Research on the Stock Incentive Mechanism of Top Management of Listed Company

Xu Yimin
School of Management, Wuhan University of Technology, Wuhan, P.R.China, 430070
(E-mail: xym8733@sohu.com)

Abstract  How to motivate top management of publicly listed company has become the focus of all quarters, and an implementation of reasonable and effective incentive mechanism is the key of the company governance. This article has compared features of several share incentive models, and then analyzed how to integrate suitable incentive mechanism for company top management according to the company own feature, from three aspects of the company size, the company type and the development stage of company.

Key words  Top management of company; Stock incentive; Incentive mechanism

1 Introduction
The enterprise top managements' drive question is focus of all quarters, how to selects and implements the effective incentive mechanism is the key of the company governs. Western scholars to study with the incentive management is based on empirical research, most of them are all agree with that management having stock can influence the enterprise performance. But there is no unified about how to choose share ownership, and various ways of performance of the company, and the influence of different ownership how to motivate the management way is. Along with market economy's development, the spiritual reward's drive function is weaken obviously, and the material drove the system insufficiently consummates, the drive dynamics to be insufficient, is still prominent to the enterprise top management drive restraint question. Therefore, it is specially to listed incentive mechanism question conducts the research to Chinese Enterprise top management, discovers suits each type corporate growth the incentive mechanism combination to have the important meaning.

Chinese company top management salary system has experienced three development phases: The first stage, base firewood + bonus + year gain sharing + welfare; The second stage, yearly salary system; The third stage, the wages + year reward + stockholder's rights drove, the stockholder's rights drive is refers to be listed by this ways and company share or stock option carries on the long-term drive to the high management. The first and the second stage's salary system pays great attention to the high management to carry on the short-term drive, but the high management short-term benefit maximization's goal often can have the conflict with the company long period value maximization goal, but adopts the stockholder's rights to drive that causes company high management and the shareholder takes the enterprise value maximization the common goal, encourages company high management pay more attention on the companies long-term development.

2 Kind of Stock Incentive Mode
Equity incentives, refers to the professional managers through some form of long-term equity for company incentive system. The aim is to make the managers can participate in the enterprise shareholder in decision-making, share the profits, risks, and dedicated to the long-term development of the company. There are many models of the managers of listed companies on the stock ownership incentive, such as stock option, achievement stock, stock appreciation power, hypothesized stock, management purchase, postponement of payment (time stock) and so on. At present the domestic and foreign enterprise commonly used stockholder's rights drove that the pattern may divide into two kinds: one kind is the basis for the stock ownership incentive mode; another kind is the basis for the performance of the stock ownership incentive mode.

2.1 Based on the stock ownership incentive mode
Based on the stock ownership incentive mode is used company's share price as the standard, when the company's stock price reaches a certain goal, incentive object can acquire company's stock rose the benefits. This mode of operating plan includes stock option, achievement stock, stock appreciation power, etc. The incentive model based on the characteristics of a company's stock therefore requires a clear, fair and reasonable capital markets to form the stock prices.

In the capital market is developed, effective countries and regions are usually based on shares to the
stock ownership incentive system arrangement, and because of this mode is easy to operate, so it have been widely application in the western developed countries.

2.2 Based on the performance of the stock ownership incentive mode

Based on the performance of the stock ownership incentive mode is to stimulate the work performance for periodic object assessment standards for its incentive fund or stock. This pattern or operation plan includes hypothesized stock, management purchase, postponement of payment, etc. This kind of incentive mode requirement of incentive listed company of performance can be given Objective and fair evaluation.

In the share-trading reform of listed companies in China, most of them are state-controlled listed company, the company's owner absence; all things are mostly company insider control by external and lack of outsider power. It means that the lack of big shareholders or regulatory supervision, so the incentive mechanism of implementing became executive oneself, by executives motivation, his motivation scheme of incentive target is low and easy to implement, and incentive dynamics and very large. Therefore, the mode of listed companies is a key to the work achievement motivation object is rational and objective evaluation.

3 Listed Company Executives Equity Incentive Mode Choice

Different companies from different industries, and the scale and type and the growth stage of them are all different. All of these factors will affect the enterprise incentive scheme, at the same time, the different incentive mode or different motivation scheme also has its adaptability, therefore, the company should choose the stock ownership incentive mode with its own characteristics.

3.1 The comparison of different stock ownership incentive mode

The stock option and the stock appreciation plan are appropriate for those companies with few original capital and the capital appreciation quickly and human capital contribution remarkable. The hypothesized stock and the restrictive stock are appropriate for the listed company with sufficient cash flow. The achievement stock and the postponement of payment plan are appropriate for the listed company with achievement stability. The management purchase is appropriate for the private enterprise generally.

We compares the different kinds of incentive mode from the short-term motivation, the long-term motivation, binding nature, the cash flow, stock price and mode of payment, like Table 1.

<table>
<thead>
<tr>
<th>Incentive Mode</th>
<th>Short-term motivation</th>
<th>Long-term motivation</th>
<th>Binding nature</th>
<th>Cash flow</th>
<th>Stock price change influence</th>
<th>Mode of payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>stock option</td>
<td>small</td>
<td>middle</td>
<td>big</td>
<td>small</td>
<td>big</td>
<td>Future options</td>
</tr>
<tr>
<td>phantom stock option</td>
<td>big</td>
<td>middle</td>
<td>middle</td>
<td>middle</td>
<td>middle</td>
<td>Cash</td>
</tr>
<tr>
<td>stock appreciation</td>
<td>middle</td>
<td>big</td>
<td>middle</td>
<td>middle</td>
<td>middle</td>
<td>Cash, stock right</td>
</tr>
<tr>
<td>restricted stock</td>
<td>middle</td>
<td>big</td>
<td>middle</td>
<td>middle</td>
<td>Stock right</td>
<td></td>
</tr>
<tr>
<td>deferred compensation</td>
<td>middle</td>
<td>big</td>
<td>middle</td>
<td>big</td>
<td>Cash, stock right</td>
<td></td>
</tr>
<tr>
<td>performance stock</td>
<td>big</td>
<td>big</td>
<td>middle</td>
<td>middle</td>
<td>Stock right</td>
<td></td>
</tr>
<tr>
<td>manager buy-out</td>
<td>big</td>
<td>big</td>
<td>small</td>
<td>small</td>
<td>small</td>
<td>Stock right</td>
</tr>
</tbody>
</table>

3.2 Different choice with characteristics of different listed company

According to the different characteristics of incentive mode, the listed companies in China can on the basis of their own situation to choose the different combination of incentive mode, and then to achieve the stock ownership incentive to executives.

3.2.1 Different scale of listed companies the stock ownership incentive mode

Enterprise scale influence corporate equity incentive mode choice. For smaller companies, due to the personnel and the shareholding percentage will be less, if the relatively high in cash for the payment of the stock ownership incentive mode, enterprises financing volume is opposite bigger, and small-scale enterprises tend to actual financing volume is small, this will cause the pressure of business. However, for those small enterprises growth space, if used to equity for payment of incentive mode, will makes
more incentive for long-term incentive, with managers and company's common growth, incentive effect will be better. Therefore, to small-scale enterprises using stock option is more rational way as the stock ownership incentive.

Along with the expansion of the enterprises' scale, the enterprises financing volume and the ability to pay will increase, and they have more choices of the option incentive mode. For the Large listed company's equity incentive scheme diversification obviously. For medium scale of listed company, especially which in competitive business, it’s individual competitive advantage is not obvious, and the enterprise will pay more attention to grow, so the company performance of executive stock performance using more appropriate. If the enterprise scale is bigger, it has more flexible patterns, and the stock ownership incentive stock option plan to equity ownership and proportion of incentive schemes can be reduced, but the scope of authorization will be increased.

3.2.2 Different types of listed companies the stock ownership incentive mode

For different types of enterprises, they always choose different stock ownership incentive mode. At now we will take the traditional manufacturing industry and the information industry for example.

As for traditional manufacturing industry, they have lower and more stable requirement on technology level, the enterprise's salary incentive in overall stake in proportion to relatively low in the stock ownership incentive mechanism, to reflect the proper incentive and restraint, the principle of appropriate stock, deferred payment and restricted stocks are suitable for performance of such enterprise.

The information industry belongs to the high technology industry and to require high level and faster renewal speed of technology level. At the same time, the information technology enterprise development cost and project investment cycle is long, the effect is long, short period, difficult to measure performance for the incentive mechanism of long-term needs strong, so the information industry, the stock ownership incentive mode must reflect the low cost, the principle of long-term and high returns. Is this kind of stock option incentive mode of enterprise ideal, stock options in early does not need any input, it also eased the information high cost, enterprise development enterprises pay ability weak short-term problem. At the same time, this kind of high technology enterprise, the enterprise space bigger share appreciation, in its growth invest successfully once speed and performance will be very significant, share price rises greatly, so will share appreciation and delay in payment for this kind of way, etc.

3.2.3 Different growth stages of listed companies the stock ownership incentive mode

Enterprise's life cycle may divide into four stages generally: Undertaking time, growth period, mature period and winter. The company is at the different growth stage, will have the different development characteristic, and it will suit for different pattern.

(1) The newly established time is generally refers to enterprise's technological innovation and the new product trial sale stage. The character of this phase is that the capital is limited but not enough, and the enterprise feels pressure by capital, especially by cash flow, it always unable to senior executives with higher cash wages or reward. Compared with other development stage, this stage with the enterprise can grow more need of executives. So, how to choose the enterprise for an effective way of long-term incentives, will respect the interests and company executive efficiency, to attract and retain talents, and reduce the staff is the current ratio enterprise will be the key issues. Executive stock option because of its low cost, and the staff can in no additonal risk circumstances, so you can get a higher income as this one phase enterprise's main stock incentive mode.

(2) The growth period is enterprise's technology, and the craft improvement and the volume production stage. During this phase the enterprise capital input is very big still, cash flow pressure relief, and may not appear higher costs, poor management and market share growth, etc. However, the enterprise growth increased overall strength, and the development speed is increased faster than initial, so as stock price rises, therefore enterprises for executives still should take great dynamics equity incentives. Stock options are still for this one phase, besides the incentive stock appreciation rights and performance is also can choose the way stock.

(3) The mature period is the enterprise technology which is mature and the product enters the large scale production stage. In this one phase enterprise entering steadily developing period, the enterprise production more stable, profit increase funds, and began to cash flow pressure to reduce. With the enterprise scale dramatically widen, growth and the proportion of flow. In the performance stability and sufficient conditions, the enterprise may choose the option incentive mode. At this time, stock options, and not the best choice, the performance of stocks and shares of restrictive use ratio increased gradually.
(4) The winter is the stage which the enterprise competitive power is weakens. This phase of enterprise production atrophy, cash flow, the brain drain seriously and attract talents more difficult. This enterprise especially need excellent managers led enterprises for innovation and new profit growth point, realize enterprise transformation to get rid of the fate of bankruptcy. Therefore, when the enterprise enters a recession after the stock ownership incentive way also should be changed, generally speaking, can consider using restricted stock equity incentive mode.

4 Conclusion
Along with the reform of non-tradable shares in listed companies, the stock ownership incentive mechanism of the listed companies in China is gradually. How to improve the stock ownership incentive mechanism gradually, to make it reasonable and effective incentive effect is the academic and corporate common concern currently. Perfect equity incentive mechanism must establishing the capital market, improving the corporate governance structure, fostering competition orderly market for professional managers, and building a reasonable effective manager achievement evaluation system. On such a basis, the listed company should combine the characteristics of the stock ownership incentive mode to choose a suitable for senior executives, realize the effective incentives fair, executives will be their own interests and long-term interests and promote unity company long-term development.

References