



Restricted Stock Incentive Unlocking Conditions and Earnings Management—A Case Study of Haier Smart Home

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Abstract. Equity incentives are widely used in talent incentives of listed companies. Restricted stocks have become the choice of many enterprises due to the strong constraint of “performance-based unlocking standards”, but single financial unlocking conditions tend to induce the management’s earnings management behavior. Taking Haier Smart Home, a leading enterprise in the smart home industry, as the research object, this paper uses a case analysis method, combined with principal-agent theory and incentive contract design theory, to explore the relevance and economic consequences of unlocking conditions and earnings management behavior. The study found that: Haier Smart Home equity incentive plan takes financial indicators such as net profit growth rate and return on equity as the core unlocking conditions, plus classified and hierarchical management and high threshold performance requirements, to promote the steady growth of the company’s profitability, cash flow and sales revenue at the financial level, and significantly improve the retention rate of core employees, stimulate innovation vitality and promote department collaboration at the non-financial level; However, to meet the unlocking conditions, the company has earnings management behavior, the impact of industry competition and the expected stable demand of the capital market; Earnings management can optimize the financial image and market trust in the short term, and may weaken the quality of accounting information and core innovation ability in the long term. This study provides a reference for listed companies to optimize incentive contract design and balance short-term incentive effects with long-term development goals.

Keywords: Restricted Stock Incentive, Earnings Management, Haier Smart Home.

1 Introduction

Equity incentive is an incentive tool for listed companies to attract core talents [1]. Restricted stocks are widely used due to the strong constraint of “unlocking performance standards”. However, performance unlocking conditions (such as net profit, gross profit margin, etc.) may induce the management to manipulate performance

through earnings management and damage the authenticity of financial information. Haier Smart Home is a global leading household appliance enterprise. Since 2015, it has implemented five phases of the restricted stock incentive plan. Its unlocking conditions are mainly based on financial indicators such as net profit growth rate, which rely solely on financial indicators and are easy to manipulate; In contrast, diversification indicators can compress earnings management space, while the completion rate of unlocking restricted shares of the company in 2024 is only 15%. The core research question of this paper is: Does the unlocking completion rate of Haier Smart Home restricted stock due on real performance growth or on earnings management behavior?

According to the principal-agent theory, the core of the principal-agent relationship lies in the distribution of rights and obligations through contracts [2]. The client entrusts the decision-making authority to the agent, and provides incentives such as salary and performance rewards, to avoid the agent's preferentially pursuing its own interests and damaging the interests of the client, then ultimately guides the agent's behavior to converge with the client's goal and efficiently perform the entrusted task. Haier Smart Home's equity incentive should have reduced agency costs, but the rigid unlocking conditions may make the management deviate from the goal of "maximizing enterprise value" and meet the short-term performance requirements through earnings management; According to the earnings management motivation theory, the opportunistic motivation of Haier Smart Home's management may allow it to manipulate accruals or real activities to achieve unlocking benefits; Incentive contract design theory: the rationality of unlocking conditions directly affects the degree of earnings management, and diversification indicators can reduce the manipulation space [3]. The incentive contract design theory focuses on solving the information asymmetry and interest conflict in the principal-agent relationship. Through the scientific design of the contract terms, the goal of coordination between shareholders and employees can be achieved.

Previous studies have found that before listed companies implement equity incentives, there exists a certain degree of downward earnings management, which provides space for policymakers to lower industry reference standards when formulating equity incentive plans, thereby loosening exercise conditions and reducing the subsequent difficulty for the management to meet exercise requirements. After the implementation of the equity incentive plan of listed companies, it will often promote the earnings management behavior of the management, and the improvement of the incentive strength will promote the rise of the level of earnings management. In listed companies, the positive correlation between the management's shareholding ratio and earnings management is very significant, which shows that the higher the management's shareholding ratio, the greater the control authority of the corresponding company, and the stronger the control power to dominate the decision-making and implement the decision in line with their own interests [4]. Previous studies have found that the higher the equity concentration of listed companies, the higher the degree of earnings management. This means that the higher the equity concentration of major shareholders, the stronger the motivation to obtain private benefits through control. These conclusions not only provide new empirical support

for subsequent academic research but also provide enlightenment for listed companies to improve the level of governance. Existing surveys have shown that the home appliance market has the characteristics of fast inventory turnover, product differentiation development, frequent promotional activities, and so on [5]. Restricted stocks have their unique unlocking conditions, which are generally strongly bound to performance, such as personal performance rating, core task completion, etc. Restricted shares have special grant conditions, which are not obtained free of charge, and generally have a certain pre-threshold.

Existing literature focuses on analyzing companies' market performance from the perspective of equity incentive effects. However, a research gap remains regarding how earnings management affects the achievement of equity incentive unlocking conditions. This paper fills this gap. Taking Haier Smart Home as an example, this paper analyzes the results of earnings management unlocking equity incentive plan conditions for Haier Smart Home and concludes that equity incentives can improve the company's financial performance, but it has a long-term impact on the company's market trust, which has theoretical and practical significance. In the theoretical sense, an equity incentive plan can improve the financial level of the company. In the practical sense, unlocking conditions through earnings management may reduce the credibility of the company.

2 Overview of the Haier Smart Home Restricted Stock Incentive Plan

With the strategic promotion and development needs of Haier Smart Home, the restricted stock incentive plan has been continuously promoted in scale and scope [6]. In 2024, for instance, the fund size of Haier's A-share core employee stock ownership plan reached 711.5 million yuan, covering no more than 2400 participants; the total fund size of its H-share core employee stock ownership plan was 6.3 million yuan, with 27 participants. The assessment period of this round of the plan is two years. During the assessment period, the assessment rules of 2024 and 2025 are calculated according to the weighted average of the completion rate of the compound growth rate of non-attributable net profit and the completion rate of return on net assets. For example, the annual performance evaluation index for 2024 is: the growth rate of audited net profit deducted from the non-attributable parent company in 2024 is not less than 15% compared with that in 2023, and the audited return on net assets in 2024 is not less than 16.8%. These indicators directly reflect the profitability and operating efficiency of the company and prompt the management to improve the core competitiveness of the company.

The unlocking conditions of Haier Smart Home restricted stock have the following characteristics. First, a diversified index system. The unlocking conditions of Haier Smart Home do not rely on a single indicator, but build a diversified indicator system, in which financial indicators occupy the core position. After deducting the growth rate of non-attributable net profit, return on net assets and other financial indicators, the operating conditions of the company are reflected from different dimensions The

growth rate of net profit after deduction of non-return to parent can truly present the profit growth trend of the company's core business, effectively eliminate the interference of non-recurring profits and losses on profits, and guide the management to focus on the continuous expansion of the company's main business and the improvement of profitability. The return on net assets directly reflects the company's ability to use shareholders' equity to obtain income and encourages the management to reasonably allocate the company's resources and improve the efficiency of asset operation. Through the strict setting of these financial indicators, the quantitative requirements for the company's operating performance are clarified, providing a clear direction for encouraging the management to improve the company's financial performance.

Second, classification and hierarchical management. Haier smart home designs differentiated unlocking conditions for different positions. In the 2024 A-share and H-share core employee stock ownership plans, the assessment of the company's chairman, platform personnel, and other groups, in addition to meeting the requirements of the company's performance indicators, also needs to meet the personal comprehensive completion rate standard. After the management committee verifies that the annual assessment results meet the standards, the equity can be attributed to the employees in proportion. Haier Smart Home's equity incentive plan considers the contributions of different employees and improves the effectiveness of incentive measures.

Third, high threshold performance requirements. Haier Smart Home has implemented several equity incentive plans, and the unlocking conditions are relatively strict. According to Haier Smart Home's public financial report, the company's operating revenue increased by a certain margin from 2022 to 2024. When the unlocking conditions of the future equity incentive plan are formulated, Haier Smart Home will set the unlocking index at a range higher than the existing growth level. Therefore, the equity incentive plan will promote the financial level of Haier Smart Home to rise continuously.

3 Effect Analysis of Equity Incentive

3.1 Financial Effect

Haier Smart Home implements the equity incentive plan, aiming to deeply bind the interests of employees with the long-term development of the company, stimulate the enthusiasm of employees, and improve the overall financial level of the company [7]. First, improve profitability. By aligning the interests of employees and the company, the equity incentive plan can enhance the enthusiasm of employees and promote the profitability of the company. Taking Haier's 2024 financial performance as an example, its net profit attributable to the parent company in the first quarter reached 4.773 billion yuan, a year-on-year increase of approximately 20%. The diversified assessment indicators of Haier Smart Home's equity incentive plan set the return on net assets in the 2024 plan, deducting the growth rate of non-attributable net profit as the

assessment indicators, which will help Haier Smart Home improve its profitability at present and in the future.

Second, cash flow increased. As the equity incentive plan has boosted the overall profitability of Haier Smart Home, for example, in the first quarter of 2024, Haier Smart Home's non-net profit increased by about 25% year on year. These profitability indicators are bound to the personal interests of employees, which can prompt employees to focus on high-profit products. The increase in the sales proportion of these products has transformed the revenue into the cash flow of Haier Smart Home, making the operation of Haier Smart Home more stable.

Third, sales revenue continued to rise. By linking the employee stock ownership plan with financial indicators, Haier Smart Home employees are encouraged to focus on product promotion and innovation to ensure the steady growth of sales volume and amount. Taking the first quarter of 2025 as an example, Haier Smart Home achieved revenue of about 69 billion yuan, an increase of 6.01% year on year. When comparing the growth performance of Haier Smart Home's financial indicators with that of competitive products at home and abroad, it is found that Haier Smart Home's revenue is better than that of most competitive products.

3.2 Non-Financial Effect

First, improve employee retention. Haier Smart Home's equity incentive plan gives employees equity to enhance their sense of professional belonging to Haier Smart Home and further improve the retention rate of employees [8]. According to the 2022 equity incentive plan of Haier Smart Home, it covers about 4000 people, including the internal management, technical backbones, core employees, and other groups that are crucial to the operation of Haier Smart Home. Haier Smart Home's financial report shows that its equity incentive plan adopts a phased unlocking mode, with unlocking ratios of 40% and 60% respectively. Through long-term performance binding, the company realizes the interest binding between the company and the core talents, which effectively increases the retention rate of core technical talents, and avoids the loss of market resources and the reduction of Haier Smart Home's market share due to technical faults.

Second, stimulate employees' innovation. Haier Smart Home's equity incentive plan can stimulate employees' motivation for innovation and promote Haier Smart Home's business and technological breakthroughs in the future. The equity incentive plan can break the original idea that employees only get a fixed salary every month. By granting equity to employees, the interests of employees and the company are bound, so that employees can more actively participate in the innovation activities of Haier Smart Home. In the process of technology development, to achieve long-term performance goals to unlock the equity incentive plan, employees will be more actively involved in product development. For example, Casarte, a subsidiary of Haier Smart Home, has realized the transformation of the brand from the medium and low-end to the high-end profit model through the research and development of smart home interconnection technology [7]. In the business model part, because the business level is inseparable from the unlocking conditions of employees' equity incentives,

employees of the company are more willing to study new marketing methods and strategies to open more product sales channels.

Third, promote interdepartmental communication. The equity incentive plan in Haier Smart Home can improve the communication efficiency of various departments, because the unlocking condition of the final equity incentive plan is to take the overall performance of the company as the evaluation index, such as the net profit growth rate. This promotes inter-departmental communication, improves communication efficiency, and mitigates internal information asymmetry. Good communication can help Haier Smart Home improve its financial level. When the financial level rises, the company's trust in the market will also increase, which will promote the future financial level to maintain an upward trend. When the financial level rises, it is easier to unlock the unlocking conditions of the equity incentive plan. [9].

4 Motivation and Economic Consequences of Earnings Management

4.1 Motivation Analysis

Haier Smart Home has three motives for earnings management [10]. First, meet the performance unlocking conditions of the equity incentive plan. This is one of the most direct reasons for Haier Smart Home to conduct earnings management. Haier Smart Home's equity incentive plan sets a clear threshold for unlocking performance, such as deducting non-net profit, which increases by more than 30% compared with the base year. If Haier's actual performance is close to but fails to meet the equity incentive unlocking conditions, the management may ensure performance compliance through legitimate accounting treatments. The equity incentive plan can avoid the loss of some core technical staff through earnings management, which will affect the future innovation and development [11].

Second, to cope with industry competition and external competitive pressure. The home appliance industry is highly competitive [8] and vulnerable to external shocks. When the external environment is unfavorable, appropriate earnings management can ensure that the company still has a stable financial image in the competition. Haier Smart Home's home appliance market is vulnerable to the external environment. For example, when real estate sales decline, the demand for home appliances will decline synchronously. After earnings management stabilizes the company's financial image, it can maintain the confidence of dealers, suppliers, and other partners in Haier Smart Home.

Third, Haier Smart Home needs to stabilize the expectations of the capital market to avoid the risk of stock price fluctuations. Haier Smart Home is a listed company with A+H shares. Investors in both places will continue to pay attention to the performance of Haier Smart Home. If the performance fluctuates significantly, it will cause consumer panic, lead to the decline of the share price, and eventually increase the subsequent financing cost. Through appropriate earnings management, the

performance growth can be more stable, and Haier Smart Home has a high ability to resist risks, which increases the confidence of investors and avoids short-term stock price fluctuations.

4.2 Economic Consequences

Proper earnings management by Haier Smart Home has positive and negative consequences for financial quality, market trust, and long-term innovation. First, financial quality. In the short term, Haier Smart Home optimizes its financial indicators through appropriate and compliant earnings management, such as reducing current expenses through accounting treatment, making the company's current net profit and other profit indicators more stable, and establishing the appearance of the stability of Haier Smart Home's financial indicators externally. However, for long-term performance, earnings management may lead to the decline of the relevance of accounting information and damage to financial quality. If earnings management exceeds the appropriate range, in the long run, it will reduce the reference value of financial statements for investors' decision-making, thus affecting the financial quality of Haier Smart Home.

Second, market trust. In the short term, appropriate earnings management behavior can help Haier Smart Home smooth the current profits, create a signal of high-risk resistance in the capital market, and avoid irrational decline in the share prices of A shares and H shares due to short-term performance decline. Earnings management can help the company stabilize its market value in the capital market. And stable performance indicators can calm the cooperation confidence of dealers, suppliers, and other partners. In the long run, if Haier Smart Home relies on earnings management to smooth performance indicators for a long time or is questioned by the exchange for the authenticity and rationality of accounting treatment, investors will question the authenticity of performance. These will damage the company's long-term reputation in the capital market, and the subsequent refinancing may face financing costs or disrupt the foundation of market trust.

Third, the impact on long-term innovation. Haier Smart Home's strategy is "high-end and intelligent". Its strategy relies on continuous innovation, and continuous innovation investment will lower current profits. Appropriate earnings management behavior can reasonably allocate these innovation costs and reduce the impact of these costs on current profits. These have provided stable financial support for Haier Smart Home's innovation projects and ensured the uninterrupted short-term innovation activities. However, relying on earnings management to stabilize financial support for technological innovation may induce managerial myopia if the management's core goal is to meet short-term performance targets. To meet the conditions for unlocking the equity incentive system, the management may eliminate some innovation costs that cannot be effective in the short term. For the long term, this will weaken the company's core innovation ability, conflict with the strategic goal of long-term technology construction, and lose the initiative in industry competition.

5 Suggestions for Equity Incentive

Through the existing equity plan of Haier Smart Home, this paper puts forward the following suggestions for the above problems [12]. First, increase the transparency of the equity incentive plan and internal communication between employees. During the implementation of the equity incentive plan, the plan management department shall regularly explain to the employees the progress of the plan, the achievement of medium-term performance, and the change of equity value. These can reduce employees' questioning attitude towards Haier Smart Home's equity incentive plan due to information asymmetry. In addition, in the process of market disclosure, the company should explain to investors the relevance of earnings management and business strategy, as well as the rationality of the equity incentive plan, to consolidate market trust.

Second, improve the design of unlocking conditions. At present, the exercise conditions of equity incentives are relatively simple. In future operations, Haier Smart Home can include more indicators. On the one hand, in addition to existing indicators such as net profit and return on equity, Haier can incorporate operational efficiency indicators. These indicators can comprehensively reflect the company's operating conditions and prompt Haier's employees to focus on more dimensions of the company's operations. In addition, Haier Smart Home can add more non-financial indicators, such as customer satisfaction, when setting the unlocking conditions of equity incentives. By adding these non-financial indicators as the exercise conditions of the equity incentive plan, employees can be encouraged to focus on the long-term improvement of enterprise competitiveness.

Third, strengthen the internal governance supervision. Haier Smart Home's equity incentive plan needs to be deeply bound with the internal governance supervision, that is, to improve the core power of the team through the equity incentive plan, and to supervise the effectiveness of the incentive policy. Ensure the compliance and fairness of equity incentives through internal supervision. Haier should establish a supervision team to clarify data sources and verification standards. By verifying whether data originates from real business activities, the team can ensure the authenticity of unlocking conditions, thereby preventing excessive earnings management aimed at meeting equity incentive unlocking conditions.

6 Conclusion

As a leader in the household appliance industry, Haier Smart Home has implemented differentiated equity incentive plans many times, covering A-share and H-share core employee stock ownership plans, and through these plans, the company's performance level has been promoted to a higher level. By granting the equity incentive plan to core employees, the interests of employees and the interests of the company are bundled, which, to a certain extent, ensures the retention rate of employees of Haier Smart Home and the level of innovation and development in the future. In order to meet the exercise conditions of its own equity incentive plan, Haier Smart Home will adopt appropriate earnings management behavior, which has improved the per-

formance of financial indicators and market trust in the short term and reduced future financing costs, but has damaged the quality of accounting information in the long term. To better implement Haier Smart Home's equity incentive plan, Haier Smart Home needs to improve the unlocking conditions of the equity incentive plan in the future, including but not limited to financial and non-financial assessment standards. To make the equity incentive plan more open and transparent, Haier Smart Home can regularly tell employees about the information related to the equity incentive plan to improve their motivation and cooperate with Haier Smart Home's internal audit to verify the authenticity of the unlocking conditions, to more accurately implement Haier Smart Home's equity incentive plan.

The significance of this study lies in its in-depth analysis of the relationship between restricted stock incentive unlocking conditions and earnings management. It provides a reference for listed companies to design incentive contracts balanced between financial and non-financial indicators, and offers a basis for regulatory authorities to prevent earnings management and maintain the authenticity of capital market information. There are some deficiencies in the research, such as focusing on a single enterprise case, and the universality of the conclusion needs to be verified by a multi-industry comparison. Future research can expand the sample to many enterprises to explore the impact of different unlocking conditions on earnings management.

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