

Analysis on Mid- and Long-Term Incentive Policies of State-Owned Technology Enterprises

Wang Han^{1*}, Wang Dan¹

¹ State Grid Energy Research Institute Co., Ltd., Beijing, 102209, China

* Corresponding author's e-mail: wanghan@sgeri.sgcc.com.cn

ABSTRACT

In recent years, the Party Central Committee and the State Council have issued a series of documents on medium- and long-term incentives for state-owned technological enterprises. In terms of the scope of the enterprise, applicable conditions, incentive targets, incentive methods, incentive implementation conditions, and incentive plan management, it clearly stipulates and provides guidance for medium- and long-term incentives for state-owned technology-based enterprises. This article collects and sorts out the relevant policies for medium- and long-term incentives of state-owned technology-based enterprises, and summarizes and analyses them to provide reference for medium- and long-term incentives of state-owned enterprises.

Keywords: *state-owned technology-based enterprises, medium and long term incentives, policy*

1. INTRODUCTION

In 2002, the Ministry of Finance and the Ministry of Science and Technology jointly issued the "Guiding Opinions on the Pilot Work of State-owned High-tech Enterprises to Carry out Equity Incentive Pilot Work", and the medium- and long-term incentive pilot work of state-owned technology-based enterprises officially kicked off. In 2006, the State-owned Assets Supervision and Administration Commission and the Ministry of Science and Technology issued the "Notice on Organizing the Pilot Work on Equity Incentives for State-owned High-tech Enterprises and Enterprise Transformation Research Institutes in Beijing Zhongguancun Science and Technology Park." And in the following four years, a series of related documents such as the "Notice on the Pilot Work of Incentives for Dividend Rights Incentives in Some Central Enterprises" and other related documents were issued in 2015, the Law of the People's Republic of China on Promoting the Transformation of Scientific Achievements was revised to effectively promote the further refinement and deepening of the medium- and long-term incentive work of state-owned technology-based enterprises.

Since 2016, the Ministry of Finance, the Ministry of Science and Technology, the State-owned Assets Supervision and Administration Commission of the State Council and other departments have successively issued the "Interim Measures for Equity and Dividend Incentives in State-owned Science and Technology Enterprises" "Notice on Doing a Good

Job in Equity and Dividend Incentives for Central Technology Enterprises" "Guidelines for the implementation of incentive incentives for central science and technology enterprises" and "Notice on the expansion of the scope of implementation of the interim measures for equity and dividend incentives of state-owned technology enterprises", which further clarified the scope of applicable enterprises, applicable conditions, incentive targets, incentive methods, incentive implementation conditions, and incentive plan management for state-owned technology-based enterprises to carry out equity and dividend incentives.
future research.

2. RELATED POLICY ANALYSIS

2.1. Applicable Enterprise Scope

The definition of the scope of state-owned science and technology enterprises generally refers to the definition of state-owned science and technology enterprises in the "Interim Measures for Incentives and Dividends of State-owned Science and Technology Enterprises". That is, "state-owned and state-controlled non-listed technology enterprises (including state-owned enterprises listed in the national SME share transfer system) with corporate legal person status in China".

The "Notice on Expansion of the Implementation Scope of Interim Measures for Equity and Dividend Incentives for State-owned Science and Technology

Enterprises” issued in 2018 included all levels of unlisted technology-funded enterprises contributed by state-owned listed companies into the scope of incentives. The scope of the original state-owned technology-based enterprises was expanded from 3 to 5: State-recognized high-tech enterprises, restructured institutional enterprises and invested technology enterprises, colleges and universities and research-invested science and technology enterprises, enterprises included in the “National Science and Technology SME Information Database” of the Ministry of Science and Technology, national and provincial certification Technology service organization. [1]

For other state-owned science and technology enterprises that are not included in the above scope, they should follow the requirements of documents such as “Law of the People's Republic of China on the Transformation of Science and Technology Achievements” “Trial Measures for the Implementation of Equity Incentives by State-controlled Listed Companies” “Guidelines for the Reform of Mixed Ownership of Central Enterprises” “Guidelines for the Implementation of the Tenure System and Contractualized Management of Managerial Members of” Double Hundred Enterprises”.

2.2. Incentive Method

According to the “Interim Measures for Incentives and Dividend Incentives of State-owned Science and Technology Enterprises”, the medium- and long-term incentive methods of state-owned technology

enterprises mainly include equity sales, equity awards, equity options, post dividends, and project income dividends.[2] The “Notice on Doing a Good Job in Equity and Dividend Incentives for Central Science and Technology Enterprises” encourages central science and technology enterprises to give priority to job dividend incentives, enterprises with scientific and technological achievements transformation and clear project revenue and expenditure can choose project dividend incentives and implement equity incentives in a safe manner.

In addition, in the “ ‘Double Hundred Enterprises’ Guidelines for the Implementation of Tenure” and “Contractual Management of Managerial Membership of Managers and the Guidelines for the Operation of Central Enterprise Mixed Ownership Reform”, “Double Hundred Enterprises” and mixed ownership enterprises are encouraged to explore excess Mid- and long-term incentives such as profit sharing, virtual equity, and follow-up investment.

2.3. Applicable Business Conditions

Relevant documents mainly made detailed restrictions and requirements on the conditions of state-owned technology-based enterprises to carry out equity and dividend incentives in terms of the proportion of research and development expenses, the proportion of scientific research personnel, and the proportion of scientific and technological service-based income. For state-owned technology-based enterprises that adopt other incentive methods, the relevant documents have not yet made clear requirements. [3]

Table 1 The conditions of the state-owned technology-based enterprises' equity and dividend incentives apply to the enterprise

Business category	R & D expenses	R & D personnel	Technology service income
Nationally recognized high-tech enterprise	<i>In the past 3 years, R & D expenses accounted for more than 3% of the company's operating income</i>	<i>The R & D personnel of the enterprise in the previous year when the incentive plan was formulated accounted for more than 10% of the total number of employees</i>	<i>The service income of science and technology in the past 3 years is not less than 60% of the company's operating income</i>
Transformed institutional enterprises and invested technology enterprises	√	√	
Technological enterprises invested by universities and research institutes	√	√	

Enterprises included in the Ministry of Science and Technology's "National Science and Technology SME Information Database"	√	√	
National and provincial-level scientific and technological service institutions			√

In addition, the relevant policies also set more detailed conditions for the medium- and long-term incentives available to companies in the above scope of application in terms of the company's establishment period, after-tax profits, and company size: enterprises established less than 3 years ago shall not adopt the incentive method of equity awards and post dividends; the implementation of equity awards also needs to meet the conditions of "the net asset appreciation accumulated by the after-tax profits in the past three years should account for more than 20% of the total net assets at the beginning of the past three years, and

the undistributed profits at the beginning of the year when the incentives are implemented are positive"; the implementation of post dividends also needs to meet the conditions of "the net asset value added accumulated by the after-tax profits in the past three years should account for more than 10% of the total net assets of the enterprise at the beginning of the past three years, and the undistributed profits at the beginning of the year when the incentive is implemented are positive"; Large and medium-sized enterprises shall not adopt the incentive method of equity options.

Table 2 Restrictions on special policy conditions for state-owned technology-based enterprises' equity and dividend incentives

Incentive method	Special policy conditions
Equity sale	-
Equity award	The enterprise has been established for three years and the net asset value added accumulated by the after-tax profits in the past three years should account for more than 20% of the total net assets at the beginning of the past three years.
Equity options	Large and medium-sized enterprises are not allowed.
Post bonus	The enterprise needs to be established for three years. The accumulated net asset value added after the after-tax profits in the past three years should account for more than 10% of the total net assets of the enterprise at the beginning of the past three years.
Project income dividend	-

2.4. Incentive Object

The targets of equity and dividend incentives of state-owned science and technology enterprises are important technical personnel and management personnel who sign labor contracts with their own enterprises. Among them, the incentive object of equity awards is limited to important technical personnel who have worked in the enterprise for more than 3 years, incentive targets for post dividends should work continuously for more than 1 year in the post, and the number of incentives each time should

not exceed 30% of the total number of employees in the company; the main incentive objects of "Double Hundred Enterprises" excess profit sharing, virtual equity, and follow-up investment are mainly members of the managerial level.

2.5. Incentive Amount

According to the relevant provisions of the "Interim Measures for Incentives and Dividends of State-owned Technology Enterprises", the total equity

incentives of state-owned technology-based enterprises shall not exceed 5%, 10% and 30% of the company's total share capital respectively, and the incentive equity obtained by a single incentive object shall not exceed 3% of the company's total share capital; the equity award amount shall not exceed 15% of the accumulated net asset appreciation value formed by the after-tax profits in the past three years; the project profit dividend should be determined according to the project's income output and income distribution; the total amount of post bonus incentives is not higher than 15% of the after-tax profit of the year, and the income of post bonuses received by the incentive objects is not higher than 2/3 of their total remuneration. [4] Relevant policies have not yet made specific provisions on the amount of incentives for other incentives.

2.6. Incentive Plan Approval Requirements

According to relevant policy requirements, the approval process for the equity and dividend incentive plan of state-owned technology-based enterprises is: hear the opinions and suggestions of employees through the employee congress or other forms, submit the plan to the approval unit for approval, submit the incentive plan to the shareholders' meeting for review, and submit the relevant materials to the approval unit for record.

3. CONCLUSION

From the perspective of the development of medium- and long-term incentive policies for state-owned technology-based enterprises, the Party Central Committee and the State Council have continuously increased their support for medium- and long-term incentives for state-owned technology-based enterprises. [5] However, the current policy still imposes many conditions on the state-owned technological enterprises to carry out medium- and long-term incentives. And with the increasing number of medium- and long-term incentive state-owned technology-based enterprises and rich experience, the relevant policies are also constantly expanding the coverage and adjusting the relevant restrictions.

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