

Equity Incentive and Enterprise Performance in High-Tech Enterprises

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ABSTRACT

How high-tech companies obtain sustainable corporate performance through equity incentives is an important topic facing corporate management today. This article analyzes the evolution of Alibaba's three-stage equity incentives to explore new ways of high-tech companies' equity incentives.

Keywords: *High-tech enterprise, equity incentive, enterprise performance*

1. INTRODUCTION

After the principal-agent model comes into being, the interests between owners and managers cannot be completely consistent, so equity incentive theory comes into being to solve conflicts. By studying the equity incentive of Midea Group, Wang Jiajia who is a scholar concluded that the equity incentive has a significant impact on enterprise innovation. The equity incentive can significantly mobilize the enthusiasm of all employees within the enterprise and improve the innovation ability of the enterprise from the perspective of talents. By studying 1496 high-tech enterprises and conducted a multi-equation regression analysis with the corporate performance indicators represented by the return on total assets (ROA) to obtain the research concluded that the corporate performance significantly improved after the equity incentive behavior occurred. Based on the existing research, this paper is expected to analyze the scope of incentives, exercise conditions, and incentive performance of high-tech enterprises, as well as the integration of employment and finance.

2. EQUITY INCENTIVE AND ENTERPRISE PERFORMANCE

From the exercise of equity incentive, the enterprise can reduce its agency capital, while the individual employee can get equity income. From the perspective of employees, in the process of work, the incentive objects will try their best to create long-term profits for the enterprise because their efforts can add greater value to their holdings in the future. On the other hand, from the perspective of an enterprise, the higher the ability of an employee to create wealth, the greater the individual value, and the higher the liquidity premium in the manager market. Although an enterprise pays more incentive costs for the liquidity

premium, in the 21st century, it can obtain greater market returns by acquiring talents. Besides, the positive news that the governance structure is perfect is transmitted to the capital market, can promote the stock price to rise.

3. ANALYSIS OF ALIBABA GROUP INCENTIVE PROCESS

3.1. Incentive Program after Hong Kong Listing

Before 2007, When Alibaba group was founded, it mainly used the stock option plan. The performance of equity incentives was not useful, and the incentive objects needed to pay the cost by themselves. If the stock price fell in the future, they had to bear the risk by themselves, so the incentive drive was hard to reflect. However, after the enterprise of Alibaba group website went public in Hong Kong in 2007, the incentive plan gradually faded out. They designed different incentive methods, with different exercise time and exercise methods, to achieve different incentive objectives for the four incentive objects, and the incentive effect gradually appeared.

3.2. The Incentive Model after the New York Listing

After Alibaba Group went public in New York in 2014, according to its actual situation which was in the stage of rapid development, and talents were the key factor for the development of the company. As can be seen from Table 1, the equity incentive object of Alibaba group began to expand to all employees of the company, and the incentive means gradually diversified.

Table 1 Equity incentive project of IPO after 2014

<p>Incentive tools:</p> <p>stock option, restricted stock option, RSU, stock bonus right, stock appreciation right, stock payment, etc.</p>
<p>Target audience:</p> <p>all employees of Alibaba group and other affiliated companies</p>
<p>Grant period:</p> <p>Stock options and RSUS are granted for 4 years, with a uniform rate of 25% over 4 years. If the option is not exercised within 6 years, it will become Alibaba group. In 2015, senior executives were granted RSUS and stock options for six years, with annual grants of 16.7 per cent. The options expired if not exercised within eight years</p>
<p>Program Alibaba groupdity: less than 10 years</p>
<p>Plan manager: Generally, the compensation committee of the company's board of directors or other committees with the right to grant the plan to the executive director of the board of directors must be approved by the directors with no other interests in the board of directors. Meanwhile, the manager has the right to determine the exercise conditions, awarding period and restrictions of the award.</p>

Source: Project Research Report of Haiyin Financial Holding Partners

The RSU and stock options granted to senior executives will be granted for 6 years since 2015. And it will automatically expire if they are not exercised within 8 years. The aim of this way is designed to extend the incentive period for senior executives and give them a longer exercise period. At the same time, there also have two changes:

(1) The managers can supervise each other. The manager of the equity incentive project is generally managed by the compensation committee of the company's board of directors or other committees with the right to grant. This grant the executive director of the board of directors must be approved by other directors with no interests in the board of directors so that the enterprise management can be more balanced and stable.

(2) The manager has the right to decide some relevant conditions in the program of incentive, which indicates that Alibaba group has delegated the power and granted the manager certain authority to show his ability in various fields to better implement the enterprise incentive project.

3.3. Highlights of Equity Incentive in 2019

In the past two years, The RSU project has gradually become the main stock incentive project of the Alibaba group, which gives future rewards to employees with development potential. This is different from the cash reward mainly for past performance. Although both of RSU and rights belong to stock options, RSU still has more advantages, such as lower trike prices, the flexible execution, Alibaba group can follow the future value and the performance of employees, to adjust RSU award, if the enterprise when the performance is negative. The enterprise does not have to give employees enough certain

dividends if the business is not performing well. That is to say, employees RSU exponentially increasing and no exercise options there will be a part of, formed at the same time in the rewards of exit barriers.

4. PERFORMANCE ANALYSIS OF ALIBABA GROUP EQUITY INCENTIVE

The annual financial year of Alibaba group takes on March 31 every year. Therefore, this paper USES the annual report data of the five years from March 2015 to March 2019 to analyze the changes of various indicators after equity incentive in 2014.

4.1. Financial Performance Analysis

4.1.1. Profitability analysis

The most common indicators used to evaluate profitability are the net interest rate on sales and return on equity. As can be seen from Table 4, after the equity incentive, the financial report in March 2016 showed that the net profit rate of sales increased by nearly 40%. From 2016 to 2019, the net profit rate of sales was always positive despite the overall downward trend, which indicated that the enterprise was always in a state of profit.

As can be seen from table 2, return on equity in 2015-2019 the index appears to rise and fall, then have modest rise fluctuations, this is because during the Alibaba group is in the rapid development period, the listed companies need to continuously expand, so through the financing of the

capital chain, unable to maintain a high turnover of funds, so there are some years data of decline, but are more than 15% less than 40% in five years, especially after the equity

incentive was up to 39.32%, that Alibaba group after equity incentive enterprise shareholders' funds use efficiency, to enhance profitability.

Table 2 Profitability indicator(%)

Year	2015	2016	2017	2018	2019
ROE	26.11	39.32	17.50	19.79	20.32
net profit margin on sales	31.91	70.51	26.04	24.53	21.29

Source: Annual report of Flush stock

4.1.2. Operation capacity analysis

It can be seen from the trend chart in Figure 1 that the return on assets between 2016 and 2018 after equity incentive is 0.73, 1.0, 1.14, and 1.43 respectively. That is to say that the use of current assets is more full and effective and the utilization ratio of current assets is higher. Through the equity incentive this time, the turnover rate of total assets starts to grow steadily. Also, the stable expansion of asset operation and the high

turnover rate indicate the strong liquidity of assets, the high efficiency of asset operation, and the good Alibaba group of asset management. To sum up, the equity incentive has a great positive impact on Alibaba group operating capacity in 2014.

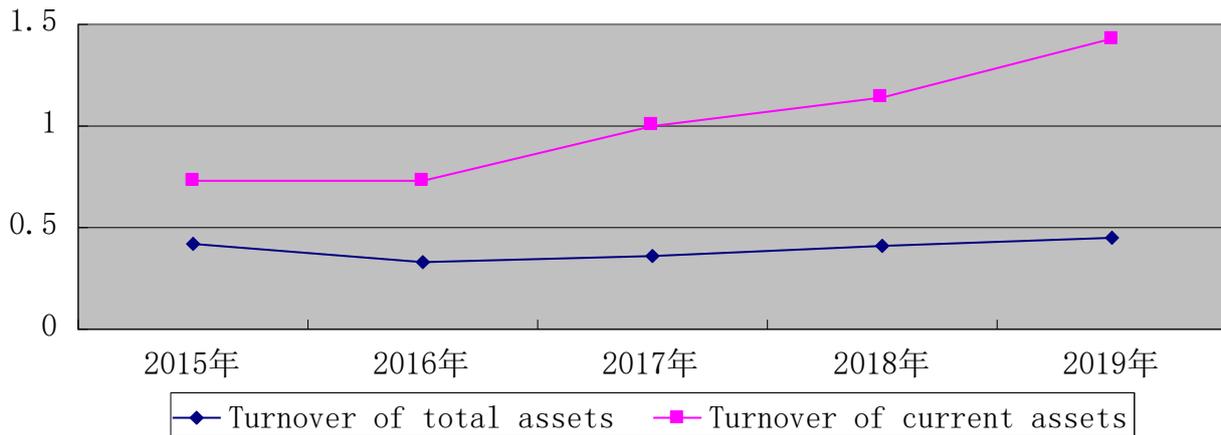


Figure 1 Trend chart of accounts receivable turnover from 2015 to 2019

4.1.3. Solvency analysis

In Table 3, the liquidity ratios of Alibaba group by a small margin of 1 to 2, indicating that the opportunity cost of the Alibaba group in operation in 2015 increased compared with previous years. This was a normal buffer phenomenon after the equity incentive. From 2017 to 2019, the liquidity ratio was stable and basically maintained at about 2, which was in line with the scope of international safety standards. The short-term solvency of enterprises has been steadily enhanced. The asset-liability

ratio declined somewhat after 2015. Although it rebounded later, it remained basically stable and maintained normal long-term solvency. In 2014, the equity ratio of the Alibaba group reached 2.41. From 2015 to 2019, the equity ratio of Alibaba group was stable between 0.5 and 0.8, indicating that the financial risk of Alibaba group was reduced, the corporate performance was good, and the degree of debt operation was reduced.

Table 3 Solvency indicator(times)

	2015	2016	2017	2018	2019
Current ratio	3.58	2.58	1.94	1.89	1.3
quick ratio	3.48	2.48	1.88	1.78	1.26
Asset-liability ratio	0.38	0.31	0.36	0.39	0.36
equity ratio	0.67	0.53	0.66	0.76	0.71

4.1.4. Development ability analysis

As can be seen from Table 4, the growth rate of operating income from 2015 to 2019 was always positive, but increased significantly in 2017, indicating that the implementation of equity incentive has played a significant role in promoting operating income. Although the growth rate slows down in the next two years, the overall growth trend still shows. The net profit growth rate was negative in 2017 and positive in other years and reached nearly

Table 4 Developmental capacity indicator (%)

	2015	2016	2017	2018	2019
Net profit growth rate	3.92	193.13	-42.17	48.96	30.65
Growth rate of total assets	128.99	42.60	39.14	41.50	34.58
increase rate of business revenue	45.14	32.73	56.48	58.12	50.58

Source from Tonghua stoke annual report

200% growth in 2016. It can be seen that the overall profit of the Alibaba group increased after the equity incentive in 2014. After doubling in 2015, the total assets will grow steadily in the following years, indicating that the constant and steady expansion of the asset scale in a certain period is conducive to the long-term development of the enterprise.

4.2. Non-financial Performance Analysis

4.2.1. Customers

According to iResearch websites and official data from Alibaba Group and JD.com, at the end of July 2018, the market share of Alibaba group has reached 58.2%, far surpassing JD, which ranks second with 16.3%. Besides, market shares of Alibaba group occupied 54% in third-party payment, taking the leading position. In 2017, the Tmall wizard customer retention rate reached more than 80%. As for the customer acquisition rate, after Alibaba group finished the equity incentive in 2014, the active users of The Rural Finance Division of Ant Financial Services reached 466 million, nearly one-third of the Chinese population; the registered users of Alibaba group B2B business reached 69 million; the registered users of C2C business platform reached 370 million, and

the registered users of Alibaba group pay reached 600 million.

4.2.2. Internal business

According to iResearch information and Alibaba's official website data, Alibaba's payment platform can process up to 85,900 documents per second. For example, during the "Double 11" shopping festival in 2015, each transaction only took 0.035 seconds. Meanwhile, its payment-clearing system has a loss-to-assets ratio of less than one in 100,000. Ant group risk identification and the processing time is 100 milliseconds. Alibaba also adopts advanced artificial intelligence technology, which can accurately and quickly answer all kinds of questions from customers. After equity incentive, Ali has stronger enterprise vitality and improved enterprise performance.

5. CONCLUSION: SUGGESTIONS ON EQUITY INCENTIVE MODEL FOR HIGH-TECH ENTERPRISES

5.1. The Main Equity Incentive Model Suitable for Enterprise Development

Enterprises should know the important role of equity incentive for enterprise development, should also be based on own development policy and development strategy, clear oneself's stage of development, and finally, based on their financial situation, business scale, human resources situation, the situation of the industry to design conforms to the present stage of equity incentive mode. Alibaba Group has implemented an appropriate equity incentive project -- RSU program in an appropriate period, which is a key to the success of equity incentive in the Alibaba group.

5.2. Combination of Multiple Equity Incentive Models

Enterprises should fully appreciate more than equity incentive estimation and according to the level of the company system, employees in different ranks, so according to different employees, the company will need to design a variety of equity incentive mode, it can not only more accurate incentive object, make the incentive effect is more obvious, but also can help the company reduce the cost of equity incentive.

5.3. Reasonable Equity Incentive Access Threshold

The basic purpose of equity incentives is to effectively apply equity incentives to senior managers and employees with strong working ability. Should according to their own actual situation, the staff of the actual situation and the comprehensive performance of industry into the planning assessment index, to set up scientific and reasonable incentive threshold, in incentive evaluation, based on financial performance indicators, add some business indicators, achieve the combination of the two aspects of financial and business, incentive object is determined.

5.4. Diversification of Exercise Indicators

After the adoption of equity incentives, enterprises should pay attention to the adjustment and optimization of the exercise index, and build a diversified exercise index system. After the exercise index increased, the choice of the ways of incentive object can have multiple exercises, for example, Increase the time from the option grant period to the exercise period, so that the incentive object

can choose the exercise time according to their own actual situation. Or the Alibaba Group's RSU program can be Internal transferred to give employees more flexibility to control their own interests.

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