

Research on the Motivation and Effect of the State-owned Enterprise's Implementation of the Employee Stock Ownership Plan

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Abstract

The research on employee stock ownership plan in China started relatively late. It has been developed for more than 30 years and is still in the exploratory stage. The employee stock ownership plan redistributes the operating income of the enterprise between shareholders and employees, reflects the position of the interests of the workers in the development, so that the development achievements can be shared with the workers. However, the implementation of the employee stock ownership plan is conducive to alleviating the current situation that the state-owned enterprises have a dominant share and a single ownership structure. This paper first introduces the research background, then expounds the meaning, classification and characteristics of the implementation of employee stock ownership plan by state-owned enterprises, and finally analyzes the motivation and effect of the implementation of employee stock ownership plan by state-owned enterprises. It can promote the theoretical research on the implementation of the employee stock ownership plan of state-owned enterprises, so as to provide some reference and decision-making for them to implement the employee stock ownership plan and improve various capabilities.

Keywords

Employee Stock Ownership Plan; State-owned Enterprise; Motivation Effect.

1. Introduction

In the early 1980s, employee stock ownership plan began to rise gradually in China. By the end of 1993, more than 4000 pilot joint-stock enterprises had been set up to explore this new enterprise reform mode. Due to the lack of legal constraints and policy guidance, many illegal operations and short-sighted behaviors occurred in the later stage of the boom, resulting in the loss of a large number of state-owned assets and disrupting the normal order of the capital market. In November 1998, China Securities Regulatory Commission issued the notice on Stopping the Issuance of Internal Employee Shares, which put the employee stock ownership plan on hold.

In recent years, employee stock ownership plan have reappeared in the public eye with efforts to promote mixed ownership reform of state-owned enterprises and in response to the national strategic goal of common prosperity. In November 2013, the Third Plenary Session of the 18th Central Committee of the communist Party of China adopted the Decision of the Central Committee on Some Major Issues concerning Comprehensively Deepening Reform, in which it was clearly stated for the first time that "mixed-ownership economy should be allowed to implement employee stock ownership in enterprises to form a community of interests of capital owners and workers". Since then, relevant departments of the state have gradually issued guidance and policy norms, which indicates that employee stock ownership plan has regained the attention and support of the state and is gradually improving relevant policies. In November 2016, state-owned Assets Supervision and Administration Commission of The State Council

issued the Notice on 10 subsidiaries of Central Enterprises carrying out the pilot project of employee stock ownership, agreeing to the first batch of pilot project of employee stock ownership in 9 subsidiaries of China Electricity Research and other central enterprises. Since the pilot of central enterprises is still in the early exploratory stage, and there is little practical experience, the central government clearly stated that it hopes to track and analyze the pilot situation and problems in a timely manner during the pilot period, summarize relevant experience, and then put forward reasonable suggestions to improve policies. In this paper, the motivation and effect of the implementation of employee stock ownership plan by state-owned enterprises are studied, which plays a certain role in promoting the theoretical research of the implementation of employee stock ownership plan by state-owned enterprises in China, in order to provide certain reference and decision-making for the implementation of employee stock ownership plan and the improvement of various capabilities.

2. Overview of Employee Stock Ownership Plan

2.1. The Meaning of Employee Stock Ownership Plan

Employee stock ownership plan, also known as employee stock ownership system. It is a form of realization of employee ownership and a system arrangement in which enterprise owners share ownership and future earnings with employees. By purchasing part of the stock (or equity) of the enterprise, employees own part of the property rights of the enterprise, so that employees become shareholders of the company and obtain the corresponding management rights. As a special reward and long-term incentive mechanism, employee stock ownership plan can improve corporate governance structure, achieve reasonable distribution of income, stimulate employees' creativity and improve the market value of enterprises.

2.2. Types of Employee Stock Ownership Plan

At present, the types of employee stock ownership plan can be roughly divided into three categories.

2.2.1. Leveraged and Unleveraged

The classification criteria are the different sources of employee stock ownership plan funds. Leverage is the use of borrowing to set up an investment fund or hire a third-party asset manager while the company prepares for the implementation of the plan. Asset managers guarantee corporate loans to banks and use the loans to buy company shares. Asset managers collect some of the money from employees each year to repay bank loans and distribute shares in the company to their own employees. Non-leveraged means that enterprises directly provide shares to asset management institutions, or employees of enterprises directly withdraw funds to buy shares without borrowing from banks, and employees receive shares granted by management institutions according to certain conditions and standards.

2.2.2. Welfare and Risk

The division standard is the purpose of holding the stock is different. Benefits focus on getting more benefits for employees, which is a good way to make a business more attractive to employees and increase their income. Risk type is more like a transaction, requiring employees to have a sense of long-term management. Affected by stock market fluctuations and policy invalidation, employees are likely to pay the double price of investment capital and salary. Because of the existence of such risks, employees will have a better incentive effect.

2.2.3. Full Ownership and Partial Employee Ownership

The division standard is to hold the range of different stocks. Full ownership means that all employees of a business can buy and hold shares in the business. Some employee stock ownership sets requirements on the scope of employees, which is embodied in setting

thresholds such as position level and contribution to the enterprise, or directly identified as executive stock ownership. At present, in the framework of mixed ownership reform of state-owned enterprises, there are cases of full ownership and core employee ownership in employee stock ownership plan. Different enterprises will decide the scope of their shareholding employees according to the external economic environment, the development stage and goals of the enterprise.

2.3. Characteristics of the Implementation of Employee Stock Ownership Plan by State-owned Enterprises

At present, the characteristics of the implementation of employee stock ownership plan by state-owned enterprises can be roughly divided into three categories.

2.3.1. Targeted Implementation Objects

In order to test the effect of mixed ownership reform of State-owned enterprises in China, the government decided to encourage the implementation of employee stock ownership plan for some state-owned enterprises. First of all, there is a clear division of enterprises implementing the mixed-ownership reform, involving the macroscopic classification of state-owned enterprises, which can be divided into commercial and public welfare categories. Public welfare enterprises are mainly established by the state in order to bring social benefits into play and serve the public. The business category is mainly for achieving greater profits. In the process of reform, commercial companies are preferred as pilots, which is determined by their own advantages. Compared with the other two types of companies, pure competitive enterprises pay more attention to strengthening the company's competitive advantage, and it has practical significance to define whether the individual efforts of employees can have a significant impact on the company's performance.

2.3.2. Clear Implementation Objectives

The implementation of employee stock ownership plan in state-owned enterprises can improve the problem of employee slackness and optimize the property right structure of enterprises to some extent. Traditional state-owned enterprises have certain disadvantages in the management mode. Many employees muddle along at work and lack subjective initiative. Employees who work hard and think positively enjoy the same treatment as those who slack off, which in turn makes those who were originally active lose their confidence in work. Therefore, state-owned enterprises carry out targeted employee stock ownership plans to sell some shares to those employees who have outstanding contributions or core skills, which will greatly improve employees' sense of ownership, optimize the ownership structure of enterprises and reduce financial risks.

2.3.3. The Holding Status of the State Shall be Guaranteed

The state-owned enterprise employee stock ownership plan is formulated in accordance with relevant national policies, and the specific implementation regulations for employee stock ownership are specified in the relevant documents issued in 2016 on the pilot opinions of state-owned enterprise employee stock ownership. In order to ensure that the status of state-owned holding does not change, the total amount of employee shares should be limited. Generally speaking, the number of employee shares should not exceed 30% of the total stock capital of the company.

3. The Motivation Analysis of State-owned Enterprises to Implement Employee Stock Ownership Plan

Employee stock ownership plan first appeared in western countries to alleviate social contradictions in capitalist economy and reduce the gap between the rich and the poor. In China,

the research on employee stock ownership plan started late. Jiang Yiwei first put forward relevant theories. He proposed the theory of employee subjectivity and advocated the practice of increasing enterprise collective shares and employee cooperative shares in enterprises. With the development of economy, the purpose of implementing employee stock ownership plan in modern enterprises is different.

At present, there are three types of motivation for state-owned enterprises to implement employee stock ownership plan.

3.1. Deepening Mixed-ownership Reform

The implementation of employee stock ownership plan is an effective means to deepen the reform of mixed ownership. In recent years, under the background of mixed ownership reform of state-owned enterprises, employee stock ownership plan has developed rapidly in China. It is difficult for state-owned enterprises to form a sound corporate governance system and internal management because of the current situation of dominant share and single ownership structure. The implementation of employee stock ownership is helpful to improve this situation. Employee stock ownership plan by making employee shareholding way to introducing private capital equity structure in state-owned enterprises, the company scientific research personnel and business backbone talents a ownership rights, let employees can participate in the enterprise internal management, improve corporate governance, improve the corporate governance system and play a role of the advantages of shareholding employees in the company management. In addition, it can also change the status quo of state-owned enterprises with a dominant share and a single ownership structure, optimize the ownership structure of state-owned enterprises, and promote the formation and enhancement of their unique core competitiveness, and occupy an unshakable position in the market competition.

3.2. Motivate Employees

The main reason for state-owned enterprises to implement employee stock ownership plan is to motivate employees and enhance their enthusiasm and initiative. By employee stock ownership plan, shareholding employees can share the enterprise surplus value and operating results of dividend, can produce more sense of responsibility and sense of belonging to the enterprise, pay more attention to the major decisions of the enterprise, the related management system, more the future development of enterprises, which can supervise managers, promote the enthusiasm of staff to participate in enterprise management. Secondly, employee stock ownership plan can bind the interests of shareholding employees with those of the enterprise, enhance the sense of unity and cohesion, improve the business model, and enhance employees' recognition of the enterprise. In addition, employee stock ownership plan can also promote the shareholding employees to pay more attention to the long-term interests and development prospects of the company, so that the company is no longer a one-sides-speak. Employees can exercise their right of speech to provide wisdom for management and decision-making, and enhance their enthusiasm and initiative.

3.3. Signal Transmission

Signaling can allow companies whose shares are significantly undervalued to rise in price. When an enterprise implements an employee stock ownership plan, it is generally considered to send a strong signal to the capital market, indicating that the enterprise is in good operating condition and has development prospects, which is most directly reflected in the rise of the enterprise's stock price. Therefore, companies with better growth and prospects are generally more inclined to implement employee stock ownership plan. Second, employee stock ownership plans can stimulate the market and enable investors to discover the intrinsic value of a company when its share price is significantly undervalued. Therefore, enterprises with good profitability but whose stock price is undervalued by the market are more motivated to

implement employee stock ownership plan to make investors realize that the current stock price of the company is not consistent with its actual value, prompting investors to adjust their investment strategy. In addition, listed companies are more inclined to implement employee stock ownership plan in order to manage market value and stabilize stock price.

4. The Effect Analysis of the Implementation of Employee Stock Ownership Plan by State-owned Enterprises

The previous research on the motivation of the implementation of employee stock ownership plan by state-owned enterprises can be roughly divided into three categories: deepening the reform of mixed ownership, motivating employees and signal transmission, among which motivating employees is the main motivation. Since the third Plenary Session of the 18th Central Committee of the Communist Party of China explicitly proposed "allowing mixed ownership economy to implement enterprise employee stock ownership plan", domestic literature on exploring the implementation effect employee stock ownership plan in state-owned enterprises has mushroomed.

At present, the effect of the implementation of employee stock ownership plan by state-owned enterprises can be broadly divided into two categories.

4.1. Market Effect

In the short term, the market has a positive reaction to the listed state-owned enterprises implementing employee stock ownership plan, but in the long term, the market effect is not obvious. Studies listed state-owned enterprises after the implementation of employee stock ownership plan the impact on the company's share price performance, find that the implementation of employee stock ownership plan can make company's stock in the short term positive market appears to be very significant effect, can effectively improve the company's share price and improve the market performance, can significantly enhance the stock market competitiveness, and when the proportion of employees more than 10%, The stock will outperform the overall market, and the positive short-term market effect will be more obvious with the increase of employee ownership. However, this market effect is short-lived. Although listed state-owned enterprises can get excess returns basically on the day when they release the announcement of employee stock ownership plan, such excess returns do not last and will no longer exist after a period of time. The research results also show that this phenomenon is more obvious in bear market, so listed state-owned enterprises are more inclined to use employee stock ownership plan for market value management.

4.2. Incentive Effect

The incentive effect mainly analyzes the changes of financial indicators before and after the implementation of the employee stock ownership plan, and compares the financial indicators of enterprises in the same industry that implement the employee stock ownership plan with those that do not. However, different data analysis methods and samples lead to different research results, which can be roughly divided into three categories: positive incentive effect, negative incentive effect and insignificant incentive effect.

4.2.1. Positive Incentive Effect Exists

One view is that the development of employee stock ownership plan can improve the enthusiasm and initiative of employees, thus improving production efficiency and corporate performance. Some scholars collected 10 years in our country has been the implementation of employee stock ownership plan of the listed soes related indicators, through empirical analysis found that after the implementation of employee stock ownership plan of enterprise performance is better than not implementation of enterprise, and the proportion of employee

stock ownership plan and performance that there was a positive correlation between the employee shareholding of performance is positive incentive effect. In addition, they believe that the employee stock ownership plan can effectively alleviate the problem of unfair salary distribution within the company. Because the implementation of employee stock ownership plan enhances employees' sense of identity as shareholders, improves their bargaining power in the salary negotiation, and realizes the role transformation of employees from "passive acceptance" to "active struggle", thus reducing the self-interested manipulation of senior managers and helping improve the management level of state-owned enterprises.

4.2.2. Negative Incentive Effect Exists

Another point of view is that in state-owned enterprises, when the incentive object of employee stock ownership plan is for all employees, it is easy to have the problem of "free rider", and there will be a negative incentive effect. After studying the implementation of employee stock ownership plan in listed state-owned enterprises, some scholars found that employee stock ownership plan has a weak incentive effect on state-owned enterprises, not only does not improve productivity, but also has some negative effects on enterprise performance. They believe that the stock issue of listed state-owned enterprises to internal employees is essentially a kind of welfare apportion, and the implementation effect of employee stock ownership plan is measured by market performance and sales growth rate. They find that employee stock ownership incentive not only does not have a significant positive effect on income growth rate, but also has a certain negative effect on market performance. When the enterprise grows, the correlation between employee income level and enterprise value will weaken, and the incentive effect will also be negatively correlated. Moreover, when the employee stock ownership ratio exceeds a certain range, it will have a negative impact, and will easily lead to short-term arbitrage behavior of employees after expiration. Therefore, the employee stock ownership plan has a negative incentive effect on the long-term performance of enterprises.

4.2.3. The Incentive Effect is Not Obvious

There is also a view that the incentive effect of employee stock ownership plan on soes is not obvious. Some scholars based on the implementation of employee stock ownership plan of the listed state-owned enterprises performance indicators, in order to implement employee stock ownership plan of enterprise as the experimental group, not the implementation of employee stock ownership plan of the enterprise as a control group for comparison and analysis, the results show that the corporate performance between the experimental group and control group no significant difference, so can no significant relationship between employee shareholding and corporate performance. The reason may be that employees have a low share of equity and cannot influence the company's decision, so there is no correlation. In addition, they also think that despite the implementation of employee stock ownership plan to be able to bring the positive effect of market to the company performance and stock price, but if the listed companies with high leverage the implementation of employee stock ownership plan, the company's share price will be affected, under the "free-rider" phenomenon, employee stock ownership plan incentive role is very limited, incentive effect is not obvious, Especially when the size of the employee's stake reaches a certain level.

5. Summary

Through a series of studies, it can be concluded that the motivation of soes to implement employee stock ownership plan can be broadly divided into three categories: deepening the reform of mixed ownership, motivating employees, and signal transmission, among which motivating employees is the main motivation. Research on the effect of the implementation of employee stock ownership plan by state-owned enterprises can be roughly divided into two

categories, namely, market effect and incentive effect. As for the research on market effect, the conclusion is that the market has a positive reaction to the state-owned enterprises implementing employee stock ownership plan in the short term, but the market effect is not obvious in the long term. As for the research on incentive effect, due to the difference of research methods and selected samples, the incentive effect of employee stock ownership plan can be divided into positive incentive effect, negative incentive effect and insignificant incentive effect.

In general, the use of employee stock ownership plan in state-owned enterprises has important theoretical and practical significance, but only by using it scientifically and rationally, avoiding possible problems, and using it more standardized and legalized, can it play a positive role and achieve the effect of promoting the development of state-owned enterprises.

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