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The Impact of Implementing Employee Stock Ownership Plans on Corporate Performance and Countermeasures of Listed Companies in China

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Abstract: *Employee stock ownership plan is a kind of plan aiming to share the company's shares to the employees. The implementation of employee stock ownership plans by listed companies in China has a positive impact on enterprise performance, but also faces some challenges. After analyzing my domestic and international research results as well as the motivation for the implementation of employee stock ownership plans, it was found that the factors influencing the performance of listed companies' employee stock ownership plans on the performance of the enterprise mainly include the source of funds, the source of stock, and the proportion of stock ownership. Based on the above analysis, this paper puts forward some reference suggestions for the problems faced by China's listed companies in the process of implementing the employee stock ownership plan.*

Keywords: *Employee stock ownership plan, Corporate performance, Listed companies*

1. Introduction

Employee stock ownership plans, which first originated in the United States, are a type of plan in which a company offers equity participation to its employees. Under this type of plan, the company grants a portion of its shares or stock options to its employees, making the members shareholders of the company or entitled to purchase company stock. In this way, it can make the interests of the enterprise and the employees closely linked, thus establishing a culture of common interests and common goals, promoting the alignment of the interests of employees and the company, and motivating employees to actively participate in the development of the enterprise.

In the early days, China's exploration of employee stock ownership plan ended in failure. Even though it played a certain role in promoting the performance of state-owned enterprises, the employee stock ownership plan did not play a great role because the market was not mature enough at that time. In June 2014, with the promulgation of the "Guidelines on the Pilot Implementation of Employee Stock Ownership Plans by Listed Companies", the employee stock ownership plan has only formally entered into the stage of comprehensive exploration. Most of the enterprises in China have implemented employee stock ownership plans to actively respond to the national policy.

Employee stock ownership plans play an important role in mobilizing employees, making them part of the company and working together to create value for the organization, which in turn affects organizational performance. Even though the employee stock ownership plan has been widely recognized and applied, the application of employee stock ownership plan in China is more conservative. So this paper, based on the domestic and international research on employee stock ownership plan, analyzes the impact of the constituent factors of employee stock ownership plan on corporate performance, and provides suggestions for the future implementation of the employee stock ownership plan for the enterprise in terms of its mechanism of action.

2. Literature review and rationale

2.1. Concept and Development of Employee Stock Ownership Plans

Employee Share Ownership Plan is a corporate incentive and participation mechanism to share the fruits of corporate development and returns by making employees shareholders of the enterprise. It is an equity incentive program designed to enhance employees' motivation, sense of responsibility and sense

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of belonging, and to promote the sustainable development of the enterprise. The core idea of employee shareholding plan is to turn employees into stakeholders of the enterprise, so that they are closely linked to the interests of the enterprise. By purchasing or acquiring shares of the enterprise, employees become shareholders of the enterprise and enjoy corresponding rights and interests, such as dividend distributions and capital gains. This equity incentive mechanism aligns the interests of employees with those of the enterprise and motivates them to contribute to the long-term success and value creation of the enterprise.

The concept of Employee Stock Ownership Plan first appeared in the U.S. Foreign scholars believe that the right to own capital cannot be held only in the hands of shareholders. As employees who create enterprise value, they should also have certain capital ownership. Subsequently, the United States implemented an employee stock ownership plan, which stipulates the number of shares held by employees according to their length of service and salary level. After the development of the employee stock ownership plan in the United States, other countries followed closely behind. With the active capital market in China, China also carries out employee stock ownership plan. The implementation of China's employee stock ownership plan has gone through three main stages:

The first stage: the pilot stage. In the 1980s, China's state-owned enterprises to carry out shareholding reform, the pilot stage of the employee stock ownership plan is mainly concentrated in some large state-owned enterprises, such as petroleum, electric power, communications and other industries. These pilot programs generally use direct grant of shares to allocate a portion of the company's shares to employees and restrict their transfer within a certain period of time. Employees can enjoy equity dividends, stock appreciation and other benefits. However, due to the inactive market and imperfect system, it resulted in low equity liquidity, no market pricing, low employee participation and other reasons. Eventually the employee stock ownership plan was declared suspended.

The second stage: preliminary stage. Despite some problems and challenges in the pilot phase, employee share ownership plans, as a means of incentives and corporate reform measures, gradually gained the attention of the government and enterprises. In the subsequent development, the Chinese government has successively issued relevant policies and regulations to encourage and guide more enterprises to implement employee share ownership plans and provide more market-oriented mechanisms and support measures. For example, in 2009, the Opinions on Regulating Employee Shareholding and Investment in State-owned Enterprises were promulgated, in which the scope and pricing of management shareholding were revised. In August 2012, in order to ensure the legitimacy and standardized operation of employee shareholding plans, the Securities and Futures Commission (SFC) issued the Interim Measures for Administration of Employee Shareholding Plans of Listed Companies, which requires that shareholding plans follow the voluntary principle, and that employees have the right to hold the Company's shares and enjoy equal income rights.

The third stage: development stage. With the accumulation of experience and the continuous advancement of practice, the implementation methods and mechanisms of employee stock ownership plans are gradually improved and diversified. At this stage, enterprises and the government may flexibly design and adjust the specific scheme of the employee stock ownership plan according to the type of industry, enterprise scales and characteristics in order to maximize the participation and incentive effect of employees. With the implementation of the employee stock ownership plan, a large number of scholars have invested in the research of employee stock ownership plan, which provides theoretical guidance for employees to enhance corporate performance.

2.2. Analysis of the Motivation for Implementing Employee Stock Ownership Plans

From the perspective of corporate governance, employee shareholding plan can improve the shareholding structure of the enterprise, increase the participation of small and medium-sized shareholders, and promote the democratization of corporate governance and decision-making. Since an overly dispersed shareholding structure may lead to competition for control and greater difficulty in decision-making, making employees shareholders can increase stability and consistency within the company. Employee stock ownership plans can increase the diversity of shareholders, improve the efficiency and transparency of corporate governance, and thus improve the governance structure of the enterprise.

From the perspective of human resource management, employee stock ownership plan can be an important means for enterprises to attract and retain excellent talents. In the highly competitive talent market, employee stock ownership plan can provide a long-term incentive mechanism different from ordinary salary incentives, attracting talents who are eager to grow with the enterprise and share the fruits

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of success. For existing employees, employee stock ownership plans can increase their loyalty and long-term commitment to the enterprise, reduce employee turnover, and thus stabilize the enterprise's human resource team. Chen Yanyan studied listed companies' announced equity incentive plans from 2005 to 2012 and found that employee stock ownership plans are conducive to attracting and retaining talent.[1]

From the perspective of sustainable development of the company, employee stock ownership plan can stimulate employees' motivation, sense of responsibility and sense of belonging, thus improving employees' motivation and performance performance. In addition, the employee stock ownership plan can alleviate the pressure of corporate financing. According to Chen Yanyan, when the financing pressure of the enterprise is greater, the enterprise is more inclined to grant shares to employees and replace wages with shares.[1] Through the way of internal financing, it can reduce the financing risk and optimize the capital institution. Meanwhile, Zhai Shuping argues that employee stock ownership plans can increase the transparency of corporate confidence and the signal of reduced proxy costs, which in turn reduces the risk of share price collapse of listed companies.[2]

2.3. Impact on corporate performance

2.3.1. Positive impact of employee stock ownership plan on corporate performance

Early foreign scholars found that employee stock ownership plan has a positive impact on enterprise performance. Jensen and Meckling think that employee stock ownership can alleviate the agency problem between managers and shareholders.[3] And selected scholars think that employee stock ownership plan can mobilize the enthusiasm of the employees, and in addition to obtaining the income from the labor, they also obtain the right to income from the company's assets. income rights. Similarly, Brickley J S, Bahgat R L argued that when employees become shareholders of a company, they are closely linked to the interests of the firm and share in its growth and returns. This benefit sharing motivates employees to be more engaged in their work and stimulates their sense of "ownership", which is conducive to improving work efficiency and company performance. Wagner and Rosen found that companies with employee stock ownership plans performed better than companies without employee stock ownership plans in terms of financial indicators.

The impact of employee stock ownership plans on corporate performance revolves around mobilizing employees and improving corporate governance and decision-making. Zhang Wangjun et al. found that the implementation of an employee stock ownership plan can improve financial performance.[4] Yu Xiaohong et al. argued that employee stock ownership plan realizes the enhancement of corporate value and performance by reducing financing pressure.[5]

2.3.2. Negative impact of employee stock ownership plan on firm performance

Although most of the studies believe that employee stock ownership plan has a positive impact on firm performance, a few researches believe that the employee stock ownership plan does not achieve a sustained effect, but only has a short-term incentive effect. Beatty found that after employees hold the company's stock, it does not have a positive incentive effect on the performance and work efficiency. Oyer holds the same view, suggesting that the employee stock ownership plan does not achieve the expected results in terms of motivational effects. Domestic scholars Chen Juhua and Chen Xueyan divided the effect of enterprise implementation of employee stock ownership plan into long-term and short-term, the study found that the employee stock ownership plan can short-term stimulation of enterprise performance, bring incentive effect, but in the long term, it seems that the incentive effect of employee stock ownership plan on state-owned enterprises and private enterprises is not significant.[6]

3. The Impact of Components of Employee Stock Ownership Plans on Corporate Performance of Listed Companies

3.1. Impact of funding sources on enterprise performance

The Guiding Opinions delineate two types of funding methods, namely, employees' legitimate remuneration and other methods permitted by laws and regulations, so that enterprises have more room for choice. When studying its mechanism of action, it is found that the design of different sources of funding brings different impacts to enterprises. The survey found that there exists a high leverage characteristic of the shareholding system in China, although the application of leverage highlights the confidence of the company, but considering the risk brought by adding leverage, it may reduce the market's expectation of the return brought by the structuring of high leverage. Specific analysis, when the listed company adopts the use of employee compensation and own funds as a source of funds to buy the underlying stock, the company did not use the leverage of funds, once the company's performance declines, the stock price declines with it, the employees in the employee stock ownership plan will face a greater risk. Because once the company's business situation is in trouble, due to the benefits that should be attributed to the employees, the employees will face a loss, so this kind of non- leveraged funding method can better stimulate employees to pay attention to the company's development and operation status, fully release human capital, and constrain employees while reducing agency costs. Based on the signaling theory, the voluntary purchase of the company's shares by internal employees conveys positive signals about the future value of the enterprise, and transactions based on internal information often foretell excess returns, and the implementation of the employee stock ownership plan through the non-leveraged funding method of subscribing to the shares conveys better signals to the investors in the capital market. On the other hand, if third-party financing such as borrowing from shareholders or actual controllers or gratuitous grants from controlling shareholders is taken as the source of funds, even if the share price of the company's performance declines, this part of the risk is not borne by the employees who hold shares. But once the share price rises, the employees who have acquired the shares correspondingly will be profitable. And since the funds for subscribing shares do not come from the employees' own pockets, the employees do not need to bear the risk to enjoy the gains from the rise in share price. To enjoy the benefits of rising stock prices, the speculative way of thinking will make some employees slacken their enthusiasm for work, breeding the inertia of "free-riding", and they can still enjoy the premium of enterprise development without assuming the risk of funds, and the long-term incentive effect on the employees is limited. At this time the role of the plan is not to stimulate the sense of responsibility and enthusiasm of employees, but more inclined to a welfare measure. Ordinary employees are satisfied with the completion of the basic work, the management is also in a state of risk avoidance, investors will think that this is based on some kind of transfer of benefits to the implementation of the employee stock ownership plan, thereby reducing the confidence of investors in the capital market.

3.2. Impact of stock source on corporate performance

As the subject matter of the employee stock ownership plan, the source of stock is a decisive factor for the implementation of the plan. The Guidance issued by the Securities and Futures Commission (SFC) has broadened the source of stocks, and the broadening of the stock holding channels is also conducive to the company's ability to make the most reasonable allocation of resources according to the actual situation. The mechanism of stock source's effect on corporate performance exists in two aspects. On the one hand, if the listed company chooses to repurchase shares from the secondary market, then after the employee subscribes to the relevant shares, the lock-up period is only 12 months. A shorter fixed period of restriction greatly increases the liquidity of its employee shareholding. If the listed company chooses to subscribe to a non-public issue of shares to obtain the shares, according to the provisions of the relevant documents must be set up for a longer period of lock-up, employees subscribe to the employee shareholding plan shares need to be locked for 36 months, the employee shareholding plan shares need to be locked for 36 months. The shares subscribed by the employees need to be locked for 36 months before transfer. A longer lock-up period means that the employees have to bear more risks during the lock-up period. Employees who participate in the implementation of the employee stock ownership plan in this way have more confidence in the long-term development of the enterprise and thus subscribe for the shares, and these employees will take the initiative to help the enterprise to reduce the agency costs, and to promote long-term growth in the enterprise's operating results. On the other hand, according to the relevant provisions, the issue price of shares issued in private offering can be issued at a relatively low price in accordance with the stock price of the company on the pricing base date. The issue price of the shares will generally be lower than the market price of the company's shares. When the listed company transmits the signal of the implementation of the relevant plan to the secondary market, investors will think that the company's stock price will be greater in the future when the company issues new shares in the private market to subscribe to the employee stock ownership plan. Stock prices will have more room to rise in the future. This also means that in the company's corporate performance growth, employees can get more earnings in the future after the lock-up period. Even if the company's share price fell, employee shareholding still have room to maintain their own profits. Therefore investors will be inclined to buy the company that declares to subscribe to the shareholding system of the non-public market issue, the company's share price is improved, more favorable to the earnings of the shareholders in the plan and the investors .

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3.3. Impact of shareholding ratio on enterprise performance

Enterprise as a whole, the final enterprise performance is improved through the results of each employee's efforts, then how the positive initiative of the staff directly affect the development of the enterprise? According to the viewpoint of human capital theory, modern enterprises, such as the information industry, the enhancement of its human capital for the enterprise is far greater than physical capital. Employees are involved in the implementation of the employee stock ownership plan is also a direct beneficiary, employee stock ownership plan to participate in the subscription shareholding ratio will also directly affect the implementation of the stock ownership plan. The allocation of different ratios can solve two types of agency cost problems of enterprises. The first type of agency problem is mainly manifested as a conflict of interest between the owner of the enterprise, i.e., the shareholders, and the operator of the enterprise, i.e., the senior managers employed by the enterprise. The scope of coverage of the employee stock ownership plan is relatively wide, including ordinary employees, management, and high-tech talents, etc. First of all, the increase in the proportion of management's ownership of the shares can bundle the interests of management with those of the shareholders, so as to reduce the agency cost between the owner and the operator. Firstly, the increase of management shareholding ratio can bundle the interests of management and shareholders, so as to reduce the agency between owners and operators. Secondly, the interests of managers and shareholders tend to converge under the drive, the owners do not have to invest a lot of supervision costs on the operators. The most direct performance of the enterprise management costs reduction, but there will be negative effects, with the company's shareholding in the hands of a few, shareholders for the company's decision-making right to reduce the company's development may be "yawing" problem. The second type of agency problem is mainly manifested in that the major shareholders of the listed company, who have a rather concentrated shareholding, seek their personal interests by influencing various decisions of the listed company. And the interests of small and medium-sized shareholders are not protected accordingly and may also be eroded and hollowed out by the major shareholders, which stimulates the intensification of conflict of interests between the controlling shareholders and the small and medium-sized shareholders. When the proportion of shares held by the employee shareholding plan to the ordinary employee shareholding, so that employees have a contractual subordinate and the dual identity of the owner of the company, and the major shareholders of the company together with the company's business risks to enjoy the common performance of the enterprise to improve the pay attribution. Thus improving the enthusiasm and cohesion of the internal staff to improve the company's productivity. Employees can for internal shareholders to strengthen the supervision and management of the company's business activities and decision-making, to prevent business operators touching the moral hazard, enhance the company's operational efficiency. On the other hand, the shareholding plan with a high proportion of employee subscription is a wide range of incentives with low concentration, which is prone to the lazy behavior of employees "taking a ride", leading to insufficient supervision of management and controlling shareholders, thus resulting in the decline of corporate performance. From the perspective of signaling, the management is more aware of the real situation of the enterprise operation than ordinary employees and can also play a role in the development direction of the company and business decisions. when the management subscription ratio increases, this design can send a good signal to the market, the voluntary subscription behavior of the management to the market to send a more positive signal, short-term, the plan announcement will be issued to promote the short-term stock elevation, attracting more investors.

4. Relevant Countermeasures on the Impact of Employee Stock Ownership Plan on the Corporate Performance of Listed Companies

4.1. Strengthening capital market institutional construction

The key to boosting the role of employee stock ownership plans in China's capital market lies in building a favorable implementation environment, i.e., strengthening capital market institutional construction. First of all, transparency is the cornerstone of the capital market, and adequate information disclosure is crucial to the effective operation of employee share ownership plans. Listed companies should strengthen information disclosure and timely publicize key performance data, financial status, governance structure and important decisions to ensure that employees and investors understand the true situation of the company. This can enhance employees' trust in the company, increase participation in the shareholding plan, and thus promote the improvement of corporate performance. In addition, strengthening corporate governance and supervision as well as investor protection mechanism is also an important measure to promote the employee stock ownership plan. This is because a sound corporate

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governance structure and an effective supervisory mechanism are the basis of the employee stock ownership plan. The interests of small and medium-sized shareholders and employees can be protected by strengthening the independent director system, improving the authority and independence of independent directors, and effectively supervising the behavior of management. It can also ensure the fairness and legitimacy of the employee stock ownership plan by strengthening the supervision of listed companies and intensifying the investigation and punishment of insider trading, misrepresentation and irregularities. At the same time, a sound investor protection mechanism can safeguard the legitimate rights and interests of employees' investment, reduce the occurrence of improper manipulation and insider trading, and enhance employees' confidence in the stock market. This will encourage more employees to participate in the shareholding plan and promote the improvement of corporate performance.

4.2. Encourage the promotion of shareholding plans

In the transition period of China's economic development, although the state has increased its support for small and medium-sized enterprises, the development of enterprises is still hindered. In this case, the implementation of employee stock ownership plan is undoubtedly an initiative to promote the sustainable development of enterprises. Therefore, to increase the promotion of enterprise implementation of employee stock ownership plan, the government can introduce tax incentives to encourage employees to participate in the stock ownership plan. For example, personal income tax can be reduced or deferred to reduce the economic cost of employees' participation in the shareholding plan. This will increase the motivation of employees to participate in the plan and increase the popularity of the shareholding plan. Listed companies can reduce the purchase cost of employees by establishing low-cost stock purchase channels. For example, an employee-only stock purchase program can be set up to provide employees with stock purchase opportunities at a discounted price. This will enable more employees to participate in the stock ownership plan and increase the sense of belonging and incentive effect of employees to the company, thus promoting the improvement of corporate performance. In addition the employee stock ownership plan can be used as a comprehensive benefit and reward system to further motivate employees to participate in the plan. For example, the employee stock ownership plan can be used as part of a comprehensive benefit and combined with other reward systems, such as year-end incentives, stock options, promotion opportunities, etc., to form a comprehensive incentive system that attracts employees to participate in the stock ownership plan on a sustained basis and promotes the enhancement of corporate performance.

4.3. Reasonable allocation of shareholding ratio

A reasonable shareholding ratio can motivate employees to actively participate in the shareholding plan. If the shareholding ratio is too low, employees may feel that the shareholding plan has less impact on their personal interests and lack motivation to participate. On the contrary, an appropriate shareholding ratio can make employees more motivated to participate in the shareholding plan as they have the opportunity to gain more rewards from the company's success. A benefit-sharing mechanism can also be established, which can enhance employees' sense of belonging and responsibility to the company and inspire them to contribute more actively to the long-term development of the company. Moreover, the employee shareholding plan can form a stable shareholding structure, reduce the dependence on external shareholders, and reduce the risk of malicious takeover or conflict of interest. As internal shareholders, employees are more motivated to look out for the long-term interests of the company and work together to maintain and develop the enterprise.

5. Conclusion

The implementation of employee stock ownership plan by listed companies in China has a significant impact on corporate performance. Employee stock ownership plan enhances the internal cohesion of the enterprise by stimulating the enthusiasm and sense of belonging of the employees, which in turn improves the overall performance of the enterprise. However, it also faces challenges such as risk control and equity structure adjustment in the implementation process. Therefore, enterprises should reasonably allocate the proportion of shareholding. At the same time, the government should introduce relevant policies to vigorously promote the employee stock ownership plan as well as strengthen the construction of the capital market system to provide a strong guarantee for the healthy development of the employee stock ownership plan. Through comprehensive measures, China's listed companies can better utilize the

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positive role of employee stock ownership plan and promote the sustainable and healthy development of enterprises.

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