

# On the Implementation of Medium and Long Term Incentive in State-Owned Enterprises

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**Abstract:** The medium and long term incentive system is an effective incentive system for the long-term development of enterprises in the future. This mode achieves the purpose of long-term development of the company by giving the relevant income rights to incentive objects. On the one hand, the long-term incentive makes the incentive objects pursue their own interests to maximize, improve efficiency and increase the value of the company; On the other hand, it can restrict the exercise of executives, and the exercise conditions in line with the actual situation of the company can better promote the long-term development of the company. The medium and long term incentive system makes the stimulated and the enterprise become a whole to some extent, sharing risks and interests. China's research on the medium and long term incentive system is relatively late. In the current situation of China, this paper attempts to explore the selection and implementation of long-term incentive measures, and put forward suggestions for China's state-owned enterprises to implement the system, so as to better improve the corporate governance structure and enhance the competitiveness of enterprises.

**Keywords:** State-owned Enterprise, Medium and Long Term Incentive, Implementation points.

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## 1. Introduction

The medium and long term incentive of state-owned enterprises refers to the incentive way that connects the interests of the managers with the long-term development of the enterprise, and rewards the managers' operating performance and contribution in the long term. The incentive objects focus on the core scientific research personnel, important technical personnel and management backbones of the enterprise. It is applicable to state-owned scientific and technological enterprises, including transformation institutions and enterprises, high-tech enterprise recognized by the state, scientific and technological enterprises invested by institutions of higher learning and scientific research institutes or scientific and technological service institutions recognized by the state and the provincial level. The purpose is to unify the interests of employees and the interests of enterprises, and the goals of employees and enterprises, so as to enhance the endogenous power of enterprises.

As a required list of state-owned enterprise reform, many enterprises are trying to establish medium and long term incentive policies. Then how can we use medium and long term incentives to motivate employees and help business? Corresponding to the medium and long term incentive is the short-term salary incentive. The short-term salary incentive includes wages, subsidies, insurance, welfare, year-end bonuses, etc. the short-term salary incentive is mostly as a return of labor value paid by employees, which is universal. The medium and long term incentive is an incentive for those who can create long-term value for the enterprise through knowledge, technology, capital and other elements. So the object of medium and long term incentive should be the person who can provide value for the long-term development

strategy of the company. Therefore, the medium and long term incentive policies must be combined with the company's overall strategic development. Through the analysis of the company's strategy, in order to achieve the strategic goals, what are the key talents needed in the future? How to keep the enthusiasm and enthusiasm of such talents in 3-5 years through the medium and long term incentive policy is the essence of medium and long term incentive.

## 2. The Choice of Medium and Long Term Incentive Measures

With the maturity of medium and long term incentive policies, the means of medium and long term incentive are becoming more and more diversified. How to choose the appropriate medium and long term incentive means based on the current situation of the company? First of all, we must meet the requirements of the policy and choose the appropriate incentive tools under the policy framework. In order to encourage state-owned enterprises to try a variety of medium-term and long-term incentives, the Ministry of science and technology, the Ministry of finance, the SASAC, etc. have issued relevant incentive policies. However, after combing the policies, if they are fully in accordance with the policy guidance, there are few tools for enterprises to choose. Here, it is suggested that when enterprises choose medium-term and long-term incentives, they should first look at whether the "hard conditions" meet the requirements. The hard conditions include: whether it is a listed company, whether it is a commercial class one company or commercial class two company. Soft conditions can be cultivated according to policy requirements, and appropriate incentive tools can be determined after relevant measures are taken to move closer to the policy. Then, match the company's

development stage, choose the tools that can be operated and can promote business development. Match the corresponding incentive tools with the needs of enterprise strategic development. If the strategic goal of the enterprise 3-5 is to expand the market scale and achieve business growth, priority can be given to the sharing of excess profits. The incentive guidance is to encourage the creation of incremental performance and distribute based on incremental profits, which is conducive to the enterprise to quickly occupy the market and achieve business growth. If the mature business of the enterprise has entered a stable period, the future 3-5 strategic plan is to expand new business types and layout the second business growth line, then equity incentive tools can be selected at this time, by letting the enterprise's senior management team and core backbone employees hold the company's equity, to create a community of interests, guide attention and participation in the long-term development of the company, and let employees share the company's growth value. If the future strategic orientation of the enterprise is new product research and development, and scientific research projects are encouraged, then it can be considered to choose project follow-up investment, project income dividends and other ways. Through the project follow-up investment and project dividend mechanism, guide scientific researchers to continue to invest in innovation, and guide them to focus on economic benefits on the basis of innovation at the same time, so as to promote the transformation of scientific research project achievements and economic benefits. In addition, in order to introduce and retain some core key talents, the incentive tool of post bonus can be matched. As long as the post can create value for the enterprise, it will get corresponding income.

### 3. Key Points for the Implementation of Medium and Long Term Incentive

Although tool selection is very important, but in the actual operation process, there are many details to pay attention to, such as no repeated incentive, how to deal with related transaction business, how to cash in the incentive of post transfer or dismission, etc. We should also adhere to principles and enhance the normalization of policies. An effective medium and long term incentive is not simply a mechanical application of tool methods, but a comprehensive application of multi-dimensional strategies by combining the enterprise's development stage, management maturity, strategic layout, business model and talent structure. We should also adhere to the laws and regulations, strictly abide by the relevant laws and regulations of the state and the relevant provisions of state-owned assets supervision, and prevent the loss of state-owned assets; It is necessary to ensure that it is fair and reasonable, and implement the open rules, procedures and results of the medium and long term incentive plan, so as to promote healthy and sustainable development.

### 4. Conclusion

In order to give full play to the positive role of reward in innovation incentive and avoid its long-term side effects, we need to design an innovation incentive mechanism that can balance the internal and external drive.

a. Clear innovation goals and values. Make clear the goal and values of innovation, so that the innovators realize that innovation is not only for the reward, but also for the long-

term development of the organization and the common progress of the society. By emphasizing the social value and mission of innovation, the intrinsic motivation and responsibility of innovators are stimulated.

b. Diversified and personalized reward system. Build a diversified and personalized award system, including material awards, spiritual awards, career development opportunities, learning and training and other forms of awards. At the same time, according to the different needs and preferences of innovators, personalized incentive programs are provided to meet their diverse incentive needs.

c. Cultivate and stimulate internal motivation. By providing a good working environment, encouraging independent decision-making, and providing meaningful challenges, innovators can enhance their sense of commitment and achievement. At the same time, regularly communicate and feedback with innovators, understand their needs and confusion, and help them find the meaning and value of their work.

d. Establish a mechanism combining long-term and short-term incentives. In the short term, through the establishment of clear innovation goals and corresponding incentives, the initiative and action of innovators can be quickly stimulated. In the long run, by providing career development path, equity incentive, achievement sharing and other ways, the personal interests of innovators and the long-term development of the organization are closely linked to achieve long-term incentive effect.

Establishing a multi-level medium and long term incentive system is the main trend of state-owned enterprise reform in the new era. Qualified enterprises should respond to the call of policy, boldly emancipate their minds, make full use of the policy "toolbox", play a good incentive combination, establish a multi-level and systematic long-term incentive system with various characteristics, build a benchmark and model of state-owned enterprise reform in the new era, and enhance the sense of gain and happiness of employees.

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