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The Influence of Equity Incentive on the Performance of Gem Listed Companies

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ABSTRACT
In order to better solve the problem of separation of production and operation, gem listed companies adopt equity incentive measures to make employees work better for the company by giving them certain shares. As most gem listed companies are innovative and high-tech, their development potential is greater in the later stage. However, compared with the main board listed companies, their overall management response and risk prevention and control are relatively weak. This paper will explore the implementation effect of equity incentive plan for gem listed companies, especially the positive promotion effect on enterprise performance, as well as the direction and strategy of future optimization and improvement.
Keywords: *GEM enterprises, equity incentives, company performance*

1. INTRODUCTION

Our country's equity incentive system is constantly improving, but the modern company system was established late, corporate governance is not yet perfect, and there are still some remaining problems in practice. Our country's Growth Enterprise Market was established in 2009 and is dominated by private companies with high-tech technology. Compared with the main board, listed companies in this sector have relatively higher later development capabilities and profitability[4]. In view of the characteristics of listed companies on the GEM and the successful cases of equity incentives on the main board, research on the implementation of equity incentives for executives is of great significance to the later growth and performance of GEM companies.

2. ANALYSIS OF THE RELATIONSHIP BETWEEN EQUITY INCENTIVES AND PERFORMANCE OF LISTED COMPANIES

2.1. Equity incentives have a positive effect on company performance

The most representative of such views are foreign scholars Jensen and Meckling (1976), who put forward the "interest convergence hypothesis." The hypothesis holds that when the company's management holds more shares in the company, the goals and interests pursued by the management and the company tend to be consistent [1]; on the contrary, if the management's shareholding ratio is too low, it will abandon the incentives and turn to seek their own Some other scholars also support this view, and through empirical research confirms the positive relationship between the two. Some domestic scholars in my country[2] have also obtained similar views through empirical research and analysis. Some scholars sampled some of the listed companies on the main board market, and also found that the proportion of the company's senior management's shareholding has a positive impact on its development performance. In addition, they found that the relationship between the two will also be affected by company's internal factors such as interference.

2.2. Equity incentives have a negative inhibitory effect on company performance

Different from the views of previous scholars, some researchers hold the opposite view, believing that the company's equity incentives have a reverse inhibitory effect on its performance. Fama and Jensen (1983) pointed out in related studies earlier that when the proportion of company management is too high, the pressure of the company will be weakened[3]. At this time, they will tend to pursue the maximization of their own interests. Excessive shareholding will also hinder the company's subsequent mergers and acquisitions.

This is the "manager defense hypothesis." Some domestic scholars [4] have put forward their views from the perspective of earnings management. The company's senior management may fictionalize the company's earnings and whitewash the financial statements for their own benefit and in order to achieve the goal of equity incentives. This will cause the company's existing operating problems to be unable to be timely if it is resolved, it will snowball bigger and bigger, which will directly harm the interests of the company.

2.3. Equity incentives have no effect on company performance

In addition to the above two viewpoints, irrelevant theories that other scholars believe have also emerged. Foreign Gibbo and Murphy (1990) used to classify listed companies according to their industry characteristics in the early stage [2]. The research results show that even though they are in different industries, the performance changes caused by equity incentive behavior are not big. At the same time, some domestic scholars support this view. Some have used macroeconomic analysis methods and combined various factors to analyze the impact of the implementation of equity incentives on domestic economic operations, and concluded that since the standardized operation of China's equity incentive system [4], the equity incentive system Did not bring economic growth, indicating that there is little relationship between equity incentives and company performance.

3. ANALYSIS OF THE STATUS QUO OF THE IMPLEMENTATION OF EQUITY INCENTIVES BY LISTED COMPANIES ON THE GEM

3.1. Equity incentive of gem listed companies

Since the official listing of China's Growth Enterprise Market on October 30, 2009, there are 858 listed companies as of July 2020, most of which are high-tech companies such as pharmaceuticals and new materials. Among them, 496 companies have announced the implementation of equity incentives. It accounts for about 58%. From the perspective of incentive time, only 12 companies began to announce equity incentive policies in 2010, the number increased to more than 30 in 2011, and nearly 40 from 2018 to 2019, indicating that more and more companies are beginning to pay attention to equity incentive policies. . From the perspective of the proportion of equity granting equity incentives, most of them are between 2% and 4%. There are 32 equity incentives accounting for more than 5%, and 9 equity incentives accounting for more than 9%. It shows that most companies are still relatively cautious and the intensity of incentives implemented is still low.

3.2. Existing problems in implementing equity incentive for gem listed companies

3.2.1. External issues of the company

Generally speaking, compared with the European and American markets, China's capital market started late, so the overall regulation and operation are not mature enough. Since most companies adopt a model linked to market conditions[2] such as stock prices, if the stock prices are not available in the overall market To a reasonable manifestation, then the effect of equity incentives will be greatly reduced..When customizing equity incentive plans, most companies will refer to the market stock price. If the effectiveness of the capital market is low, it will lead to greater fluctuations in the stock price, and it will be relatively difficult for the company's management to meet the exercise conditions[3].The equity incentive cannot achieve the effect of its speculation. In addition, immature market trading conditions are also easier to take advantage of, serious insider trading occurs, and the company's financial statements are whitewashed, so that listed executives can easily achieve the goal of equity incentives, prompting them to run counter to the true purpose of the company's equity incentives. Our country's GEM has been listed for less than 11 years, and the stability and certainty of the market is relatively weak. The market needs further improvement and development.

3.2.2. Internal issues of the company

In recent years, the GEM financial market has continued to improve. However, there are still some problems within listed companies. Information disclosure is not sufficient and timely, and false company financial information is spread to manipulate the market and affect the company's stock price. The GEM listed companies are mainly small and medium-sized high-tech industries, which are prone to dominate the stock market. In this way, the interests of small and medium shareholders are not well reflected, which will suppress their enthusiasm for work to a certain extent[8]. In addition, the company's performance appraisal also has certain drawbacks. The indicators for measuring the company's operations are too single and cannot be well linked to the company's long-term goals and risks. The lack of a more uniform assessment standard will cause the company to be

easily manipulated by others in the dark, and equity incentives will not achieve the desired effect.

4. ANALYSIS OF THE IMPACT OF EQUITY INCENTIVES ON PERFORMANCE OF LISTED COMPANIES ON THE GEM

4.1. Company agency cost analysis

The introduction of equity incentive policies by GEM listed companies is to better solve the problem of agency costs between owners and operators, so agency costs and their efficiency are a key measurement index for studying equity incentives. From the perspective of the company owner, the agent cost must be controlled as low as possible. In practice, the necessary expenditures cannot be omitted[4]. Here we generally choose the management expense rate and the turnover rate of related assets for analysis and measurement. By comparing the expenditure ratio of related expenses after the implementation of the equity incentive policy of listed companies, it can be found that the total asset turnover rate of more than 80% of the companies has been significantly improved.

4.2. Analysis of company profitability

Generally speaking, relevant indicators such as the operating net interest rate, after-tax operating net interest rate, and price-earnings ratio of companies listed on the Growth Enterprise Market are used to measure the company's profitability[8]. However, since its own financial data will be affected by the market, it is necessary to compare it with the same industry, so that we can have a clearer understanding of the company's improved performance after the implementation of equity incentives. According to statistics, nearly 70% of the company's profit indicators have risen significantly, indicating that the company's profitability has increased after the implementation of equity incentives.

5. STRATEGIES FOR GEM LISTED COMPANIES TO IMPROVE PERFORMANCE THROUGH EQUITY INCENTIVES

5.1. Establish a scientific performance evaluation system

The performance evaluation of some listed companies on the Growth Enterprise Market is too single. In order to better reflect the effect of equity incentives, a reasonable and scientific performance evaluation system must be established as soon as possible[2]. Different industries, different scales of development, and different stages need to be "treated" differently and measured by different standards. If a unified measurement standard is adopted, the company's operating behavior will be short-term, and the room for growth and development will be restrained to a certain extent. Therefore, when formulating a company's performance appraisal system, it is necessary to comprehensively consider various factors to prevent senior management from using their inside information to control the company's stock price and accept public supervision and corresponding feedback.

5.2. Adopt diversified incentive model

At present, most gem listed companies adopt stock options, which cannot meet the multi-level needs of employees. Recommended diversified incentive mode, and can combine the stock options and restricted stock, extend the constraint time limit, so that both sides of the core target will also tend to be more consistent[5],so with the implementation of equity incentive effect is more obvious, the enterprise can also avoid the loss of its core senior management personnel, to create greater enterprise value.

5.3. Expand the proportion of equity incentives

According to the relevant provisions of China's Securities Law, the number of stocks for equity incentives shall not exceed 10% of the company's total share capital. However, according to statistical analysis of data,nearly 60% of China's GEM listed companies implement equity incentives, the proportion of which is less than 5%, and the number of equity incentives implemented is too small[6]. This makes it difficult to raise the initiative of senior management, and the effect of equity incentives will deviate from expectations. Big. Most of the companies listed on the GEM are based on high-tech industries, so a certain percentage of equity incentives should be given to core technical personnel. At the same time, the incentive period can be appropriately extended, so that the achieved incentive effect will be more obvious.

6. CONCLISION

Compared with non-implemented companies, GEM listed companies that implement appropriate equity incentives can improve company performance and reduce agency costs between owners and operators. However, the implementation of an excessively high equity incentive ratio will lead to false disclosure of

financial report information, which not only fails to improve the development of the enterprise, but also brings negative effects. At the same time, since most of the GEM listed companies are private enterprises[7], their internal structure is not very complete compared to the main board market, and most of them use single stock options with relatively short exercise periods. The level can realize its own interests in a short time, but the long-term goal value will be damaged to some extent. Therefore, an effective comprehensive equity incentive evaluation system must be established to provide a relatively mature environment for the implementation of equity incentives, expand the strength and diversity of the company's equity incentives.

Due to the limited data collected in this article and different measurement indicators, the conclusions drawn in this article are partially biased. There are many types of companies listed on the GEM. I did not make a specific division in this regard. I hope that scholars need to consider the differences in industries and stages when considering the performance evaluation of listed companies' executives, so that they can better Reflect the effect of equity incentives. The data selected in this article comes from the Growth Enterprise Market. The risks and asset scales faced by different sectors are different. It is hoped that later scholars can consider the main board, the new third board and other companies as samples for comparative analysis, which can enrich the equity incentives for listed companies The content of performance impact analysis.

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