A STUDY ON THE INFLUENCE OF MANAGERIAL EQUITY INCENTIVE ON BUSINESS PERFORMANCE OF TSINGTAO BREWERY COMPANY

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Abstract: In business operations, the separation of ownership and management often leads to conflicts and interest disputes as owners and managers each seek to maximize their own benefits, making the principal-agent problem increasingly prominent. Management equity incentives play a crucial role in resolving internal principal-agent issues, aligning the interests of owners and managers, and enhancing company performance. By granting a certain amount of equity to management, their long-term interests are aligned with those of the shareholders, establishing a long-term incentive mechanism. This effectively resolves principal-agent problems, making management more focused on sustainable development and increasing the value of the enterprise. Using Tsingtao Brewery Company as an example, The purpose of this paper is: (1) To analyze the motivations behind Tsingtao Brewery Company's implementation of management stock incentives; (2) To explore the impact of Tsingtao Brewery Company's management stock incentives on operational performance. In 2020, Tsingtao Brewery Company became the first company in the beer industry to implement management stock incentives, making it significant to study whether these stock incentives can enhance the company's operational performance. This article employs quantitative analysis to explore the correlation between management equity incentives and corporate operational performance, based on agency theory, incentive theory, and human capital theory. Using financial indicators, the study calculates and analyzes financial metrics such as profitability, solvency, operational capability, and development capability of the company after implementing equity incentives. The following conclusions are drawn: (1) The motivation behind equity incentives is to mitigate conflicts between owners and managers, retain talent, and enhance company performance. (2) There is a correlation between management equity incentives and operational performance; the implementation of equity incentives at Tsingtao Brewery has positively impacted the company's operational performance. Therefore, companies can implement management equity incentives tailored to their specific circumstances to improve overall performance.

Keywords: Management Stock Incentives, Incentive Motivation, Operational Performance

Introduction

Since the 20th century, the global economy has developed rapidly, and the scale of enterprises has continued to expand. In the context of gradually improving modern corporate governance systems, equity incentives have become an important means of corporate management. In the process of corporate governance, it is necessary to establish an effective set of constraints and incentive mechanisms to regulate and guide the management and operational behaviors of managers. The emergence of management stock incentives is a long-term incentive mechanism implemented by enterprises to motivate and retain core talent, helping to reduce agency costs and incentivize executives to retain core talent. This is primarily achieved by granting a certain amount of stock to corporate managers, thereby aligning the interests of the company's owners and management. When the company's management receives a corresponding proportion of the company's stock, their interests become closely tied to the company's performance. The management will thus regard the long-term stable development of the enterprise as their lifelong goal, thereby promoting the company's long-term performance improvement. According to Zheng's (2019) research, there was a positive correlation between management stock incentives and corporate operational performance, which can enhance corporate operational performance.

The beer industry is an important segment within the food and beverage sector, yet there is a lack of existing literature on the implementation of equity incentives in this industry. As competition intensifies in the beer industry, major companies are vying for market share in the high-end beer products market. This has led to significant shortages in management and R&D talent. In this context, adopting appropriate incentive measures is necessary to achieve sustainable development for these enterprises. In 2020, Tsingtao Brewery Company introduced its first equity incentive plan, which positively influenced the company's operating performance. By examining the effects of implementing management equity incentives on this case company's performance, this study offers valuable insights for other beer companies considering the adoption of similar equity incentive programs.

Research Objectives

1) To analyze the motivations behind Tsingtao Brewery Company's implementation of management equity incentives.

2) To explore the impact of Tsingtao Brewery Company's management equity incentives on operating performance.

Literature Review

Principal-Agent Theory

The principal-Agent Theory emerged in the 1930s, proposed by American economists Berle and Means. They advocated for the separation of ownership and management, where owners retain ownership rights while transferring management rights to operators. Jensen and Meckling (1976) further expanded the principal-Agent Theory, highlighting that the principal-agent relationship is a contractual relationship in which one or more principals designate agents other than themselves to exercise certain rights on their behalf. This theory assumed rational economic agents, meaning both principals and agents strive to maximize their own interests. As the Principal-Agent Theory developed, its foundational conditions were established: the unpredictability of the agent's behavior, the asymmetrical distribution of information between the principal and the agent, and the agent's core objective of maximizing their own interests. The principal-Agent Theory primarily analyzes the issues arising from the separation of ownership and management in corporate governance. Equity incentives emerged as a solution to address these issues discussed within the framework of this theory.

Incentive Theory

In 1968, American scholars Lyman Porter and Edward E. Lawler proposed the comprehensive incentive theory, which fully reflects the incentive process and its effects. The essence of equity incentives for management lies in stimulating deep potential, allowing them to exert subjective initiative and maximize the motivational effect. By granting a certain number of shares to management as incentive compensation, it satisfies both material and spiritual needs. To meet the unlocking conditions of equity incentives, certain performance targets must be achieved, and these targets are usually linked to business performance. In this way, management is motivated to exert their subjective initiative, actively manage the company, and improve business performance from various aspects, thereby maximizing the wealth created for the enterprise. Therefore, it is very necessary to formulate a long-term incentive plan, and the equity incentive plan is a method with a significant incentive effect and long-term certainty mechanism. This method can maximally stimulate the motivation of business managers to create value for the company (Li & Shen, 2021).

Human Capital Theory

In the 1960s, American scholars Schultz and Becker first proposed the theory of human capital, providing a new perspective for human capital management. This theory is built upon human resource management and approaches from both economic and managerial viewpoints. It treats special talents, senior managers, and core technical personnel within enterprises as unique capital to be managed and invested in. Based on market changes and investment returns, it suitably adjusts business strategies and management plans to help enterprises maintain core competitiveness and achieve long-term value returns. The construction of human capital theory mainly borrows from the definition of physical capital, measuring human capital by referencing the formation mechanism of physical capital. It considers human capital to be the accumulation of an individual's entire knowledge and skills. Compared to physical capital, human capital possesses subjectivity and creativity (Qu, 2017).

Equity Incentive

Equity incentives involve distributing company shares to employees in proportion, aligning the interests of employees with those of shareholders. This aims to improve the management and operational level of the company (Song, 2016). Originating in the United States in the 1950s, equity incentives were introduced in China in the 1990s alongside the deepening reform of state-owned enterprises. There are broad and narrow definitions of equity incentives. In the broad sense, it refers to various forms of stock incentives for both the management and employees of a company. In the narrow sense, it specifically refers to the management acquiring company shares at an agreed price (Liu, 2017).

Performance of Enterprise

Su (2003) pointed out that the enterprise business performance is actually the performance achieved in the process of enterprise development, which can fully reflect the operating effect and profitability of the company; Huang and Hu (2019) believe that the business performance can rationally allocate the company's resources, so as to maximize the value of the company's internal and external resources, and lay a foundation for the company's development; Li & Zhang (2017) pointed out that the company's business performance is actually the overall effect obtained by the company in the actual operation and development process.

Equity incentive motivation

Equity incentives are an important tool for corporate human resource management with the function of attracting, screening and retaining talents (Wei, 2019), which can establish the realization of incentivized personnel's interests under the premise of realizing the interests of the enterprise, so that the management not only pursues the maximization of personal interests, but also maximizes the interests of shareholders as a goal (Zong et al., 2013), and realizes the long-term development of the company. The main driver for the adoption of equity incentives is human resource needs rather than management power, and their equity incentive design reflects human resource needs (Wei, 2019). Matthew and Anderson (2021) found that moderate equity incentives can reduce the agency costs of the firm. Li, Tong, and Zhong (2021) believed that the design of equity incentive programs is expected to achieve the glory and shame of management and the enterprise, the same goal, which is conducive to the long-term and stable development of the enterprise.

Impact of equity incentives on business performance

In the academic field, conclusions regarding the effects of equity incentives vary. Some believe they have a positive motivational effect, while others argue their impact is minimal or even negative. Meckling and Jensen (1976) were among the first scholars to propose that equity incentives have a positive effect. Drawing on agency theory, they formulated the "convergence of interests hypothesis," suggesting that managers with small equity stakes might prioritize personal interests over those of shareholders, whereas managers with larger stakes would align more closely with shareholder interests, promoting long-term corporate growth.

Jensen and Fama (1983), however, argued that when managers hold substantial equity stakes that allow them to influence board decisions significantly, they may prioritize personal gain over long-term corporate interests, potentially leading to decisions detrimental to the company's sustainable development.

It was found that firms' performance increased after the introduction of equity incentives, especially after five years to produce a more significant effect (Sesil and Lin, 2011). In addition, there are prerequisites for the positive impact of equity incentives on firm performance, and the implementation of equity incentive programs has a significant positive effect on improving firm performance when the firm has a more stringent internal control system (Denis and Xu, 2013). The number of incentivized shares of executives also affects the effectiveness of the implementation of equity incentives, and the number of incentivized shares of executives has a positive relationship with firm performance (Mieszko, 2019). However, the managers of a firm tend to speculate and are more likely to engage in high-risk activities, and even if the firm implements an equity incentive program, the firm's performance will be somewhat limited (Hambrick et al., 1983). If executives hold equity, they are likely to invest in risky projects for their personal benefit, and lack of attention to the performance evaluation of equity incentives will have a negative impact on the development of the company based on Sanders (2001).

Methodology

This study employs quantitative analysis to establish the correlation between management equity incentives and corporate operational performance based on principal-agent theory, incentive theory, and human capital theory. Using financial indicators, it analyzes the overall financial status of Tsingtao Brewery after implementing equity incentives and evaluates operational performance from both financial and non-financial perspectives. The motivations for implementing equity incentives in enterprises include reducing agency costs, overcoming managerial myopia, and stabilizing and attracting talent. Tsingtao Brewery, a representative publicly listed company in the beer industry, is selected as the case study. Relevant information is sourced from sources such as China Marketing Network, Tsingtao Brewery's website, and Chinese Enterprise Management Network. This information supports the study on the impact of management equity incentives on operational performance, supplemented by theoretical analysis based on selected literature.

By analyzing the financial indicators of profitability, solvency, operational capability, and development capability of Tsingtao Brewery after implementing management equity incentives, and comparing them horizontally with industry competitors and the industry average, we can evaluate its operational performance. This assessment aims to determine whether Tsingtao Brewery has gained economic benefits from implementing management equity incentives. It establishes a foundation for studying the impact of management equity incentives on operational performance.

Results

The article analyzes the motivations behind Tsingtao Brewery's implementation of equity incentives, primarily aimed at easing conflicts between owners and managers, curbing short-term managerial behaviors, boosting employee loyalty, reducing talent turnover, enhancing company performance, and fostering innovation. Since the implementation of management equity incentives in 2020, several financial indicators have shown significant changes, reflecting positive outcomes in financial capability. Among the four main capabilities, profitability stands out prominently.

Tsingtao Brewery has consistently maintained strong profitability, achieving sales volume of 78.2 million hectoliters and operating revenue of 27.76 billion RMB. Net profit attributable to shareholders of the listed company reached 2.2 billion RMB, marking an 18.9% year-on-year increase. In terms of solvency, the company's asset-liability ratio has remained stable or even decreased, with virtually zero interest-bearing debt and a current ratio consistently above 1. After implementing management equity incentives, the current ratio improved to 1.59, indicating enhanced capability to cover short-term debts, thus demonstrating good short-term solvency.

Regarding operational capability, the company consistently manages substantial contract liabilities each year, with a notable 2020 figure of 6.567 billion RMB. Other operational capital metrics reflect optimistic sales and operational efficiency. In terms of growth capability, Tsingtao Brewery's risk indicators overall highlight positive growth points maintained since its listing. Post-implementation of management equity incentives, the company has seen growth in assets and profits, aiming to create higher profit growth through the implementation of equity incentives. Overall, the analysis underscores the positive impact of management equity incentives on Tsingtao Brewery's financial performance across profitability, solvency, operational capability, and growth potential.

At the same time, it evaluates the business performance in terms of product competitiveness and market share, and specifically analyzes the impact of the implementation of management equity incentives on business performance. Analysis reveals that Tsingtao Brewery has leveraged its brand to lead high-quality development, establishing core competitiveness. The company has introduced IP marketing alongside its traditional integrated marketing approach, guiding trends in youthful consumer preferences. Additionally, it has launched a new retail path with custom-made beers and unique cultural and creative products, significantly enhancing the core competitive edge of Tsingtao Brewery products. Tsingtao Brewery exports globally and participates in international beer festivals across multiple countries, ensuring balanced development in both domestic and international markets. Through innovative thinking and effective platform resource integration, Tsingtao Brewery has expanded into complementary seafood products, thereby expanding market share and increasing its market presence. It is evident that following the implementation of equity incentives, Tsingtao Brewery has further defined its strategic focus, achieving promising results in operational performance evaluations.

Discussion

In this study based on the single case of Tsingtao Brewery Company, the research content is not comprehensive enough, leading to conclusions that may lack broad applicability. Additionally, due to the relatively short period since Tsingtao Brewery implemented equity incentives, there is a lack of data to support long-term performance studies post-equity incentives. Furthermore, my limited capabilities restricted access to internal company data and prevented on-site investigations during the case study of Tsingtao Brewery Company. Therefore, the conclusions drawn could not be fully validated. As equity incentive mechanisms continue to evolve, more enterprises are likely to adopt them. This calls for further research support and will provide more cases for analysis. Through practical exploration in various companies, suitable equity incentive schemes tailored to specific industries and companies can be developed, thereby enhancing the effectiveness of equity incentives and addressing current limitations.

Conclusions

The motivation behind implementing equity incentives lies in alleviating conflicts between owners and managers, retaining talent, and enhancing company performance. Research indicates a correlation between management equity incentives and corporate operational performance. The case of Tsingtao Brewery demonstrates that the implementation of equity incentives has had a positive impact on the company, enhancing its product competitiveness and significantly improving market share. However, it is still necessary to continue to monitor its subsequent operating performance to determine whether the company can continue to bring positive benefits to the business performance under the incentives of management equity. Therefore, companies can consider implementing management equity incentives based on specific circumstances to improve their operational performance.

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