

**THE PERFORMANCE TARGET IN EQUITY INCENTIVE CONTRACT &
CORPORATE INVESTMENT**

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ABSTRACT

The dissertation will examine the effect of equity incentive plans on company investment behavior from the perspective of performance target setting, as well as the possible influence of performance expectations on the relationship between these factors, by conducting an empirical test analysis of a large sample of data based on the selected research samples. According to the study, incentive performance goals can improve a company's investment scale and efficiency while inhibiting inefficient investments. Furthermore, if the company's future performance expectations are similar, the investment scale of new projects will be reduced, investment efficiency will be reduced, and target performance will be inhibited.

The research conclusions of this dissertation support the optimal contract theory, which not only expands the relevant literature on performance-based equity incentive contracts, but also provides new evidence for research in the fields of equity incentives and corporate investment. Additionally, it has distinctive Chinese characteristics, which are significant for the improvement of Chinese listed companies' equity incentive systems.

Key words : Equity incentive; Performance targets; Investment efficiency; Mediation effect.

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CHAPTER 1

INTRODUCTION

Research Motivation

(1) Research Basis

A company's financial activities can be divided into three categories: operations, investments, and fundraising. In addition to connecting the company's current interests and its long-term interests, investment is an important financial activity for a company, especially a listed company, to achieve sustainable development. Moreover, it ensures the healthy and orderly operation of the industry and ultimately promotes the sustained and sound development of the national economy (Chang et al., 2015).

It is the executives who influence the company's investment activities. A company's investment decisions are influenced by the motives and risk appetites of its executives, who play a crucial role in making investment decisions and implementing investment activities. For the investment activities of the company, senior management plays a crucial role. The company must use relevant means and measures to attract, motivate, and retain senior executives, promote them to make good investment decisions, and implement specific investment activities to achieve the expected results.

Among a company's main compensation plans, equity incentive contracts can be used to attract, motivate, and retain executives. In order to promote investment decisions and the implementation of specific investment activities, companies need to provide effective equity incentives to senior executives.

Therefore, the equity incentive plan is also regarded as a basic and important compensation plan in modern corporate governance.

As a result, scholars have begun to question the validity of traditional time-based vesting conditions (Gerakos et al., 2007; Morse et al., 2011; Bebchuk and Fried, 2005). Moreover, investors, shareholders and other stakeholders have proposed that equity incentive contracts include performance-based vesting conditions (Performance-based Vesting Conditions), that is, performance-based equity incentive contracts, as a result of the many shortcomings of traditional equity incentive contracts. By adding performance indicators to equity incentive contracts, executive compensation can be linked to company performance. The goal of this research is to determine what the performance target level should be in equity incentive contracts and how to motivate executives to influence corporate investment.

(2) Research Opportunities

According to previous studies, compared to traditional equity incentive contracts with time vesting clauses, a wide range of performance metrics in compensation contracts can improve capacity, boost the company's stock value, and lower the price of senior compensation. Additionally, equity incentive contracts based on performance can also help identify capable executives (Johnson and Tian, 2000; Camara, 2001; Arya and Mittendorf, 2005; Bettis et al., 2010).

Based on the optimal contract theory, existing studies on equity incentives and company investment behavior have found that equity incentives can effectively motivate executives to work hard, thereby enhancing the value of the

company and shareholders' interests; they can effectively encourage (Agrawal and Mandelker, 1987) Executives need to increase foreign investment and curb inefficient investment behavior. As a result of the implementation of equity incentive plans, executives tend to make high-risk investment decisions, which include more R&D investments and more diversified mergers and acquisitions (Coles et al., 2006; Armstrong and Vashishtha, 2012; Gormley et al., 2013). In addition, some scholars examine how equity incentives affect the company's innovative investment behavior and refine its investment behavior.

According to the theory of manager power, executives are more likely to use their power to influence equity incentive contracts or manipulate the stock price to achieve their own interests when facing greater performance pressure (Abernethy et al., 2015). Performance-driven executives can earn higher salaries, and if a company's performance is poor, executives' salaries will not be significantly reduced.

A number of previous research results have provided useful insight into the research of this dissertation. Nevertheless, scholars only examine equity incentive plans as a whole, ignoring the specifics of equity incentive contracts, and few studies have examined how performance targets affect equity incentive contracts. In light of the potential impact of contract setting on the company's investment behavior, especially performance goals, which are the primary pressure faced by motivated executives, executives' investment decisions will be significantly affected. Thus, this dissertation has new opportunities to be studied.

(3) Current Status Discussion

In December 2005, the China Securities Regulatory Commission issued

"Administrative Measures for Equity Incentives of Listed Companies (for Trial Implementation)". For the first time, Chinese listed companies began exploring the implementation of equity incentive plans after the publication of 151, which clarified for the first time the institutional principles that should be followed in equity incentive plans. The China Securities Regulatory Commission issued three memorandums on equity incentive related matters in 2008 to standardize the implementation of equity incentive plans for listed companies, and in 2016 the "Measures for the Administration of Equity Incentives for Listed Companies" were formally implemented (China Securities Regulatory Commission Order No. 126). Stock repurchase regulations introduced in 2018 have further enhanced the flexibility of equity incentive plans for listed companies.

All A-share listed companies must set financial performance targets in executive equity incentive contracts since 2005. The mandatory requirements provide us with an opportunity to evaluate the incentive efficiency of performance targets. A listed company's equity incentive plan is an important tool in attracting and retaining core management talent, thereby promoting the convergence of shareholder value with senior management interests. According to regulations, the equity incentive plan contract must specify in detail the incentive object, the number of rights and interests to be granted, and the performance evaluation target. Therefore, during the effective period of equity incentives, only when the executives who are motivated complete the Stock options can be exercised or restricted stocks can be unlocked if they meet the performance targets set by the equity incentive contract. Chinese listed companies implement equity incentive plans based on performance, and performance goals reflect how effective equity incentives are.

Due to the high volatility of stock prices in China's capital market, financial performance indicators as performance targets are more accurate in assessing management performance than stock prices. Equity incentive contracts are efficient when they are based on the appropriate level of performance indicators as the main restrictive clause. Focusing on the logical clues of optimal contract theory and manager power theory on the effectiveness of equity incentive plans, this dissertation takes the listed companies that successfully implemented equity incentive plans from 2006 to 2017 under the background of the implementation of China's equity incentive policy system as a research Objects, examining the impact of equity incentive plans on the company's investment behavior from the perspective of performance target setting, as well as the possible mechanism of performance expectations, by manually sorting data, obtaining detailed information from equity incentive contracts, and analyzing the impact of equity incentive plans on performance target setting.

Our study aims to examine how equity incentive contracts affect the investment efficiency of listed companies based on a Chinese background. In this dissertation, the performance targets in the executive equity incentive contract have a positive impact on performance, as evidenced by the data collected manually and downloaded from WIND and CSMAR. and significant impact on the investment efficiency of listed companies, inhibiting inefficient investment behavior, and reducing Excessive investment suppresses under investment.

Additionally, this dissertation illustrates how performance goals can curb underinvestment and reduce overinvestment. As a result of reducing executive self-interests or improving information transparency, performance goals can reduce overinvestment and improve investment efficiency if companies face

over-investment. If the company faces under investment, performance goals can reduce under investment and promote investment by reducing the benefits of other stakeholders, especially by reducing the benefits of employees and failing to fulfill social responsibilities. Moreover, by reducing the interests of other stakeholders to achieve performance goals, the quality of the company's information will also decrease, and companies with under investment may face a higher risk of stock price collapse in the future, which will adversely affect the interests of executives. Due to executive equity incentives, the stock price rose. Therefore, strict performance targets can have a more positive impact on over-invested listed companies.

CHAPTER 2

LITERATURE REVIEW

Performance-Based Equity Incentives

According to foreign literature reviews, companies listed in the United States primarily use traditional time-based vesting conditions as the main method of executive compensation incentives. However, with the sound and perfection of corporate governance theory, scholars have begun to question this equity incentive contract, arguing that traditional equity incentive contracts based on time vesting clauses cannot effectively motivate executives, leading them to exert their own influence. For executives, manipulating the timing and progress of equity incentive plans has become an effective way to maximize their personal gain. Several stakeholders have suggested that equity incentives should include performance-based vesting conditions (Performance-based Vesting Conditions), or performance-based equity incentive contracts, because traditional equity incentive contracts have many shortcomings.

It has gradually been recognized by scholars that performance-based equity incentive contracts are more effective than traditional equity incentive contracts in motivating non-US listed companies to use them. Based on a comparison of performance equity incentive contracts with traditional equity incentive contracts, some scholars concluded that performance equity incentive contracts motivate more effectively than traditional equity incentive contracts. executives and significantly increase the company's stock value And risk-bearing ability, and reduce the cost of salary incentives. Johnson and Tian (2000) found that,

compared with traditional equity incentive contracts based on time vesting clauses, performance equity incentive contracts based on performance appraisal index clauses can significantly increase the company's stock value and increase the company's ability to bear risks. Compared to traditional equity incentive contracts based on time vesting clauses, Camara (2001) found that performance equity incentive contracts with performance appraisal index clauses with relative exercise targets do not significantly improve the interests of shareholders, but they can improve the company's risk-bearing capacity, reducing compensation costs as a result.

According to Arya and Mittendorf (2005), performance-based equity incentive contracts can help screen competent executives. When a company hires a new CEO, it is more likely to offer performance-based equity incentive contracts based on performance evaluation indicators, especially for companies with low stock price fluctuations and low market value book ratios. In this way, the CEO is encouraged to increase the value of the company by achieving higher returns for the company. Gerakos et al. (2007) found that the main factors affecting the execution of performance equity incentive contracts are stock price fluctuations and price-to-book ratio. Companies with low stock price volatility and low market capitalization tend to use performance-based equity incentive contracts. The use of performance-based equity incentive contracts can increase the risk-bearing ability of executives, attract and motivate capable executives, and institutional investors, and reduce the public's negative sentiment towards executive compensation, but the value of the company has not been significantly improved.

Using the research of Gerakos et al. (2007), the sample size and scope have

been expanded, and performance-based equity incentive contracts have been analyzed again. Appointment of new CEOs is positively correlated with equity incentive contracts and independent directors on the board of directors, and previous stock returns are negatively correlated with equity incentive contracts. Therefore, the implementation of performance-based equity incentive contracts can attract competent and capable managers, but can only be implemented in companies with a better corporate governance environment and greater stock price volatility. The performance equity incentive contract can significantly increase the value of the company according to a comprehensive analysis of income and stock income before and after implementation. Gerakos et al. (2007), on the other hand, concluded that performance equity incentive contracts were only meant to comfort investors.

According to Carter et al. (2009), performance equity incentive contracts with relative performance targets make it relatively easy for employees to achieve performance targets, and equity incentives are relatively high. According to Abernethy et al. (2015), corporate performance equity incentive contracts are influenced by CEO power. The greater the power of the CEO, the less challenging the performance goals set in the equity incentive contract, and this behavior is not conducive to the enhancement of the company's value. Although there have been some studies on equity incentive contracts and corporate investment behavior, there is no research on performance equity incentive contracts and economic results, especially the impact of equity incentive contract performance targets on investment efficiency is still unclear.

Research on equity incentive contracts has gradually increased since the "Administrative Measures for Equity Incentives of Listed Companies (Trial)" was

promulgated. It is believed by some scholars that Chinese listed companies generally set low performance targets in their equity incentive plans. The executives may be directly involved in contract setting or earnings management, among other methods, causing this low performance target. Managers provide effective incentives, and tend to be a kind of welfare for senior managers (Lv Changjiang et al., 2009; Wu Yuhui and Wu Shinong, 2010; Xiao Shufang et al., 2013; Liu Zhiyuan and Liu Qianru, 2015). Another part of the scholars believe that the implementation of equity incentive plans can effectively curb the company's excessive investment behavior, alleviate underinvestment, reduce the company's excess cash holdings, and improve the risk-bearing capacity of executives, thereby promoting the company's outbound investment efficiency, future investment scale, and The company's innovation input and output shows that the equity incentive plan has indeed played a positive role in stimulating executives. It can effectively ease the understanding of agency issues between executives and shareholders, thereby helping to improve the overall value of the company and the interests of shareholders. Wen Long et al., 2013; Lu Chuang et al. 2015; Xie Deren and Chen Yunsen, 2010; Liu Jingjian et al., 2017)

Equity Incentives and Investment Behavior

Equity incentives and investment behavior have been studied by scholars around the world. Armstrong et al. (2015) explored the relationship between equity incentives and CEO risk-taking and found that the greater the intensity of equity incentives, the higher the CEO's non-systematic risk-taking ability, but it has no significant relationship with systemic risk-taking ability. The possible reason is that the company's unsystematic risks can be hedged by the CEO

through the market portfolio, thereby effectively reducing the risk of uncertainty in his personal future earnings. Gormley et al. (2013) found that the sensitivity of executive compensation to stock price volatility and rate of return decreased when major risks increased. Executives reduce R&D and innovation investments and asset-liability ratios when major risks increase, but they will implement more mergers and acquisitions that are more diversified. Heron et al. (2016) found that the grant of options increases the risk appetite of executives, leading to executive stock options that are more likely to increase non-systematic risks for the company, but the possibility of exercising increases when the volatility of stock returns decreases.

Using Fama-MacBeth cross-section regression, Qiang et al. (2018) found a significant correlation between R&D innovation investment and stock expected return, and executive equity incentives have a positive regulatory effect on this relationship. Taking executive equity incentives based on financial performance as the starting point, Banker et al. (2011) concluded that when investment projects can bring significant benefits in the future, the greater the intensity of equity incentives, the higher the cost of related projects; and when investing. It is likely that related expenses will be reduced if the project does not yield significant benefits in the future. This result shows that when equity incentives have performance goals, executives tend to reduce irrelevant expenses.

Despite the fact that equity incentives have been studied in relation to company investment behavior, few scholars have studied performance equity incentives, especially the impact of equity incentive performance targets on investment behavior. An in-depth discussion of the relationship between equity incentive performance target setting and a company's investment behavior is

conducted in this dissertation based on the optimal contract theory and manager power theory.

CHAPTER 3

CONCEPTUAL MODEL AND TESTABLE HYPOTHESES

Case Study

Overview of Gree Electric Appliances: Gree Electric Appliances was established in 1991. In the early days of its establishment, Gree Electric Appliances mainly relied on low-end assembly business. It was listed on the Shenzhen Stock Exchange in 1996. After years of development, it has developed into a high-tech enterprise with core technologies, not only leading domestically, but also an outstanding air conditioner manufacturing enterprise in the world. Gree Electric is also involved in a wide range of directions, not only in the field of traditional air conditioning and heating equipment, but also in the field of smart home appliances under the impact of the Internet. The products produced are not only widely sold in China, but also have good sales performance in more than 160 countries and regions around the world. Gree Electric also has production lines around the world. It also has 5 renewable resource bases in Zhengzhou, Changsha, Shijiazhuang and other places. In terms of investment in upstream and downstream enterprises, it has also actively acquired or established, thus opening up the air conditioner production chain, whether it is from the manufacture of compressors and air conditioners to the recycling of air conditioners. Facing the competitive environment of incentives, it also has its own competitiveness and has become a "world brand" product in China's air-conditioning industry.

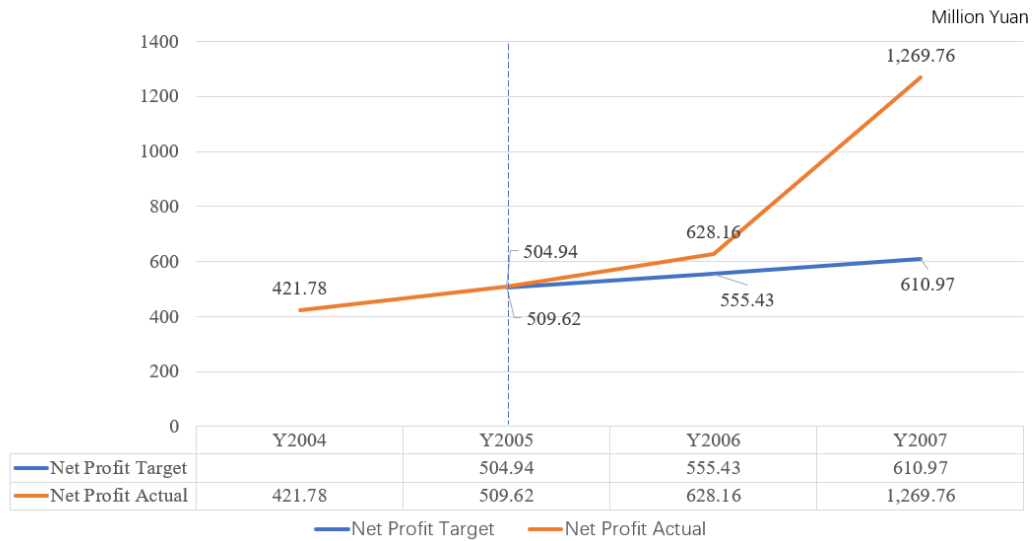
Zhuhai Gree Equity Incentive Implementation Background: After Gree Electric was listed on the Shenzhen Stock Exchange in 1996, until the year when the equity plan was implemented, Zhuhai Gree Group Co., Ltd. controlled by

Zhuhai State-owned Assets Supervision and Administration Commission directly controlled Gree Electric Co., Ltd. 50.28 % of the shares, only the direct holding part has reached more than half, and it indirectly holds 8.38% of the shares of Gree Electric Appliances through its subsidiary Gree Real Estate Co., Ltd., so all in all, Gree Group owns 58.66% of Gree Electric Appliances. This situation of occupying more than half of the equity shows a relatively obvious phenomenon of dominance. This equity relationship poses a certain threat to the rights and interests of minority shareholders. To this end, the Securities Regulatory Commission required Gree Electric to carry out the share structure reform of listed companies. Therefore, with the efforts of many parties, the management of Gree Electric Appliances and Gree Group jointly formulated a share structure reform plan, and based on this, an equity incentive plan was formulated. In terms of the source of stocks for equity incentives, in order to eliminate the dominant situation of Gree Group, this part of the incentive stocks is provided by Gree Electric Appliances., the parent company of Gree Electric Appliances. Although many alternative reform plans were put forward at that time, the final equity reform plan was formulated under the joint negotiation and communication of Gree Electric Appliances, shareholders of tradable shares and shareholders of non-tradable shares. The Zhuhai Municipal Government and the State-owned Assets Supervision and Administration Bureau also approved the plan on December 21, 2005.

Gree Electric's financial status after equity incentives: In the first three years of the implementation of equity incentives in 2006, Gree Electric sold about 2.82 million air conditioners in 2002, an increase of 20% over the previous year. The sales amounted to 7.030 billion Yuan and the net profit was 297 million Yuan.

The calculated ROE is 16.17%. By 2003, Gree Electric's sales revenue had reached 10.042 billion Yuan, an increase of 42.86% compared with the sales in 2002, and the net profit had also increased significantly, an increase of 13.78% compared with 2002, increasing to 337 million Yuan, the return on net assets also increased to 16.55%; In the year before the implementation of equity incentives, the sales revenue in 2004 reached a new high, an increase of 36.44% over the previous year, and the net profit was 421.78 million Yuan, an increase of 21.74% over the previous year. From the perspective of this part of the financial indicators, Gree Electric Appliances overall operating performance is good and is also on an upward trend. In 2004, the competition in the field of air conditioning was very fierce and the market concentration was changing. For Gree, implementing equity incentive policies was necessary to maintain the existing growth trend and let the core executive team get the full benefit. After Gree implemented the equity incentive plan at the end of 2005, the audited net profits from 2005 to 2007 exceeded the performance hurdles. In 2005, net profit of 509.62 million Yuan was achieved, and the performance hurdle for that year was 504.94 million Yuan; in 2006, net profit of 628.16 million Yuan was achieved, and the performance hurdle was 555.43 million Yuan, and in 2007, net profit of 1,269.76 million Yuan was achieved, and the performance hurdle was 610.97 million Yuan. The net profit level was greatly improved. On the one hand, the equity incentive improves the motivation of executives, but on the other hand, the whole performance appraisal is relatively easy.

Figure1. Gree Electric's financial status after equity incentives



Operation status of Gree Electric Appliances: The field of home appliances has always been very competitive. The air-conditioning appliances mainly operated by Gree Electric Appliances are facing domestic and foreign competitors. Faced with such a market environment, Gree chooses to work with downstream distributors and upstream suppliers. Joining forces to find opportunities for common development has indeed achieved this effect in implementation. During the nine years from 1995 to 2003, the sales volume of the products was at the forefront of the industry, and it became the only "world famous brand" in the domestic home appliance industry.

Throughout the business process, Gree Electric has demonstrated its independence from other companies. In terms of daily business, the business of the parent and subsidiary companies is carried out independently, forming an independent and complete business operation system, avoiding the horizontal competition between the parent and subsidiary companies; in terms of company assets, the production system and auxiliary production system companies also maintain mutual Independence, while maintaining the rational use of various assets; in terms of sales channels, Gree Electric divides the distribution of air

conditioners into two parts. The first part is a larger regional sales company, which is based on the first level. In addition, the channel is divided into specialty stores at different locations for terminal sales. Two unique sales models have created a competitive advantage for the channel. The equity incentive plan has improved Gree Electric's performance after implementing it, and it has a strong competitive position in the air-conditioning industry as a whole.

Theoretical Mode

Optimal Contract Theory

Optimal contract theory believes that shareholders have the power to formulate and evaluate executive performance compensation through the board of directors, and can formulate a set of contract incentives to maximize CEO performance. At the same time, it is possible to design an optimal compensation contract that is in line with the maximization of shareholder interests to restrict and motivate executives to motivate managers to maximize shareholder value (Bentley, 2003; Edmans and Gabaix, 2009). With the rise of equity compensation, executive equity incentive contracts, as an effective way to alleviate agency problems, have begun to attract scholars' attention. Based on the optimal contract theory, some scholars have analyzed the performance sensitivity of equity compensation (Hillman and Dalziel, 2003; Kaplan and Strömberg, 2004), the optimal payment structure of equity compensation (Dittmann et al., 2010), and the effect of equity compensation on executives. The impact of capacity improvement (Goergen and Renneboog, 2011; Graham et al., 2012), and the incentive effect of equity compensation on executive risk-taking (Hayes et al., 2012; Armstrong et al., 2013; Bolton et al., 2015) And other aspects, discuss how

equity incentive contracts can effectively alleviate the agency problem between shareholders and executives, point out that previous studies on equity incentives to improve CEO risk bearing capacity are inaccurate, and conclude that the intensity of equity incentives and CEO non-systematic risk bearing There is a significant positive correlation between abilities, but there is no significant correlation between system risk-taking capacity (Armstrong and Vashishtha, 2012; Armstrong et al., 2015; Heron and Lie, 2016). In addition, with regard to the relationship between the validity period of equity incentives and the company's investment behavior, scholars have found that short-term equity incentives can prompt managers to pay more attention to short-term performance, which leads to a decrease in the company's long-term investment. This relationship is in low-competitive industries and securities. It is more obvious in companies with low analyst attention; while long-term equity incentives can improve managers' long-term investment behavior (Ladika and Sautner, 2018).

However, a key problem with the underlying assumptions of the optimal contract theory is that the board of directors responsible for formulating executive equity incentive contracts may also have agency problems, which makes it impossible to design an optimal compensation plan to maximize shareholder value. When the CEO is a key member of the compensation committee or nomination committee and has interests related to other executives or potential executive candidates, it can be difficult for the board of directors to maintain independence. As a result, executive compensation cannot solve the agency problem, and it may even worsen it. Especially when the executives have the right to decide their own salary contract, the salary contract loses its incentive function and becomes a method of rent-seeking for them. As a result, equity incentive

contracts cannot fully explain their incentive effects based on optimal contract theory.

Managerial Power Theory

In previous studies based on the theory of managerial power, scholars have found evidence that some salary contracts reflect the rent-seeking behavior of executives, which makes it impossible to provide effective incentives to corporate executives (Blanchard, 1994; Yermack, 1997). The theory of manager power indicates that executives are more likely to influence compensation contracts when they have greater power (Core et al., 1999), lack strong external stakeholders (Bertrand and Mullainathan, 2000), or institutional investors have less ownership (Hartzell and Starks, 2003). Because the power of the manager affects the effectiveness of the salary contract, when the company performs well, the manager can get a higher salary, but when the company performance is bad, the manager is not punished and the salary is significantly reduced. . And, when the manager has greater power, the correlation between performance and salary becomes more significant. In addition, the performance sensitivity of equity compensation based on equity incentives is lower, and managers mainly benefit from manipulating stock prices (Garvey and Milbourn, 2006; Peng and Roell, 2008)

Testable Main Hypothesis

Enterprise investment is the basis for improving the current and long-term earnings of an enterprise. Due to information asymmetry and potential risks in the future, executives need to invest a lot of time, capital, and human resources

to make decisions about new investment projects. It is possible, however, that executives may reduce the benefits of new investments because they cannot reap all the benefits of their willingness to take risks, and may abandon investment projects with higher risks but with a positive net present value, leading to underinvestment.

The implementation of performance-based equity incentive contracts can alleviate this situation:

First of all, equity incentive contracts can align the interests of executives and shareholders (Jensen and Murphy, 1990). As long as executives reach a preset exercise goal, they can successfully exercise stock options or unlock restricted stocks. To enable executives to obtain residual income from new investments as shareholders. Under the pressure of performance goals, executives have the motivation to maximize the value of the company by improving high-quality investment projects.

Secondly, the equity incentive contract directly links the interests of executives with the company's stock price, thereby improving the risk-bearing capacity of executives and prompting executives to pay more attention to the long-term interests of the company (Armstrong and Vashishtha, 2012). In their study, Wang and Wu (2016) found that equity incentive contracts can lead to increased risk-taking by companies, and this correlation is stronger in non-state-owned companies. In order to achieve the exercise target, executives are more inclined to increase the company's investment scale when faced with equity incentive contract performance targets.

A company's stock price can increase as a result of investment activities, and the stock price of the company can further increase as a result of investment

activities. Therefore, executives can earn more income by exercising their stock options. options or unlocking restricted stocks.

According to Jensen (1986), executives will build empires to achieve higher self-interests by increasing their controllable resources. In order to increase the company's short-term stock price and gain excess self-interest, executives invest free cash in new investment projects even if the net profit of the new investment project is negative.

Based on the theory of management power, with the implementation of equity incentive contracts, executives will harm the overall interests of the company and lead to excessive investment in order to maximize their personal interests. However, the current research ignores an important factor, that is, the performance target in the equity incentive contract can restrain the excessive investment behavior of the executives. Performance-based equity incentive contracts require executives to exercise stock options or unlock restricted stocks after achieving preset exercise goals. However, excessive investment will waste a large amount of the company's capital, manpower, and material resources, and increase investment costs. In addition, overinvestment does not guarantee a steady increase in the company's net profit during the equity incentive period since the NPV of overinvested projects is negative, but may increase the company's risk of loss. By exercising stock options and unlocking restricted stock, executives cannot increase their personal income if they fail to achieve their performance goals. Banker (2011) found that when the investment project can bring significant benefits in the future, the higher the intensity of equity incentives, the higher the expenditure of related projects; when the investment project cannot bring significant benefits in the future, the related expenses will be reduced. It

can be seen from the results that executives tend to reduce irrelevant expenses in order to achieve the performance goals in the equity incentive contract, thereby reducing the scale of overinvestment. Therefore, performance goals can not only enhance the risk-bearing ability of executives and encourage them to invest in new projects, but also curb over-investment, thereby improving investment efficiency. Based on the above analysis, this dissertation proposes the following hypotheses:

Hypothesis: Given other factors, the stricter the performance target setting of the equity incentive contract, the higher the investment scale and investment efficiency of the company in the future

Testable Hypotheses for Further Research

(1) Hypothesis on The Impact of Enterprise Lifecycle

In existing literature, it is believed that enterprises at different life cycle stages differ greatly in production, operation, and organizational characteristics. The growth stage generally involves rapid development and strong profit growth, but it also involves higher investment risks and a lack of a stable profit model. In the mature stage, the organizational structure of the company tends to be perfect, the position in the market is relatively stable, there is a high accumulation of surplus, the profit growth is stable, and the investment is relatively stable. However, companies in the decline period have begun to decline in market competitiveness and profits, lack profit growth points, face high financial difficulties, and make investment more difficult. Based on the above analysis, this dissertation proposes the following assumptions:

Further research hypothesis 1: Given other factors, equity incentive

performance target setting is more effective for mature companies than for companies in decline.

(2) Hypothesis on The Effect of Equity Incentive Types

Stock options and restricted stock are the most common equity incentive plans implemented by Chinese companies. The impact of performance goals may also differ for these two types of equity incentive contracts (Lu Chuang et al., 2015). However, the current research on the incentive effect advantage of the two has not reached a consistent conclusion. There may be a difference in the applicable environment between the two incentive types, leading to different incentive effects (Kim et al., 2015). Chinese listed companies tend to use restricted stocks as an equity incentive as opposed to foreign companies that tend to use stock options. This may be the case because, on the one hand, the grant price of restricted stock can be set at 50% of the average stock price before the draft equity incentive plan is announced, while for stock options, the grant price is usually set at the share price before the draft equity incentive plan is announced. Future restrictions will have a relatively high price average. However, due to the high volatility and uncertainty of the Chinese stock market, the grant price and exercise price may invert, resulting in a high risk of not exercising the stock option. A restricted stock, on the other hand, requires a first investment by the incentivized object in the purchase of the stock, so the incentivized object needs to bear a certain cost, which promotes the incentivized object to work harder, and at the same time increases his willingness to stay in the company. Based on the differences between the use of stock options and the use of restricted stocks in different types of equity incentives, this dissertation proposes the following

research hypotheses:

Further research hypothesis 2: Given other factors, compared with the equity incentive contract using stock options, the performance target of using the restricted stock equity incentive contract can significantly improve the company's future investment scale and investment efficiency.

(3) Hypothesis on The Effect of Executive Equity Incentive Intensity

As mentioned above, based on the background of equity incentive policies for Chinese listed companies, executives who receive equity incentives are more likely to work harder to increase the company's value and to increase their own returns by increasing the stock price. As a result of performance targets and equity incentives, executives will strive to increase the company's investment scale, thus resulting in higher income in the future. During this process, executives ensure the smooth completion of performance goals by improving investment efficiency and reducing unnecessary costs. In equity incentive contracts, the incentive effect of equity incentives is more apparent when their intensity is higher, which can further enhance the correlation between performance goals and investment behaviors. Thus, this dissertation poses the following research hypotheses:

Further research hypothesis 3: Given other factors, when executives are more strongly motivated by equity, the performance goals set by them can significantly increase the scale of future company investment and improve future investment efficiency.

(4) Assumptions of The Effect of Investment Behavior on The Achievement of Future Performance Goals

In the end, whether the performance target can be achieved successfully through the strictness of equity incentive performance target setting to motivate executives to improve investment scale and investment efficiency. The result demonstrates that when equity incentive performance targets are low, it may not motivate executives to improve the company's value effectively. In this dissertation, the following research hypotheses are proposed based on how executives manipulate earnings to achieve performance targets to realize their personal interests:

Further research hypothesis 4: Given other factors, when the equity incentive performance target is set more strictly, the executives will achieve the performance target by increasing the investment scale and investment efficiency.

CHAPTER 4

EMPIRICAL RESEARCH

Data Collection Method and Model Construction

The empirical research methods to be adopted in this study mainly include empirical research methods such as descriptive statistical analysis, univariate test analysis, and multiple regression analysis. It can not only realize the multi-level, all-round and three-dimensional inspection of the data structure of the research samples selected in this study, which has high validity and feasibility, but also can provide information about the relationship between variables and variables, as well as variables themselves. It is more Besides specific empirical research methods, data processing tools have different degrees of application that can be used to determine whether this relationship is significant. To collect and organize information about equity incentive plans of listed companies, Excel was primarily used. For data analysis and statistics, STATA 14.0 was primarily used.

(1) Data Collection Method

While stock options exploded in popularity in US in 1993 after tax law changes, they dropped in popularity after 2005 when accounting changes made them relatively expensive. U.S. firms have also switched towards restricted stock after 2005. Similar to the United States, other countries have also begun to promote the use of restricted stock.

In December 2005, the China Securities Regulatory Commission promulgated the "Administrative Measures for Equity Incentives of Listed

Companies (for Trial Implementation)" (Zheng Jian Company Zi [2005] No. 151), which clarified for the first time the institutional principles to be followed for equity incentive plans of listed companies, and Chinese listed companies began to explore implementation Equity incentive plan.

Research data on Chinese equity incentive plans must begin in 2006 since Chinese listed companies began exploring the implementation of equity incentive plans in 2005; and, since the new crown epidemic began in early 2020 and has continued to the present, financial data for 2019 and 2020 have a larger impact, especially for the implementation of the equity incentive plan. In this study, all A shares in China's WIND Information and CSMAR databases that were announced and successfully implemented equity incentive plans between January 1, 2006 and December 31, 2017 are used to test the impact of the equity incentive plan contract setting. We will gather detailed information from equity incentive contracts by manually collecting and sorting them, including but not limited to: performance targets, incentive types (stock options and restricted stocks), and incentive shares obtained by executives, as well as a lag in the sample period. The period is the data of the company's investment effect in 2018.

Based on these data, the samples are screened according to the common screening principles of empirical research:

1. Exclude listed companies in the financial industry;
2. Exclude listed companies that have ceased to implement equity incentives, including failure to pass the resolution of the general meeting of shareholders, suspension of implementation, and postponement of implementation;
3. Eliminate samples with missing information about investment efficiency or financial data.

After preliminary screening, we obtained the sample of equity incentives needed by the institute.

Due to the significant differences in accounting policies between China's financial industry and other industries, the financial industry sample has been excluded. The empirical test will be noisy if it is used in combination with listed companies in other industries, making it impossible to accurately assess the impact of equity incentive contract target settings. It is necessary to exclude financial industry samples whose accounting policies are not uniform in order to ensure that the empirical test is not affected by noise.

Since the objective of the article is to examine the impact of the target setting in the equity incentive contract on the company's investment behavior, it excludes listed companies that stopped implementing equity incentives, such as failing to pass resolutions at general meetings of shareholders, ceasing implementation, or postponing implementation. An equity incentive that stops being implemented by a listed company means it has not been implemented, and no goal setting has been set, so it will not have an impact on the company's investment behavior, and the article's research will not be able to be conducted.

Because the theme of the article is to explore the impact of the target setting in the equity incentive contract on the company's investment behavior, samples with missing investment efficiency data or financial data will be excluded. The equity incentive cannot be calculated if there is no information about investment efficiency or financial data about the listed company. A measurement of the impact of the contract's target setting on the company's investment behavior will not be possible, and the dissertation's research will not be possible.

On the one hand, state-owned listed companies may implement equity

incentive plans according to policies and may have a symbolic significance to the capital markets and regulatory authorities. In contrast, only a small percentage of state-owned enterprises implement performance-based equity incentive contracts, accounting for only a small proportion of the overall sample. In this research, Abernethy et al. (2015) were used to select the sample of equity incentive plans for listed companies, eliminate the sample of state-owned enterprises, and finally select a sample of listed companies that are not state-owned.

In the robustness test part, the sample of state-owned listed companies was re-added for regression, and the results remained stable. In the follow-up regression analysis, in order to reduce the influence of data extreme values, continuous variables are processed with winsorize at the upper and lower 1% levels.

(2) Model Construction

Based on the aforementioned research hypothesis, this dissertation first examines the impact of equity incentive performance target setting on the company's investment behavior. To this end, construct the model as follows:

$$Investment_{i,t+1} = \alpha + \beta_1 Hurdle_{i,t} + \sum \beta_i Controls_{i,t} + Year_{i,t} + Industry_{i,t} + \varepsilon_{i,t} \quad (1)$$

Among them, the explained variable is the company's investment behavior ($Investment_{i,t+1}$) including three aspects: investment efficiency ($InvestE_{t+1}$), over-investment (O_Invest_{t+1}) and under-investment (U_Invest_{t+1}). For investment efficiency ($InvestE_{t+1}$), over-investment (O_Invest_{t+1}) and under-investment (U_Invest_{t+1}), learn from Richardson (2006) and use model (2) regression to obtain residual items ε_{t+1} .

$$Invest_{i,t+1} = \beta_0 + \beta_1 tobitq_{i,t} + \beta_2 lev_{i,t} + \beta_3 cash_{i,t} + \beta_4 age_{i,t} + \beta_5 size_{i,t} + \beta_6 return_{i,t} + \beta_7 Invest_{i,t} + \varepsilon_{i,t+1} \quad (2)$$

If the residual term ε_{t+1} is positive, it means that the company has excessive investment behavior. The larger the value, the more serious the company's over-investment behavior. If the residual item ε_{t+1} is negative, it means that the company has underinvested. The larger the negative number, the more serious the company's underinvestment behavior. Investment efficiency ($InvestE_{t+1}$) is equal to the absolute value of the residuals calculated based on the entire sample. The smaller the value, the higher the investment efficiency one year after the announcement of the equity incentive contract.

Investment scale (INV_{t+1}) and investment efficiency ($Ainvest_{t+1}$), among which, investment efficiency ($InvestE_{t+1}$) = (Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets + acquisition of subsidiaries and other business units Net cash paid + cash paid for investment-net cash received from disposal of fixed assets, intangible assets and other long-term assets-net cash received from disposal of subsidiaries and other business units-cash received from investment recovery) / beginning of period Total assets. The larger the value, the larger the investment scale of the company's t+1 period.

The explanatory variable is the performance target of the equity incentive contract $Hurdles_{i,t}$, which represents the performance target set in the equity incentive contract implemented by the company in the t period. This dissertation mainly focuses on the target value of net profit growth rate and return on net assets set in the equity incentive contract. Since the effective period of equity incentive contracts is mainly 4 to 5 years, the performance evaluation period of 3

years or more is generally involved when setting performance goals, and the performance target value of each performance evaluation period increases year by year. Therefore, this dissertation uses the compound growth rate of net profit and the weighted average return on net assets during the performance appraisal period to reflect the growth trend of the performance target setting in the equity incentive contract. At the same time, in accordance with relevant regulations, both the net profit growth rate and return on net assets are selected as indicators that deduct non-recurring gains and losses.

Due to the large differences in different industries, different sectors and different periods of the industry development status, company growth prospects, etc., listed companies will also have different performance targets in the equity incentive contract, different industries, different sectors, and different regions. Although the two companies have set similar performance indicators, the information transmitted may be quite different. In order to strengthen the comparability between the companies implementing equity incentives, this dissertation adjusts the performance targets in the contract, deducting the average actual performance of the same industry and the same sector of the companies implementing equity incentives in the previous year, and obtains the relative performance targets compared to historical benchmarks. Target value. In the robustness test, this dissertation will also compare the performance target in the equity incentive contract with the actual value of the company that implemented the equity incentive plan in the past three years.

The implementation of the equity incentive plan and the specific contract settings will be affected by the company's size, debt status, company's profit and loss status, and corporate governance characteristics. Therefore, this dissertation

uses the company size, asset-liability ratio, return on total assets, company growth, and company freedom. Cash flow, the proportion of the largest shareholder's shareholding, executive compensation, and the proportion of executive equity are used as control variables to control other factors that may affect the contract setting of equity incentive companies and the company's investment behavior. These factors that may affect the company's investment behavior are summarized as Controls in model (1).

At the same time, in order to alleviate the endogenous problem caused by the mutual causality between the equity incentive performance target setting and the company's investment behavior, this dissertation also adds the t period investment scale (INV_t) to the control variables, thereby controlling the company's basic investment situation, and then controlling the Endogenous problems caused by the company's own investment status. In addition, it also controls the effects of the year (Year) and the industry (Industry). See the variable definition table for details.

Table 1 Variable Definition Table

Variable name	Description
InvestE _{t+1}	Referring to Richardson's approach (Richardson, 2006), the investment efficiency (InvestE _{t+1}) is obtained by taking the absolute value of the residual term $\varepsilon_{i,t+1}$ from the regression of the model (2).
O_Invest _{t+1}	O_Invest _{t+1} equals to the absolute value of positive residual term $\varepsilon_{i,t+1}$ from the regression of the model (2).
U_Invest _{t+1}	U_Invest _{t+1} equals to the absolute value of negative residual term $\varepsilon_{i,t+1}$ from the regression of the model (2).
Mediator	Refer to the indicators reflect employee responsibility (Employee), supplier, customer and consumer responsibility (Supply), and social responsibility (Social), to test the Intermediary Effect of them.
Hurdle	Refer to the performance targets when formulating equity incentive contracts.
DNIP _{t+1}	The achievement of net profit growth rate equals to the actual net profit growth rate in year $t+1$ minus the performance target in the equity incentive contracts in the same year.
DROE _{t+1}	The achievement of ROE equals to the actual ROE in year $t+1$ minus the performance target in the equity incentive contracts in the same year.
ANIPDI _t	The net profit compound growth rate in the equity incentive contracts in year t minus year $t-1$ of actual average net profit growth rate of the

	companies, which are from the same industry and the same sector of companies implementing equity incentive contracts.
AROEDI _t	The ROE in the equity incentive contracts in year t minus the year t-1 of actual ROE of the companies, which are from the same industry and the same sector of companies implementing equity incentive contracts.
Type _t	Type _t taking 1 means restricted stocks, taking 0 means stock options in year t.
Intensity _t	When the incentive intensity is higher than the industry median, Intensity _t is 1, otherwise 0 in year t.
Size _t	The natural logarithm of the market value of total assets in year t.
Lev _t	Firm financial leverage, calculated by total long-term debts divided by total assets in year t.
Growth _t	The increased percentage of sales growth in year t.
ROA _t	Return on assets, calculated by net profit divided by the book value of total assets in year t.
Top1 _t	The percentage of shares owned by the controlling shareholder in year t.
Institution _t	The percentage of shares owned by institutional investors in year t.
Cash _t	Free cash flow, (operating cash flow- capital expenditure)/ total assets in year t.
SEO _t	A dummy variable that equals 1 if the ultimate controlling shareholder of a listed firm is the state in year t and 0 otherwise.
TMTstock _t	The shares of top management team divide by total equity in year t.
TMTsalary _t	The natural logarithm of cash salary of top management team in year t.
Independent _t	The proportion of independent directors in year t.
Dev _t	The standard deviation of firm's revenue from year t-3 to t-1.
Age _t	The natural logarithm of age at IPO date.
DA _t	Earnings management is the estimated residuals from the adjusted-Jones model in year t.
RM _t	The real earnings management in year t.

Descriptive Statistics

Table 2 lists the descriptive statistical results of the main variables in this study. As can be seen from the table, the mean values of investment efficiency (Ainvest_{t+1}), overinvestment (O_Invest_{t+1}) and underinvestment (U_Invest_{t+1}) are 0.058, 0.073 and 0.041, respectively. The average value of the growth rate of net profit (ANIPDI_t) and return on net assets (AROEDI_t) were 0.931 and 0.001, respectively, and the median was 0.413 and 0.000 respectively. The results show that the average performance target set by the equity incentive company is higher than the actual average value of the same industry and the same sector, which means that the performance target setting is generally stricter. The descriptive

statistics of other variables showed no abnormalities.

Table 2 Descriptive Statistics Table

Variable	Mean	Std. dev.	Minimum	P25	Median	P75	Maximum	N
Invest _{t+1}	0.058	0.064	0.000	0.020	0.043	0.070	1.015	1300
O_Invest _{t+1}	0.073	0.077	0.000	0.030	0.054	0.095	1.015	657
U_Invest _{t+1}	0.041	0.042	0.000	0.016	0.032	0.050	0.365	643
ANIPDI _t	0.931	1.904	-0.078	0.246	0.466	0.861	14.320	1238
AROEDI _t	0.001	0.067	-0.089	-0.054	-0.019	0.044	0.245	692
Size _t	21.740	1.055	19.700	20.940	21.580	22.330	25.930	1300
Lev _t	0.353	0.184	0.052	0.203	0.333	0.485	0.888	1300
Growth _t	0.362	0.502	-0.561	0.130	0.281	0.437	4.124	1300
ROA _t	0.069	0.049	-0.123	0.041	0.068	0.091	0.224	1300
Cash _t	-0.009	0.110	-0.406	-0.026	0.006	0.046	0.258	1300
Top1 _t	0.326	0.142	0.088	0.220	0.303	0.416	0.750	1300
Age _t	7.207	0.976	3.761	6.495	7.293	7.871	9.152	1300
TMTpay _t	0.001	0.001	0.000	0.001	0.001	0.002	0.007	1300
TMTstock _t	0.147	0.176	0.000	0.006	0.059	0.249	0.579	1300
Invest _t	0.097	0.096	-0.093	0.033	0.083	0.118	0.530	1300

Main Hypothesis Test Regression Results and Analysis

First, we test the hypothesis of this study. Table 3 reports the regression results of the hypothesis test. The columns (1) and (2) reveal the adjusted net profit growth rate (ANIPDI_t) and the adjusted net profit. How does the rate of return on assets (AROEDI_t) affect the efficiency of corporate investment (Ainvest_{t+1}). Column (1) reports that under the same conditions, the correlation coefficient of the adjusted net profit growth rate (ANIPDI_t) is negative and significant at the 1% level, indicating that the adjusted net profit growth rate is used as performance Goals can significantly improve investment efficiency. Column (2) reports that under the same conditions, the correlation coefficient of (AROEDI_t) is negative and significant at the level of 1%, indicating that the

adjusted return on equity as a performance target can significantly improve investment efficiency. The research results support our hypothesis that the performance target level of the equity incentive contract has a positive impact on the company's investment efficiency and at the same time reduces inefficient investment.

Then, we divide the overall research sample into over-invested samples and under-invested samples for further research. Columns (3) and (4) in Table 3 show how adjusted net profit growth rate ($ANIPDI_t$) and adjusted ROE ($AROEDI_t$) affect overinvestment (O_Invest_{t+1}). The results show that the correlation coefficient between the adjusted net profit growth rate ($ANIPDI_t$) and the adjusted return on net assets ($AROEDI_t$) is negative and significant at the 1% level, indicating the adjusted net profit growth rate and the adjusted return on net assets Rate performance targets can significantly reduce over-investment. Columns (5) and (6) in Table 3 show how adjusted net profit growth rate ($ANIPDI_t$) and adjusted return on equity ($AROEDI_t$) affect underinvestment (U_Invest_{t+1}). The results show that the coefficients related to the adjusted net profit growth rate ($ANIPDI_t$) and the adjusted return on net assets ($AROEDI_t$) are negative and significant at the levels of 1% and 5% respectively. Other conditions are the same, indicating that the adjusted net profit growth rate. And adjusted net profit growth rate as a performance target can significantly curb underinvestment.

It can be seen from the above results that in performance-based equity incentive contracts, setting more stringent performance targets improves the company's investment efficiency and reduces inefficient investment by reducing overinvestment and underinvestment, which supports our hypothesis.

Table 3 Hypothesis Test Results

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	Invest _{E,t+1}	Invest _{E,t+1}	O_Invest _{t+1}	O_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}
ANIPDI _t	-0.060***		-0.220***		-0.068***	
	(-6.230)		(-4.646)		(-6.020)	
AROEDI _t		-0.658***		-0.893***		-0.095**
		(-4.638)		(-7.367)		(-2.138)
Size _t	-0.014***	0.001	-0.024	0.008	-0.009	0.001
	(-3.139)	(0.190)	(-1.293)	(1.156)	(-1.369)	(0.295)
Lev _t	0.029	-0.014	0.204	-0.035	-0.060	-0.039**
	(0.817)	(-0.803)	(1.458)	(-1.113)	(-1.094)	(-2.475)
Growth _t	0.011	0.001	0.076	-0.015	0.038	0.015**
	(0.492)	(0.094)	(1.087)	(-1.526)	(1.206)	(2.193)
ROA _t	-0.125	0.200***	-0.668	0.239**	-0.283*	0.025
	(-1.075)	(3.172)	(-1.358)	(2.530)	(-1.777)	(0.481)
Cash _t	-0.004	-0.003	0.105	0.054**	0.012	-0.014
	(-0.119)	(-0.177)	(0.859)	(2.089)	(0.165)	(-0.605)
Top1 _t	0.052*	0.016	0.024	0.041	0.066	0.009
	(1.808)	(0.961)	(0.321)	(1.466)	(1.502)	(0.753)
Age _t	0.005	0.003	0.008	0.003	0.018*	0.008**
	(1.072)	(0.751)	(0.658)	(0.659)	(1.905)	(2.193)
TMTpay _t	-2.012	4.251*	-11.496	4.473	3.643	2.607
	(-0.690)	(1.702)	(-1.294)	(1.084)	(0.701)	(1.329)
TMTstock _t	0.023	0.005	0.045	0.009	0.035	0.002
	(1.229)	(0.331)	(0.609)	(0.416)	(1.247)	(0.154)
Invest _t	0.179***	0.203***	0.218	0.168***	0.183**	0.228***
	(3.151)	(8.247)	(1.206)	(3.607)	(2.575)	(8.419)
Constant	0.277***	-0.077	0.544	-0.144	0.143	-0.091
	(2.885)	(-0.768)	(1.486)	(-1.079)	(0.997)	(-1.423)
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	1,238	692	625	327	613	365
Adjusted R ²	0.509	0.412	0.560	0.526	0.669	0.541

Note: *, **, *** indicate significant at the 10%, 5%, and 1% levels

Intermediary Effect Test and Analysis

Although we have proved our hypothesis in the aforementioned hypothesis testing part, it still fails to reveal how performance targets can improve investment efficiency. Then, we delve into the path through which performance goals affect investment efficiency. On the one hand, according to the optimal contract theory, equity incentive contracts can effectively alleviate agency problems and encourage executives to work hard for the company's maximum

value. In order to achieve performance goals and obtain higher personal income, executives can effectively improve the company's corporate governance and decision-making efficiency by reducing their own interests, improving information transparency or other positive ways, thereby ensuring the efficiency and effectiveness of investment. On the other hand, according to the theory of management power, executives can use their power to manipulate stock prices or harm the interests of other stakeholders in order to obtain personal benefits.

The optimal contract theory is used to test the first intermediary effect, and we examine whether executive personal interests and information transparency can regulate the negative relationship between performance and corporate governance. Our focus is on how corporate governance and decision-making efficiency are affected by executive personal interests and information transparency. Goals and investment efficiency, that is, test whether performance goals can improve investment efficiency by reducing the self-interest of executives or improving information transparency. In order to test the secondary mediating effect of management power theory, we use the corporate responsibility to employees, suppliers and society to reflect the value of stakeholders, and pay attention to whether the value of stakeholders can mediate the negative correlation between performance goals and investment efficiency Relationship, that is, to test whether performance goals can improve investment efficiency by reducing the value of stakeholders.

Several new variables were introduced to test the mediation effect. Executive self-interest is reflected in an abnormal allowance ($Perk_t$). In order to determine the execution exception allowance ($Perk_t$), we first regress the management expenses on a number of company characteristics using Luo et al.

(2011)'s model. In year t , the greater the value, the higher the self-interest of senior executives. Secondly, information transparency ($Opaque_t$) is represented by the sum of the absolute value of three years of discretionary accrued expenses. Discretionary accruals are the estimated residuals of the adjusted Jones model in year t (Dechow et al., 1995). The larger the value, the lower the information transparency in year t (Bergstresser and Philippon, 2006). Finally, we pay attention to the company's responsibilities to employees, suppliers and society to reflect the value of stakeholders. We use the evaluation system proposed by Hexun in 2010. Hexun is a well-known financial information website that provides professional securities investment consulting. The professional evaluation system is based on the corporate social responsibility report, and the calculated indicators reflect employee responsibility ($Employee_t$), supplier, customer and consumer responsibility ($Supply_t$), and social responsibility ($Social_t$). For example, the Employee Responsibility Index ($Employee_t$) includes three main aspects, each of which contains two to three sub-aspects, and then assigns a value to each index and calculates the total value.

Among them, the three main aspects of employee responsibility are performance, safety and care. Performance includes per capita income of employees and professional training; safety includes safety inspections and safety training; care includes compassion, condolences and managers responsible for sympathy. Similarly, the responsibility of suppliers, customers and consumers ($Supply_t$) is to focus on product quality, after-sales service, and honesty and mutual benefit. The concept of social responsibility ($Social_t$) focuses primarily on the value of social contributions, such as taxes and donations.

We use a three-step method to test the mediation effect (Baron and Kenny,

1986; Judd and Kenny, 1981). The three-step method includes three models, as shown below,

$$\text{Investment}_{i,t+1} = \alpha + \alpha_1 \text{Hurdle}_{i,t} + \sum \alpha_i \text{Controls}_{i,t} + \text{Year}_{i,t} + \text{Industry}_{i,t} + \varepsilon_{i,t} \quad (\text{A})$$

$$\text{Mediator}_{i,t} = \beta + \beta_1 \text{Hurdle}_{i,t} + \sum \beta_i \text{Controls}_{i,t} + \text{Year}_{i,t} + \text{Industry}_{i,t} + \varepsilon_{i,t} \quad (\text{B})$$

$$\text{Investment}_{i,t+1} = \alpha + \alpha'_1 \text{Hurdle}_{i,t} + \alpha_2 \text{Mediator}_{i,t} + \sum \alpha_i \text{Controls}_{i,t} + \text{Year}_{i,t} + \text{Industry}_{i,t} + \varepsilon_{i,t} \quad (\text{C})$$

The first step is to test the coefficients α_1 of the model (A), as shown in Table 3, the coefficients are negative and significant.

The second step is to test the coefficients β_1 of the model (B) and how the performance target affects the intermediary. If the β_1 coefficient is significant, we can proceed to the third step, otherwise, the mediation effect does not exist.

The third step is to check the sum of the coefficients α'_1 and α_2 of the model (C). If the coefficient α'_1 and α_2 both are significant, it is a partial mediation effect; if the coefficient α_2 is significant but the coefficient α'_1 is not significant, it is the total mediation effect; if the coefficient α_2 is not significant, the mediation effect does not exist.

We also use the Sobel test as a supplementary test for mediating effects (Sobel, 1982; 1988).

We first test the self-interest of executives and the transparency of information as an intermediary. The results are shown in Table 4 and Table 5. We only focus on samples of overinvestment and underinvestment, which gives us clear results. Table 4 shows the results of model (B). For the over-investment sample, the adjusted net profit growth rate (ANIPDI_t) and the adjusted return on net assets (AROEDI_t) at the 5% level are negatively and significantly correlated

with the abnormal allowance for executives ($Perk_t$), and at the 5% level, they are related to information transparency ($Opaque_t$). Was negatively and significantly correlated. The levels of 1% and 5%, respectively, indicate that the adjusted net profit growth rate and adjusted ROE as performance targets can significantly reduce the self-interest of executives and improve information transparency. For the under-invested samples, $ANIPDI_t$ and $AROEDI_t$ are significantly negatively correlated with $Perk_t$ at the 10% level, and significantly positively correlated with the information transparency ($Opaque_t$) at the 10% level, indicating the adjusted net profit growth rate and the adjusted ROE as a performance target can significantly reduce information transparency. Since all coefficients are important, we can continue to use model (C).

Table 4 Test Table of Mediating Effect Based on Model (B)

Variable	Over-investment				Underinvestment			
	(1) $Perk_t$	(2) $Perk_t$	(3) $Opaque_t$	(4) $Opaque_t$	(5) $Perk_t$	(6) $Perk_t$	(7) $Opaque_t$	(8) $Opaque_t$
$ANIPDI_t$	-0.001** (-1.997)		-0.468*** (-4.408)		-0.003* (-1.799)		0.001* (1.897)	
$AROEDI_t$		-0.365** (-2.280)		-0.265** (-2.546)		-0.068* (-1.771)		0.491* (1.696)
$Size_t$	0.003 (0.756)	0.005 (0.853)	-0.021 (-0.694)	-0.019 (-0.556)	0.006* (1.846)	0.008** (2.013)	-0.008 (-0.350)	-0.007 (-0.203)
Lev_t	0.013 (0.840)	0.016 (0.753)	0.318 (1.398)	-0.011 (-0.051)	-0.019 (-1.158)	-0.030 (-1.525)	0.259 (1.600)	0.267 (1.214)
$Growth_t$	-0.003 (-0.906)	-0.007 (-1.234)	0.112 (1.196)	-0.105 (-0.918)	-0.007 (-0.861)	-0.003 (-0.517)	0.082*** (2.780)	0.079** (2.186)
ROA_t	0.159*** (3.776)	0.257*** (3.858)	-0.664 (-0.985)	0.535 (1.353)	0.017 (0.170)	0.046 (0.702)	-0.041 (-0.144)	0.259 (0.625)
$Cash_t$	-0.047*** (-3.095)	-0.016 (-0.733)	0.054 (0.258)	0.121 (0.616)	0.011 (0.361)	-0.003 (-0.105)	-0.151 (-1.030)	-0.172 (-0.956)
$Top1_t$	-0.041*** (-2.700)	-0.060*** (-2.685)	-0.094 (-0.603)	0.017 (0.117)	-0.032 (-1.581)	-0.020 (-1.465)	0.010 (0.132)	0.007 (0.073)
Age_t	-0.014*** (-5.969)	-0.012*** (-2.951)	-0.027 (-1.184)	-0.001 (-0.043)	-0.003 (-0.572)	0.006 (1.465)	-0.017 (-0.749)	-0.023 (-0.935)
$TMTpay_t$	8.489*** (3.452)	6.352* (1.708)	-29.412 (-1.541)	1.728 (0.071)	12.304*** (3.828)	14.032*** (4.104)	13.601 (0.833)	-0.967 (-0.036)
$TMTstock_t$	-0.024* (-1.997)	-0.036** (-2.280)	0.046 (1.196)	0.006 (0.556)	-0.013 (-1.799)	-0.007 (-1.771)	0.036 (1.897)	0.097 (1.696)

	(-1.880)	(-2.284)	(0.366)	(0.062)	(-1.048)	(-0.546)	(0.516)	(1.117)
Invest _t	-0.049**	-0.065**	-0.101	-0.142	0.033	0.075**	-0.022	-0.028
	(-2.086)	(-2.133)	(-0.349)	(-0.537)	(1.150)	(2.362)	(-0.159)	(-0.162)
Constant	-0.007	-0.029	0.947	0.461	0.021	-0.063	0.248	0.294
	(-0.084)	(-0.246)	(1.415)	(0.581)	(0.240)	(-0.764)	(0.469)	(0.423)
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	625	327	625	327	613	365	613	365
Adjusted R ²	0.294	0.344	0.693	0.201	0.104	0.167	0.167	0.180

Note: *, **, *** indicate significant at the 10%, 5%, and 1% levels.

Table 5 shows the results of model (C). For the overinvestment sample, the coefficients of $Perk_t$ and $Opaque_t$ are both positive and significant, and the coefficients of $ANIPDI_t$ and $AROEDI_t$ are negative and significant, but the values are small compared with the results in Table 4. Therefore, $Perk_t$ and $Opaque_t$ have a partial mediating effect. The Sobel test is significant and also supports the mediation effect. For samples with underinvestment, there is no significant relationship between $Perk_t$ or $Opaque_t$ and underinvestment (O_Invest_{t+1}).

Table 5 Test Table of Mediating Effect Based on Model (C)

Variable	Over-investment				Underinvestment			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	O_Invest_{t+1}	O_Invest_{t+1}	O_Invest_{t+1}	O_Invest_{t+1}	U_Invest_{t+1}	U_Invest_{t+1}	U_Invest_{t+1}	U_Invest_{t+1}
$Perk_t$	0.288**	0.184**			0.131	-0.047		
	(2.264)	(2.379)			(0.848)	(-0.418)		
$Opaque_t$			0.435***	0.332**			-0.000	-0.005
			(3.564)	(1.981)			(-0.009)	(-0.277)
$ANIPDI_t$	-0.121***		-0.116*		-0.067***		-0.068***	
	(-2.653)		(-1.739)		(-5.915)		(-6.017)	
$AROEDI_t$		-0.775***		-0.734*		-0.226*		-0.233*
		(-3.146)		(-1.697)		(-1.839)		(-1.760)
$Size_t$	-0.023	0.006	-0.015	0.008	-0.012*	-0.002	-0.009	-0.003
	(-1.243)	(0.891)	(-1.043)	(1.079)	(-1.833)	(-0.397)	(-1.361)	(-0.451)
Lev_t	0.210	-0.060*	0.066	-0.057*	-0.052	-0.049*	-0.060	-0.047*
	(1.489)	(-1.766)	(0.847)	(-1.782)	(-0.994)	(-1.911)	(-1.007)	(-1.763)
$Growth_t$	0.074	-0.025**	0.027	-0.023**	0.041	-0.037	0.038	-0.036
	(1.065)	(-2.135)	(0.615)	(-2.290)	(1.314)	(-0.741)	(1.271)	(-0.751)
ROA_t	-0.590	0.206**	-0.379	0.236**	-0.294*	0.009	-0.283*	0.008
	(-1.173)	(2.222)	(-1.447)	(2.506)	(-1.898)	(0.124)	(-1.780)	(0.107)
$Cash_t$	0.082	0.072***	0.081	0.065**	0.008	0.038	0.012	0.038
	(0.692)	(2.683)	(1.028)	(2.423)	(0.114)	(0.711)	(0.160)	(0.719)
$Top1_t$	0.004	0.047*	0.065	0.036	0.080*	-0.029	0.066	-0.028

	(0.055)	(1.660)	(1.158)	(1.238)	(1.835)	(-0.796)	(1.502)	(-0.794)
Age _t	0.001	0.008	0.020*	0.006	0.019**	0.008	0.018*	0.007
	(0.101)	(1.620)	(1.719)	(1.154)	(2.145)	(1.495)	(1.881)	(1.366)
TMTpay _t	-7.357	2.562	1.295	3.677	-1.660	-0.123	3.646	-0.784
	(-0.870)	(0.615)	(0.159)	(0.887)	(-0.290)	(-0.034)	(0.707)	(-0.204)
TMTstock _t	0.033	0.019	0.025	0.012	0.040	0.008	0.035	0.009
	(0.446)	(0.866)	(0.556)	(0.555)	(1.428)	(0.561)	(1.245)	(0.597)
Invest _t	0.194	0.197***	0.262**	0.190***	0.170**	0.215***	0.183**	0.212***
	(1.054)	(3.975)	(2.194)	(3.971)	(2.546)	(5.227)	(2.561)	(4.862)
Constant	0.541	-0.111	0.132	-0.131	0.133	0.034	0.143	0.039
	(1.479)	(-0.796)	(0.427)	(-0.941)	(0.929)	(0.230)	(0.985)	(0.247)
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	625	327	625	327	613	365	613	365
Adjusted R ²	0.561	0.559	0.787	0.571	0.680	0.073	0.668	0.072
Sobel Test	0.021** (2.579)	0.034* (1.874)	0.016*** (3.213)	0.012** (1.997)	0.000 (0.214)	0.001 (1.051)	0.000 (0.361)	0.000 (0.417)

From the results in Table 5, we know that if the company faces over-investment, the performance targets in the equity incentive contract can reduce over-investment and improve investment efficiency by reducing the self-interest of executives or improving information transparency. For companies with underinvestment, they may use other methods to alleviate the problem of underinvestment, such as harming the interests of other stakeholders, as shown in Table 6 and Table 7.

In group A of Table 6, for the samples with overinvestment, ANIPDI_t and AROEDI_t are significantly positively correlated with Supply_t at the 5% level, and the others are not significant. In group B of Table 6, for the underinvested samples, ANIPDI_t and AROEDI_t are significantly negatively correlated with Employees and Social_t at the 1% level, and the others are not significant.

Table 6 Group Inspection Results

Panel A	Over-investment					
	(1)	(2)	(3)	(4)	(5)	(6)
Variable	Employee _t	Employee _t	Supply _t	Supply _t	Social _t	Social _t
ANIPDI _t	0.105		0.312**		0.102	
	(1.155)		(2.034)		(0.669)	

AROEDI _t		4.265		4.338**		0.548
		(1.158)		(1.991)		(0.249)
Size _t	0.672***	1.100***	0.498***	0.870***	0.436*	0.401
	(4.104)	(4.155)	(2.959)	(2.762)	(1.819)	(1.140)
Lev _t	-1.434	-2.141	-0.147	-1.164	-1.302	-2.576
	(-1.584)	(-1.375)	(-0.130)	(-0.600)	(-0.942)	(-1.235)
Growth _t	0.325	0.054	-0.277	-0.483	0.567	0.669
	(0.746)	(0.080)	(-0.554)	(-0.597)	(1.210)	(1.190)
ROA _t	1.266	2.669	2.835	4.247	-4.088	-10.008**
	(0.456)	(0.583)	(0.587)	(0.524)	(-1.131)	(-1.984)
Cash _t	-0.289	-0.813	-1.031	-1.156	-2.013*	-3.362**
	(-0.276)	(-0.492)	(-0.739)	(-0.503)	(-1.780)	(-2.397)
Top1 _t	0.952	1.664	1.020	1.935	1.765*	1.472
	(1.024)	(1.156)	(0.790)	(0.945)	(1.730)	(1.155)
Age _t	0.091	0.257	0.094	0.406	0.222	0.597**
	(0.691)	(1.105)	(0.575)	(1.285)	(1.222)	(2.054)
TMTpay _t	274.503**	356.402*	132.757	216.697	227.653	420.258*
	(2.277)	(1.726)	(1.023)	(0.927)	(1.479)	(1.929)
TMTstock _t	0.164	0.465	0.200	0.040	0.275	0.675
	(0.240)	(0.435)	(0.239)	(0.029)	(0.358)	(0.656)
Invest _t	-2.179*	-1.829	0.828	1.919	-2.986	-2.770
	(-1.659)	(-0.951)	(0.463)	(0.678)	(-1.416)	(-1.117)
Constant	-12.482***	-22.400***	-10.122**	-19.416***	-7.768	-9.336
	(-3.288)	(-3.823)	(-2.470)	(-2.788)	(-1.540)	(-1.210)
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	618	321	618	321	618	321
Adjusted R ²	0.177	0.154	0.150	0.132	0.187	0.202

Panel B

Underinvestment

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	Employee _t	Employee _t	Supply _t	Supply _t	Social _t	Social _t
ANIPDI _t	-0.418***		0.042		-0.356***	
	(-3.159)		(0.842)		(-2.919)	
AROEDI _t		-4.916***		1.833		-3.606***
		(-2.614)		(1.646)		(-3.044)
Size _t	0.672***	1.030***	0.775**	1.196**	0.512**	0.626**
	(4.519)	(5.185)	(2.159)	(2.227)	(2.232)	(2.046)
Lev _t	-1.444**	-2.705***	-0.525	-1.580	-1.011	-0.749
	(-2.175)	(-2.878)	(-0.424)	(-0.835)	(-0.924)	(-0.545)
Growth _t	-0.200	-1.131***	-0.625**	-0.864**	-0.084	-0.488
	(-1.293)	(-3.652)	(-2.502)	(-2.202)	(-0.287)	(-0.982)
ROA _t	2.849	2.991	7.999*	9.203	-4.521	-4.210
	(1.235)	(0.879)	(1.676)	(1.336)	(-1.054)	(-0.702)
Cash _t	0.937	1.931	1.287	2.357	-0.212	0.634
	(0.940)	(1.457)	(0.704)	(0.935)	(-0.135)	(0.352)
Top1 _t	-0.237	-1.409	-0.635	-0.475	1.234	0.950
	(-0.312)	(-1.466)	(-0.512)	(-0.268)	(1.138)	(0.714)

Age _t	0.234	0.224	0.085	0.191	-0.164	-0.002
	(1.390)	(1.051)	(0.234)	(0.371)	(-0.802)	(-0.009)
TMTpay _t	383.102***	473.329***	109.065	174.312	49.687	217.189
	(3.897)	(3.212)	(0.609)	(0.608)	(0.262)	(0.809)
TMTstock _t	-0.318	-0.431	-0.730	-1.301	0.146	-0.490
	(-0.621)	(-0.591)	(-0.727)	(-0.859)	(0.176)	(-0.550)
Invest _t	-0.163	1.465	1.818	3.928*	-1.098	1.009
	(-0.185)	(1.165)	(1.127)	(1.672)	(-0.751)	(0.590)
Constant	-11.806***	-19.580***	-13.385*	-24.681**	-2.161	-12.249*
	(-3.577)	(-4.633)	(-1.775)	(-2.364)	(-0.437)	(-1.917)
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	606	358	606	358	606	358
Adjusted R ²	0.341	0.212	0.169	0.156	0.302	0.242

Regress the significant intermediary factors in model (C), and the results are shown in Table 6. For the sample of overinvestment, Supply_t's coefficient is not significant. For the underinvested samples, the coefficients of Employees and Social are both positive and significant, and the coefficients of ANIPDI_t and AROEDI_t are negative and significant, but the values are small compared with the results in Table 2. Therefore, Employee_t and Social_t have a partial intermediary role. The Sobel test is significant and also supports the mediation effect. From the results, we know that if the company faces underinvestment, the performance target in the equity incentive contract can curb underinvestment and improve investment efficiency by reducing the benefits of other stakeholders, especially by reducing the benefits of employees and neglecting to fulfill social responsibilities. But there is no such effect in the sample of overinvestment.

Table 7 Group Inspection Results

Variable	Over-investment		Underinvestment			
	(1)	(2)	(3)	(4)	(5)	(6)
	O_Invest _{t+1}	O_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}
Employee _t			0.008***	0.004**		
			(3.160)	(2.003)		
Supply _t	-0.005	-0.002				
	(-1.033)	(-1.080)				
Social _t					0.005**	0.006**

					(2.527)	(2.277)
ANIPDI _t	-0.119**		-0.065**		-0.061*	
	(-1.988)		(-1.988)		(-1.901)	
AROEDI _t		-0.758*		-0.061*		-0.063*
		(-1.693)		(-1.794)		(-1.868)
Size _t	-0.022	0.008	-0.014*	-0.006	-0.011	-0.006
	(-1.213)	(1.158)	(-1.948)	(-0.748)	(-1.619)	(-0.789)
Lev _t	0.205	-0.063*	-0.051	-0.038	-0.057	-0.044*
	(1.463)	(-1.850)	(-0.928)	(-1.494)	(-1.062)	(-1.769)
Growth _t	0.074	-0.027**	0.039	-0.033	0.038	-0.035
	(1.051)	(-2.457)	(1.257)	(-0.740)	(1.224)	(-0.766)
ROA _t	-0.657	0.269***	-0.307*	-0.004	-0.260*	0.032
	(-1.338)	(2.975)	(-1.907)	(-0.052)	(-1.651)	(0.434)
Cash _t	0.103	0.070**	0.000	0.027	0.009	0.031
	(0.851)	(2.567)	(0.004)	(0.578)	(0.123)	(0.641)
Top1 _t	0.026	0.040	0.070	-0.025	0.061	-0.036
	(0.344)	(1.337)	(1.610)	(-0.788)	(1.372)	(-0.927)
Age _t	0.009	0.008	0.016*	0.006	0.019**	0.007
	(0.699)	(1.532)	(1.735)	(1.053)	(2.017)	(1.277)
TMTpay _t	-10.859	4.269	1.085	-2.200	3.867	-1.695
	(-1.239)	(1.022)	(0.186)	(-0.424)	(0.661)	(-0.362)
TMTstock _t	0.043	0.009	0.038	0.012	0.034	0.013
	(0.582)	(0.424)	(1.369)	(0.768)	(1.252)	(0.814)
Invest _t	0.225	0.193***	0.183**	0.209***	0.188***	0.209***
	(1.237)	(4.010)	(2.582)	(4.575)	(2.662)	(4.614)
Constant	0.510	-0.185	0.335**	0.223	0.252*	0.222
	(1.521)	(-1.257)	(2.219)	(0.916)	(1.740)	(0.980)
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	618	321	606	358	606	358
Adjusted R ²	0.562	0.567	0.676	0.087	0.675	0.119
Sobel Test	0.005	0.001	0.005**	0.001**	0.002**	0.002*
	(0.479)	(0.941)	(2.479)	(2.231)	(1.979)	(1.879)

Summarizing the results of the intermediary effect, we find that for over-invested companies, executives with private interests may pay more attention to the scale of investment and ignore the return on investment, which leads to over-investment. In order to achieve the performance goals in the equity incentive contract, executives have the motive to reduce self-interest or increase information transparency, so as to make investment decisions more effective and improve investment efficiency. For companies that underinvest, underinvestment

may be caused by tight funds or lack of other resources. When executives face the pressure of performance goals, to successfully achieve the performance goals, they must ensure the scale of investment and return. Due to resource constraints, executives choose to compromise the interests of other stakeholders, such as reducing employee compensation, or reducing their contribution to society, to ensure that there are sufficient funds for investment. This method may also damage the efficiency of corporate governance. From the results in columns (7) and (8) of Table 3, it can be seen that the higher the performance index, the lower the transparency of the information of the underinvested company. Therefore, executives try to realize their own interests by harming the interests of other stakeholders.

Further Inspection and Analysis

(1) Impact on The Business Life Cycle

According to existing literature, enterprises in different stages of their life cycle have distinct production, operation, and organizational characteristics. Growth companies develop faster and have stronger profit growth, but they have not formed a stable profit model and face greater investment risks. In the mature stage, the company's organizational structure tends to be perfect, the market position is relatively stable, the surplus accumulation is high, the profit growth is stable, and the investment is relatively stable. In a declineary period, firms have begun to lose market competitiveness and profits, unable to grow their profits, and facing a lot of financial difficulties and increased investment difficulties. Therefore, this dissertation believes that companies in different life cycle stages will have different effects of implementing equity incentives.

Referring to the research of Huang Hongbin et al. (2016), Xie Peihong and Wang Chunxia (2017) and Hou Qiaoming et al. (2017), this dissertation is also based on the method of Dickinson (2011). The enterprise life cycle is divided into three categories: growth, maturity and decline. Then, regression analysis is carried out on the performance goals and investment behaviors of equity incentives in groups. The regression results are shown in Table 8. For companies in the growth stage, the net profit growth rate ($ANIPDI_t$) of equity incentive contracts is significantly positively and negatively correlated with the company's next year's investment scale (INV_{t+1}) and investment efficiency ($Ainvest_{t+1}$) at the level of 5%. However, ROE ($AROEDI_t$) has no significant relationship with investment scale (INV_{t+1}) and investment efficiency ($Ainvest_{t+1}$). It shows that for companies in the growth stage, using the growth rate of net profit with growth attributes as the performance target can more effectively stimulate the investment behavior of executives. For companies in the mature stage, the net profit growth rate ($ANIPDI_t$) and return on equity ($AROEDI_t$), investment scale (INV_{t+1}) and investment efficiency ($Ainvest_{t+1}$) of equity incentive contracts are all significant at 1% relationship, indicating that the performance target setting of equity incentives is more effective for the incentives of mature companies. For companies in decline, the regression results are not completely significant, indicating that the implementation of equity incentives cannot play its due role in decline companies.

Table 8 Grouping Regression of Enterprise Life Cycle

	Growth		Mature		Decline	
	(1)	(2)	(3)	(4)	(5)	(6)
Variable	$InvestE_{t+1}$	$InvestE_{t+1}$	$InvestE_{t+1}$	$InvestE_{t+1}$	$InvestE_{t+1}$	$InvestE_{t+1}$
$ANIPDI_t$	-0.053***		-0.078***		0.001	
	(-4.238)		(-6.929)		(0.145)	
$AROEDI_t$		-0.204		-0.585***		-0.140

		(-1.611)		(-4.423)		(-0.493)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	740	408	398	234	100	50
Adjusted R ²	0.411	0.122	0.702	0.298	0.345	0.048

(2) *The Impact of Equity Incentive Types*

Equity incentives implemented by Chinese listed companies mainly include stock options and restricted stocks. Based on these two different forms of equity incentive contracts, the impact of performance goals may also be different. However, the current research on the incentive effects of restricted stocks and stock options has no unified conclusion. The possible explanation is that there are differences in the relevant policy systems for different types of incentives, resulting in different incentive effects. Based on China's equity incentive-related policies, compared with stock options, listed companies have more obvious advantages in using restricted stocks. Therefore, unlike foreign companies that prefer to use stock options as the type of equity incentives, Chinese listed companies are more inclined to use restricted stocks as a type of equity incentive. On the one hand, the grant price of restricted stocks can be set at 50% of the average stock price in the period before the announcement of the draft equity incentive plan, and there is a large room for future income. The stock option grant price is generally set as the average price of the stock during the period before the announcement of the equity incentive draft. In view of the great uncertainty of price fluctuations in China's stock market, the grant price and the exercise price may appear "stock price inversion", which in turn leads to a higher risk of equity incentives not being exercised. On the other hand, restricted stocks require the incentivized object to first invest in the purchase of the stock, so the incentivized object needs to bear a certain cost, which promotes the incentivized object to work

harder, and at the same time increases his willingness to stay in the company.

This Dissertation introduces $Type_t$ to measure the type of equity incentives. When the company's equity incentive plan uses restricted stocks, $Type_t$ is 1, and when stock options are used, $Type_t$ is 0. Table 9 lists the regression results for different types of equity incentives. Table 10 lists the regression results for different types of equity incentives. It can be found that compared with stock options, the use of restricted stocks has a more significant positive correlation with equity incentive performance goals and company investment scale, and a more significant negative correlation with equity incentive performance goals and company investment efficiency. Therefore, the performance targets set by companies using restricted stocks will significantly increase the company's future investment scale and improve future investment efficiency, which means that the use of restricted stocks has a stronger positive incentive for company executives.

Table 9 Grouped Regression Of Equity Incentive Types

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	InvestE _{t+1}	InvestE _{t+1}	O_Invest _{t+1}	O_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}
ANIPDI _t	-0.046*** (-3.132)		-0.109* (-1.778)		-0.056*** (-3.280)	
AROEDI _t		-0.364*** (-4.618)		-0.541*** (-4.056)		-0.064** (-2.534)
ANIPDI _t *Type _t	-0.020** (-2.083)		-0.148* (-1.946)		-0.020* (-1.763)	
AROEDI _t *Type _t		-0.418*** (-3.297)		-0.444*** (-2.989)		-0.060** (-1.992)
Type _t	0.014 (1.448)	-0.003 (-0.850)	0.106** (2.165)	-0.004 (-0.579)	0.013 (1.175)	-0.002 (-0.567)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	1,238	692	625	327	613	365
Adjusted R ²	0.520	0.447	0.608	0.552	0.679	0.540

(3) *The Impact of Executive Equity Incentives*

Regarding the analysis of the incentive effect of executive equity incentive

intensity, scholars have not reached a unified conclusion. Based on the background of equity incentive policies of Chinese listed companies, this dissertation believes that when executives who receive equity incentives can obtain higher potential returns in the future, they will work harder to enhance the value of the company, so as to obtain high returns for themselves by increasing the stock price. When faced with the pressure of performance targets of equity incentives, executives will have the motivation to increase the company's investment scale, thereby increasing future income. In this process, executives improve the company's investment efficiency to ensure effective investment, reduce unnecessary costs, and ensure the smooth completion of performance goals. Therefore, when the intensity of equity incentives for executives is higher, the incentive effect is more obvious, which can further enhance the significant relationship between performance goals and investment behaviors in equity incentive contracts. Refer to previous research models to calculate the incentive intensity of executives.

$$TMTper_t = \frac{0.01 \times P_{i,t} \times (C_{i,t} + O_{i,t})}{0.01 \times P_{i,t} \times (C_{i,t} + O_{i,t}) + W_{i,t}} \quad (4)$$

Among them, $P_{i,t}$ is the stock closing price of listed company i at the end of year t , $C_{i,t}$ and $O_{i,t}$ are the stock or option shares obtained by the executives of listed company i through t -year equity incentives. $W_{i,t}$ is the cash compensation of executives in year t . The higher the $TMTper_t$, the higher the incentive intensity of executives, that is, the higher the total equity returns available in the future. This dissertation uses the dummy variable *Intensity* to reflect the executive's equity incentive intensity. When the executive's incentive intensity is higher than the industry median, *Intensity* is 1, otherwise it is 0.

Table 10 shows the regression results of executive equity incentive intensity.

When the executive equity incentive intensity is higher, the positive correlation between the equity incentive performance target and the company's investment scale is more significant, and the equity incentive performance target is negatively related to the company's investment efficiency. The correlation is more significant. Therefore, when the executives' equity incentive intensity is higher, the performance targets set by them can significantly increase the company's investment scale in the future and improve the future investment efficiency.

In the absence of other conditions, the duration of executive stock options may not significantly affect investment efficiency. This is because the impact on investment efficiency is not the length of time for giving stock options to executives, but the assessment objectives for executives before giving stock options to executives. Investing in companies based on performance goals (of course, investment scale and efficiency are also included).

If the executive fails to complete the performance target set in the equity incentive contract, he will not be awarded the equity incentive, and there will be no issue of the length of the executive stock option; if the executive stock option is consistent with the performance target set in the equity incentive contract. If it is not matched, it may have an impact on investment efficiency, but this impact is still generated by the performance goals set in the equity incentive contract, rather than the length of time for executive stock options.

Table 10 Regression of The Influence of Executive Incentive Intensity

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	Invest E_{t+1}	Invest E_{t+1}	O_Invest t_{t+1}	O_Invest t_{t+1}	U_Invest t_{t+1}	U_Invest t_{t+1}
ANIPDI t	-0.003** (-1.976)		-0.081** (-2.362)		-0.005** (-1.992)	
AROEDI t		-0.791*** (-5.387)		-1.018*** (-10.909)		-0.128*** (-2.831)
ANIPDI t *Intensity t	-0.079***		-0.197**		-0.086***	

	(-9.730)		(-2.545)		(-10.119)	
AROEDI _t *Intensity _t		-0.365**		-0.418***		-0.061**
		(-2.478)		(-3.005)		(-2.040)
Intensity _t	-0.045***	-0.013***	-0.092*	-0.010*	-0.064***	-0.006*
	(-5.955)	(-3.304)	(-1.924)	(-1.701)	(-7.646)	(-1.806)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	1,238	692	625	327	613	365
Adjusted R ²	0.642	0.449	0.656	0.560	0.589	0.544

(4) *The Impact of Investment Behavior on The Achievement of Future Performance Goals*

This dissertation will test whether the executives can be motivated to increase investment scale and investment efficiency through the strictness of equity incentive performance target setting, and whether the performance target can be successfully completed in the end. Therefore, the performance targets of equity incentives are divided into high and low groups according to the industry median, and the impact of investment scale and investment efficiency of different groups on the final performance is tested. The specific models are as follows

$$FiIndex_{t+1} = \alpha + \alpha_1 Investment_t + \sum \alpha_i Controls_t + Year + Industry + \varepsilon \quad (5)$$

Among them, the dependent variable ($FiIndex_{t+1}$) of the regression model is the realization of the equity incentive performance target, Specifically, the realization degree of net profit growth rate ($DNIP_{t+1}$) - the difference between the actual net profit growth rate in the t+1 year of the equity incentive assessment period and the performance target in the equity incentive contract; And the realization degree of the weighted average return on equity ($DROE_{t+1}$) - the difference between the actual return on equity in the t+1 year of the equity incentive assessment period and the performance target in the equity incentive contract. The independent variables ($Investment_t$) include investment size

(INV_t) and investment efficiency (A_{invest_t}) in period t . In addition to the control variables of the main regression model, the control variables also refer to the research of Fang et al., and also add the accrual earnings management indicator (DA_t) and the real earnings management indicator (RM_t) to control the possible impact of earnings management on the achievement of performance goals.

Table 11 presents the group test results of investment behavior on the achievement of future performance goals. It can be found that in the high performance target group, that is, the equity incentive performance target is set higher, the company's investment scale (INV_t) at the level of 1% is significantly similar to the company's next year's equity incentive performance target ($DNIP_{t+1}$ and $DROE_{t+1}$) positive correlation. The company's investment efficiency (A_{invest_t}) is significantly negatively correlated with the company's achievement of the company's equity incentive performance goals in the next year ($DNIP_{t+1}$ and $DROE_{t+1}$) at the level of 1%. This shows that when the equity incentive performance target is set more strictly, the executives will complete the performance target by increasing the investment scale and investment efficiency, which further supports the research hypothesis of this dissertation. In the low performance target group, that is, the equity incentive performance target setting is low, there is no significant relationship between the investment scale and investment efficiency and the degree of achievement of the equity incentive performance target ($DNIP_{t+1}$ and $DROE_{t+1}$), the accrual earnings management indicator (DA_t) and the real earnings management indicator (RM_t) have a higher degree of significance on the achievement of performance goals ($DNIP_{t+1}$ and $DROE_{t+1}$). This shows that when the performance target of equity incentives is set low, it cannot effectively motivate the executives to work hard to enhance the

value of the company. Instead, the executives use earnings manipulation to achieve performance targets for the realization of personal interests.

Although there are many studies on contracts in the United States, the author did not find relevant studies on setting performance targets in equity incentive contracts; the possible reasons for Chinese studies that differ from those of the United States are as follows:

Incentives and restraints are the purpose of the contract between China and the United States. Equity incentive contracts in the Chinese system are intended to motivate employees through assessment; if the performance target set isn't met, no equity incentive will be awarded. The equity incentive can only be obtained after meeting the exercise conditions, so executives have a harder time obtaining personal benefits from equity incentive contracts even after obtaining it;

China's capital market tends to be a weakly efficient market, with a serious problem of information asymmetry. The larger the investment scale announced by the company, the higher the stock price return. As a result, executives can obtain higher returns by raising stock prices rather than through actual business performance. This leads to the implementation of equity incentives, which increases executives' risk appetites. In order for executives to receive higher returns, the larger the investment scale, the higher the stock price. The larger the investment scale, the higher the performance target set. In addition to the stock price increase, executives can also receive performance bonuses if they achieve high performance goals. It means that executives seek to maximize their personal interests at the expense of the company's long-term interests

Table 11 The Regression Results of The Impact of Investment Behavior on The Achievement of Future Performance Goals

	High-performance targets		Low-performance targets	
	(1)	(2)	(3)	(4)
Variable	NIPD _{t+1}	ROED _{t+1}	NIPD _{t+1}	ROED _{t+1}
InvestE _t	-5.7603*** (-7.9249)	-2.1783*** (-4.6314)	-1.8253* (-1.6849)	-0.2912 (-0.7909)
DA _t	-0.2548 (-0.3867)	0.1086 (0.9738)	0.2129** (2.2726)	0.4439** (2.3775)
RM _t	-0.1501 (-0.3412)	0.1423 (0.8570)	0.3604* (1.6962)	0.0190* (1.7588)
Controls	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes
N	923	532	923	532
Adjusted R ²	0.496	0.382	0.021	0.052

Robustness Testing and Analysis

(1) Replacing The Historical Benchmark of Performance Targets in Equity Incentive Contracts

In the aforementioned analysis, this dissertation uses the average performance of the company in the same industry and the same sector in the previous year as the relative target value of the performance target compared with the historical benchmark. Therefore, this dissertation replaces the historical benchmark, and uses the average value of the actual performance indicators of companies that implement equity incentives for three periods as the historical benchmark adjustment item. If the company has been listed for less than three years, the average historical performance of the listed years shall be used, and the adjusted performance target of equity incentives shall be calculated accordingly to re-regress the model(1). Table 12 lists the regression results after replacing the performance target benchmark. It can be found that the results are consistent with the main regression results, and the hypothesis testing results remain robust.

Table 12 Regression of Alternative Performance Target Measures

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	InvestE _{t+1}	InvestE _{t+1}	O_Invest _{t+1}	O_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}

ANIPD3 _t	-0.001***		-0.105***		-0.001***	
	(-2.924)		(-4.852)		(-3.346)	
AROED3 _t		-0.273**		-0.413**		-0.032**
		(-2.229)		(-2.410)		(-2.232)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	1,238	692	625	327	613	365
Adjusted R ²	0.236	0.196	0.513	0.177	0.378	0.533

(2) *Robustness Test for Adding SOE Samples*

Since excluding the sample of state-owned enterprises may also lead to the problem of sample self-selection, the sample of state-owned enterprises is added again in the robustness test for regression. In the test, a variable State, which reflects the nature of the company is added. Statet is 1 when the company is a state-owned enterprise, and 0 otherwise. Table 13 lists the test results after adding the SOE sample. It can be found that the test results are consistent with the main regression results, and the hypothesis test results remain robust.

Table 13 Regression results of adding state-owned enterprises

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	InvestE _{t+1}	InvestE _{t+1}	O_Invest _{t+1}	O_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}
ANIPDI _t	-0.058***		-0.210***		-0.068***	
	(-6.131)		(-4.318)		(-6.289)	
AROEDI _t		-0.628***		-0.874***		-0.090**
		(-4.467)		(-6.840)		(-2.271)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	1,322	734	662	344	660	390
Adjusted R ²	0.486	0.398	0.517	0.498	0.647	0.540

(3) *Two-Stage Regression of Instrumental Variables*

Considering the significant relationship between the performance objectives in the equity incentive contract and the company's investment behavior, it may be caused by the influence of other company characteristics. In order to solve this endogenous problem, this dissertation draws on similar research, and uses the

average performance of other companies in the same industry and the same sector where the equity incentive company is located that has not implemented equity incentives as an instrumental variable for performance target setting, which will be based on the performance target in the equity incentive contract. , according to the same caliber, calculate the average actual performance of other peer companies in the same sector in the current period when the equity incentive company implements equity incentives. As shown in Table 14, this dissertation conducts the under-identification test on the instrumental variables, and the results are all significant at 1%, indicating that the instrumental variables are significantly related to the endogenous variable of performance goal setting. In the weak identification test, all F-values are greater than 10, which indicates that there is no weak instrument problem, i.e. the instrument is valid. From the two-stage instrumental variable test results, it can be found that after using the instrumental variables, the regression results of each model are consistent with the main regression results, indicating that after controlling the endogeneity problem, the hypothesis verification results remain robust.

Table 14 Two-stage Instrumental Variable Regression Test

	FIRST-STEP		SECOND-STEP					
	(1)	(2)	(1)	(2)	(3)	(4)		
Variable	ANIPDI _t	AROEDI _t	InvestE _{t+1}	InvestE _{t+1}	O_Invest _{t+1}	O_Invest _{t+1}	U_Invest _{t+1}	U_Invest _{t+1}
IVANIPDI _t	1.013***		-0.087***		-0.337***		-0.096***	
	(6.398)		(-7.551)		(-6.593)		(-7.540)	
IVAROEDI _t		0.853**		-0.905***		-1.311***		-0.102**
		(2.096)		(-2.873)		(-6.466)		(-2.420)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year/Industry	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	1,238	692	1,238	692	625	327	613	365
Adjusted R ²	0.621	0.300	0.614	0.281	0.733	0.365	0.768	0.534
Underidentification test			0.001	0.003	0.001	0.002	0.002	0.001
Weak identification test			16.71	17.42	13.52	14.72	15.38	14.71

CHAPTER 5

CONCLUSION

Conclusions and Contribution

The current research on equity incentives mainly considers it as a whole for discussion, but ignores the impact of the specific contract setting of equity incentives on the subsequent incentive effects, especially the performance target as the primary pressure faced by the executives to be motivated. Significantly affect the investment behavior of executives. Investment, as a key activity of the company's daily operations, is the basis for the company's sustainable development to obtain cash flow. As the main decision makers and executors of the company's investment activities, the senior management's behavior directly affects the company's investment scale and investment efficiency, which in turn affects the company's future earnings and company value. As a result, this dissertation examines in detail how equity incentive performance targets affect company investment behavior.

The research conclusions of this dissertation finally support the optimal contract theory and find that equity incentive performance targets can effectively increase the company's investment scale and investment efficiency, while restraining inefficient investment behavior. Moreover, when the company's future performance expectations are relatively negative, executives will reduce the scale of investment in new projects, thereby reducing investment efficiency and inhibiting effective incentives for performance goals. In addition, this dissertation

refines the company's investment behavior and finds that when there is performance pressure, executives are more inclined to use stable investment methods such as fixed asset investment and long-term equity investment. At the same time, because the company's R&D and innovation investment risk is greater and the return cycle is long, once R&D fails, it will increase the company's cost and reduce the company's net profit. Therefore, when executives face greater pressure on performance goals, equity incentives cannot well motivate them to increase R&D investment. In addition, companies in different life cycles have significant differences in the impact of equity incentive performance targets on investment behavior, with the most significant impact on mature companies. When the equity incentive performance target is set strictly, the executives will improve the investment scale and investment efficiency to complete the performance target. When the equity incentive performance target is set low, it cannot effectively motivate the executives to work hard to enhance the company's value. Executives may, for the realization of their personal interests, tend to choose easier earnings manipulation methods to achieve performance goals.

We found that the performance target in the executive equity incentive contract has a significant positive impact on the investment efficiency of listed companies, and inhibits inefficient investment behavior. For more in-depth research, we focus on the ways in which performance goals affect investment efficiency. We found that if the company faces over-investment, the performance targets in the equity incentive contract can reduce over-investment and improve investment efficiency by reducing the self-interest of executives or improving information transparency. If the company faces underinvestment, the

performance target in the equity incentive contract can reduce underinvestment and improve investment efficiency by reducing the benefits of other stakeholders, especially by reducing the benefits of employees and omitting the fulfillment of social responsibilities.

Moreover, by reducing information transparency and the interests of other stakeholders to achieve the performance goals in the equity incentive contract, underinvested companies may face a higher risk of stock price collapse in the future, and ultimately the interests of executives will be harmed. In other words, for listed non-state-owned enterprises that have underinvested in China, equity incentive contracts with performance targets are more risky.

Then we conducted some additional tests to further understand the relationship between the performance goals of equity incentive contracts and investment efficiency. For companies with different life cycles, performance-based equity incentive contracts are more effective for mature companies. In addition, the performance targets of restricted stocks and the intensity of executive incentives can significantly improve the company's future investment efficiency. When the performance target is relatively low, it is impossible to effectively motivate the executives to work hard to enhance the company's value. Instead, executives use revenue manipulation to achieve performance goals for personal gain.

This dissertation concludes with a great deal of significance for improving the equity incentive system in China. According to the research results, equity incentive performance targets can increase a company's investment scale and efficiency, as well as curb inefficient investment behavior, thereby increasing its

investment scale and efficiency. The further division of company investment behavior, however, indicates that executives will prefer to invest in fixed assets and long-term equity investments, rather than riskier R&D and innovation investments, especially when the future performance outlook is not favorable. The company will significantly reduce its investment in R&D and innovation. Therefore, companies should have more flexibility when setting equity incentive performance targets, especially for innovative growth companies, which can moderately reduce the assessment of net profit growth rates and pay more attention to the company's product research and development or market expansion. If you eliminate R&D and innovation expenses when assessing net profit, you will be able to flexibly evaluate executives' performance based on the company's actual situation, rather than following a "one size fits all" standard, so equity incentive contracts can be more effective in motivating senior executives. It aims to maximize the value of the company. At the same time, for companies in different life cycles, they should formulate reasonable performance appraisal targets according to their own development characteristics to adapt to the healthy development of the company.

Theory and Practice

Our research has contributed to the literature in several ways:

First, our findings are helpful to the equity incentive literature, pointing out that performance goal setting is important to reflect the efficiency of equity incentive contracts, which is rarely documented in the previous literature.

Second, our research contributes to the literature on performance-based

equity incentives based on the unique institutional settings of the Chinese capital market, in which regulators mandate performance targets to be attached to equity incentive contracts. This means that China provides a unique experimental scenario to study how the performance targets in equity incentive contracts can effectively function.

Third, our research is the first to explore performance goals to reduce overinvestment and curb underinvestment.

Fourth, our research shows why restricted stocks are more widely used in Chinese equity incentive contracts than stock options, and it provides a certain reference for the western world

Theory

Unlike previous studies that mostly focused on the impact of equity incentive plans on the company's investment behavior, this dissertation focuses on the performance target setting of performance equity incentives, and explores performance by manually collecting the types of performance indicators and specific values in equity incentive contracts. The effectiveness of goal setting and its impact on the company's investment behavior, thereby revealing the key mechanism for understanding how the equity incentive plan affects the company's investment behavior;

The research conclusions of this dissertation finally support the optimal contract theory and find that equity incentive performance targets can effectively increase the company's investment scale and investment efficiency, while restraining inefficient investment behavior. Moreover, when the company's future

performance expectations are relatively negative, executives will reduce the scale of investment in new projects, thereby reducing investment efficiency and inhibiting effective incentives for performance goals. In addition, this dissertation refines the company's investment behavior and finds that when there is performance pressure, executives are more inclined to use stable investment methods such as fixed asset investment and long-term equity investment. At the same time, because the company's R&D and innovation investment risk is greater and the return cycle is long, once R&D fails, it will increase the company's cost and reduce the company's net profit. Therefore, when executives face greater pressure on performance goals, equity incentives cannot well motivate them to increase R&D investment. In addition, companies in different life cycles have significant differences in the impact of equity incentive performance targets on investment behavior, with the most significant impact on mature companies. When the equity incentive performance target is set strictly, the executives will improve the investment scale and investment efficiency to complete the performance target. When the equity incentive performance target is set low, it cannot effectively motivate the executives to work hard to enhance the company's value. Executives may, for the realization of their personal interests, tend to choose easier earnings manipulation methods to achieve performance goals

Practice

This dissertation analyzes in detail the impact of the performance target setting in the equity incentive contract on the company's investment behavior. In this process, it not only examines the company's investment scale and investment efficiency, but also deeply explores its impact on different types of investment, as

well as The impact of the company's different life cycles;

The conclusion of this dissertation is of great significance to the improvement of the equity incentive system of listed companies in China. From the research results, it can be seen that the equity incentive performance target can effectively increase the company's investment scale and investment efficiency, and curb inefficient investment behavior. However, based on the further division of company investment behavior, it is found that executives will choose more secure and stable income fixed asset investment and long-term equity investment, and abandon the riskier R&D and innovation investment, especially when the future performance outlook is not good will significantly reduce R&D and innovation investment. Therefore, companies should have more flexibility when setting equity incentive performance targets, especially for innovative growth companies, which can moderately reduce the assessment of net profit growth rates, and pay more attention to the company's product research and development or market expansion. Or, when assessing net profit, eliminate the expenses incurred by R&D and innovation, so as to flexibly assess the performance of executives based on the actual situation of the company, instead of adopting a "one size fits all" standard, so that equity incentive contracts can more effectively incentivize senior executives. The tube strives to maximize the value of the company. At the same time, for companies in different life cycles, they should formulate reasonable performance appraisal targets according to their own development characteristics to adapt to the healthy development of the company.

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