Implementation Effect of Equity Incentives: Taking Midea as An Example

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Abstract. During the past few years, the PRC government has issued policies to encourage companies to provide equity incentives. Midea Group actively responds to these policies by implementing standardized equity incentive measures. This paper adopts a case analysis approach to comprehensively discuss Midea's equity incentive plans. Midea Group, after becoming a listed corporation, has created a series of equity incentive mechanisms based on the company's condition, during which it suffers from some challenges. For example, more than one factor has impacted its market outcomes, and corporate operations or equity incentives do not solely determine stock price fluctuations. This paper explores the implementation of Midea Group's equity incentive plans from the perspective of these plans' relation with Midea Group's performance. And analyze the impact of equity incentives of Midea Group on performance from both financial and non-financial indicators. Accordingly, the paper provides relevant suggestions, and improvement plans for its equity incentive program.

Keywords: Midea Group, Equity incentives, Improvement plans.

1 Introduction

Equity incentives are a way to align the long-term interests of company owners and key employees by granting them stock options or restricted shares. This approach is rooted in the principal-agent theory, which aims to reduce conflicts between managers and shareholders by linking rewards to company performance. Instead of traditional salary systems, equity incentives focus on long-term goals and strategic growth, making them a popular tool for attracting top talent and improving corporate governance.

In recent years, equity incentives have gained traction in capital markets. However, their effectiveness varies widely. For example, Qiaqia Food's (002557.SZ) 2024 equity incentive plan failed because the company's revenue growth fell short of its target (4.8% vs. the required 10.8%), leading to a drop in management confidence and stock price. In contrast, Midea Group (000333) has successfully used multi-tiered equity incentives since 2012 to boost revenue from ¥150 billion to nearly ¥500 billion, with a 30% annual profit growth rate and significant improvements in employee satisfaction

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M. M. Husin (ed.), *Proceedings of the 2025 International Conference on Financial Innovation and Marketing Management (FIMM 2025)*, Advances in Economics, Business and Management Research 353,
https://doi.org/10.2991/978-94-6463-874-5_94

and innovation. This raises an important question: What makes equity incentives work for some companies but not others?

This study uses Midea Group as a case to analyze how equity incentives drive performance through financial and non-financial metrics. By examining Midea's strategies, this paper provides practical insights for designing effective incentive plans and balancing short-term and long-term goals, contributing to better corporate governance practices.

2 Literature Review

Research on equity incentives offers mixed perspectives. Supporters argue that they align management and shareholder interests. For example, Jensen and Meckling suggest that stock ownership reduces agency conflicts by encouraging managers to act like owners [1]. Hall and Liebman found a strong link between CEO stock options and company value, showing that incentives improve decision-making [2]. Core and Guay add that extending incentives to non-executive employees boosts R&D investment, especially in tech industries [3].

Critics, however, highlight risks. Bebchuk and Fried warn that managers might prioritize short-term stock gains over long-term innovation [4]. Burns and Kedia found that excessive incentives increase the likelihood of financial fraud [5]. Edmans et al. also note that equity incentives can make managers overly risk-averse during economic downturns [6].

This study adds to the debate by analyzing Midea's equity incentive program through both financial results and non-financial outcomes like innovation and employee engagement.

3 Midea's Equity Incentive Case

3.1 Brief Introduction to Midea Group

Midea Group was founded in Foshan, Guangdong, in 1968. It started as a small production team of 23 people and gradually grew into a global high-tech enterprise. It has 200 subsidiaries, 35 R&D centers, and 35 large-scale manufacturing enterprises worldwide, with over 160,000 employees. Its business has expanded to over 200 countries.

Midea Group used to be a family-owned business with concentrated equity. It started its transformation during its development. Mr. HE Hengjian, the former president of the board, once held absolute control. Later, in pursuit of sustainable development, Midea Group introduced external investors, dispersed equity through stock issuance, and implemented a management model that combined centralization and decentralization. The headquarters supervise overall strategies, while subordinate companies operate independently. Apart from that, Midea Group introduces professional managers and keeps optimizing the structure of its board of directors, board of supervisors, and executive team. It has established a professional management system under the modern enterprise system.

3.2 Midea Group Equity Incentive Mechanisms

Since its listing in 2013, Midea Group has focused on building sound equity incentive mechanisms. It has implemented nine equity incentive plans and seven restricted stock incentive plans. These measurements mobilize the innos' proactivity to conduct innovation, protect the interests of shareholders, maintain the continuity and stability of dividend distribution, and help Midea Group accumulate cash dividends of nearly 86 billion yuan. At the same time, Midea Group utilizes a stock repurchase plan to stabilize the market price of its stocks to enhance investor confidence. It then uses the repurchased stocks for equity incentives and employee stock ownership plans to bind employees' interests with corporate growth deeply.

Before Midea Group's strategic transformation in 2011, it launched stock option incentive programs in 2006 and 2008. Still, these programs did not produce the expected outcomes due to an imperfect system and a narrow incentive scope. In 2011, Midea Group made a major strategic adjustment and successfully went public in 2013. It started the first stock option incentive plan in 2014 to stimulate employees' enthusiasm and protect its market share. It has offered nine rounds so far, which has stimulated the enthusiasm of key employees and consolidated market advantages.

Since 2017, some beneficiaries have been converted to restricted stock incentive plans. As the results, the increase of Midea Group's normal stock option incentive plan coverage slowed down from 2017 to 2019. The conversion is made based on the company's need to adjust incentive strategies in accordance with market trends and its requirements. Early stock option incentive plans covered senior executives and directors, but since 2016 the focus has shifted to core business and technical staff, with talent incentives becoming more refined and differentiated.

The exercise conditions of Midea's stock option incentive plans also improve. The initial conditions were simple, only requiring net profit growth rates and return on net assets. Since 2016, it has been required that the annual net profit attributable to the parent company must exceed the average of the previous three years. Starting from the fourth phase, after non-financial indicators were included in the assessment, the incentive plan has become more systematic and reasonable. The company uses it to spur up employees' activeness and teamwork spirit, in the hope of being more its overall competitiveness and cohesion [7]. The development of Midea Group's equity incentive policies is shown in Fig. 1 below.

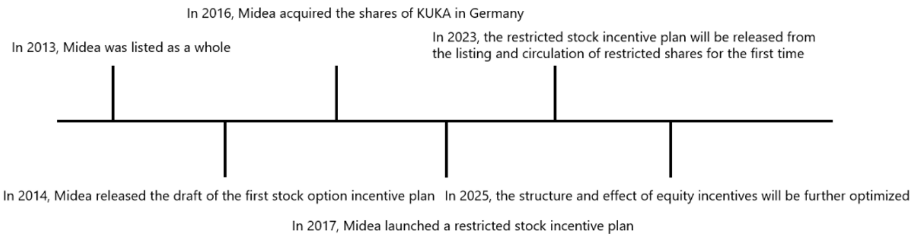

Fig. 1. The development of Midea Group's equity incentive

4 Impact of Midea's Equity Incentives on Performance

4.1 Non-Financial Impacts

Midea’s equity incentives prioritize R&D teams. For instance, in 2020, 5% of equity was allocated to R&D and sales roles. This led to a rise in R&D spending from 5.4% of revenue in 2019 to 6.1% in 2020. Such policies helped build patent portfolios in smart home tech and industrial automation.

The long-term nature of these incentives (e.g., 5-year vesting periods) encourages employees to focus on sustainable innovation. Midea’s expansion into robotics and renewable energy—like its acquisition of CLU Electronics for energy storage tech—reflects this long-term vision [8].

4.2 Financial Impacts

Revenue Growth: Equity incentives drove diversification. In 2024, Midea’s revenue hit ¥218.1 billion in the first half, outperforming rivals like Gree and Haier. By covering R&D and manufacturing staff (e.g., 2,849 employees in the 2022 incentive plan), Midea boosted its B2B sectors (e.g., robotics, smart buildings), which grew over 20% year-on-year in 2023 (See Fig. 2).

Profitability: Strict incentive terms (e.g., ROE ≥20%, performance reviews) pushed cost efficiency. In 2023, Midea’s net profit reached ¥33.7 billion—double Haier’s ¥16.7 billion and higher than Gree’s ¥29 billion. Dynamic adjustments to exercise prices in the 2021 incentive plan further optimized financial performance (See Fig. 3).

Market Value: Investor confidence stayed high due to consistent incentives. Midea’s market cap has long-lasting competitors, supported by mechanisms like share buybacks. For example, the 2024 incentive plan covered 1,278 employees with an exercise price of ¥74.26 per share, stabilizing stock prices (See Fig. 4).

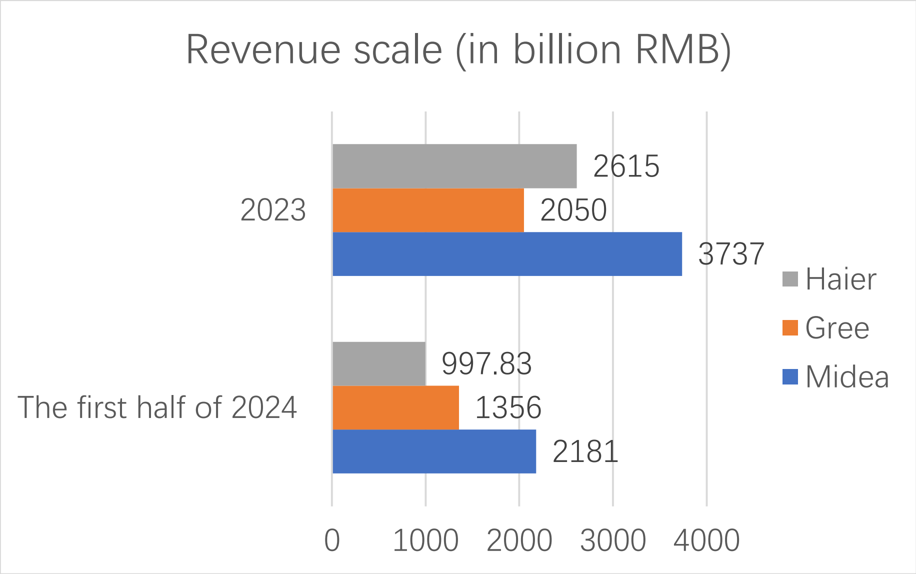

Fig. 2. Midea's revenue scale in 2023 and 2024

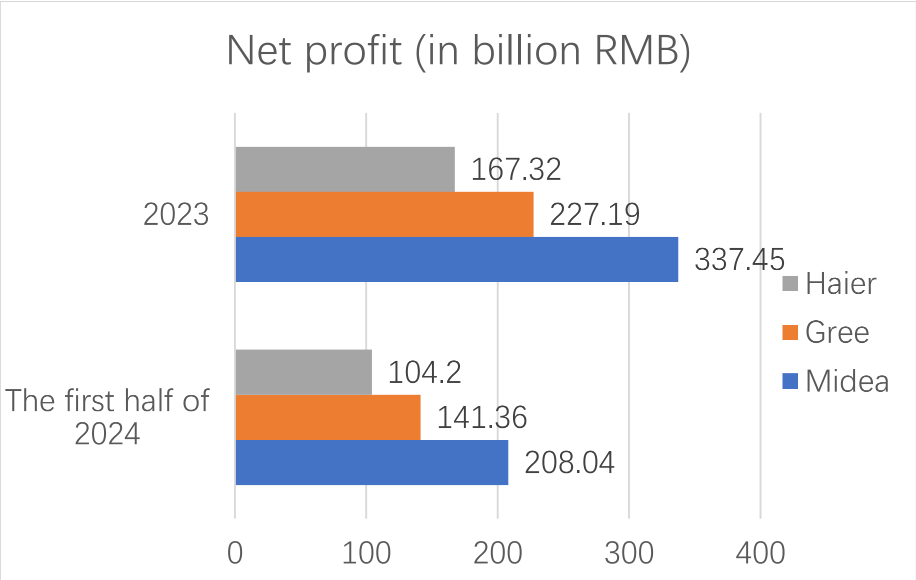

Fig. 3. Midea's net profit in 2023 and 2024

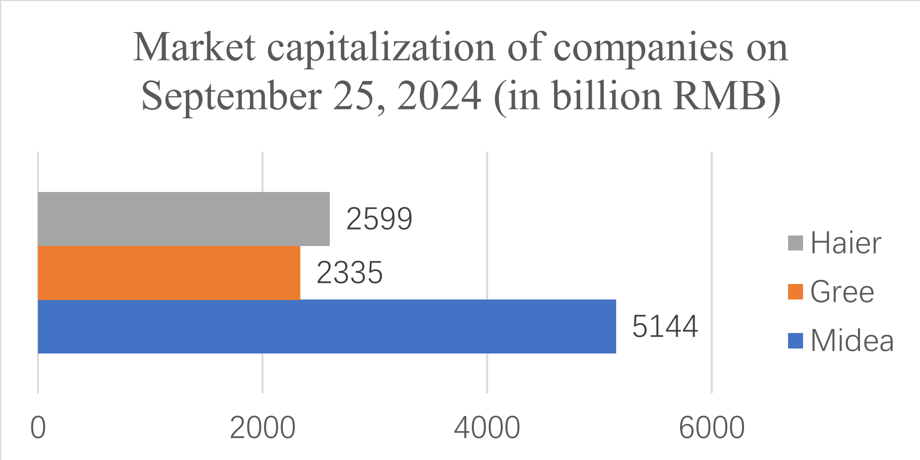

Fig. 4. Midea's market capitalization in 2024

Midea's equity incentive policy will continue to strengthen growth momentum and market confidence by binding the interests of the core team and driving innovation [9-10].

5 Suggestions

5.1 Optimize the Setting of Assessment Indicators

The company should establish a multi-dimensional performance assessment system, integrating financial indicators (such as return on net assets and net profit growth rate) and incorporating multiple non-financial indicators (such as market share, R&D expenses, employee satisfaction, customer loyalty and ESG performance) to comprehensively evaluate the contribution of incentive recipients to the enterprise. Personalized assessment standards should be formulated for positions at different levels to ensure fairness and effectiveness. Meanwhile, a dynamic assessment mechanism is introduced to adjust the index weights according to the industry development trend, improve the incentive efficiency and enhance the market competitiveness of enterprises.

5.2 Rich Combination of Incentive Models

Midea Group should formulate diversified equity incentive models based on employee levels, career pursuits and risk tolerance to enhance talent retention rates. Based on the existing incentive model, innovatively introduce stock appreciation rights, virtual stocks, etc. It should be flexibly applied in combination with the development of the industry to adapt to different development stages. Through diversified incentive models, the effect of employee motivation can be enhanced to avoid the problems of insufficient motivation and weak binding force on employees caused by a single incentive model.

5.3 Improve the Internal Supervision Mechanism

Enterprises should improve their internal supervision mechanisms to prevent managers from harming the interests of shareholders and the enterprise through illegal acts. Clarify the penalty measures for violations and regularly disclose the implementation of equity incentives to enhance transparency and attract external investors to participate. A sound supervision system can effectively prevent earnings management, prompt the management to make rational decisions based on the long-term development of the enterprise, closely combine personal careers with the future of the enterprise, thereby achieving a win-win situation and promoting the healthy and sustainable development of the enterprise.

5.4 Improve the Exit Mechanism and Risk Control

Midea Group should improve the equity incentive exit mechanism, clarify the equity disposal rules when leaving, retiring or failing to meet performance standards, and strengthen risk control to avoid the risks of equity concentration or market fluctuations. Specific measures include establishing an "equity repurchase fund" to stabilize the equity structure; Introduce a more detailed "performance bet" mechanism and bind incentives to key performance indicators; Optimize the early risk warning system, introduce intelligent analysis tools, and monitor and warn of potential risks in real time.

6 Conclusion

This study deeply explores the equity incentive plan implemented by Midea Group in response to national policies through the case analysis method. Since its listing, Midea has established a diversified equity incentive system. This article conducts a detailed analysis of the implementation of equity incentives in Midea Group and puts forward targeted improvement suggestions for the deficiencies in its scheme design. Although equity incentives are an important mechanism to enhance the internal dynamics of enterprises, market performance and stock price fluctuations are influenced by multiple factors, and equity incentives are not the only determining factor. It is hoped that through the suggestions in this article, Midea Group can further optimize the equity incentive mechanism to promote the overall development and market competitiveness of the company.

The deficiency of this study lies in the lack of interviews with stakeholders such as the senior management of Midea Company, and the failure to gain a deeper understanding of their direct feedback on the equity incentive plan. Furthermore, due to the time constraints of the researchers, this article only conducts an in-depth case analysis of Midea Group. Therefore, in future research, it is necessary to compare the implementation of equity incentives in Midea Group with that of enterprises in other industries, analyze the effect and applicability of equity incentives under different industry backgrounds, and thereby improve the universality and accuracy of the research conclusions.

Author Contributions

All authors contribute equally, and their names are listed in alphabetical order.

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