

# The Impact of Employee Equity Incentives on the Performance of SMEs

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**Abstract**—Based on the stock option and restricted stock perspective, the data of SMEs listed companies in 2015-2017 are used to test the relationship between employee equity incentives and company performance. The analysis shows that the equity incentive effect of listed companies in SMEs is obvious, and the financial performance of enterprises implementing equity incentives is significantly better than those without equity incentives. Different equity incentive models have different incentive effects. From the perspective of equity incentive model, China's SME listed companies basically adopt the stock option model, but the incentive model produces less effect than restrictive stocks. The equity incentive effect is affected by the characteristics of enterprises such as industry and enterprise scale. From the perspective of industry, non-manufacturing SMEs listed companies have the best effect on equity incentives; at the same time, the larger the scale of the company is, the higher the equity incentive effect is and the better the company's performance is. Yet in the past, the greater the incentive intensity was, the better the performance of the company was, but the impact of equity incentive intensity on the performance of the company was small.

**Keywords**—small and medium enterprises; equity incentives; company performance

## I. INTRODUCTION

Since the “Measures for the Administration of Equity Incentives for Listed Companies (Trial)” was implemented from January 1, 2015 to 2016, the equity incentive market has been explored and developed after 10 years. The China Securities Regulatory Commission announced the equity on July 13, 2016. Incentives to the New Deal — “Management Measures for Equity Incentives of Listed Companies”, was officially implemented on August 13 of the same year. Since the official implementation of the New Deal, the equity incentive business of listed companies has evolved from a pilot to a mainstream of long-term incentives and modern corporate governance. The new management method has strengthened information supervision, improved the implementation conditions of equity incentives, increased corporate autonomy and flexible decision-making space, and strengthened internal supervision and market constraints. According to the Shanghai Stock Exchange, nearly 400 listed companies have implemented equity incentives as of 2017. After several years of incentive period, the effect of equity

incentives has gradually emerged. Some listed companies have experienced executives' losses and even corporate losses shortly after the launch of the equity incentive plan, which has a certain gap with previous market expectations. The more people start to focus on equity incentives and incentives. The formulation of the equity incentive plan is in the hands of the company itself. Although the relevant departments have introduced corresponding systems in the formulation and implementation of the equity incentive plan, whether the choice of the equity incentive model is appropriate and the level of incentives directly affects the incentive implementation bad.

## II. LITERATURE REVIEW

### A. Foreign Literature Review

Equity incentives originated in the United States in the 1950s and developed rapidly in the 1980s and 1990s. When American companies motivate their owners, they introduce a variety of equity incentive plans and combine these equity incentives, which play a role that individual equity incentives cannot play.

For the impact of equity incentives on business performance, foreign academic circles have done more empirical research. The main points of view are as follows.

The company's performance is linear with equity incentives. Jensen and Murphy (1990) found that the rewards of manager stock options — performance sensitivity is 14.5 cents, which is higher than the rewards of managers' cash compensation — performance sensitivity. Milan and Ahmed (1995) used 153 manufacturing companies in the COMPUSTAT industrial archives as a sample to empirically study the relationship between managers' compensation structure and corporate performance, and concluded that the company and the manager held. The proportion of equity is positively related to the proportion of other forms of compensation of managers. Berger et al. (1997) found that the more the management holds the stock option, the better the company's performance, and there is a positive correlation between the two. Hall and Liebman (1998) collected data on 386 sample companies in the United States, and studied the relationship between the composition of the operators' compensation and the company's performance, and found that the number of stock options that constitute

part of the operator's compensation is stronger than the company's performance. Correlation is increasing from 1980 to 1994.

The performance of the company and the performance of equity incentives are nonlinear. Larker (1983) and Baghat Brickley and Lease (1985) pointed out that after the company implemented the management stock option incentive plan, the company's stock price increased beyond normal, but the relationship between the two was not linear. McConnell and Servaes (1990) selected 1,173 companies in 1976 and 1,093 sample companies in 1986 as research subjects, using empirical evidence to demonstrate management shareholdings and company performance when management's shareholding ratio is less than 50%. A positive correlation is presented, but the two are not linear, but are inverted U-shaped. Subsequent scholars (such as: Hermalin, Weisbach, Griffith) also empirically analyzed that the CEO's holding ratio is not monotonously linear with the company's performance.

There is no correlation between company performance and equity incentives. In addition, Mork, Shleifer, and Vishny (1988) used the 351 companies in the United States as a sample, using the piecewise regression analysis method, according to the proportion of shares held by the board of directors in the total shares, the shareholding ratio is divided into 0-5%, 5 %-25%, 25%-100% to study the relationship between the company's market value and the net cash flow rate of replacement cost. The shareholding ratio increased and the growth rate was small, and the holding ratio was 25%, which was equivalent to the company's performance level at zero holding. In other words, when the company's employees hold a small number of shares, it can play an effective supervisory role. At this time, the interests of the operators and the interests of the owners are consistent. However, as the number of shares increases, after exceeding a certain limit, the operator may be more likely to obtain agency income and affect the company's performance. Jensen and Murphy (1990) applied the regression method to study the incentive effect of the internal shareholding scheme and the threat of dismissal, and found that the rewards of the operators did not show strong incentives for corporate performance.

### *B. Domestic Literature Review*

Since China only required the listed company's annual report to disclose management compensation in 1998, the relationship between the management compensation of listed companies and company performance was relatively late. The research was mainly based on the principal-agent theory and the theory of human capital property rights.

The empirical research conclusions mainly focus on whether the two are related. There are two conclusions. There is no significant correlation between equity incentives and company performance. Wei Gang (2000) selected 791 listed companies as samples to study the relationship between the overall shareholding ratio of senior management and the return on net assets. The empirical test results show that there is no significant correlation between the two, the

reasons. First, the shareholding of executives of listed companies in China is generally low, and the equity incentive system of listed companies is flawed. Xu Erming and Wang Zhihui also studied the relationship between manager's shareholding and the company's strategic performance, and supported Wei Gang's point of view. There is no linear relationship between manager's shareholding and company strategy. In 2000, Li Zengquan took the data of 799 listed companies as the research object, and studied the influence of the shareholding ratio of management on the return on net assets from the four aspects of national stock ratio, industry attribute, enterprise scale and geographical area. The analysis results show that the size of the company and the proportion of state-owned shares have no influence on the relationship between management shareholding and company performance; industry attributes have an impact on the relationship between management shareholding and company performance; geographical factors also affect management shareholding ratio and company performance. The relationship has an impact. Yuan Guoliang, Wang Huaifang and Liu Ming pointed out that the correlation between the shareholding ratio of executives, directors, supervisors and supervisors of listed companies and corporate performance is very low or basically irrelevant. The empirical results of Zhang Xiaoning (2002) show that the number of shares held by the chairman and the annual salary of the general manager are not related to the company's performance, but the performance of the company implementing equity incentives is higher than that of companies that do not implement equity incentives. Liu Guangsheng (2013) and Dong Bin (2015) also reached the same conclusion. They believe that China's capital market is not effective enough, and that the implementation of equity incentives cannot improve the company's performance. There is a significant correlation between equity incentives and company performance. Liu Guoliang and Wang Jiasheng (2000) on the issue of the relationship between the shareholding ratio of managers and the company's return on net assets and earnings per share, they are considered to be positively correlated through empirical tests. Song Zengji and Pu Haiquan used the financial data of 1999 as the research object, and defined the members of the board of directors, the members of the board of supervisors and the managers as management. Using regression analysis, they analyzed the return on net assets, the proportion of managers holding shares, and the managers holding the shares. The relationship between the proportion of the total number of managers, the conclusion shows that the return on equity is positively related to the shareholding ratio of managers. Zhang Fan took the listed company in 2002 as a sample. After empirical test, the regional and industry attributes will affect the correlation between the shareholding ratio of managers and the company's performance. The size of the company and the proportion of state shares do not affect the direct effect of equity incentives. Only after the number of shares held by the manager reaches a certain amount, a high proportion of holdings are a significant positive correlation with the company's performance. Zhang Junrui, Zhao Jinwen, and Zhang Jian took the earnings per share as the dependent variable, and used the logarithm of the per capita annual

salary of the executives, the shareholding ratio of the executives, and the logarithm of the company's total share capital as the explanatory variables. After multiple regression analysis and the executives, the logarithm of annual salary and the logarithm of earnings per share and company size variable are significantly positively correlated. The better the company's performance, the larger the company's size, the higher the annual salary of the executive; on the contrary, the slower growth rate and smaller scale. The annual salary of company executives is also low. Song Dejun (2004) proposed that the material incentive of the chairman of the board had little effect on the company's performance, and his administrative incentives had a significant impact on the company's performance, and had a positive impact; the material incentive of the general manager had a significant effect on the company's performance improvement, and his There is no correlation between administrative incentives and company performance.

### C. Literature Review

In the current domestic and foreign research on equity incentives and company performance, most listed companies are used as research samples. There are few literatures on the impact of firm size on equity incentives, and insufficient attention to equity incentives for SMEs. In some large enterprises, the equity of senior executives is relatively low, which cannot reduce the agency cost of enterprises to a certain extent, and the equity incentives of SMEs can significantly reduce the agency costs. In addition, few researchers study the relationship between equity incentives and firm performance at a micro level. However, the equity incentive system is very important for the healthy development of the company. It is necessary to study the design and implementation effect of the relevant dividend policy system for the specific operation of the company.

## III. RESEARCH DESIGN

### A. Sample Selection

The sample selects the SME board listed companies listed on the Shenzhen Stock Exchange in 2015-2017, excluding the ST company, excluding the company that announced the implementation of the equity incentive plan and then canceled the implementation plan, eliminating the abnormal data company and eliminating the other financial needs.

### B. Method Selection

Taking the return on net assets and net profit as the measure of the company's performance, the comparative analysis method and the regression analysis method were used respectively.

The comparative analysis method mainly compares the operating performance of the SMEs that have implemented the equity incentive plan with the performance of the whole small and medium-sized board. Secondly, the net assets income of the listed companies of the SMEs that implemented the equity incentives in 2015 from 2015 to

2017 will be selected. Rate and net profit analysis of financial performance growth, through the ring analysis can be used to obtain the financial changes after the sample company implements equity incentives; select the sample of the 2016 annual implementation of equity incentives for SME listed companies 2015-2017 net assets income The analysis of the growth rate of financial performance of the rate and net profit can be used to derive the financial changes of the sample company before and after the implementation of the equity incentive.

The regression analysis method mainly selects the financial data of the sample company in 2017, takes the return on equity as the dependent variable, proposes the regression model, and analyzes the dependent variable and the independent variable with the incentive intensity, incentive model, firm size and industry factor as independent variables. Correlation, using regression results to explain the effect of equity incentives.

### C. Indicator Design

1) *Dependent variable design*: At present, the company's performance evaluation mainly includes accounting indicators and market indicators. Accounting indicators mainly include earnings per share, return on net assets, economic value added, etc. Market indicators mainly include stock market price and stock return rate. Most of the market indicators are uncontrollable indicators. Due to market factors and macro policies, they will be subject to violent fluctuations. Managers have strong accounting indicators such as net profit, earnings per share, and return on net assets. Therefore, this paper believes that using accounting indicators to measure the performance of listed companies is more objective.

In the past, most scholars used the return on net assets as the explanatory variable. The return on net assets, also known as equity net interest rate, is a comprehensive indicator commonly used in financial analysis and can be used for comparison between different companies. This indicator is often used to measure the efficiency of a company's use of its own capital. By comparing the return on a company's net assets, it can directly judge and evaluate a company's profitability and sustainable management capabilities.

### 2) Independent variable design

a) *Equity incentive strength*: The equity incentive intensity refers to the proportion of stocks used for equity incentives in the equity incentive plan issued by the listed companies of the SMEs to the total share capital of the company. The majority of sample companies are motivated by the company's senior management, core technical staff, business backbone, etc., while previous researchers used the top management shareholding ratio as the first independent variable, in fact, held by senior management. In addition to equity incentives, stocks may also be purchased from the secondary market. Therefore, in order to better explain whether there is a linear relationship between the intensity of equity incentives and incentive effects, the ratio of stocks

used for equity incentives to total equity is used as the first independent variable.

*b) Equity incentive model:* The effect of equity incentives is not only affected by factors such as policies, markets and other macro-environments and the actions of motivated people, but also influenced by the choice of the company's equity incentive model. From the above theoretical analysis, it is concluded that different equity incentive models have their own advantages and disadvantages. Therefore, enterprises should consider the industry, the life cycle of the enterprise and other suitable incentive modes; otherwise the incentives will not achieve the expected results. However, the equity incentive model is non-numeric, and it is necessary to treat it as a virtual independent variable. The so-called virtual independent variable refers to a hypothetical variable that quantifies the influence of non-quantity quality factors.

*c) Enterprise scale:* The relative value of the company's total assets is used at the end of the year to represent the size of the assets. It is generally believed that the advantage of modern enterprises stems from economies of scale and scope. Enterprises expand their scale of operations, which is conducive to reducing long-term average costs, improving operational efficiency, and thus having large-scale production economy, and winning cost

advantages in fierce market competition. The larger the scale of the enterprise, the more stable the business activities are carried out and the more secure the benefits.

*d) Industry factors:* Different industries, their operation methods, financial status, etc. will also have a big difference, which in turn affects the business effects of the company. In the selected sample, the growth of the information technology industry is much higher than that of the manufacturing industry compared with the information technology industry. According to the division standard of Shenzhen Stock Exchange, this paper defines the industry to the sample company and regards the industry factor as one of the independent variables. To compare the incentive efficiency differences between manufacturing and non-manufacturing incentive models, in the regression analysis below, 1 represents manufacturing and 0 represents non-manufacturing.

*e) Correlation analysis of independent variables:* Correlation analysis is used to describe the closeness of the relationship between two variables. It reflects the degree of variation of another variable after controlling the value of one of the variables. The main purpose of the correlation analysis is to study the closeness of the relationship between the variables and to infer whether the population is relevant based on the data of the sample.

TABLE I. CORRELATION OF INDEPENDENT VARIABLES

		Incentive strength%	Equity model	Business scale	Industry
<i>Incentive strength%</i>	Pearson Correlation	1	.251	.129	-.220
	Significant (bilateral)		.145	.459	.205
	N	35	35	35	35
<i>Equity model</i>	Pearson Correlation	.251	1	-.147	-.238
	Significant (bilateral)	.145		.401	.168
	N	35	35	35	35
<i>Business scale</i>	Pearson Correlation	.129	-.147	1	-.005
	Significant (bilateral)	.459	.401		.979
	N	35	35	35	35
<i>Industry</i>	Pearson Correlation	-.220	-.238	-.005	1
	Significant (bilateral)	.205	.168	.979	
	N	35	35	35	35

“Table I” shows the results of the independent variable correlation analysis. It can be seen from the table that there is a significant correlation between the independent variables, but the correlation coefficient values are lower, so that the selected independent variables are statistically required, will not bring collinearity problems.

According to the above analysis results, the following information can be obtained: the equity incentive intensity is negatively correlated with the industry, that is, the equity incentive intensity of the manufacturing industry is lower than that of the non-manufacturing industry. The intensity of equity incentives is positively related to the size of the company. That is, the larger the scale, the more willing to

take out a larger proportion of stocks to motivate senior managers and technical backbones. It also shows that the greater the contribution of these motivated objects to the company.

*D. Model Establishment*

A multivariate linear regression model was used to study the equity incentive effect of listed companies in SMEs.

$$Y = \alpha + \beta_1 OIR + \beta_2 OIM + \beta_3 LNNTA + \beta_4 IND + \epsilon_i \quad (i=1, 2 \dots n)$$

Of which: Y - return on equity

OIR - equity incentive strength variable



OIM - equity incentive model variable  
 LNTA - enterprise size variable  
 IND - industry variables  
 $\alpha, \beta$  - regression coefficients of each variable  
 $\varepsilon$  - statistical error

IV. EMPIRICAL ANALYSIS

A. The Growth of Financial Performance After the Implementation of Equity Incentives by Listed Companies in SMEs

In the analysis of the financial performance growth of listed companies that have implemented equity incentives, the return on net assets and net profit are used as statistical comparison indicators. This is because the return on net assets is a relative indicator and is widely used by listed companies as a performance indicator to measure the implementation of equity incentives. Net profit is an absolute indicator, which can measure the operating performance of listed companies after implementing equity incentives.

TABLE II. AVERAGE ANNUAL RETURN ON NET ASSETS AND AVERAGE NET PROFIT OF SMALL AND MEDIUM-SIZED COMPANIES IN 2017

	Sample company	All small plates
Average return on equity (%)	13	11.27
Average ROE growth rate (%)	4.22	-0.64
Average net profit (ten thousand yuan)	13,357.50	9,051.91
Average net profit growth rate (%)	60.1	6.35

As can be seen from “Table II”, the sample company's average annual return on net assets in 2017 was 13%, an increase of 4.22% compared with the previous year. The average net profit in 2017 was 133,575,500 yuan, an increase of 60.1% over the average net profit of 2016. The average annual return on net assets of the whole small and medium-sized board in 2017 was 11.27%, and the average return on net assets decreased slightly compared with the previous year. The average net profit in 2017 was 95,161,100 yuan, and the average net profit growth rate was 6.35%. The overall data analysis shows that the performance level of the companies that have implemented equity incentives in the small and medium-sized board is better than the overall small and medium-sized board companies.

In order to further analyze the performance of the equity incentives after implementation, the analysis of the financial performance growth of the SME listed companies in 2015 and the net profit of the listed companies in 2015 will be analyzed by the ring analysis. After the sample company implements the financial changes after the equity incentive, it is listed in “Table III”. The analysis of the financial performance growth of the SME listed companies in 2015 and the net profit of the listed companies in 2015 will be used to analyze the financial changes of the sample companies before and after the implementation of the equity incentives.

TABLE III. FINANCIAL STATEMENT OF SAMPLE COMPANIES IMPLEMENTING EQUITY INCENTIVES IN 2015

	2015 net assets return rate (%)	2016 annual return on equity (%)	2017 annual return on equity (%)	2015 net profit (yuan)	2016 net profit (yuan)	2017 net profit (yuan)
Mean	13.34	13.95	13.86	45,732,465	67,976,949	110,261,475
Minimum value	10.52	7.51	0.72	33,821,401	50,321,043	71,703,151
Maximum value	15.2	24.45	28.65	69,227,253	102,210,417	134,800,572

It is concluded from “Table III” that the implementation of equity incentives makes the sample company's net profit increase. Among them, the ROE and net profit of 2016 were significantly higher than that of 2015, the ROE growth rate was 4.57%, and the net profit growth rate was 48.64%. This is because in 2016, China's overall macroeconomic situation is good. The manufacturing-oriented SMEs have strengthened their financial strength, improved indirect financing capabilities, and played a financial leverage role by leveraging the basic market platform.

The sample company's ROE of 13.86% in 2017 was slightly lower than the 13.95% in 2016, but it was 4% higher

than the 2015 ROE of 13.34. The main reason is that the sample companies that implemented equity incentives in 2015 were mostly in the manufacturing industry. Due to the impact of Sino-US trade frictions in recent years, the demand for foreign orders decreased, and the export orders of manufacturing industries decreased, and the performance was affected. According to the net profit data, the net profit in 2017 increased significantly compared with 2016, with an increase of 62.21%. The net profit in 2017 increased by 141.10% compared with 2015. This shows that the equity incentive system has played a role, making SME companies less affected. The main reasons for the sample companies to achieve positive results in the trade war are: first, the selected

sample companies belong to the high-quality group of SMEs; second, through listing behavior and effective supervision after listing, SMEs have high management and risk control capabilities, and have good independent innovation and core

competitiveness; third, implementing the equity incentive system can, to a certain extent, motivate the employees' work enthusiasm and improve the work effect.

TABLE IV. FINANCIAL STATEMENT OF SAMPLE COMPANIES IMPLEMENTING EQUITY INCENTIVES IN 2016

	2015 net assets return rate (%)	2016 annual return on equity (%)	2017 annual return on equity (%)	2015 net profit (yuan)	2016 net profit (yuan)	2017 net profit (yuan)
<i>Mean</i>	16.89	17.39	17.43	152,544,356	232,569,570	416,702,628
<i>Minimum value</i>	10.52	9.31	8.8	29,601,130	42,161,635	53,811,372
<i>Maximum</i>	23.35	31.69	24.73	350,629,870	720,300,109	1,465,426,000

From "Table IV", the implementation of equity incentives makes the sample company's ROE and net profit increase in 2016 compared with the previous year. The 2016 ROE is 3% higher than 2015, and 2016 net profit is 2015. The annual growth rate was 52.46%.

The sample company's 2017 annual return on net assets increased slightly compared with 2016. Although the increase was not large (0.23%), it can explain the existence of the rising phenomenon. The return on net assets in 2008 (17.43%) is higher than that in 2006. The yield (16.89%) increased by 3.2%. Net profit data shows that the net profit

in 2008 increased by 79.17% compared with 2007, an increase of 173.17% over 2006.

Therefore, it can be determined that equity incentives will promote the company's performance. However, companies that implement equity incentives have different incentive strengths, incentive models, and firm sizes. The following will further analyze the impact of these three factors on company performance.

*B. Regression Results and Analysis of Equity Incentive Model*

TABLE V. MODEL SUMMARY <sup>c,d</sup>

model	R	R <sup>^b</sup>	Adjust the R side	Standard estimated error
1	.925 <sup>a</sup>	.855	.836	5.75478

a. Predictors: Incentive Strength%, Industry, Equity Model, Firm Size

b. Dependent variable: % return on equity

As can be seen from "Table V", after regression, R=0.925, R<sup>2</sup>=0.855, indicating that the model is representative of the sample. In addition, since the adjustment coefficient (0.836) of the adjustment is closer to 1, it is considered that the goodness of fit is higher, and the net asset yield of the interpreted variable can be explained by the above model more, and the part that cannot be explained is less.

The regression coefficient of equity incentive intensity is 0.073, the regression coefficient test statistic t=1.355, the associated probability is 0.025 less than the significant level of 0.1, indicating that the return on equity is positively correlated with the equity incentive intensity; the regression coefficient of firm size is 0.164, accompanied by The

probability of 0.024<0.1 indicates that the firm size and the return on net assets are positively correlated; the regression coefficient of the industry is -0.091, the regression coefficient test statistic t=-1.427, and the associated probability is 0.072 less than the significant level of 0.1, indicating the net of non-manufacturing. The return on assets is higher than that in the manufacturing industry; the regression coefficient of equity incentive model is -0.203, the regression coefficient test statistic t=-1.116, the associated probability is 0.073, and the significant level is 0.1, indicating that the return on net assets of enterprises with restrictive equity incentives is higher. High, companies that are motivated by stock options are less likely to have a return on net assets. (As shown in "Table VI")

TABLE VI. SIX COEFFICIENTS

model	Non-standardized coefficient		Standard coefficient		t	Sig.
	B	Standard error	trial version			
I	(constant)	1.557	16.973		1.092	.028
	Incentive strength%	.153	.432	.073	1.355	.025
	Equity model	-1.881	1.686	-.203	-1.116	.073
	Business scale	1.170	1.354	.164	1.864	.024
	Industry	-1.090	2.553	-.091	-1.427	.072

As can be seen from “Table VI”, after analysis, the model of equity incentive effect of SMEs can be written as:

$$Y=1.557+0.073OIR -0.203OIM +0.164LNTA -0.091IND+e_i$$

$$(1.355) (-1.116) (1.864) (-1.427)$$

That is, for every unit of increase in equity incentive intensity, the company's performance increased by 0.073 units. The impact of the equity incentives obtained from the regression on the company's performance is weak, and the research confirms the existence of the impact.

## V. EMPIRICAL CONCLUSION

Through the above empirical research, the conclusions of the analysis of China's equity incentives after the share-trading reform are summarized as follows.

The equity incentive effect of listed companies in SMEs is obvious, and the financial performance of enterprises implementing equity incentives is significantly better than those without equity incentives.

Different equity incentive models have different incentive effects. From the perspective of equity incentive model, China's SME listed companies basically adopt the stock option model, but the incentive model has less effect than restrictive stocks.

The effect of equity incentives is affected by the characteristics of enterprises such as industry and enterprise scale. From the perspective of industry, non-manufacturing SMEs listed companies have the best effect on equity incentives; at the same time, the larger the scale of the company, the higher the equity incentive effect and the better the company's performance. This result shows that companies that implement equity incentives can gather industrial advantages, expand the scale of enterprises, and promote enterprises to become bigger and stronger.

The greater the incentive intensity, the better the performance of the company, but the impact of equity incentive intensity on the performance of the company is small. This is consistent with the findings of Mork, Shleifer and Vishny. When the shareholding ratio is in the range of 0-5%, the company's profitability increases with the increase of the shareholding ratio, while the stocks used by our SME listed companies for equity incentives account for the average share capital ratio was 4.69%.

## VI. CONCLUSION

The company implements equity incentives to make the operator and the owner's financial management objectives consistent. If the management's shareholding ratio is low or even zero-shareholding, management will make various decisions for maximizing self-interest. In the case of the company's implementation of equity incentives, the gap between management's interest orientation and shareholders' interests has narrowed, which greatly reduced the management's moral hazard and adverse selection.

Equity incentives can attract and retain talent. Maslow's hierarchy of needs theory believes that the satisfaction of human basic needs is hierarchical, followed by physiological needs, security needs, social needs, respectful needs and self-fulfilling needs. Each level of needs must be substantially satisfied before it is activated. The first two of the five demand levels can be attributed to material needs, and the last three levels of demand are attributed to spiritual needs. People must first meet the material needs, and only through material incentives and temptations can people release huge potential for work.

The ultimate goal of the company's implementation of equity incentives is that the agent and the client's goals are consistent, strengthen the internal management of the enterprise, and enhance the value of the enterprise. Based on the above reasons, the business performance of the company that implements equity incentives is inevitably better than that of enterprises that do not implement equity incentives.

The exercise price of stock options should not be lower than the following: a summary of the stock incentive plan summary of the company's underlying stock price on the previous trading day; b the stock incentive plan summary within the first 30 trading days of the announcement. The average closing price of the company's underlying stock. The grant price of the restricted stock is determined when the company grants the restricted object to the incentive object. If the company withdraws the incentive fund to purchase the outstanding shares for the gift incentive object, the grant price is 0; if the preferential transfer is given to the incentive object, the grant is granted. The price is the discount of the cost of repurchasing the stock; if the stock is obtained through the private placement method, it is essentially a targeted issue, and the issue price is not less than 50% of the average stock price of the company on the 20 trading days before the pricing benchmark date. That is to say, the grant price of the restricted stock is generally lower than the market price at the time of the publication of the equity incentive plan, and the exercise price of the stock option is higher than or equal to the market price at the time of the publication of the draft equity incentive plan. The company that announced the incentive draft before 2017 experienced the bull market in China's securities market in 2016. The company that chooses the stock option model has an exercise price higher than the current stock market price. At this time, the incentive object will choose to give up the exercise, and it will not produce reality. The loss of funds, that is, stock options, is not punitive. Incentives of restricted stocks will generate direct financial losses when the stock price falls. Even if the unsatisfied performance conditions cannot be met, or if the restricted stocks are not available, the restricted stocks will follow the draft. The regulations are repurchased and cancelled by the company. That is, the restricted stocks directly impose economic punishment on the incentive objects by setting the unlocking conditions and the disposal regulations after the unlocking.

In addition, according to the relevant provisions of the “Accounting Standards for Business Enterprises — Share-based Payments”, the number of options that should be estimated as vesting rights on each balance sheet date of

stock options during the waiting period is included in the current period according to the fair value determined on the grant date. Cost and capital reserve. After the restricted stock is granted, the incentive object has the stock. If the stock is purchased by the incentive fund, the incentive fund will be included in the next period of cost; if the targeted issuance, no cost will be incurred, and only the company's share capital will be increased. Therefore, stock options will reduce corporate profits. For the above two reasons, the restricted stock incentive model produces better performance than the stock option model.

In the empirical analysis of this paper, the return on equity in 2017 is selected as the explanatory variable, and the regression results show that the performance of manufacturing companies is slightly lower than that of non-manufacturing companies. The small and medium-sized board is dominated by manufacturing companies (accounting for 75.82%). In 2017, the net profit of manufacturing, agriculture, forestry, animal husbandry and fishery companies declined, while the net profit growth rate of wholesale and retail trade and construction companies remained above 30%. Manufacturing and non-manufacturing companies were very different. The main reason was the Sino-US trade friction, especially the fierce competition in the domestic market and the fluctuation of the RMB exchange rate, which caused the orders of manufacturing companies to decline and the ex-factory prices of products to be lowered.

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