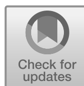

Research on Incentives of the Company to the Management

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Abstract. The separation of ownership and management rights of the company requires the owner of the company to hire a manager with professional ability to manage the company. The managers of the company pursue the maximization of their own interests, while the owners of the company pursue the maximization of profits. Therefore, company owners need to link the managers of the company's profits in different ways. That is, the owners use different incentive methods to change the goal of the managers to pursue the maximization of their own interests in the maximization of the company's profits, so as to meet the goals of both the managers and shareholders. This study aims to improve the loyalty, enthusiasm, and profitability of managers by using different incentive methods, and analyzing the way companies motivate managers through qualitative analysis and review. In general, the company will not change the manager easily, because the change of the manager requires a vote of the board of directors. The company cannot change the manager without reason, and forcible dismissal would violate the articles of association. The replacement of the new manager will cause the company to enter a long-term adaptation period, and the future performance of the company is still unknown. Therefore, companies need to adopt different means to motivate managers. When managers use different incentive methods, the company's profit may change accordingly. When the company's profit grows the fastest, this incentive method is the best choice.

Keywords: Ownership, management rights, Incentive

1 Introduction

With the emergence of corporate enterprises, shareholders hope that the company can continue to make profits. In the case of the separation of ownership and management rights, various problems will arise. It includes both favorable and unfavorable aspects. As the owner of the company, it is how to eliminate these unfavorable aspects and what methods can be used to eliminate or mitigate the impact of the separation of the two rights. Company owners need to understand the essence of corporate governance, further support managers and give them the rights they need. The company owner should trust the manager, because the choice of the manager is to choose the one that is most suitable for his company after multiple considerations and discussions. Owners should

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also have the solid backing of managers. In order to eliminate or mitigate the impact of the separation of the two powers, the owner should understand the needs of the management, meet their needs and stimulate their enthusiasm through various methods, and bind the interests of the management and the interests of the company so that they can be responsible for the company wholeheartedly. This article will summarize the ways of motivating managers to better manage the company from different perspectives, and further stabilize the development of the company.

2 Separation of company ownership and management rights.

2.1 Reasons

The owner of the company may not have the business ability of the enterprise. Generally, the company should entrust a person with strong business ability to act as an agent. Therefore, the ownership and management rights of the company should be separated.

2.2 Benefits

First, the Separation of ownership and management can break through the capacity limit. From a more specific point of view, when the owners feels that his operating ability is insufficient, the most realistic choice faced by the owner is to manage by himself or to entrust others with high business ability. At this time, the main basis for selection is to compare the net income of the agent with the owner’s operating income. If the former is greater than the latter, the separation of the two rights will be selected and operational capacity will be strong. If the former is less than the latter, he would rather choose the combination of the two rights and the weak management ability. According to a large number of actual cases, in most cases, the agent's net income will be far greater than its own net income, which is undoubtedly a great breakthrough in the enterprise's management ability.

Secondly, professional managers are often highly educated professionals who can think about problems from the perspective of scientific management. When they encounter the bottleneck of enterprise development, they will deal with relevant details more calmly. They will not be as timid as the owners and miss opportunities. Nor will they be too big to fail miserably. They are trained by the scientific management system, and the accuracy of their decisions is obviously higher than that of the enterprise owners. At least, they will not lead the enterprise on the wrong path of elimination.

2.3 Disadvantages

The separation of the company's ownership will promote the rapid growth of the enterprise, but it will also bring about principal-agent problems, information asymmetry problems, conflicts of interests and other problems (in the modern sense, the principal-agent relationship refers to that one of the parties entrusts the other party to exercise

certain decision-making rights on behalf of itself, forming the internal principal-agent relationship of the company.

2.3.1. Principal-agent problems. The principal is the owner of the capital, whose goal is to maximize the return on capital. The agent is the operator of the enterprise, whose goal is to maximize personal remuneration. The goals of the two are often not completely consistent. In order to achieve his own goal, the agent is likely to damage the principal's goal. Therefore, the principal must effectively encourage and restrain the agent.

2.3.2. Information asymmetry problems. There are two types of information asymmetry: adverse selection and moral hazard. Adverse selection relates to the fact that the company's managers have more information about the company's current situation and future prospects than external investors. They can seek their own information advantages by sacrificing the interests of external investors through various channels. A moral hazard refers to that after the operator signs the employment contract, the investor cannot effectively observe the operator's effort and work efficiency, so the operator is likely to be lazy. The deterioration of the situation of the award-winning company is attributed to factors beyond their control, which will have a serious impact on the effective operation of the investor and the whole economy.

2.3.3. Conflicts of interests. Due to the different degrees of separation of ownership and management rights, the following conflicts of interest may arise:

1. How to ensure the investment return of investors, that is, to coordinate the conflict of interests between shareholders and enterprises.
2. How to prevent the controlling shareholders or minority shareholders from encroaching on the interests of minority shareholders.
3. How to coordinate the relationship among all stakeholders in the enterprise.

3 Corporate Governance

The object of corporate governance is the company's top management who has decision-making power or has an important influence on the company's decision-making, not all the company's employees. The purpose of corporate governance is to regulate the company's management (i.e. agents) to protect the rights and interests of investors (i.e. investors or clients), so that investors' assets will not be abused.

Agarwal. (2010) said that corporate governance has two important components: internal governance mechanism and executive compensation [1].

3.1 Internal governance mechanisms

3.1.1 Ownership concentration. Ronald and Iacobucci (2000) proposed that there is a curved relationship between concentration and ownership [5]. When the concentration

of ownership rises from a very low level, the company's performance will improve, but with the continuous rise of ownership, the company's performance will decline. Other studies show that the impact of equity concentration on corporate performance can be ignored. Others found a significant negative correlation between performance and centralized ownership.

3.2 Executive Compensation

The remuneration of management includes the basic salary and the incentive income from the shareholders. This kind of incentive is the goal of shareholders (principals) to pursue the maximization of capital return, and at the same time, they want the management (agents) to maintain the same goal as them, rather than pursuing the maximization of their personal remuneration. A successful incentive mechanism can stimulate the enthusiasm of executives to the maximum extent, create maximum benefits for the enterprise, truly make the interests of management and shareholders converge, and play a role in attracting and retaining core talents.

4 Methods for shareholders to motivate management.

4.1 Long-term incentives

Long-term incentive is a type of compensation method adopted by the company to improve long-term performance. This way is to link the interests of the management to the long-term development of the enterprise. Long term incentive refers to the operational incentives given by the shareholders or the board of directors on the premise of exceeding the business objectives, including an equity incentive, performance sharing plan and performance stock.

4.1.1 Equity Incentive. The equity incentive makes the management become the master of the company, thus forming a community of interests with the enterprise, promoting the common growth of the enterprise and the management, and helping the enterprise to achieve the long-term goal of stability.

Due to the separation of ownership and control, the management may act in their own interests, which will damage the interests of shareholders. Through compensation incentives and equity incentives, the management can effectively alleviate the agency problem, and make the personal interests of managers consistent with the long-term interests of the enterprise, thus promoting the improvement of enterprise performance. Yermack (1995) found that after the implementation of mixed ownership reform, enterprises tend to give certain equity incentives to the management in order to alleviate the problem of insufficient liquidity, thereby improving the efficiency of corporate governance [7]. Zou et al. (2015) found that in state-owned companies, strengthening the equity check and balance helps to restrain the effect of equity incentive on the increase of the cost of equity capital, so as to significantly improve the effect of management equity incentive [8]. According to the research of Li, J. (2021), the executive

compensation incentive has a partial intermediary effect between the ownership structure and corporate performance [2]. The executive equity incentive has a complete intermediary effect between the equity portfolio and corporate performance.

Huawei's Employee Stock Ownership Plan Is the Most Representative of the Equity Incentive System Implemented by Chinese Companies Ren Zhengfei exercised the company's control and ownership through only 1.4% of the company's share capital, and the remaining 98.6% of the entire “take it out”, shared with the company's staff, Ren Zhengfei's “small wealth” behavior, won The recognition of the company's employees has promoted the rapid development of the company and actually got the “big money.”

Huawei's equity incentive system is different from other companies, and its incentive targets cover a wide range of incentives and focus on corporate executives and core technical personnel. The equity incentives for company executives can alleviate the problem of principal-agent, making the personal interests of senior executives consistent with the company's development goals. It promotes executives to increase investment in research and development, and optimize R&D allocation efficiency. Equity incentives for core technicians can enhance their cohesiveness and sense of responsibility to the company. It also can create more sense of belonging to improve the efficiency of R&D transformation. At the same time, the two play the role of “1+1>2” and accelerate the improvement of company performance.[6]

4.1.2 Performance sharing plan. A performance sharing plan is a kind of incentive plan which is related to the reward and organizational performance. When the organization's performance is higher than the planned performance standard, the management will share a certain proportion of the amount in excess of the planned income. The performance sharing plan will promote the management to improve the company's industrial chain. Because management can achieve higher organizational goals through cost savings, quality and productivity improvement, and increased sales rate. The performance sharing plan can maximize the profits of shareholders while the management can pursue the maximization of personal remuneration.

4.1.3 Performance Stock. After the incentive objects meet certain conditions. They can obtain a certain number of company shares awarded by the company, but they can only be disposed of after they meet certain conditions.

The advantage is that it can encourage managers to strive to achieve performance goals. It also can achieve win-win between shareholders and managers and avoid the impact of market effectiveness. The disadvantages are that it is difficult to determine the performance objectives scientifically, the incentive cost is high, and there is cash expenditure pressure. It is used for listed and non listed companies with stable performance and at the later stage and mature stage of growth.

4.2 Short term incentives

4.2.1 Cash Reward. Cash rewards will stimulate the management's emotions. Further, stimulate their potential, and enable the management to better focus on the company's interests.

In Dina's article (2019) said for many managers, work is more than the salary. People seek meaning in their work [3]. Whillans said that providing cash alone feels like an empty gesture or just a financial transaction, and may not be a powerful force for hard work. It is best to avoid increasing the cash bonus only in the employee's salary. A separate bonus check can better reflect the recognition of their work. Shareholders should also attach a sincere handwritten note explaining why the management should receive the bonus.

4.2.2 Raise salary. The growth rate of shareholders' salaries to the management may depend on the company's performance. Within a certain period of time, the increase in the company's profit can affect the growth of the management's salary, which is faster than the natural growth rate of the salary.

4.3 Trust Incentive

Trust incentive is a basic incentive mode. The mutual understanding and trust between shareholders and management is a powerful spiritual force, which helps to achieve the harmonious resonance of the company and the formation of team spirit and cohesion of the unit, This kind of trust is reflected in the principle of "no doubt in the use of people, no doubt in the use of people". Authorization is a good way to fully trust employees. The management can realize self-worth. Full authorization is trusted and respect for employees. Trust can shorten the distance between shareholders and the management, enable the management to give full play to their subjective initiative, and provide a strong driving force for the development of enterprises.

5 Conclusion

Company owners use long-term incentives, short-term incentives, and trust incentives to motivate managers. These incentives can be used in different periods. Of course, different incentives can be combined. Whether they can generate more positive incentives needs further experimental demonstration. The impact of these incentive methods needs to be illustrated by the comparison of the profits of many companies before and after use. Among them, management also plays a very important role, because some managers only pursue their own value at work, not their own interests, and maybe the incentive model has little impact on them.

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