



A Study on the Motivation for Implementing Employee Stock Ownership Plan in Goodix

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Abstract. Employee stock ownership plan as a company's internal incentive mechanism was first implemented in the United States in the 1960s and then received the attention and research of scholars from various countries. In China, despite the early implementation of the employee stock ownership plan, which has a history of more than 40 years, exploring it is a series of twists and turns. 2014 the Securities and Futures Commission restarted the employee stock ownership plan. China's practical application of this system and the related field of research has been a faster development. This paper chooses Goodix, a representative enterprise in the field of fingerprint identification chips, as a case study to explore its motivation for introducing an employee stock ownership plan in 2019 and implementing it so far to enrich further the case base of China's employee stock ownership plan and provide a reference for enterprises to choose to implement an employee stock ownership plan.

Keywords: Employee Stock Ownership Plan; Incentive Mechanism; Motivation Analysis; Science and Technology-based Enterprises

1 Introduction

The initial intention of implementing the employee stock ownership plan is to make the incentive program reach grassroots employees, improve employee motivation and increase employee loyalty to the company, improve the corporate governance structure further, and promote the growth of company performance. Starting from 2014, with the gradual development and improvement of China's capital market and the introduction of relevant policies, the employee stock ownership plan in China began to gradually revitalize, and more and more listed companies introduced employee stock ownership plans^[1]. However, the complexity of the motivation of enterprises to introduce employee stock ownership plans has also brought specific challenges to research in related fields. The introduction of employee stock ownership plans by enterprises based on different purposes may lead to different results, and different results can also prove whether the design of the incentive program is from the perspective of the company's overall interests^[2].

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2 Company Profile

Founded in 2002 in Shenzhen, Goodix mainly developed and produced multifunctional telephone chips at the Company's beginning. Goodix attaches great importance to the research and development of new products and technologies as a technology-innovative enterprise. After years of hard work, the Company became a global leader in the touch chip industry in 2012 and was listed on the Shanghai Stock Exchange in 2016. As the global smartphone market's call for a full-screen grew louder and louder, Goodix followed the trend and launched its under-screen optical fingerprint identification technology, making it the most widely used biometric identification solution provider in the Android device camp^[3]. The Company's performance also reached its peak in 2019. However, behind the prosperity also hides a specific crisis. First of all, most of the Company's revenue comes from the fingerprint identification chip, overly dependent on a single product; in addition, affected by the international situation, the macroeconomy and the ongoing epidemic, and other factors, the market and customer demand has begun to decline sharply, coupled with the intensification of competition in the Company's main products, the sales price is under pressure, from 2020 onwards, the performance of the top of the convergence of science and technology continues to decline. However, despite the continuous pressure on the Company's operations, Goodix still needs to reduce its research and development expenditures due to the decline in performance^[4]. In order to survive the fierce competition in the market, Goodix actively sought new business development and diversified transformation. At the same time, to attract, incentivize and retain talents, the Goodix shareholders meeting passed several employee stock ownership plans; these measures are, to a certain extent reflecting that Goodix wants to return to the peak of the determination.

3 Analysis of the Motivation for Implementing Employee Stock Ownership Plan

As a giant in the domestic chip industry, Goodix has successfully realized many transformations since its inception. Today, many of the company's products have achieved global leadership, and its commercial under-screen fingerprint identification program launched in 2019 has successfully pushed the company's market value to the top. The company's strategic direction is to strive to grow into a leading global integrated chip design company and a world-class innovative technology company^[5]. As a science and technology company, Goodix pays excellent attention to talent management, and the company has launched several phases of restricted stock incentive plans before introducing the employee stock ownership plan. The company chose to start introducing the employee stock ownership plan in 2019, and the specific implementation motivation can be analyzed from both internal and external aspects.

3.1 Internal reasons

Improvement of corporate management structure.

From the corporate governance perspective, the introduction of an employee shareholding plan by Goodix can alleviate the principal-agent conflict to a certain extent and improve the corporate management structure. Employees participating in the shareholding plan will be incentivized to play a role in the governance and supervision of the company because participants can learn more internal information about the company compared with other employees, thus strengthening the supervision of the management^[6]. Such a benefit-sharing and constraint mechanism between the company and the employees can also promote more rational corporate decision-making and the company's long-term development.

Attracting and retaining talents.

Goodix is facing a more severe market competition environment and needs to pay special attention to attracting and retaining talent, so enterprises need to develop and constantly improve the incentive system. The participants of the employee stock ownership plan are mostly employees with outstanding ability and high potential, and implementing the plan can effectively avoid the flow of excellent talents out of the enterprise. The employee structure of the company before the launch of the first phase of the 2019 employee stock ownership plan of Goodix is shown in Figure 1.

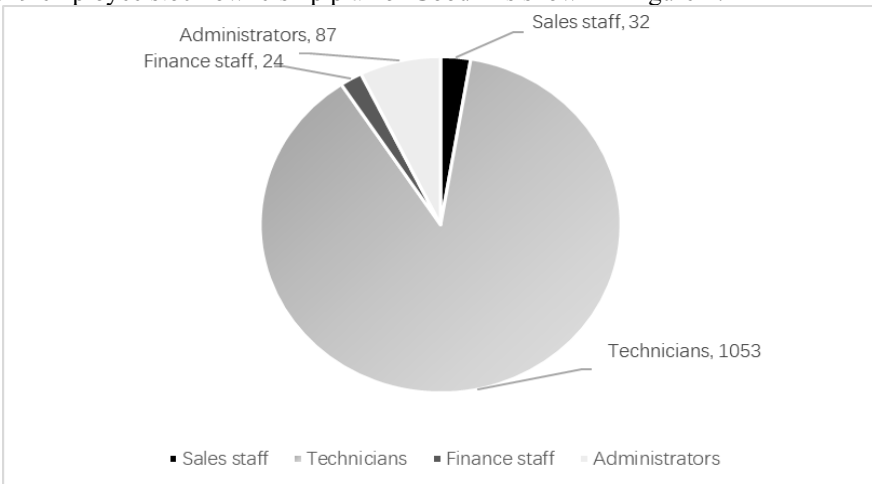


Fig. 1. Goodix's Employee Structure for 2019

As can be seen from the chart, Goodix is responsible for the research and development of technical personnel, accounting for 88%; it can be seen that the company attaches great importance to research and development, and highly educated, highly skilled, and highly capable talent determines whether the enterprise has an intense research and development capabilities^[7]. Hence, Goodix needs to implement the Em-

ployee Stock Ownership Plan to attract and retain talented people to support the enterprise to continue to carry out technological innovation to cope with the fierce competition in the market.

Release of positive signals.

Goodix has been a chip design company that the market has been highly concerned about since its October 2016 listing. After several gorgeous transformations, the company started from the lowest capacitive fingerprint and has become a set of audio, touch, vision, optics, connectivity, sensing, and security in one of the integrated chip companies; the enterprise has more substantial core competitiveness favored by investors^[8]. More robust profitability of the company is more inclined to implement the employee stock ownership plan; the implementation of an employee stock ownership plan can release positive signals to the market to show investors the company's good operating conditions and more significant development space, which to a certain extent to stimulate the company's share price.

3.2 External reasons

National policy guidance.

The Securities and Futures Commission (SFC) issued the Guiding Opinions on the Pilot Implementation of Employee Stock Ownership Plans for Listed Companies in June 2014, marking the beginning of the relaunch of employee stock ownership plans in China. The guidance clarifies the specific meaning and the general provisions of the employee stock ownership plan, laying the foundation for its widespread use in enterprises. Based on the continuous improvement of China's market economic system, the Securities and Futures Commission (SFC) has provided policy guidance for implementing employee stock ownership plans, after which A-share listed companies began to use the employee stock ownership plan. The employee stock ownership plan has become A-share listed companies' most critical employee incentive method.

Increased market competition.

The main service object of Goodix is Android cell phone manufacturers. On the one hand, global smartphone shipments began to show a downward trend in 2018, and the cell phone market has become saturated; on the other hand, Goodix, at that time, also had to face competitive pressure from Silead, Egis and Qualcomm. 2019 global under-screen fingerprint chip vendors' shipments are as Figure 2 Shown.

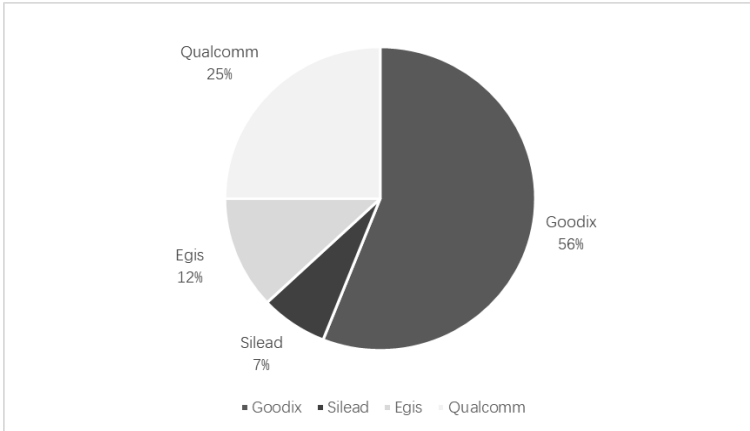


Fig. 2. Global Shipments of Under-Screen Fingerprint Chip Vendors in 2019

As can be seen from the chart, Goodix occupied more than half of the under-screen fingerprint chip market in 2019, considering that the fingerprint identification chip is the core product of Goodix. Its revenue accounted for more than 80% in that year. Goodix needs to pay extra attention to the same type of enterprises to seize the market share, and its competitive environment is severe. In order to cope with the fierce competition, the top implementation of an employee stock ownership plan, from the attraction, incentives, and retention of talent to start, increase investment in research and development to improve core competitiveness.

4 Conclusion

Enterprises must choose to implement employee stock ownership plan reasonably according to their situation. The plan's implementation needs to consider various factors, such as the enterprise's development situation, the market environment, the personnel involved, and whether the plan design is reasonable^[9]. A reasonable and fair employee stock ownership plan can motivate and retain the company's talent, so technology innovation-oriented enterprises are more inclined to implement employee stock ownership plans. The core advantage of the employee stock ownership plan is that it can involve more grassroots employees to get a sense of participation, thus motivating employees and ultimately alleviating the principal-agent conflict. Therefore, companies should not unthinkingly follow the trend of launching employee stock ownership plans but should choose whether to implement them based on their needs. In the company's performance in the upturn, the implementation of the plan can play a role in promoting, but when the company's performance declines, the implementation of the employee stock ownership plan will reduce the effect of the enterprise at this time should pay more attention to their business status.

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