

Reflections on Employee Stock Ownership Plan in China

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Abstract: As a new form of equity, employee stock ownership can be realized through employee stock ownership plan, so as to improve employees' sense of identity and belonging to the company, enhance employee stickiness, solve many development problems such as introducing high-quality talents, improving enterprise market vitality, and strengthening enterprise management ability. To date, employee stock ownership plan in our country has been more recognition, more and more enterprises to actively use of employee stock ownership plan to motivate employees, stimulate the staff's working enthusiasm, enhance the vitality of the life of the enterprise. However, there are still many shortcomings in ESOP that need to be improved, which also needs to be paid attention to and thought deeply by many enterprises.

1. The Emergence of Employee Stock Ownership Plan

Employee stock ownership plan as early as in 1956 by the American lawyer Louis Kelso, original intention to provide diversified wages and benefits for American workers, through the capital income supplement in the form of labor income to protect the living standards of employees after retirement. Employee stock ownership plan launched by a wide range of social acceptance. The employee stock ownership plan put forward 60 years up to now, its application range is gradually covered all over the world. At present, the employee stock ownership plan is no longer a single employee welfare plan, to carry out democratic freedom enterprise management concept and improve enterprise management efficiency has played an important role.

2. The Main Theory and Basic Model of Employee Stock Ownership Plan

2.1 The Main Theory of Employee Stock Ownership Plan

Some scholars believe that ESOP promotes the improvement of the compensation and welfare system. Michael C. Jensen, William H (1976) proposed that single labor income could not provide long-term security for enterprise employees, and only by introducing capital income to improve the salary and welfare system could employees still obtain necessary survival security after retirement^[1]. Uraya Triki, Loredana ureche-rangau (2012) believed that employee stock ownership plan is not only a welfare plan for the survival of retired employees, but also an important measure for enterprises and employees to achieve win-win in the capital game. By transforming employees into owners, the capital contradiction between management and grassroots workers can be reduced^[2].

Some scholars have proposed that ESOP promotes long-term incentive effect. When Tom Evens and Karen Donders (2016) studied the implementation status of ESOP in listed companies in the United States, they found that ESOP has certain threshold restrictions for the objects to be granted. Normally, with core technology or outstanding performance employees are more likely to get the favor of employee stock ownership plan, and in this case the employee stock ownership plan can be seen as a kind of reward mechanism, it is easier to stimulate employees to produce positive labor feedback^[3]. Xing Yu Li, Jin Ro, Shou Gui Luo (2017) pointed out that the labor of employee stock ownership plan is binding and the long-term gains of the enterprise employees, the implementation of employee stock ownership plan coverage is wider, and its radiation is stronger, also can form

incentive effect to the enterprise^[4].

Some scholars study ESOP from the perspective of realizing democratic management. Chong Wang Fang, Xin Zhong and Jie Kang (2016) said that ESOP is an important measure to realize democratic management in China. ESOP gives employees certain decision-making and management rights, which can effectively weaken the highly centralized problem existing in the development process of enterprises and highlight the advantages of democratic management^[5]. Da Peng Chen, Xin Zheng Shi, Yao Lu, Zhuo Li (2019), based on the requirement of democratic management, enterprise internal decision must be based on supervision is possible under the premise of fairness and impartiality, employee stock ownership plan for further perfecting the enterprise internal supervision and control system. Employee stock ownership plan to ensure employees have a say in important decision of enterprises and the voting rights, to establish and perfect the system of managers incentive and constraint significant role^[6].

At the same time, scholars studied the implementation means of ESOP. Danielle Higgins, Thomas c. Omer, John D (2015) found out that, in the study, no matter use stock options or restricted stock for employee stock ownership plan will influence its implementation effect, equity options granted object after rose to strike prices, trading stocks, the implementation method makes the enterprise benefit for incentive object with invisible threshold^[7]. Rekha Rao-Nicholson, Julie Salaber, Tuan Hiep Cao (2016), when studying the enterprises implementing employee stock ownership plan, found that compared with equity options, enterprises adopting restricted stock can grant incentive objects more management rights, so that employees can actually participate in the daily management of the enterprise, and the actual implementation can produce better incentive effect^[8].

Some scholars have studied the management of ESOP. Cramton P, Mehran H, Tracy J S. (2008) believed that before the 21st century, the motivation for the implementation of employee stock ownership plan in American listed companies was mainly reasonable tax avoidance and controlling the fluctuation of the company's stock price. At that time, employee stock ownership plan was mainly formulated within the company without any third-party institution entering into supervision. Therefore, the employee stock ownership plan did not have a prominent incentive effect^[9]. Manuel Antonio (2015) found in his research that employee stock ownership plan can be divided into leveraged and non-leveraged types. Leveraged employee stock ownership plan is guaranteed by the company and purchased by the third party financial institutions. However, non-leveraged EMPLOYEE stock ownership plan is provided by the company to purchase equity for the granted object, and the implementation effects of the two methods are not the same^[10].

2.2 The Basic Model of Employee Stock Ownership Plan

The first form of ESOP: In the aspect of source of funds, the company requires employees on their own, namely the holders of the legal salary to pay for, and in the form of cash payment. Employees generally buy shares in the company through the secondary market. After the expiration of the lockdown period, the shareholders are free to buy or sell and are responsible for their own profits and losses.

The second form of ESOP: In the aspect of source of funds, the company's largest shareholder interest-free lend money to employees, let employees don't have to share capital contribution can buy stock of ownership plan. In this shareholding model, major shareholders transfer their shares to the custodian for an agreement at a discount to the market price. After the lockup period, employees can buy and sell without restriction. If profits are made, the profits belong to employees. If there is a loss, the major shareholder will recover the stock at the original price and assume the risk for the employee and the employee will bear the loss.

The difference between the two models: The first shareholding model is not an incentive plan, but a mandatory plan. The plan forces the interests of employees to be tied to the interests of the company and its major shareholders. Employees are free to buy and sell shares from the secondary market, and are not subject to lock-ups, in which case they cannot make any profit. In the second model, shareholders bear the risks for employees, and employees can break even and earn a profit.

Generally speaking, most public companies implement the second model of employee stock ownership plan.

3. The Advantages and Disadvantages of Employee Stock Ownership Plan

3.1 The Advantages of Employee Stock Ownership Plan

(1) Optimize corporate governance structure so that more employees can participate in corporate decision-making. Employee stock ownership plan can be regarded as a special bonus system, and bonus is a kind of incentive factor, which can make employees receive internal motivation, greatly improve their work enthusiasm, and can be lasting. From this point of view, employee stock ownership plan can form effective incentives. Employees are bound to the operation of the company, which reduces the operation risk of the company and improves the teamwork ability and work efficiency of employees.

(2) It reduces the current cost paid by the enterprise for employees and reduces operational risks. ESOP is usually exercised after the expiration of a three-year restriction. If the business efficiency of the enterprise is poor, the staff shares the risk; If the enterprise has achieved unexpected results in operating efficiency, the employee benefits promised before the exercise period will create greater benefits for the company.

(3) Improved the enthusiasm of employees and effectively retained technical talents. Employee stock ownership plan (ESOP) effectively increases the cost of dismissal and employees have higher work enthusiasm. The input of human capital accounts for a large proportion in the output contribution, and the human capital has a relatively high technical content, the market is relatively scarce intelligent service enterprises. In this type of the structure of the company, employee is the main part of the value creation, the staff's work enthusiasm to a great extent, determines the development of the enterprise, thus efforts and closely linked between equity returns, high expectations, incentive effect is good. Employees are more willing to fight for the company. When the company gains higher income, employees also gain higher income, realizing a win-win situation.

(4) A positive signal was sent to the market. Since the company is expected to improve its operation positively, employees, especially middle and senior managers, tend to hold the company's stock. Potential investors will take this as a signal that the company will win a good award and have a more positive attitude towards holding the company's stock.

3.2 The Disadvantages of Employee Stock Ownership Plan

(1) A short period of shareholding will affect employees' judgment and expectation of the long-term development of the company, leading them to only pay attention to the short-term stock price fluctuations of the company and ignore the long-term development of the company, which is extremely detrimental to both individuals and the company.

(2) Long-term incentive effect is not significant. The proportion of employee stock ownership is low, and its influence on corporate governance decision-making is limited. The shareholding ratio of employees is low, in fact, the actual governance power of the company is also controlled by internal personnel. Without a clear and reasonable incentive target, the incentive effect may not be obvious.

(3) At present, China's accounting standards do not give sufficient consideration to ESOP, and the ESOP's cost allocation method and allocation period are not detailed enough. Therefore, enterprises may take advantage of the blind spot of the system to adjust profits.

(4) Misinformation can lead to moral hazard for middle and senior staff. Because ordinary employee shareholding is small and scattered, so seek the possibility of using insider information to manipulate the price is very small, more likely to appear this kind of problem is mainly owned more senior executives, there may be a high-level use of employee stock ownership plan loophole for their own benefits, which may lead to the high-level employees in the price of the manipulation and insider trading.

4. The Optimization Strategy of Employee Stock Ownership Plan

(1) Set a reasonable employee stock ownership plan period: Company shall extend the long-term effect of employee stock ownership plan, they shall be close to the company's future development and employee's future planning. At present, Chinese companies generally implement ESOP for 1 to 3 years, which greatly limits the long-term incentive effect of ESOP. Listed companies can appropriately extend the lockup period and duration when formulating the employee stock ownership plan, which will also promote employees to focus on their own work and pay more attention to the long-term development of the company, so as to achieve the growth of the company's performance.

(2) Make full use of the diversified combination of equity incentive system. The employee stock ownership plan is combined with other equity incentive systems with long-term effects to realize the optimization of the incentive system in the short and long term.

(3) Establish a reasonable quantified performance appraisal mechanism. Companies should adopt dynamic assessment mechanism to make employees feel fairness, avoid "free riding", and motivate employees effectively.

(4) To optimize the revenue model, the incremental revenue exercise model can be adopted. The longer you work, the greater the yield of exercise, the stronger the viscosity of employee stock ownership plan.

(5) Dilute the virtual equity and activate the internal vitality of the company. Employee stock ownership plan precedes virtual equity allocation, which can effectively dilute virtual equity, solve job burnout and other problems of veteran employees, and stimulate their work enthusiasm.

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