The Analysis of Active Constraint of Equity Incentive in Listed Companies

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Abstract: As a long-term compensation incentive, equity incentive can effectively solve the principal-agent problem, reducing managers' short-sighted behavior, improving the management efficiency of enterprises, thereby enhancing the performance of enterprises, and thus known as the "golden handcuffs" of enterprise incentive. One of the reasons that equity incentive is favored in listed companies is that it can curb the brain drain, namely the active constraint of equity incentive. But in recent years, the executive resign phenomenon has been more and more common in listed companies. For company executives and the core talented persons, the once "golden handcuffs" now turns into an elusive fantasy. A large number of executives who were once encouraged by the equity incentive are leaving their posts. The active constraint of equity incentive has not achieved the anticipated level. On the basis of the brief introduction to related concepts of the active constraint of equity incentive, this paper, which used the listed companies as the object of the study, selects 30 equity incentive plans which have a good active constraint of equity incentive to illustrate the present situation of the active constraint of equity incentive plan. After that, this paper selects 57 equity incentive plans which deadlines are 2012.12.31 and expounds three factors which affect the active constraint of equity incentive through the empirical method, then proposes three targeted improvement recommendations: improve the new share pricing system, design an effective equity incentive plan and improve relevant laws and regulations.

Keywords: Listed Companies, Equity Incentive, Active Constraint

1. An Overview of Active Constraints of Equity Incentive

1.1. The Concept of Equity Incentive

Equity incentive is a long - term compensation incentive. Through giving certain amounts of shares in the form of economic rights to directors, supervisors, senior management personnel, backbone employees and other personnel, making the actuator participate in the company decision-making, share the profits, take risks as shareholders, thereby carrying out their duties diligently for the long - term development of the enterprise, eventually improving the operating performance of enterprise's salary incentive system for a long time.

Equity incentive link up operators and shareholders' long - term interests together, and form a community based on interests, making the enterprise operators not only work for

shareholders, but also work for themselves, so as to reduce the operator's short - sighted behavior, prompt managers to consider the long - term development of the enterprise. At the same time, under the equity incentive system, the company shareholders tend to authorize the board of directors on behalf of shareholders to sign the relevant agreement with incentive objects (including operators, enterprise's key employees, etc.). When incentive objects complete the performance targets indicated in the agreement or improve the company's value with the agent's efforts in a certain period, if the company's share price increases, the incentive objects can obtain the shares of the company directly according to certain favorable conditions, or indirectly purchase the shares of the company at a preferential rate, so as to promote the interest function of managers and shareholders reaching unanimity, and motivate managers to maximize shareholder interests.

1.2. The Active Constraints of Equity Incentive

As a long-term equity incentive system to motivate the company executives and other employees in the process of enterprise operation and management, one of the effects of equity incentive is that it can curb the loss of executives and core technical personnel, simply as "stay". Equity incentive can improve incentive objects' enthusiasm, and stimulate the sense of responsibility through ownership arrangement, thus can increase productivity, improve the efficiency of capital operation and the enhancement of enterprise cohesion. Because the stakes are far more attracted to talented managers than cash reward, open ownership structure attracts and retains talented people. By setting the reasonable structure of period and quantity, managers' departure opportunity cost will increase, so as to achieve the aim of retain and motivate talented people. The active constraint of equity incentive is helpful to solve the problems of employed persons' retention and selection. It uses equity to attract and retain talent manager, eventually achieve the long-term development of the enterprise. The operator equity incentive mechanism can not only avoid the brain drain, but also attract more excellent talents for company to some extent, which is particularly important in today's knowledge-economy era.

1.3. The Relations Between Incentive and Constraint of Equity Incentive

(a) Incentive compatibility constraint

Due to the inconsistent of agent and principal's objective function, plus there are uncertainty and information asymmetry, the behavior of the agent may deviate from the objective function of the principal, and principals difficult to observe this deviation, they cannot supervise and restrict it effectively enough, which lead to the phenomenon that some agents damage the interests of principals. To solve this problem, what the client need to do is to design a system that makes both principals' and agents' interests effectively "bundling", to encourage the agent to behave in a manner which is most beneficial to principals, thereby the principal's benefit maximization can be implemented through the agent's utility maximization behavior, namely the realization of incentive compatibility. Incentive compatibility constraint can effectively solve the contradiction between individual interests and collective interests, and make person's behavior identical with the collective value maximization goals. Incentive leads to the occurrence of a behavior; Constraint regulates the new behavior, making it accord with certain direction and restricted within a certain time space, property.

(b) Incentive logic of equity incentive mechanism

Ideal incentive logic of equity incentive mechanism can be simply summed up as: the effort of the business management affects corporate performance, corporate performance affects stock prices, and stock prices affect the interests of business management. Companies offer equity incentive→incentive objects work hard→the goal of the company accomplished→shares rising→incentive objects benefit. If they don't work hard, company goals cannot be achieved, enterprises shares

fall, the benefits of staff lost, etc.. All of this intangibly constraint incentive objects. Equity incentive mechanism accomplishes the designed purpose by a set of scientific and reasonable transferring link. If management's effort, corporate performance, the stock price, operation and management have high degree of correlation between the four related, active constraints of equity incentive effect will be better. If the market mechanism is not perfect, in the process of transmission, many market "noise" will interfere with each link, management layer's active constraints of equity incentive effect is not ideal, thus, equity incentive system's original purpose can hardly be achieved. Incentive mechanism reflects much more scarce human resources value compared to labor and capital, and the constraint mechanism avoid the short-term behavior of staff through the mutual benefits of both incentive objects and company, to achieve company goals.

(c) Rational allocation of incentive and constraint

No matter at home or abroad, equity incentive mechanism is a "double-edged sword".

If it was implemented well, everyone would be happy, and staffs would unit as one. If it was implemented bad, it would likely bring chaos, therefore, the equity incentive and constraint must have a reasonable configuration. For motivated employees, only when the constraints and incentives achieve a state of balance can they be loyalty and take the initiative to contribute the biggest value for the enterprise. Constraint and incentive are in each pan of the balance, only by establishing equivalent mechanism of incentive and constraint could promote the development of enterprise. Whether incentives are in place but constraints are insufficient or incentives are insufficient but constraints are excessive all will damage the interests of each side. For all companies, the incentives and constraints are both important; they shouldn't prefer one side or bias the other side. Form a related mechanism can better provide the basis for the company's development.

2. The Present Situation of Listed Companies' Active Constraint of Equity Incentive Plan

2.1. The Summarization of the Present Situation

Began in 2006, the equity incentive enter the stage of steady development in our country. According to Figure 2-1, there are total 44 listed companies unveil equity incentive plan to public in Shenzhen stock market and Shanghai stock market in 2006, and another 15 companies in 2007. In 2008, China's equity incentive developed into the real "gusher" stage. In 2012, enforcement of the listed companies' equity incentive scheme created a remarkable number of 118, and has announced 26.58% of the total number of listed companies' equity incentive plan. By December 31, 2012, the Shenzhen stock market and Shanghai stock market have released 444 equity incentive plans in total. On the one hand,

more and more companies implemented equity incentive plan, while on the other hand, the number of incentive objects' departure is also increasing. A seemingly magnificent equity incentive plan did not contain core brain drain. In 2010, A-share market has released 752 executives' demission announcement; daily 2 people "resign". In 2011, A-share market has released 1264 executives' demission announcement; daily 3.46 people "resign". After 2012, the "resign trend" of listed companies' executives continues to surge. By November 1, 2012, 413 main board executives resigned; 756 executives of the GEM and the SME board

resigned. Among them, 45 main board chairmen and vice chairmen quitted, 108 general managers and deputy general managers quitted, 28 presidents and vice presidents quitted; 231 general managers of the GEM and the SME board resigned; the number of resigned chairmen of the board of directors increased 1.6 times. Equity incentive doesn't live up to people's expectation to have an active effect on retaining talents and staffs, active constraints of equity incentive is not significant, and the prospects of equity incentive plan are worrisome.

Figure 1. The statistical Figure of equity incentive plans' publishing situation for the first time in each year.

2.2. The Analysis of Present Situation of Equity Incentive's Active Constraint of Listed Companies

As we can know from the last para Figure, equity incentive doesn't have effect on retaining talents and staffs for many listed companies, yet there are many listed companies not only successfully implement equity incentive plans, but also its active constraint effect of equity incentive are very evident. Next, has been introduced in this article, we will select the 30

equity incentive plans as samples whose effect of equity incentive's active constraint are significantly (i.e. There is no motivated object resign during the equity incentive period). This paper analyzes the status quo of equity incentive's active constraint from four aspects: the equity incentive plan, stock source, the number of equity grants and vesting conditions (assessment indicators).

Here is the sample data:

Table 1. Samples of observably positive constraint of equity incentive plans.

Code	Shortened form	Incentive mode	Source of stock	The proportion of shares hold by objects in total shares when the plan was signed	Performance indicators
000566	Hainan Pharmaceutical co.	stock option	orientate offer	9.88%	A,B
000818	Fangda Chemistry	stock option	orientate offer	10.00%	A,B
000039	Zhongji Group	stock option	orientate offer	2.25%	A,B
000961	Zhongnan Construction	stock option	orientate offer	2.57%	A,B
000572	Haima Automobile	stock option	orientate offer	4.31%	A,B
000948	Nantian Information	stock option	orientate offer	2.40%	A, B and the share of main business profit
000488	Chenming Paper	stock option	orientate offer	5.13%	A,B
000667	Celebrities' House Purchasing	stock option	orientate offer	1.48%	A, B and net profit
000671	Sunshine Town	stock option	orientate offer	9.10%	A,B
000061	Agricultural Products	restrictive stock	offered by shareholders	6.76%	B, aggregate net profit
002029	Septwolves	stock option	orientate offer	1.31%	C and increasing rate of EPS
002024	Suning Appliance	restrictive stock	orientate offer	1.21%	A,C
002281	Guangxun Technology	stock option	orientate offer	0.97%	A,B,C
002324	Pleater	stock option	orientate offer	2.22%	A, B, sales volume of product
002116	China Haicheng	stock option	orientate offer	3.50%	A,B
002221	Donghua Energy	restrictive stock	orientate offer	1.31%	A,B

Code	Shortened form	Incentive mode	Source of stock	The proportion of shares hold by objects in total shares when the plan was signed	Performance indicators
002471	SUSINO Umbrella	stock option	orientate offer	2.97%	A,C
002367	Tangrensheng Group	stock option	orientate offer	9.42%	A,B
002250	LianhuaTechnology	stock option	orientate offer	6.72%	A,B
002301	Qixin Stationery	restrictive stock	orientate offer	2.94%	A,C
300208	Hengshun Electric	stock option	orientate offer	5.86%	A,B
300036	Chaotu Software	stock option	orientate offer	2.67%	A,B
300012	Huace Detection	stock option	orientate offer	1.53%	A,B,C
300012	Huace Detection	stock appreciation right	orientate offer	1.53%	A,B,C
300015	Aier Ophthalmology	stock option	orientate offer	3.37%	A,B
300020	Yinjiang co., ltd	stock option	orientate offer	4.61%	A,B
300031	Baotong	stock option	orientate offer	1.26%	A,C
300064	Diamond	stock option	orientate offer	1.79%	A,B
300079	Sumavision	stock option	orientate offer	5.59%	A,B
300201	Handler Special Vehicle co., ltd	stock option	orientate offer	5.00%	A,B

PS: A: Growth rate of net profit; B: Yield rate of net assets; C: Increase rate of business revenue.

In this paper, all the data are from the listed companies of Shenzhen stock exchange's website announcement, sorted out by hand.

In this paper, the incentive objects we studied are that who completely left the original company, not including position changes, retirement and dismissal.

(a) The incentive mode of equity incentive plan

Among these 30 equity incentive plans, there are 25 equity incentive plan adopted the stock option model, accounted for 83.33%. Agricultural Products, Suning Appliance, Donghua energy and Qixin Stationery these 4 incentive plans adopted the model of restricted stock, accounted for 13.33%. Only one company's equity incentive plan adopted the combination incentive mode, Huace Detection uses a combination of stock option and stock appreciation rights incentive mode, and it's the only company who uses the stock appreciation rights incentive mode.

(b) The source of stock of equity incentive plan

Among these 30 equity incentive plans, there are 29 equity incentive plan adopted the shares source mode of orientate offer, only one company namely Agricultural Products uses

the source mode offered by shareholders.

(c) The proportion of shares hold by incentive objects in the total share capital at the time of the plan was signed

Figure 2 reflects the proportion of shares hold by incentive objects in the total share capital at the time of the plan was signed. We can see from the Table, the proportion of the total share capital is mainly distributed in 1% - 3% and 4% - 10%. Among them: there is one equity incentive plan under the proportion of 1% and the less, 8 equity incentive plans between 1% - 2% (not including 2%), 8 equity incentive plans between 2% - 3% (not including 3%), one equity incentive plan between 3% - 4% (not including 4%), 3 equity incentive plans between 4% - 5% (not including 5%), 4 equity incentive plans between 5% - 6% (not including 6%), 6 equity incentive plans above the proportion of 6% and the more. The proportion of offered shares in total capital in Fangda Chemistry accounted most, namely 10%, which was least in Guangxun Technology, namely 0.97%.

(d) The performance evaluation index system of equity incentive plan (vesting conditions)

Figure 2. The proportion of shares hold by incentive objects in the total share capital at the time of the plan was signed.

Figure 3. The performance evaluation index system of equity incentive plan.

According to Figure 3, in the 30 equity incentive plan, there are 23 take two indicators as a reference, and 6 take three indicators as a reference, there is only one agricultural product company as an assessment index. Here is the company's equity incentive performance assessment criteria in the next three years, "the company's net assets yield is not less than 2.5%, 6% and 4.5%; if the company failed in achieve the above performance goals, the company must achieve three years continuous profitability, and three years total net profit is not less than 182 million yuan." There are 17 follow two indicators evaluation index of the equity incentive plan as a reference, they are trying to reach in the "net profit growth rate and the rate of return on net assets", "operating income growth rate and net profit growth rate" and 3 companies follow the order in the "growth rate of net profit and operating profit the growth rate, the rate of return on net assets", compared with other special "net profit growth rate, the proportion rate of return on net assets and the main business profit of the three indicators as evaluation index of the southern Information Company," to increase operating income growth rate and per share return rate of these two indicators as evaluation index of Septwolves etc.. Among them, there are 27 equity incentive plan have a net profit growth, there are 24 equity incentive plan with a net asset return rate of this indicator, there are 8 equity incentive in the business from income growth rate of this indicator, there are 2 equity incentive plan with a net profit according this indicator. The single index are "gross profit ratio", "sales" and "earnings per share growth rate".

3. The Empirical Analysis of Factors Which Affect the Active Constraint of Equity Incentive

3.1. The Research Hypothesis

(a) Publishing price and price ratio have negative correlation with the positive restraint effect of stock ownership incentive.

High publishing price and high price ratio are temptation for company's incentive, and just because the double high ("high publishing price and high price"), the stock could be estimated with higher price from shareholders, according to study, top managers could gain some important information that investors do not have, they know much more than investors about their accounting conditions and marketing result, and also they have a clearly decision about their future business. Therefore, managers have deep known in their business rationality, and however, they want a higher profit, some of top managers might resign and wait for cash-out if they make their shares could be sold with a higher price, this behavior has a big damage on the positive restraint effect of stock ownership incentive. The study group assumes that publishing price and price ration have negative correlation with the positive restraint effect of stock ownership incentive.

(b) The positive restraint effect of stock ownership incentive has positive correlation with the number of stock ownership incentive.

Majority of listing companies' managers have lower percentages than other shareholders in shares, and these low shares have restraint effect, and the money loss is too small to share company, and this little restraint effect is impossible to retain shareholders. Therefore, study group assume that the positive restraint effect of stock ownership incentive has positive correlation with the number of stock ownership incentive.

(c) The positive restraint effect of the multi-listing corporation of the performance evaluation index system of stock incentive plan is more obvious than performance evaluation index system of one-sided listing corporation.

Currently, the performance evaluation index of listing companies are net profit rate, net profit growth rate and other financial index, on the one hand, these indicators are biased in the short term, they will make the incentive object to focus on short-term financial results, and thus generate speculation, the long-term incentive to deviate from the equity incentive plan, on the other hand, these indicators do not consider the impact of macroeconomic fluctuations on the equity

incentive effect. When the economy is booming, the performance evaluation index of the exercise conditions can be easily reached. But when the economy shrinks, most of the decline in performance of the company, the exercise conditions may become unreachable. Therefore, the study group assumes that the positive restraint effect of the multi listing corporation of the performance evaluation index system of stock incentive plan is more obvious than performance evaluation index system one-sided listing corporation.

3.2. The Sample Selection and Variable Definition

(a) The selection of the samples

As of December 31, 2012, 57 listed companies have successfully pushed out and implemented equity incentive plans, which selected from main boards, small and medium-sized boards, GEM boards of 19 industries, each one per industry. As for industries that did not push out equity incentive plans, such as the S class and A class of GEM, etc., we used equity incentive plans launched by other industries instead.

Here are the samples:

Table 2. Samples of main boards in Shenzhen Stock Exchange.

Code	Shortened form	Type	The time of equity incentive plans' publishing	The number of objects (*10000)	The proportion in total shares when signed	Performance indicators	Offering price	PE ratio	ln(total assets)	Any dimission during incentive time
000561	Fenghuo Electronics	C Manufacturing	2011-12-18	580.3	0.99%	B,C and growth rate of r&d expenditure	4.55	8.75	12	NO
000039	Zhongji Group	C Manufacturing	2010-9-28	6000	2.25%	A,B	8.5	12.3	15.66	NO
000100	TCL Group	C Manufacturing	2011-1-29	15502.56	1.83%	A	30	46.88	15.89	YES
000690	Baoxin Energy	D Utilities	2006-7-20	2700	9.84%	A,B	7.08	20.15	13.77	YES
000961	Zhongnan Construction	E Construction	2011-3-25	3000	2.57%	A,B	4.08	11.33	14.08	NO
000996	CIFCO	F Retail	2008-1-28	1100	9.57%	A	8.28	39.58	11.05	YES
000572	Haima Automobile	C Manufacturing	2012/2/30	177	4.31%	A,B	6.68	7.59	14.05	NO
000790	Huashen Group	C Manufacturing	2010-3-16	800	4.01%	A,B	100	58	11.36	YES
000948	Nantian Info.	I Information Technology	2011-5-3	295	2.40%	A,B and main business profits	8.13	20	12.3	NO
000488	Chenming Paper	C Manufacturing	2006-10-10	7000	5.13%	A,B	20.8	30	15.38	NO
000667	Celebrities' House Purchasing	K Real estate	2012-6-25	3000	1.48%	A,B and net profits	15.23	37.62	14.08	NO
000932	Hualing Steel	C Manufacturing	2008-1-15	300	1.30%	B,C	5.3	15.23	15.69	NO
000012	CSG Holding	C Manufacturing	2008-4-11	5000	4.21%	B,C	3.38	63	14.18	YES
000826	Sangde Environment	N Public environment	2012-4-12	90	2.21%	A,B	14.9	38	13.36	YES
000002	China Vanke	K Real estate	2010-10-25	11000	1.00%	A,B	31.53	30.51	17.45	YES
000921	Hisense Kelon	C Manufacturing	2010-12-3	1951	1.51%	A,B	9.98	14.9	13.72	NO
000671	Sunshine Town	C Manufacturing	2011-1-12	4875	9.10%	A,C	1	20	14.31	NO
000568	Luzhou Laojiao	C Manufacturing	2010-2-9	1344	0.96%	A,B	5.83	30.5	14.26	YES
000009	China Baolan	S Comprehensive	2011-1-28	7500	6.88%	A,B	3	30.8	14.1	YES

PS: A: Growth rate of net profit; B: Yield rate of net assets; C: Increase rate of business revenue.

Table 3. Samples of small and medium enterprise (SME) boards.

Code	Shortened form	Type	The time of equity incentive plans' publishing	The number of objects (*10000)	The proportion in total shares when signed	Performance indicators	Offering price	PE ratio	ln(total assets)	Any dimission during incentive time
002477	Chuying Agro-pastoral	A Agriculture & Farming	2012-3-13	234	0.88%	A,B	35	60.98	13.01	YES
002029	Septwolves	C Manufacturing	2010-11-15	370	1.31%	sales volume and earnings per share	7.45	17.91	13.22	YES
002327	Fuanna	C Manufacturing	2012-2-4	284.4	1.76%	A	30	46.88	12.24	YES
002479	Fuchun Environment	D Utilities	212/11/23	600	1.40%	A,B	25.8	73.71	12.56	YES
002081	Golden Mantis	E Construction	2008-7-10	300	2.13%	A,B	12.8	26.43	14.1	YES
002024	Suning Appliance	F Retail	2010-8-25	8496	1.21%	A, growth rate of sales revenue	16.33	11.26	15.85	NO
002065	Donghua Software	I Information technology	2011-12-20	1180.7	2.22%	A	14.5	21.64	12.9	YES
002306	Xiangeqing Co., Ltd.	H Accommodation & Catering	2011-1-10	1100	5.50%	A,B	18.9	59.25	12.31	YES
002063	Yuanguang Software	I Information technology	2009-11-20	1001.74	5.07%	A,B	5.8	24.68	11.84	YES
002281	Guangxun Tech.	C Manufacturing	2011-5-10	155.6	0.97%	net profits,B,C	16	35.37	12.26	NO
002305	Nanguo House	K Real estate	2011-6-28	2400	2.50%	B,C	12.3	36.18	13.38	YES
002324	Pret Composites	C Manufacturing	2010-11-23	300	2.22%	A,B and sales volume	22.5	86.54	11.94	NO
002116	China Haicheng	M Scientific research	2012-3-5	399	3.50%	A,B	6.88	29.91	12.58	NO
002269	Meibang Clothes	C Manufacturing	2010-4-20	581.4	0.52%	A,B	19.76	22.74	13.46	YES
002310	Eastern Garden	E Construction	2011-1-15	378.98	2.52%	A,B	58.6	50.96	13.42	YES
002221	Donghua Energy	F Retail	2011-3-27	290	1.31%	A,B	5.69	29.95	13.1	NO
002174	SUSINO Umbrella	C Manufacturing	2011-5-12	246	2.97%	A,C	5.68	22.72	11.14	NO
002376	Shandong New Beiyang	C Manufacturing	2012-3-10	150	1.00%	A,B	22.58	46.08	2.87	NO
002301	Qixin Stationery	C Manufacturing	2011-6-28	491	2.63%	A,C	20	42.67	11.97	NO

PS: A: Growth rate of net profit; B: Yield rate of net assets; C: Increase rate of business revenue.

Table 4. Samples of growth enterprise market (GEM) boards.

Code	Shortened form	Type	The time of equity incentive plans' publishing	The number of objects (*10000)	The proportion in total shares when signed	Performanc e indicators	Offering price	PE ratio	ln(total assets)	Any dimission during incentive time
300138	Chenguang Biology	C Manufacturing	2011.3.29	300	3.34%	A,B	30	47.62	11.88	YES
300208	Hengshun Electric	C Manufacturing	2011.6.28	410	5.86%	A,B	25	34.98	11.56	NO
300004	Nanfeng Shares	C Manufacturing	2011.2.8	640	3.40%	A,B	22.89	34.47	11.6	YES
300177	Hi-Target	C Manufacturing	2011.6.2	213.1	4.26%	A,B	46.8	55.06	11.45	YES
300117	Jiayu Shares	E Construction	2012.7.4	1068	4.92%	A,B	26	34.21	12.34	YES
300005	Pathfinder	C Manufacturing	2012.2.9	455	1.31%	A,B	19	39.6	11.6	YES

Code	Shortened form	Type	The time of equity incentive plans' publishing	The number of objects (*10000)	The proportion in total shares when signed	Performance indicators	Offering price	PE ratio	ln(total assets)	Any dimission during incentive time
300007	Hanwei Electronic	C Manufacturing	2011.5.9	310	2.63%	A,B	27	45.15	11.21	YES
300025	Huaxing Entrepreneurship	I Information technology	2010.10.23	170	2.13%	A,B	19.65	33.88	11.42	YES
300017	Wangsu Technology	I Information technology	2010.12.19	550	3.57%	A,B,C	24	47.06	11.5	YES
300036	Chaotu Software	I Information technology	2011.2.24	200	2.67%	A,B	19.6	37.69	11.23	NO
300043	Xinghui Car Model	C Manufacturing	2011.11.4	340	2.15%	A,B	43.98	68.61	11.94	YES
300058	Blue Focus	L Com	2010.12.09	700	5.83%	A	33	50.54	12.46	YES
300012	Huace Detection	M scientific research	2011.8.8	309	1.53%	A,B,C	25.78	44.45	11.47	NO
300070	Originwater	N Public Environment	2010.08.04	400	2.72%	A,B,C	69	70.84	11.1	YES
300045	Hwa Create	C Manufacturing	2011.11.12	200	2.99%	A	30.7	56.85	11.32	YES
300170	Hande Information	I Information technology	2011.4.27	656	4.05%	A,B	25.32	53.63	11.73	YES
300015	Aier Ophthalmology	Q Health	2010.10.31	900	3.37%	A,B	28	45.9	12.17	NO
300133	Huace Movie	R Cultural Transmission	2011.7.15	447.5	3.96%	A,B	68	64.03	11.96	YES
300168	Wanda Information	I Information technology	2011.3.23	501.6	4.18%	A,B,C	28	65.12	11.93	YES

PS: A: Growth rate of net profit; B: Yield rate of net assets; C: Increase rate of business revenue.

In this paper, all the data are from the listed companies of Shenzhen stock exchange's website announcement, sorted out by hand.

In this paper, the incentive objects we studied are that who completely left the original company, not including position changes, retirement and dismissal.

(b) The definition of the variable

A. Explained variable (incentive objects' resignation variables)

To quantify the effect of active constraints of equity incentive is to analysis whether there exists talent loss, as to say if resignation phenomenon of incentive objects exists in the listed companies. So this article involves an explained variable, namely the variable of incentive objects' resignation. This belonged to classification variables, and was divided into two cases: resign or not. Respectively, the value 1, 0, 1 means there exists resignation of motivated objects; the effect of the active constraints is not very significant. 0 means no motivated objects resign, namely active constraint effect is remarkable.

B. Explanatory variable

① Issue price

After inquiring stage during these companies' initial public offering, we select the finally decides price as the issue price. The basic unit of the variable is yuan.

② Issuance price-earnings-ratio

The issuing price divided by earnings per share is P/E ratio,

the lower of recently audited net profit after deducting non-recurring gains and losses, divided by total equity after this offering, is the earnings per share.

P/E ratio depends on not only the issue price, but also earnings per share, it reflects how many times the offering price is as many as earnings per share, so P/E ratio reflects the difference between the market valuation of the stock and the current actual profitability of enterprises.

③ Number of items of equity incentive evaluation index

Number of items of equity incentive evaluation index is in each sample. The basic unit of the variable is one.

④ The amount of equity hold by incentive objects accounts for the proportion of the total equity (the average proportion of the authorization)

The amount of equity hold by incentive objects accounts for the proportion of the total equity = the proportion of shares of equity incentive plans in the total equity/the number of objects.

C. Control variable (the scale of companies)

The scale of company is not the key point of this article, but it is also the important factors that affect the dependent variable, so must be entered into the regression equation. This paper uses natural logarithm of total assets as the company scale factors, namely the control variable is ln (total assets). We accept listed companies' total assets in December 31, 2012 as the "total assets".

Table 5. The definition of the variable.

Explained variable	Incentive objects' resignation variables
Explanatory variable	Issue price
	Issuance price-earnings-ratio
	Number of items of equity incentive evaluation index
	The amount of equity hold by incentive objects accounts for the proportion of the total equity (the average proportion of authorization)
Control variable	The scale of companies

3.3. The Design of Empirical Model

This paper adopted the Logistic regression model to *Logit* (incentiveobjectsresignation)

$$= C(1) + C(2) \times \text{issue price} + C(3) \times P/E \text{ ratio} + C(4) \times \text{number of items of evaluation index} \\ + C(5) \times \text{the average proportion of authorization} + C(6) \times \ln(\text{total assets})$$

3.4. The Descriptive Analysis of the Variable

(a) Descriptive analysis

Following Table is the descriptive analysis of the variables:

Table 6. The descriptive analysis of samples which resignation exists in or not.

Independent variable	Dependent variable	Sample volume	Mean value	Standard deviation	Maximum	Minimum
Issue price	1	35	26.57	20.60	100	3
	0	22	9.65	18.64	25.78	1
	Summation	57	21.56	19.33	100	1
P/E ratio	1	35	44.31	48.30	73.71	17.91
	0	22	22.45	33.50	86.54	5.68
	Summation	57	33.65	40.66	86.54	5.68
Number of items of evaluation index	1	35	1.94	0.47	3	1
	0	22	2.27	0.45	3	2
	Summation	57	2.07	0.47	3	1
The average proportion of authorization	1	35	0.03%	0.025%	0.107%	0.0001%
	0	22	0.06%	0.084%	0.27%	0.0049%
	Summation	57	0.04%	0.059%	0.27%	0.0049%
ln(total assets)	1	35	13.68	1.41	17.45	11.5
	0	22	12.155	2.68	15.85	2.87
	Summation	57	13.09	1.97	17.45	2.87

We can see from the table above, the average of offering price and P/E ratio of listed companies where resignation exists are higher than the average of those companies where incentive objects' resignation does not take place.

For number of items of equity incentive's evaluation index, the average of which in the listed companies where resignation exists are less than that in companies where incentive objects' resignation does not take place. That is to say, the separation rate of listed companies whose evaluation index system of performance was one-sided was higher than that of listed companies whose evaluation index was multivariate.

Equally, for number of shares hold by equity incentive objects accounted for the proportion of the total equity, the average of which in the listed companies where resignation exists are less than that in companies where incentive objects' resignation does not take place, the latter is two times as many

conduct research, the Logistic regression model is mainly used in the regression analysis of reaction variables (dependent variable) as the classification, therefore it's very suitable to describe the probability of occurrence of certain states and what influences the probability. In this paper, to quantify the effect of active constraints of equity incentive is to analysis whether there exists talent loss, as to say if resignation phenomenon of incentive objects exists in the listed companies, values of the dependent variables are divided into "resign" and "not resign". By using Logistic regression model, we can well reflect the relationships between influencing factors and incentive objects' resignation. In this paper, the model is as follows:

as the former.

For ln(total assets), the average of which in the listed companies where resignation exists are little bit higher than that in companies where incentive objects' resignation does not take place, that is to say, incentive objects' quit rate of listed companies whose scale are smaller is lower.

(b) Correlation analysis

We have carried on the correlation analysis about five independent variables based on spss16.0 software. Analytical data are shown in table 7 below:

Table 7. Analysis results among independent variables' correlation.

	X1	X2	X3	X4	X5
X1 Pearson Correlation	1	.524**	-.097	-.170	-.234
Sig.(2-tailed)		.000	.472	.206	.097

	X1	X2	X3	X4	X5
N	57	57	57	57	57
X2 Pearson Correlation	.524**	1	-.018	-.109	-.304*
Sig.(2-tailed)	.000		.892	.421	.022
N	57	57	57	57	57
X3 Pearson Correlation	-.097	-.018	1	.214	.016
Sig.(2-tailed)	.472	.892		.110	.908
N	57	57	57	57	57
X4 Pearson Correlation	-.170	-.109	.214	1	.184
Sig.(2-tailed)	.206	.421	.110		.170
N	57	57	57	57	57
X5 Pearson Correlation	-.234	-.304*	.016	.184	1
Sig.(2-tailed)	.097	.022	.908	.170	
N	57	57	57	57	57

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

PS: X1: Issue price, X2: P/E ratio, X3: Number of items of evaluation index, X4: The average proportion of authorization, X5: ln(total assets). That Pearson Correlation Coefficient is greater than 0 means positive correlation between the two, less than 0 means negative correlation between the two.

We can draw the following conclusion:

① There is positive correlation between issue price and P/E ratio. The absolute value of Pearson coefficient is between 0.5 and 0.8, so it's moderate correlation.

② Items of evaluation index, average proportion of authorization and ln(total assets) three variates have negative correlation with issue price, the absolute value of Pearson coefficient is less than 0.3, which means weak correlation, namely no correlation.

③ Items of evaluation index and average proportion of authorization two variates have negative correlation with P/E ratio, the absolute value of Pearson coefficient is less than 0.3, which means weak correlation, namely no correlation.

④ P/E ratio has negative correlation with ln(total assets), the absolute value of Pearson coefficient is between 0.3 and 0.5, which means low correlation.

⑤ Average proportion of authorization and ln(total assets) two variates have positive correlation with items of evaluation index, the absolute value of Pearson coefficient is less than 0.3, which means weak correlation, namely no correlation.

⑥ Average proportion of authorization has positive correlation with ln(total assets), the absolute value of Pearson coefficient is less than 0.3, which means weak correlation, namely no correlation.

3.5. The Empirical Research

We can see from the Table, the P value of constant term C(1) is greater than 0.1, it's not significant, thus, we deleted constant term and then made regression again. Here is the result:

Table 8. Preliminary results of regression analysis.

	Coefficient	Std. Error	z-Statistic	Prob.
C(1)	0.098888	3.201949	0.030884	0.9754
C(2)	0.079146	0.043911	1.802393	0.0715
C(3)	0.023409	0.020146	1.161966	0.2452
C(4)	-2.236969	0.944963	-2.367257	0.0179
C(5)	-16.93222	8.596700	-1.969619	0.0489
C(6)	0.272196	0.194165	1.401878	0.1610
McFadden R-squared	0.354595	Mean dependent var		0.614035
S.D. dependent var	0.491150	S.E. of regression		0.405128
Akaike info criterion	1.071379	Sum squared resid		8.370574
Schwarz criterion	1.286437	Log likelihood		-24.53430
Hannan-Quinn criter.	1.154958	Restr. log likelihood		-38.01381
LR statistic	26.95900	Avg. log likelihood		-0.430426
Prob (LR statistic)	0.000058			
Obs with Dep=0	22	Total obs		57
Obs with Dep=1	35			

Table 9. Results of regression analysis.

	Coefficient	Std. Error	t-Statistic	Prob.
C(2)	0.007204	0.003576	2.014582	0.0491
C(3)	0.005010	0.003152	1.589643	0.1180
C(4)	-0.232847	0.100140	-2.325217	0.0240
C(5)	-2.423485	0.972436	-2.492180	0.0159
C(6)	0.065279	0.015992	4.081874	0.0002
R-squared	0.335480	Mean dependent var		0.614035
Adjusted R-squared	0.284363	S.D. dependent var		0.491150
S.E. of regression	0.415490	Akaike info criterion		1.164914
Sum squared resid	8.976851	Schwarz criterion		1.344129
Log likelihood	-28.20004	Hannan-Quinn criter.		1.234563
Durbin-Watson n stat	0.729844			

Results of Logit regression showed that the changing direction of the independent variable and the dependent variable, when the coefficient is negative, the independent variable and the dependent variable have negative correlation, differently, there is positive correlation between the independent variable and the dependent variable.

We can draw the conclusion from Table 9:

① The issue price of coefficient C (2) is positive and P value is less than 5%, it means that the coefficient in the 5% significance level significantly, and incentive objects are positively related to turnover, indicating that the higher issuing price of listed companies, incentive objects turnover probability is low, activating constraint effect of the equity incentive is better, so that shares of listed companies and the issue price of equity incentive of activating constraint effect have negatively correlated. As a result, the state and the listing Corporation can improve the IPO inquiry system, so to improve the positive constraint effect of the stock incentive.

Because of the economic interests of the people, when the listing Corporation's stock issue price is higher, the more likely to be incentive to leave the cash, so managers can also be extended by the executives to hold the limit of the sale of shares and the ban period to reduce the turnover rate of incentive executives, to protect the positive constraint effect of equity incentive.

② The distribution coefficient of C price earnings ratio (3) is positive, but the P value is 0.1180, slightly more than 10%, so the coefficient is not significant.

③ Equity incentive coefficient of performance evaluation items C (4) is negative and P value is less than 5%, it is significance level significantly in 5%, and incentive objects turnover is negatively related to that equity incentive in listed companies performance evaluation index system of the more items, incentive objects turnover probability is low, namely equity incentive of active constraint effect can be better, the equity incentive performance evaluation index of the items and equity incentive of active constraint effect showed a positive correlation. More number of equity incentive performance evaluation index, the positive effects of the listing Corporation's equity incentive constraint is more obvious. Therefore, in order to change the current situation from the positive restraint effect of many equity incentive plan and unsatisfactory, the listing Corporation can improve the performance evaluation index system so to improve the positive restraint effect of stock incentive through improving the equity incentive plan.

④ The mean of C (5) is negative, and the average number of shares in the listing Corporation is negatively related to the proportion of the total share capital, the ratio of the incentive object is higher, and the lower probability of the incentive, the incentive to retain the talent, which is a positive correlation between the stock incentive plan and the significant level of 5%. Therefore, the listing Corporation can improve the equity incentive plan, equity incentive plan to increase the number of shares granted to the incentive in the development, so it is better to achieve the positive constraint effect of equity incentive.

4. The Countermeasures to the Listed Companies' Active Constraint of Equity Incentive

4.1. Improve the New Share Pricing System

Based on the empirical research of the last chapter, study group have proved the effect of the stock price of the Listing Corporation on the positive restriction effect of the stock option incentive, the issue price is restricted by the stock option incentive scheme. In recent years, China has begun to explore and implement the inquiry system of new shares. However, the inquiry system of China has not completely realized the market. China's IPO inquiry system provides the basis for the IPO price is a preliminary inquiry to some institutional investors to get results, but the issue price is

likely to reflect the real value and performance of the listing Corporation, because the sponsor is likely to control the price of new shares issued to choose a number of institutional investors that as an inquiry object, and these are subject to the issuer and the sponsor of the issuer unilateral choice. Therefore, the positive restraint effect of stock option is likely to be weakened.

To solve this problem, it can improve from the following two aspects: first, increasing the price of new shares issued to determine the factors can be a moderate consideration of other investors, especially small and medium investors' inquiry. The determination of the issue price is not a result that the inquiry of the institutional investors. In China's current securities market, small investors still occupy a large proportion, so the issue price is not only a matter of institutional investors, small investors can also be involved, so as to stop the small investors can only passively accept the pricing results of this unfair phenomenon. Second, the establishment of institutional investors in the assessment system, through a series of assessment indicators to reduce agency's choice of institutional investors as a means of inquiry, such as institutional investors should have a certain professional ability, and has better integrity of history, financial strength and operational norms. At the same time, it can also use newspapers, networks and other channels to publish the results of the assessment, to meet the conditions, qualified institutional investors in the bid for some of the incentives, and to impose penalties on institutional investors that do not meet the conditions.

4.2. To Design an Effective Equity Incentive Plan

The effective design of the equity incentive scheme is the basis of the full play. We should improve the equity incentive plan from the following two points: first, the performance evaluation index system should be diversified and long-term. According to the empirical research of the last chapter, the performance evaluation index system is more diverse, more comprehensive; the positive restraint effect of stock incentive is more significant. Limited to China's securities capital market is not mature, the listing Corporation's performance evaluation index system is the main application of the financial index system, and scientific and reasonable assessment system should be absolute and relative indicators, both vertical and horizontal comparison, non financial indicators and financial indicators. With the continuous improvement of the securities capital market, consider the use of the Q value method, the economic value added (EVA) method and other direct and stock price correlation method as the performance assessment method, increase the assessment of diversity and comprehensive, so as to ensure the positive constraint effect of the stock incentive effect. Second: to increase the number of equity incentives granted to the incentive object, the empirical study of the last chapter shows that the lower the number of equity incentives can weaken the positive restraint effect, that's the reason of listing Corporation can increase the number of shares granted in the

incentive plan, that it can increase the incentive, the incentive to achieve the positive constraint effect.

4.3. Improve Relevant Laws and Regulations

Although there are many listing Corporation launched the equity incentive plan. But it is not much effective implementation of the positive, the positive effect of the stock incentive is not fully played. Chinese law is also one of the important factors causing this problem.

For this problem, study group should combine the specific situation of China's capital market and the relevant rules of the company law and securities law, and the conflict between the relevant laws and regulations, which should formulate a series of laws and regulations, which can provide good legal protection for the equity incentive mechanism. For example, one: to extend the ban on the sale of shares held by senior executives; reduce the rate of incentive to the object of the resignation rate, to protect the positive effect of the incentive stock. Because if the time limit for the sale of shares period was extended, the incentive executives even if you want to resign, you must also wait until the expiration of the lifting the ban can be carried out. So the departure of the period of time for the extension banned, to stick to their posts, not to resign to provide some of the incentives to reward, the probability of the object will be encouraged to resign will be reduced, the positive effect will be improved equity incentive. Two: the introduction of a unified standard of accounting confirmation rules. Otherwise, the different ways of dealing with the company are not the same, which may cause the financial index of the non - ratio, the impact of equity incentive performance assessment of the fair, and weaken the role of equity incentive. This will also bring risks to the future of the company's internal management and external supervision.

5. Conclusion and Prospect

5.1. Summarization

Equity incentive is an important means of incentive, although the listing Corporation has introduced a variety of equity incentive form and program, but the real implementation of the real is not much, the positive effect of the stock incentive has not been fully played.

Through the analysis of the current situation of the positive restraint effect of the equity incentive of the listing Corporation and the empirical research, the following conclusions are drawn:

First, the stock price of the listing Corporation and the positive restriction effect of the equity incentive show a negative correlation. The issue price of the company's stock is higher, which means that the company's stock has a higher valuation, that leads to the value of the equity held by the incentive object, because the people economic interests, the incentive object may choose to leave the cash and to get the stock price over expansion. Therefore, the higher stock issue price, the higher probability of the object of the incentive to

the object, the positive effect of equity incentive on the worse. So the stock price and stock incentive of the positive constraints effect is positively related.

Second, the effect of the performance evaluation index and the number of active constraints of equity incentive equity incentive has positive correlation. The performance evaluation index system of unitary equity incentive plans are often not able to fully and correctly evaluate the incentive objects made contribution to the company, so it is impossible to be incentive target incentive to play the role, the positive effects of the equity incentive plan of the natural constraints are not guaranteed, the performance evaluation index system can fully diversified equity incentive a fair assessment of each was encouraged by the development of the company to do object to ensure fairness, equity incentive plan, incentive target has been properly recognized and some of the rewards, they are willing to stay for the company to continue working, incentive target was to reduce the turnover rate, the positive effects of equity incentive constraint that it will improve. The positive effect of the performance evaluation index and the number of constraints of equity incentive equity incentive has positive correlation.

Third, the average number of shares held by the incentive object is positively related to equity incentive, equity incentive plan to grant incentive to the object, the company's loss to the manager's share is small, the impact of small, can not have the positive effect of the stock incentive, so that the proportion of the total share capital and share equity incentive, the positive constraint effect is positively related.

In view of the current situation of the positive restraint effect of stock incentive, the paper puts forward some improvement measures:

First, improve the inquiry system, the price of new shares issued to determine the factors, the small and medium investors to consider the scope of the inquiry. The establishment of institutional investors is in the assessment system, to ensure the impartiality and professionalism of institutional investors.

Second, how to design effective equity incentive plan, increase equity incentive performance appraisal index system of the number of items, so that a more diversified and comprehensive performance evaluation index system. The increase in the number of equity incentives granted to the object of interest, so that it is more attractive to the incentive.

Third, improve the relevant laws and regulations and regulations, and to extend the period of limited sale of shares held by senior executives to reduce the turnover rate of incentive executives. The introduction of unified standards of accounting rules to determine the equity incentive performance assessment of the fair.

5.2. The Innovation and Limitations of This Paper

(a) The innovation of the article

This paper first analyzes the status quo and influence factors of the positive restraint effect of stock incentive, which mainly considers the impact of the issue price,

earnings ratio, stock price earnings ratio, stock price earnings ratio, stock price earnings ratio, stock index system, and the average number of stock incentive. The reason of the positive restraint effect of the equity incentive of the listing Corporation can not be reached.

(b) The limitations of the article

Because of its ability to limit and time to rush, the article also has many deficiencies, in general, the following main points:

First, the empirical study of this paper selects 57 listing Corporation's equity incentive plan, the selection of the sample is limited, the data is not sufficient; the results may have some bias.

Second, this paper studies the positive restraint effect of equity incentive, which is mainly from the company and equity incentive plan level, and not considers other factors, such as the choice of incentive object, and so on, which will make the research conclusions deviation.

Third, in this paper, the influence factors of the positive restraint effect of equity incentive are analyzed by using descriptive analysis and Logit regression analysis.

5.3. The Prospect of the Research

Because of the short time and limited space, this paper focuses on the positive restriction effect of the stock incentive of the listing Corporation, including the main board, small board and gem, and has not studied the characteristics of the positive restraint effect of different sectors of the listing Corporation. Future research can make a comparative study of the positive constraints of the gem, small board and the main board of equity incentive, and explore their own situation and the reasons behind.

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