

# Research of Medium and Long-Term Incentive Based on "Six Determinations" Model

Huangrong Xia<sup>1\*</sup>, Wen An<sup>2</sup>, Fuzhen Niu<sup>3</sup>, Ruchao Zhao<sup>4</sup>, Wei Wang<sup>5</sup>

<sup>1\*</sup> Corresponding author: xiahuangrong@qq.com, <sup>2</sup>an.yun@163.com, <sup>3</sup>1486637136@qq.com, <sup>4</sup>zrcruc@126.com, <sup>5</sup>realweiwang@163.com

<sup>1-5</sup>Beijing Institute of Space Long March Vehicle Beijing, China

**Abstract**—In recent years, as market competition has intensified, the attraction and retention of core staff have become an important issue and challenge for state-owned enterprises. Medium and long-term incentives, as an incentive mechanism that associates the future compensation and benefits of the incentive object with the business performance goals of the company, will provide solutions for the above issue. Under the vision of deepening the reform of state-owned enterprises, the Beijing Institute of Space Long March Vehicle (referred to as BLSLMV), has built a research model of "six determinations" incentive system. This article introduces the "six determinations" model in detail, and summarizes the incentive effect through data analysis, in order to provide a reference for the implementation of medium and long-term incentives for state-owned enterprises.

**Keywords**- Medium and Long-term Incentives; State-owned Enterprise Reform; performance commitments.

## 1 INTRODUCTION

Since the 18th National Congress of the Communist Party of China, the Party Central Committee has strengthened the top-level design and formed a "1+N" policy system led by the "Guiding Opinions on Deepening the Reform of State-owned Enterprises" [1], ensuring that the reform of state-owned enterprises has a direction, objectives and compliance. Especially in 2020, the Central Committee issued the "Three-year Action Plan for State-owned Enterprise Reform (2020-2022)" (referred to as the "Action Plan"), which requires state-owned enterprises to "continuously improve market-oriented operating mechanisms and fully stimulate corporate vitality" with the aim of supporting More state-owned enterprises use medium and long-term incentive policies to fully stimulate the enthusiasm, initiative and creativity of key employees.[2]

This paper follows the 19th National Congress of the Communist Party of China reported on "deepening the reform of state-owned enterprises", "improving the distribution system based on factors" [3] and the above-mentioned reform ideas. To achieve the specific requirements of cultivating and retaining people, and through the design of the "six determinations" model, gradually establish a medium and long-term incentive distribution system guided by contributions.

First, exploring the model establishment plan, and formulating the "Implementation Plan for Dividend Dividends for Key Staff of the Fourteen Institutes" from the six dimensions of

"determining qualifications, determining the total amount, determining the target, determining the performance, determining the distribution method, determining the cycle and management".

Second, sort out the candidates for positions, follow the principle of leaning toward key core scientific research and design positions, clarify the evaluation criteria for frontline backbone personnel on the basis of determining incentive positions, and standardize the selection process.[5]

Third, focusing on the fixed distribution of performance, with equal emphasis on constraints and incentives, set incentive targets for the current year's performance commitments, and achieve the performance commitments to obtain corresponding incentives; at the same time, the award adopts a deferred payment model to give full play to the medium and long-term incentive effects.

The results described in this paper have been applied in practice in the Beijing Institute of Space Long March Vehicle. As the first batch of pilot units in the group, the company takes the achievement of organizational goals as the prerequisite for exercise, and the achievement of personal performance as the basis for fulfillment. It has established a medium and long-term incentive mechanism based on performance commitments. The salary level of bone talents has been significantly improved, and the organization's business performance continues. In the past 3 years of implementation, the strategic performance are all Grade A, and the core talent retention rate is above 99%. At the same time, the theory and practical experience also provide references for other units.

## **2 DETAILED PLANS**

The original distribution mechanism of BISMV is not flexible enough. Without the effective incentive and clear exit mechanism, the core staff lack the sense of identity and the improvement of self-worth. The personnel incentives cannot be strongly bound to performance, and it is difficult to truly establish incentives linked to efficiency and benefits system and other issues.[4]

In order to solve the above problems, BISMV followed the policy of "Three-Year Action for State-owned Enterprise Reform" and "focus on improving the medium and long-term incentive mechanism", sorting out the key positions, clarifying the selection criteria for incentive objects, exploring the medium and long-term incentives with both constraints and incentives for core staff. At the same time, further improve short-term incentive methods, improve performance evaluation mechanisms, increase spiritual incentives, strengthen the training and selection of key talents, optimize the value distribution system, and form a medium and long-term incentive mechanism that honors job dividends based on performance commitments, and strengthen the sense of belonging of talents. And a sense of identity, which in turn promotes the overall improvement of the organization's business performance and competitiveness.

### **2.1 Sort out Core Positions and Determine Incentive Targets based on Performance**

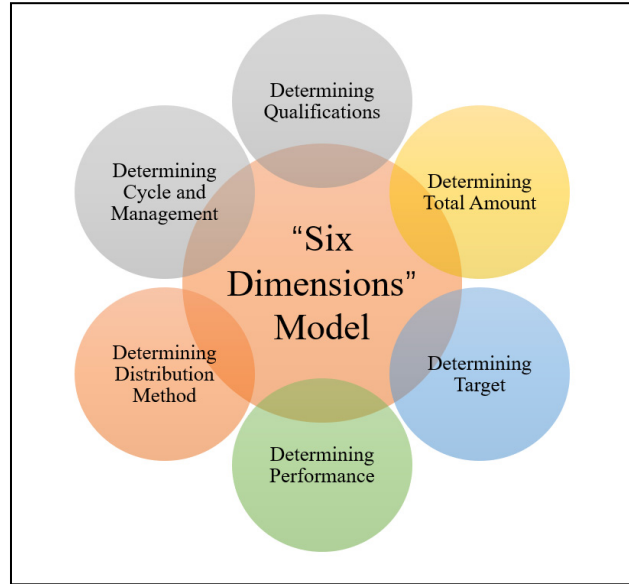
Based on the overall standard of "outstanding performance, recognized by employees and leaders", the research carried out the determination and selection of incentive targets, and specifically adopted a four-step strategy:

First is to clarify the positioning of frontline backbone personnel. According to the relevant guidance documents of the state, group companies and institutes, combined with the specific conditions of the 14 institutes, the front-line backbone personnel are defined as important technology, operation and management backbone talents that play a key role in the growth of organizational efficiency.

The second is to determine the positions where the frontline backbone personnel will be generated. When determining incentive positions, two principles are followed: one is to lean toward key core scientific research and design positions; the other is to appropriately and strictly control management positions. Divide dividend incentive positions into two major sequences: scientific research management and design production, and focus on key first-line research and development, design, quality, and scientific research management positions to strengthen the ability of product development, design, production and management. Among them, in design In the production sequence, grassroots posts are appropriately extended to reflect the value of technological elements, technological innovation, etc. to the development of the organization; while the posts in the scientific research management sequence are appropriately and strictly controlled, mainly based on the ability to introduce military and economic benefits as the main judgment basis.

The third is to clarify the evaluation criteria for frontline backbone personnel. Based on the clear positioning of the front-line backbone personnel, through the selection of core positions, the selection conditions of backbone talents are defined from multiple dimensions such as basic evaluation, performance evaluation, democratic voting, workload, and six general inclusion criteria are drawn accordingly, as shown in Fig. 1. From the perspective of incentives, combined with the actual situation of the institute, six general veto items were obtained, which further enriched the connotation of the evaluation criteria for key talents.

The fourth is to select frontline backbone personnel through certain organizational procedures. Under the premise of meeting the scope of incentive positions and meeting the general inclusion criteria and rejection items, the employees themselves submit applications, make performance commitments, and include them in the special performance appraisal requirements during the incentive period. The applicants and performance commitments will be reviewed by the department for the first time, and the final review and publicity will be conducted at BLSLMV. After no objection, a list of incentive targets will be generated. Incentive targets must sign the "Key Staff Post Dividend Incentive Agreement", and contract performance requirements and liability for breach of contract on paper to achieve the consolidation of the responsibilities of both the backbone and the organization. The entire selection process has clear principles and clear standards. The procedures are transparent, so that the motivated personnel finally meet the overall standard of "outstanding performance, recognized by employees, and recognized by leaders".



**Figure 1.** Schematic Diagram of “Six Dimensions” Model

## 2.2 Design the Total Amount of Incentives and Its Cashing Method Oriented by Value Creation

In order to fully emphasize operating performance-oriented, increase profit, tap the company’s own development potential, encourage employees to actively participate in scientific research and production activities, and for sustainable development, the total incentives are set to be based on the net profit and net profit added value. At the same time, comprehensively considering the completion and breakthrough of annual innovation tasks, and the growth of operating performance, the total incentive formula is drawn as in (1) and (2):

$$T = NP_{\text{this year}} \times X\% + NPAD_{\text{this year}} \times Y\% \quad (1)$$

where  $T$  stands for total incentive,  $NP_{\text{this year}}$  stands for net profit of this year,  $NPAD_{\text{this year}}$  stands for net profit added value,  $X\%$  is determined by the evaluation results of BISLMV’s strategic performance,  $Y\%$  is the net profit growth rate of the BISLMV for the year.

$$NPAD_{\text{this year}} = NP_{\text{this year}} - NP_{\text{last year}} \quad (2)$$

In terms of the cashing of the total incentives, based on the medium and long-term incentive policies for backbone talents issued by the group company and the hospital, the net profit growth rate and the strategic performance evaluation results are used as the total cash-out evaluation items. At the same time, the 14th institute puts pressure on the total incentives Cashing is divided

into two aspects: basic quota cashing assessment and challenge quota cashing assessment. Among them, the basic quota fulfillment assessment takes task completion, overall benefit growth, and per capita benefit growth as the main assessment indicators; the challenge quota fulfillment assessment uses technological innovation and transformation as the challenge indicators, so that the establishment of incentive mechanisms is conducive to promoting overall benefits, per capita benefits, etc. The ability to innovate and transform scientific and technological achievements has been improved. Reasonably control the proportion of total incentives, and the total annual dividend incentives shall not be higher than 15% of the after-tax profits of the year.

### **2.3 Sign Performance Commitments and Clarify the Exit Mechanism of Incentive targets**

Clarify performance commitments and emphasize the bundling of assessment and incentives: The incentive objects must be proactively declared by themselves, and performance commitments should be made for the work of the year. Performance commitments must have specific, clear, and quantifiable evaluation indicators. The indicators are determined based on the incremental work in the past 1-2 years-market development, product development and technological innovation beyond the normal completion of the assigned tasks. The specific content It should be linked to the completion of tasks undertaken by individuals, technological innovation and growth indicators of operating efficiency, with the completion of scientific research and production tasks and technological development as the main focus. At the same time, the performance commitment is clearly stated in the agreement, and the incentive object can only obtain the corresponding incentive quota after successfully achieving the goals required by the performance commitment.

Strictly manage the exit of incentive objects: If the incentive object undergoes special circumstances such as job change, job transfer, it is clear that the incentive change or exit method emphasizes that if the incentive object resigns and the assessment result is poor, it will not only cancel its incentive rights, also need to deduct 30% of the incentive amount for the year. The establishment of the restraint mechanism further clarifies the distribution orientation with value creators as the core, closely binds organizational development and personal interests, stimulates the enthusiasm of key employees, and promotes the role of backbone through performance appraisal to realize the coordinated development of organizations and individuals. According to the actual incentive effect and business development, the number of incentive objects will be appropriately increased in response to the increase in the number of employees on the job and job changes, so as to promote and protect the enthusiasm of those who intend to enter the incentive positions by strengthening their performance.

### **2.4 Deferred Cashing of Incentive Quotas to Strengthen Long-term Motivation**

In accordance with the policy of CASC, and in order to maximize the long-term incentive effect of targets, the total amount of incentives that can be accrued in the current year is implemented in a three-year cycle. The incentive amount should be redeemed in next three years (the three-year ratio is 4:3:3).

## **2.5 Strengthen Short-term Incentives and Special awards, and Improve the Performance Appraisal Mechanism**

Enrich short-term incentives and special incentives. For departments, teams and individuals that bring economic benefits, reduce costs, or promote technological development, set up incremental performance rewards to encourage key employees to actively participate in market development, cost control and other scientific research and production Activities to contribute to the development. Set up model performance rewards to motivate the core key personnel of the model team for successful flight tests. For the key personnel with outstanding performance and good performance in the year, stage rewards are added, and the reward principle of distribution according to work is clearly defined, and the reward principle of more work is clear, and key employees are rewarded. The quota is 40%-50% apart from the average level of the department, emphasizes the principle of "timely incentives", and continues to play the guiding role of short-term and special incentives.

Optimize the system and process, and improve the performance evaluation mechanism. Closely integrate the management practice of military research institutes based on the concept of systemic thinking and refined management. Under the idea of comprehensive performance management, build a systematic assessment process; use goal-driven assessment methods to establish a comprehensive assessment index system and establish a clear Assessment goals: Based on refined management ideas, a refined assessment method is formed, and a comprehensive, systematic, efficient, practical and refined performance assessment system is established.

## **3 APPLICATION SITUATION AND PROSPECTS**

The implementation of the medium and long-term incentive plan provides ideas for the optimization of the value distribution system of enterprises and institutions. In the implementation process, new problems in salary distribution can be continuously summarized, and input analysis can be carried out. At the same time, carry out the tracking, communication and feedback of the incentive objects, and measure and evaluate the implementation effect in a timely manner. In the follow-up, the 14th Institute will revise, improve and supplement the scope of incentives, performance appraisal orientation, post value evaluation, service period constraints, etc., and continuously improve the effectiveness of the value distribution system for the core staff of the 14th Institute. Faced with the changes in the internal and external environment and corporate strategic goals faced by the fourteenth century, we will continue to make dynamic adjustments in practice, and through continuous improvement and improvement, we will build and maintain a high-quality, high-level and high-cohesive backbone team, and motivate core employees to carry out management innovation and technological innovation to improve the organization's business performance and competitiveness.

## **4 CONCLUSIONS**

The test of medium and long-term incentives of BISLMV has had a positive impact on the development of the institute in many aspects.

In terms of scientific and technological innovation, hundreds of achievements at all levels represented by the National Defense Science and Technology Award have been achieved. The innovation index assessment scores have been improved.

In terms of operating efficiency, the economy represented by revenue and total profits continue to increase at a substantial rate, as shown in table 1.

**TABLE 1. BUSINESS INDEX TABLE AFTER INCENTIVE**

<b>Enterprise Development Index</b>	<b>Value</b>
Average growth rate of operating income	More than 15%
Average growth rate of total profit	More than 18%
Average growth rate of per capita operating income	More than 20%
Per capita net profit growth rate	More than 20%
Average income growth of key talents	More than 15%
Voluntary turnover rate	Less than 1%

In terms of the stability of the talent team, during the implementation of the incentives, the whole firm's voluntary turnover rate was around 1%, the core talent retention rate was always above 99%, and the talent team was more stable.

In terms of management, the implementation of the backbone incentive plan has forced basic management to improve the level of refinement. The test institute has achieved a double harvest of scientific research, production and spiritual civilization construction. In addition, the signing of performance commitments for key employees provides a good foundation for the improvement of employee job descriptions and the optimization of job settings. The performance appraisal of key employees has promoted the strategic performance appraisal system of the institute.

## REFERENCES

- [1] Nie Chaofeng. "Research on Performance Management Optimization Method Based on the Perspective of State-owned Enterprise Reform," *Human Resources*, vol. 2020(04):83-84. (in Chinese)
- [2] Wen Zongyu, Tan Jing. "SSE Reform Evaluation & Index of China 2020," *FISCAL SCIENCE*. vol. 2021(04):106-117+134. (in Chinese)
- [3] Yu Fangqian. "The Three Mechanisms of Double Hundred Action" *Modern SOE Research*. vol. 2021(03):86-87. (in Chinese)
- [4] Chen Yun. "Research on the Core Issues of Medium and Long-term Incentive Implementation in State-owned Enterprise" *Scientific Development*. vol.2021(05):24-33. (in Chinese)
- [5] Zhu Qi. "Research on the effective path of implementing medium and long-term incentive in central enterprises" *Chinese Industry & Economy*. vol. 2021(07):112-114. (in Chinese)