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Research on the Mechanism of Employee Stock Ownership on Corporate Performance under the Background of Mixed Reform

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Abstract

With the deepening of the mixed ownership reform of state-owned enterprises, the employee stock ownership plan that was once suspended has been started again, and the government has clearly proposed employee stock ownership as an important way of mixed ownership reform. Based on the background of the current mixed reform of state-owned enterprises, this paper analyzes the mechanism of employee stock ownership on the performance of state-owned enterprises from four dimensions: corporate governance, corporate operation, financial competitiveness and market effect, further expands the research perspective, and provides references for the implementation of employee stock ownership plans in state-owned enterprises in the future and for relevant departments to analyze the problems in the pilot process of employee stock ownership.

Keywords

Employee Stock Ownership; Enterprise Performance; Mechanism of Action.

1. Introduction

State enterprises have been leading the economic industry development in our country, contributing to the economic growth. However, in recent years, with the continuous development of the market economic system, state-owned enterprises began to have problems such as outdated system, lack of owners, lack of supervision mechanism, and some state-owned enterprises are facing serious losses and a large number of brain drain. More and more state-owned enterprises began to take a series of measures such as overall listing, reorganization and merger to reform, and employee stock ownership plan has played a great role in promoting this process.

2. Overview of Employee Stock Ownership Plans

Employee stock ownership plan (Employee Stock Ownership Plan, ESOP), Also known as employee stock ownership system, employee stock system, etc., refers to a system in which employees can have the opportunity to hold shares issued by the employment company, so as to participate in the profit and benefit sharing of the enterprise. Since the Third Plenary Session of the 18th CPC Central Committee, with the deepening of mixed ownership reform of state-owned enterprises, the employee stock ownership plan has played a role in promoting the diversification of the company's ownership structure and improving the level of corporate governance.The Opinions on the Pilot Implementation of Employee Stock Ownership in State-owned Holding mixed-Ownership Enterprises jointly issued by SASAC, Ministry of Finance and China Securities Regulatory Commission in August 2016 (hereinafter referred to as the "Pilot Opinions") and the Opinions on Deepening Several Policies on the Pilot reform of mixed

Ownership reform jointly issued by eight ministries and commissions including the National Development and Reform Commission in September 2018 are relevant to the implementation of mixed ownership reform The employee stock ownership plan has made relevant provisions, and also set off a wave of employee stock ownership upsurge.

3. Application Status of Employee Stock Ownership Plan

As can be seen from the above, in the practice process of employee stock ownership in the early stage, due to the lack of top-level design specifically for employee stock ownership in state-owned enterprises, many problems have appeared that are not conducive to the interests of the state and employees. With the improvement of the capital market year by year, the implementation of the employee stock ownership plan in the new era has been extremely careful, and there has been a qualitative improvement in both policy formulation and supervision. This paper studies the employee stock ownership plan in the new era after several polishing.

According to public information, from 2014 to 2019, a total of 1,700 listed companies in China disclosed employee stock ownership plans, and as of December 31, 2023, 1,404 of these 1,700 listed companies have been successfully implemented(Table 1).

Table 1. Statistical table of the ESOPs by listed companies in China from 2014 to 2022

Year	Number of listed companies disclosed	Number implemented as of December 31, 2022
2014	56	49
2015	350	284
2016	170	149
2017	202	179
2018	135	114
2019	116	89
2020	169	148
2021	236	210
2022	266	182
Total	1700	1404

Data source: Wind Databas.

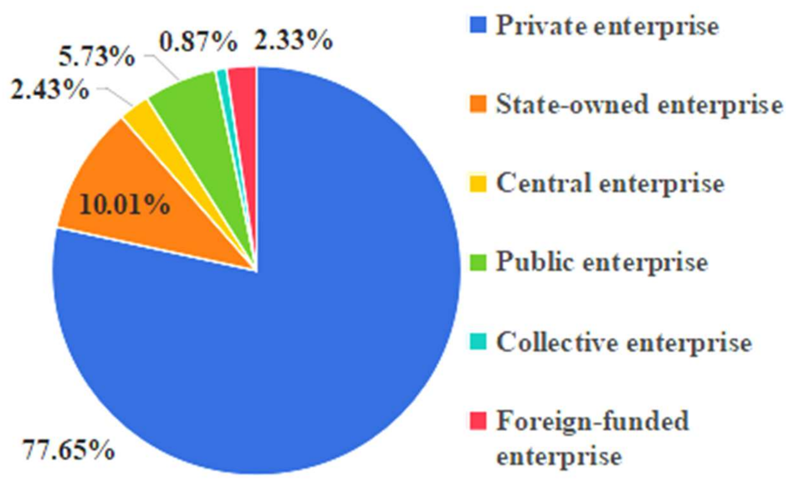

Fig. 1 Distribution of the nature of enterprises implementing ESOPs

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At present, the pilot work of ESOP is mainly concentrated in traditional industries and human capital-intensive industries, and the characteristics of industry clustering are obvious, and talents have become an urgent demand of the above industries. The tendency of enterprises with different property rights to implement employee stock ownership plans differs greatly. Among listed companies that disclose employee stock ownership plans, private enterprises account for 77.65%; Local state-owned enterprises accounted for 10.01%; Central state-owned enterprises accounted for 2.43%; Public enterprises accounted for 5.73%; Collective enterprises accounted for 0.87%; Foreign-funded enterprises accounted for 2.33%(Fig. 1).

4. Characteristics of the ESOPs of SOEs in the New Period

4.1. Mainly Own Funds

According to the survey, 96% of the state-owned enterprises in this employee stock ownership plan choose the way of employees' own funds to contribute. In the relevant provisions of the "Pilot Opinions" on employee investment, it is also clear that pilot state-owned holding enterprises shall not donate shares to employees without compensation, nor shall they provide financial assistance such as loans to employees. This prudent way of investment leads to the phenomenon of low employee shareholding ratio in the pilot state-owned enterprises, and too low shareholding ratio may affect the final effect of the mixed reform of state-owned enterprises, and the incentive effect on employees will also be reduced.

4.2. Capital Increase and Share Expansion

The Pilot Opinions put forward that the pilot employee stock ownership plan is mainly based on incremental stock ownership, including capital expansion, new investment and other ways, that is, the stock of the employee stock ownership plan does not come from the original property rights of the enterprise, but by raising funds from the employees to set up a separate acquisition. The new way of capital expansion and capital contribution does not affect the stock assets inside state-owned enterprises, and there are two main advantages of using this way: first, to expand the scale of enterprise capital. Capital increase, share expansion and new ways of investment can increase the capital of enterprises, can promote the expansion of the scale and strength of enterprises, accelerate the speed of enterprise development, and further enhance the confidence of employees. Second, we will effectively prevent the loss of state-owned.

4.3. Long-term Orientation Principle

For the duration of the employee stock ownership plan, the "Pilot Opinions" stipulate that the lock-up period shall not be less than 36 months, and after the lock-up period, the company's directors and executives shall not transfer more than 25% of the shares held each year. Longer lock-in period and phased exercise are conducive to improving employees' loyalty to the enterprise, reducing employee turnover and reducing labor costs, so as to truly share benefits and risks between employees and the enterprise.

5. The Mechanism of ESOP on SOE Performance

5.1. The Impact of ESOP on Corporate Governance Performance

5.1.1. Improving Ownership Structure

Under the background of deepening the reform of state-owned enterprises, the implementation of ESOP in state-owned enterprises is conducive to improving the mixed ownership structure of enterprises.Employees participate in corporate governance as shareholders, which can restrain the moral hazard of management, improve the efficiency of corporate decision-making, and thus improve corporate performance.

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5.1.2. Reducing Agency Costs

According to the principal-agent theory, because of the separation of ownership and management, there is a conflict of interest between the managers and shareholders.In the case of imperfect corporate governance structure, it is easy to appear the problem of "insider control".The manifestation of insider control includes the behaviors of enterprise managers that harm the interests of owners, such as embezzlement of enterprise assets, abuse of management decision-making power, increase of in-service consumption, and earnings management.Wang Chunlei and Li Wenchang, by constructing the intermediary effect model, revealed the transmission mechanism by which the implementation of employee plans in state-owned enterprises can significantly reduce agency costs and thus improve enterprise performance.On the one hand, managerial ownership can motivate managers to work harder; On the other hand, employees can supervise major shareholders on behalf of minority shareholders.

5.2. The Impact of ESOP on Business Performance

5.2.1. Improving the Employee Incentive Mechanism

Employees are the basic components of the enterprise, and the employees engaged in technical and key positions are the backbone of the enterprise.Therefore, whether the incentive mechanism of employees is perfect determines the performance and long-term development of enterprises.The introduction of employee stock ownership in the new period is different from the previous full membership and average, and the government encourages the key backbone personnel of enterprises.Wang Weiqiang et al. pointed out that this differentiated incentive method can simultaneously motivate and constrain employees in key positions, which makes the improvement of enterprise efficiency more obvious and achieves the purpose of retaining talents.

5.2.2. Improving the Innovation Capability of Enterprises

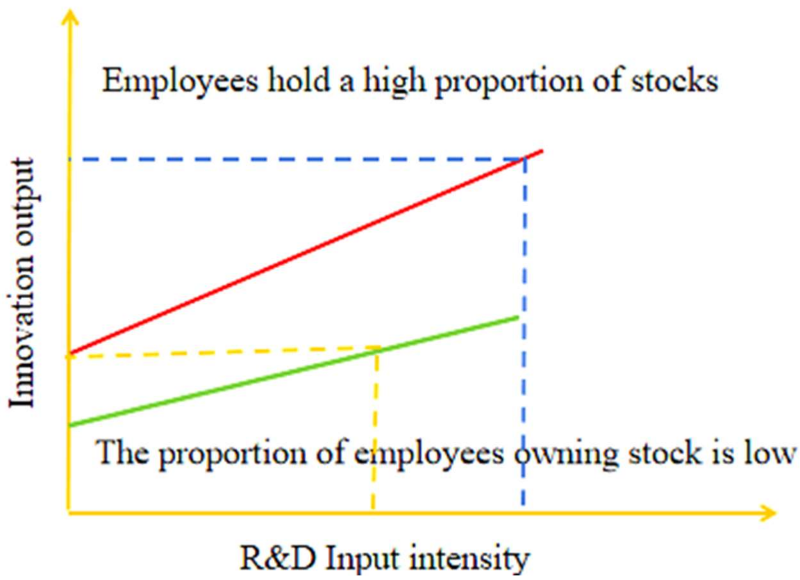

Fig. 2 ESOP is the moderating variable of R&D input intensity and innovation output

It is found that there is a positive correlation between employee stock ownership and innovation input and innovation results.Chen and Huang found that employee-owned enterprises have higher R&D expenditure than non-employee-owned enterprises. Moreover, as the average market value of stocks held by each employee increases, the R&D expenditure of enterprises will also increase.They believe that employee stock ownership can alleviate principal-agent conflicts and enable employees to actively invest in innovation activities, thus

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reducing R&D risks, which in turn will encourage enterprises to invest more in innovation.Garrett conducted a study on high-tech enterprises with employee ownership and found that employee ownership promoted the innovation output of the enterprises (measured by the number of patents).He believes that employee stock ownership is the regulating variable between R&D investment intensity and innovation output (Fig. 2), which can improve the level of employees' organizational commitment.

5.3. The Impact of ESOP on Firm Market Performance

Since the announcement of employee stock ownership plans by listed companies is considered to send a favorable signal to the market, the company can promote the value of the company with lower financing costs. At the same time, employee ownership conveys a signal of good performance and high future growth, which can promote the rise of the company's stock price.The stock price can truly reflect the value of the company to a certain extent, and it fluctuates constantly with the change of the value of the company.In addition, after the implementation of the employee stock ownership plan, the price of the company's stock is related to the vital interests of the core employees, which also provides a guarantee for the stability of the company's stock price.Since the scheme is run by insiders, including senior executives, with long lock-in periods, following the restricted "smart money" has a high chance of earning excess returns.

5.4. The Impact of ESOP on Firm Financial Performance

5.4.1. Ease Financing Pressure

For state-owned enterprises, although the financing pressure is less than that of private enterprises, they are also faced with problems such as weakening government support, higher financing costs, narrow financing channels, and private enterprises seizing market resources.At present, the market competition is increasingly fierce, and the financing speed and scale of state-owned enterprises not only affect the market competitiveness of state-owned enterprises, but also affect the allocation and operation efficiency of state-owned capital, and affect whether enterprises can grasp the investment opportunities at the right time.As an internal financing method, the ESOP not only solves the problem of narrow financing channels of state-owned enterprises, but also reduces the financing cost of enterprises, thus improving the performance of enterprises.

5.4.2. Enhancing the Financial Competitiveness

Financial competitiveness is the ability of an enterprise to complete the established business objectives of the current period, ensure the further stability of its market position, lead its competitors in the established field, and maintain long-term and sustainable profitability in the process of pursuing sustained performance growth and steady development.As a powerful measure of the reform of state-owned enterprises in the new era, the ESOP plays a role in promoting the sustainable development of state-owned enterprises.According to the theory of human capital, human resources, as an important production factor of an enterprise, play a vital role in promoting the economic growth ability and sustainable development ability of an enterprise.According to relevant literature, the enterprises with employee stock ownership plan play a positive role in the aspects of profitability, debt paying ability, operation ability and development ability than the enterprises without employee stock ownership plan.

6. Summary

Under the current background of mixed reform, this paper divides enterprise performance into four dimensions: governance performance, business performance, financial performance and market performance, and summarizes the mechanism of employee stock ownership on the performance of state-owned enterprises.The implementation of employee stock ownership

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plan can improve the diversification degree of state-owned enterprises, reduce agency costs and improve corporate governance performance. Employee stock ownership plan increases the recognition and loyalty of employees to the enterprise, encourages employees to actively participate in innovation activities, and improves the business performance of the enterprise. Employee stock ownership plan can improve the financial competitiveness of state-owned enterprises and promote the growth of financial performance effectively. The announcement of employee stock ownership plans by state-owned enterprises sends a positive signal to the market, promoting the growth of stock prices and thus improving market performance.

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