incremental incentives are more likely to be recognized by shareholders. As the incentive income of incremental incentive is uncertain, the better the performance of the company, the higher the incentive income of the management level, and more likely to stimulate the enthusiasm of the management. Therefore, to enhance the effect of incentive Huamai Technology can use incremental incentives.

Combine Financial and Non-financial Indicators

Most of the listed companies' equity incentives only require relevant financial indicators, but ignore the non-financial indicators. In fact, a company's non-financial indicators that want to maintain sustainable development cannot be ignored. Such as customer satisfaction, product service and quality, innovation ability and strategic objectives, these non-financial indicators are closely related to the sustainable development of the enterprise.

Conclusion

Through the study of research on the setting of Huamai Technology's restricted stock plan, I think that the design of the restricted stock plan of the listed companies must pay attention to the effective combination of science, rationality and pluralism. And the essay has put up the advice and countermeasures from four aspects, multiple performance appraisal system; the right time period; the incremental incentive principle; the combination of financial and non-financial indicators. However, due to the limited capacity and energy, this study needs further empirical analysis on what conditions in the setting of restrictive stock options will significantly affect the future performance of listed companies.

Acknowledgement

Thanks to graduate innovation fund project of Jiangxi Normal University (YJS2018105). And this article is a staged research of a key project of Jiangxi Province teaching reform "based on the linkage of school-enterprise accounting professional 'five-one project 'internship practice training mode" (JXJG-15-2-4),2013 Jiangxi Normal University degree and postgraduate education and teaching reform Project "Research on Differentiated Education for Graduate Students and Innovation Entrepreneurship - Based on Questionnaires and Educational Experiments of Economic Management Graduate Students" and the Project of Educational Reform at Universities and Colleges in Jiangxi Normal University called "Research on Factors Influencing the Growth of Young Teachers in Colleges and Universities".

References

- [1] Bebchuk L, Fried Jesse and Walker David. Managerial Power and Rent Extraction in the Design of Executive Compensation [J]. *University of Chicago Law Review*, 2002, 69 (3): 751-864.
- [2] Lei Gao, Shun-lin Song. Executives Shareholding and Firm Performance: Empirical Evidence from Panel Data of Listed Companies from 2000 to 2004 [J]. *Finance and Economic Research*, 2007, 33(3): 134-143.
- [3] Hua Wang, Zhi-Jun Huang. Empirical Analysis Based on Endogeneity of Ownership Incentives, Composition of Board of Directors and Enterprise Value [J]. *Management World*, 2006, 9: 101-116.
- [4] Yu Xin, Chang-jiang Lv. Incentives, Welfare or Reward: The Plight of SOE Equity Incentives in the Context of Compensation Control - A Case Study Based on Luzhou Laojiao [J]. *Accounting Research*, 2012 (6):67-75.
- [5] Shuai Shao , Tao Zhou and Chang-jiang Lv . Property Rights and Motivation of Equity Incentive Design - Case Study of Shanghai Jahwa [J]. *Acta Research in Accounting*, 2014 (10): 43-50.
- [6] Yan-yan Chen. Management's Action on the Price of Equity Incentives [J]. *Economic Survey*, 2014, 31(2): 146-152.
- [7] Yu-Hui Wu, Shi-Nong Wu. Study on Self-Interest Behavior of Corporate Executives and Its Determinants - Evidence Based on Stock Option Incentives for Chinese Listed Companies [J]. *Management World*, 2010 (5): 141-149.