Comparison of Two Equity Incentive Plans of Bright Dairy

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Abstract. The first equity incentive plan of Bright Dairy was completed and unlocked, and the second incentive plan was announced to be terminated early by the company before it expired. Therefore, in this context, this article deeply studies the difference in the content and unlocking of the two equity incentives of Bright Dairy and analyzes the difference in the impact of the two incentive plans on corporate performance. This study can provide listed companies with factors that need to be paid attention to in exploring equity incentives and give some help for the effective use of this tool in the future.

Keywords: equity incentive · corporate performance · Bright Dairy

1 Introduction

On December 31, 2005, the CSRC issued the Management Measures for Equity Incentive of Listed Companies (Trial), which marks the official implementation of the equity incentive mechanism for listed companies in China [1]. The global economy recovered in 2008, the dairy industry regained confidence, and many dairy companies tried to implement equity incentives. Some companies have implemented equity incentive plans to improve company performance. However, some companies failed to meet the expected unlocking conditions, leading to the early termination of the plan. So the impact of different equity incentive plans on company's performance is also very different.

Since the equity incentive originated in the United States, scholars at home and abroad have not yet reached an agreement on their implementation effects. When Chinese listed companies learn from the practical experience of foreign companies, the implementation effects are also uneven [2]. Most of the current research on equity incentives focus on the macro level [3]. It is rare to pay attention to a certain company level at the micro level. So, this article takes the equity incentive plan of Bright Dairy as a typical case, and profoundly explores the difference in its impact on company performance.

2 Methods

The research ideas used in this article is to compare and analyze the great differences in the content of the two incentive plans. Based on this, analyze the two incentive plans

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from the Return On Equity (ROE), Return On Total Assets (ROA), Earnings Per Share (EPS) and Tobin's Q value, which can quantify the specific differences between the two incentive plans on company performance.

3 Research Content

3.1 Incentive Plan Comparison

The first comparison is the number of shares. The number of shares in the second equity incentive plan has reduced by approximately 2.4 million shares compared with the first, but the number of incentive objects has doubled. Among them, the proportion of incentive objects in the first phase of all employees is 3.87%. The second period was 2.5%, so, as the number of grants decreased, the proportion of grant recipients was also declining.

There are also changes in the grantees. The proportion of senior executives among the grantees dropped from 19.61% in the first plan to 13.07%, which shows that the incentive targets of the equity incentive plan are gradually spreading. It indicates that the company realizes the importance of core technical talents.

The unlocking conditions of the two equity incentive plans are also different. The first plan examines the average annual profit level, while the second plan uses the 2013 indicators as the base and examines the company's long-term profitability change level. In addition, the requirements for unlocking conditions for the weighted average ROE in the first plane are 8% each year, while the second plan becomes 8.1%, 8.2% and 8.3%, which are increasing year by year.

In addition, from unlocking, each unlocking period of the first incentive plan exceeded the task, and finally, the plan implemented successfully. Only the ROE reached the target in unlocking periods of the second plan. So the second incentive plan was terminated. The company finally announced on July 6, 2017, stating that "continuing to implement this incentive plan has been unable to achieve the expected incentive effects and goals at the time of formulation, so it intends to terminate the implementation of this incentive plan."

3.2 Company Performance Comparison

The indicators for measuring corporate performance in domestic and foreign research mainly include accounting indicators and market indicators [4]. Accounting indicators mainly include ROE and ROA, and market indicators mainly include EPS and Tobin's Q value.

The ROE of the first plan is maintained at an average annual rate of more than 8%. The specific change trend is shown in Fig. 1. Compared with 2009, some progress has been made in the first incentive plan. In 2014, the first year of the second plan, the ROE achieved a substantial increase, while Yili changed slightly during the same period. Therefore, the difference can be considered as the promotion of the incentive plan. In 2015 the Bright Dairy's ROE fell, but the ROE of Yili didn't experience significant changes. In 2016, the entire industry showed a trend of recovery. Bright Dairy's ROE has increased more than Yili, which is also driven by equity incentives. With the plan's

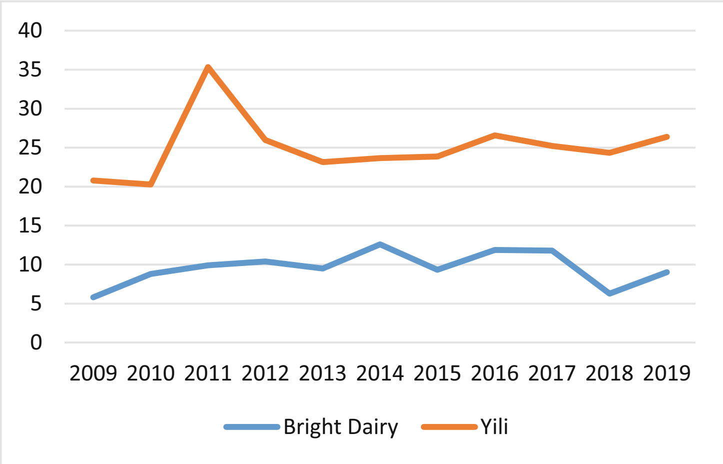

Fig. 1. Comparison of changes in ROE

termination, the ROE in 2018 was almost reduced to half of the previous year. Although Yili also declined in 2018, the magnitude was much smaller than that of Bright Dairy. Therefore, it is believed that the termination of equity incentives has magnified the downward trend.

Figure 2 shows the comparison of ROA. During the first plan, this indicator has been showing a downward trend. It can be understood that managers began to focus on long-term development in the first equity incentive. During the same period, Yili's ROA showed an upward trend, so the decline in this indicator is not an industry trend. It indicates that the first equity incentives of Bright Dairy has no noticeable promotion effect on this indicator. The second plan showed a fluctuating trend. The initial year of the second plan showed a slight increase, then fell again in 2015, and gradually increased after 2016. The first incentive plan is not satisfactory in terms of the ROA, and the second incentive slowly drives the ROA to rise.

Figure 3 shows the comparison chart of the EPS. It can be seen that in 2010 when the first equity incentive plan was launched, the EPS increased compared with 2009. During the first incentive plan, this indicator showed a upward trend. During the second incentive plan, except for the decline in the company's overall performance in 2015, the EPS of the remaining years have risen to a high level. The EPS fell sharply in the first year after the plan was terminated. Therefore in the long run, equity incentives have improved the company's performance to a certain extent. In comparison, the effect of the first equity incentive plan is relatively stable, but the result is significantly weaker than that of the second. In addition, the EPS in the initial year of each incentive plan has an extensive range of improvement.

The higher Tobin's Q value, the better the market value performance of the company. The changes in Tobin's Q value of Bright Dairy during the two equity incentive plans can be seen in Fig. 4. Except for the increase in the last year of the first incentive plan, this indicator continued to decline in the rest of the year. It shows that Bright Dairy's first equity incentive did not have a significant stimulus effect on the company's performance

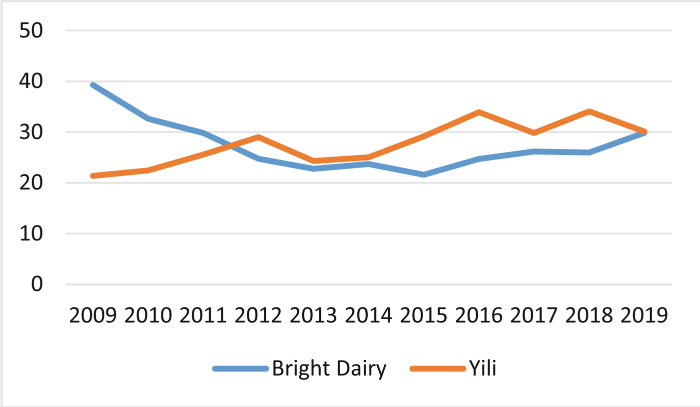

Fig. 2. Comparison of changes in ROA

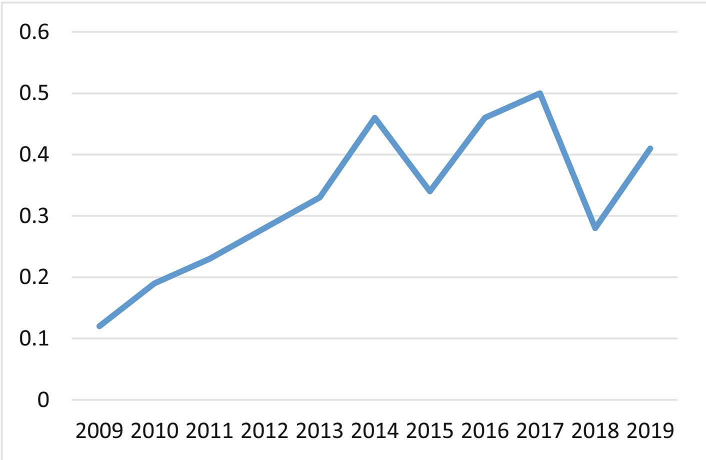

Fig. 3. Comparison of changes in EPS

represented by Tobin's Q and may even reduce the company's market value. During the second incentive plan, it has also been declining, but the annual value is higher than that in the first incentive plan. After the termination of the plan in 2017, the lowest value appeared. This comparison shows that the second incentive plan has delayed the downward trend. But it still failed to reverse the company's downward trend in market prices.

To sum up, during the implementation of the first equity incentive plan, the ROE and EPS are slowly increasing, and the ROA and Tobin's Q value show a downward trend. During the second incentive plan, except for the unexpected poor performance of the company in 2015, the values of various indicators in the remaining years are greater than those in the first plan.

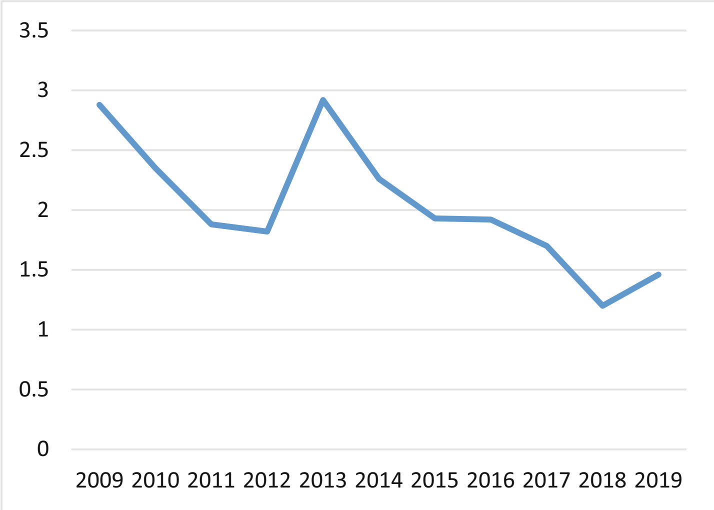

Fig. 4. Comparison of changes in Tobin Q

4 Conclusion

We find that there are three prominent differences between the two incentive plans. The first is that the number of per capita awards has reduced compared with the first time, but the proportion of incentive objects has also declined. The second difference is that the proportion of executives among the incentive targets has declined, and core technical employees have replaced them.

In the process of comparing performance differences, we find that the two equity incentive plan have the most significant impact when they are first implemented. In addition, the evaluation criteria determined by Bright Dairy's first incentive plan are less developmental than the second. Still, the actual situation of the company was fully taken into account when the first incentive plan was set up. Therefore, each period exceeded the target, successfully unlocked, and improved the company's performance, although not much. The second incentive plan is better than the first but not as good as the expected results, which ultimately led to the early termination of the plan. In addition, with the end of the incentive plan, the performance of Bright Dairy has shown a downward trend in 2018, which shows that the incentive plan launched by Bright Dairy has not exerted its long-term incentive advantages.

Through the fundamental analysis, we find that Bright Dairy's incentive plan is gradually improving. Still, there are problems such as unreasonable evaluation index settings, which makes the company's performance fluctuate significantly throughout the second plan period, which is not friendly to the company's long-term development. Therefore, it is recommended that Bright Dairy and other listed companies formulate equity incentive plans in the future to grasp the incentive objects and incentive levels properly. Before implementing equity incentives, they must thoroughly inspect the internal and external companies to find a suitable implementation plan.

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