

# Research on Equity Incentive in Service Industry Under the Influence of Epidemic

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**Abstract:** With the continuous improvement of China's market environment and policy environment, more and more companies in China begin to introduce equity incentive system. Because of the global spread of COVID-19, many enterprises are in trouble, especially in the service industry, which is seriously damaged and cash flow is rather tight. Based on the perspective of long-term operation and development of enterprises, it is very important to choose an appropriate equity incentive model.

**Keywords:** Epidemic; Service industry; Equity incentive

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## 1. Introduction

### 1.1 Topic selection background

Since 2020, due to the impact of COVID-19, catering, tourism, training and other service industries are facing cash flow difficulties, business has been seriously damaged and cash income has dropped sharply. At present, COVID-19 is spreading all over the world, and domestic control measures are still strict, many businesses will face a long-term impact. Due to the rigid payment nature of employees' salaries, many enterprises are faced with legal proceedings and are forced to go out of business due to temporarily unable to pay full wages.

### 1.2 Research significance

More and more enterprises in China have launched stock incentive implementation plans one after another. Because many factors such as corporate governance mechanism and capital market are different from those in developed countries, new problems will inevitably appear in the process of implementing equity incentive, which is difficult to achieve the expected goal. In terms of equity incentive policies, the state has successively improved various laws and regulations and actively provided policy norms and support. Equity incentive is an important part of long-term incentive. From the results of theoretical research and the application of management practice, equity incentive plays an obvious role in improving the working motivation of enterprise managers and improving enterprise performance.

## 2. Overview of equity incentive

### 2.1 Definition of equity incentive

Equity incentive is a long-term incentive mechanism implemented by enterprises in order to motivate and retain core talents. By obtaining the form of equity of the company, Enable employees to participate in enterprise decision-making, share profits and take risks as shareholders, so as to try their best to serve the long-term development of the company. At present, equity incentive models mainly include: restricted stock model, stock option model, stock appreciation right model, virtual stock model and performance stock incentive model.

### 2.2 Role of equity incentive

The role of equity incentive includes the following three points: It is conducive to the optimization of the salary structure of enterprise managers. Short-term incentive and fixed payment of salary will make the enterprise salary Committee unable to play its due role, while long-term incentive can avoid this situation and improve the operating performance of companies; Promote the work enthusiasm of the management and the company's employees, so that the self-interest of the management is closely related to the long-term development of the company. The operator will make every effort to improve the enterprise performance, contribute to the successful implementation of the talent strategy, and establish an efficient and united management team; It is conducive to the stable development of the securities market, maintain the orderly operation of the securities market, shareholders support the long-term development of the enterprise, shareholders and stakeholders can hold enterprise shares for a long time, accelerate the capital circulation and turnover of the enterprise, promote the long-term development and growth of the company, and contribute to the stability and development of the securities market.

### 3. Equity incentive model in service industry

#### 3.1 Characteristics of service industry

The basic difference between the service industry and other industrial sectors is that the service industry produces service products, which have the characteristics of non storability, non physical nature and the simultaneity of production and consumption. In the actual work of national economic accounting, the service industry is usually regarded as the third industry. There are many modes of equity incentive, the service industry is extremely dependent on cash flow and the corporate governance structure is relatively simple, the virtual equity incentive mode is a better choice. How to establish a win-win mechanism between enterprises and core employees through the design of relevant systems, so that both sides can continue to cooperate for a longer time is the key.

#### 3.2 Advantages of virtual equity incentive

Compared with other incentive modes, virtual equity incentive is more convenient and flexible, the main advantages of virtual equity incentive include:

(1) Under the virtual equity incentive mode, because the virtual equity is granted based on the identity relationship of employees and cannot be transferred and inherited, the company faces less equity disputes. At the same time, for incentive objects, virtual equity incentive usually does not need to pay consideration, so the payment cost is very low;

(2) The equity used for incentive usually comes from the equity held by the founding shareholder, and the rights and obligations are determined by the grantor and the grantee through agreement. There is no need to go through the formalities of spot or forward equity transfer or capital increase. Therefore, the equity source of virtual shares is easier to solve;

(3) Under the virtual equity incentive mode, the founding shareholders only need to transfer a certain proportion of the company's dividend right without actually transferring the company's equity, and their voting right proportion is not affected. Therefore, it can ensure the actual control of the founding shareholders over the company;

(4) The virtual equity incentive model does not involve any change in industrial and commercial registration, so it is more flexible and convenient in the exit mechanism.

Because of these advantages, virtual equity incentive does not need complex system design and a variety of contract terms, so it is more suitable for the service industry with relatively simple corporate governance structure.

#### 3.3 Implementation of virtual equity incentive

Virtual equity incentive refers to a kind of virtual stock granted by the company to the incentive object. The incentive object can enjoy a certain number of dividend rights and gains from stock price appreciation, but it has no ownership and voting rights, can not be transferred and sold, and will automatically become invalid when the employee leaves the enterprise. The service industry is extremely dependent on cash flow and the corporate governance structure is relatively simple. Therefore, virtual equity incentive is a better choice. We can effectively build the implementation scheme of virtual equity incentive mechanism from the aspects of the number of virtual equity incentive shares, the dividend method of virtual equity, the dividend amount of virtual equity, and the change limit of the number of equity holders.

After clarifying the specific virtual equity incentive model, the company should first determine the object of equity incentive and its qualification conditions. The company should first clarify whether the incentive object is for all employees or only core employees. In order to ensure the incentive effect of virtual equity, we suggest that virtual equity incentive is only for core employees. This approach can make all employees of the company clearly realize that only the excellent talents of the company can enjoy the virtual equity, which represents a kind of privilege. Employees of the company must work hard, achieve high performance and strive to become core employees. Secondly, the company should also set certain performance conditions for the realization of virtual equity income. The incentive objects need to invest time and energy to realize the virtual equity income, so as to further improve the incentive effect.

### 4. Conclusion

Since the development of equity incentive system in China is not mature, there will be some problems in the implementation process. It is necessary to formulate a set of equity incentive scheme suitable for the development of enterprises based on China's special market environment and combined with the specific characteristics of Companies in different industries. Virtual equity is gradually improved on the basis of mature equity incentive, it is a new incentive mode developed on the basis of stock appreciation right. Equity incentive has a significant positive effect on the company's performance and can orderly promote the sustainable development of service industry companies.

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