Research on the Path of Improving Enterprise Performance through Employee Stock Ownership Plan in Technological Enterprises

Song Zhou¹,a, Nanyun Xiao²,*

¹Department of Management, Harbin Finance University, Harbin Heilongjiang 150030, China
²Department of Accounting, Harbin Finance University, Harbin Heilongjiang 150030, China

Abstract. In the period of rapid development of the knowledge economy, human capital plays a very prominent role in technology-based enterprises. Technological enterprises have characteristics such as high R&D investment, intensive technological talent, and significant impact of human capital on their competitiveness. Employee stock ownership plans can stimulate innovation vitality and improve innovation efficiency. The research on employee stock ownership in technology-based enterprises is still a relatively new field, and there are still some challenges. Employee stock ownership in technology-based enterprises is an incentive mechanism that can effectively improve corporate performance. This article elaborates on the characteristics of employee stock ownership plans, analyzes the process of their impact on corporate performance, and proposes countermeasures and suggestions. Employee shareholding in technology-based enterprises is not a panacea for all problems, and its successful implementation requires specific design and adjustment based on the company's own situation. In addition, the implementation of employee stock ownership plans may also face some challenges, such as equity allocation, liquidity management, etc., which require rational allocation of resources and handling of interest relationships.

1 Introduction

Employee stock ownership plan (ESOP) refers to an incentive equity arrangement in which employees within a company enjoy share dividends by acquiring a portion of the company's equity[1]. It was developed in the 1960s in the United States. After more than 30 years of policy changes since the 1980s, China introduced the "Interim Measures" in 2012 and officially issued the "Guiding Opinions on the Pilot Implementation of Employee Stock Ownership Plan by Listed Companies" (hereinafter referred to as the "Guiding Opinions") in 2014. China's employee stock ownership system has officially entered a new stage of deepening standardization and comprehensive improvement.

Technological enterprises, as important economic entities leading innovation and technological iteration, are key to promoting national industrial transformation and upgrading, as well as high-quality economic development. As a knowledge and technology intensive enterprise, human capital can be regarded as one of its most important resource endowments. In addition to various incentive policies at the national level, most technological enterprises attach great importance to exploring the value of internal employee human capital. The employee stock ownership plan has become an important institutional arrangement for promoting the value of human capital in enterprises due to its advantage of achieving benefit sharing.

2 Characteristics of employee stock ownership plans in Technological enterprises

2.1 High proportion and stable development

As of the end of 2022, a total of 1100 listed companies in China have announced employee stock ownership plans, of which 986 are technological enterprises, accounting for 89.6%. The number of companies that announced their employee stock ownership plans in 2022 reached a six year high.

2.2 Long duration and short lock-in period

The average lock-in period of employee stock ownership plans in technological enterprises is 19 months. The majority of employee stock ownership plans with a lock-in period of 12 months account for 67% of the total number of plans, while those with a lock-in period of 36 months or more account for 23%. The average duration of the plan is about 40 months, with a maximum of 150 months.

* Corresponding author: 724259289@qq.com, * qiuyefengliang1@126.com

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2.3 Wide employee coverage and low proportion

The employee stock ownership plan has a lot of discretion in scheme design. Compared to equity incentive plans, it covers a wider range of employees, has looser participation conditions, and has more flexible funding sources and management methods [3]. However, the proportion of participants in employee stock ownership plans to the total number of employees in the enterprise is not high overall, with an average participation rate of 12% and a median of only 6%, and has shown a downward trend in recent years.

2.4 Diversified sources of stocks and abundant sources of funds

According to the employee stock ownership plan announced by technological enterprises, the main sources of stocks include: secondary market purchases, block trading, non-public offerings, shareholder gifts, repurchase of stocks, targeted transfers, targeted repurchases, negotiated transfers, and other methods permitted by laws and regulations. The employee stock ownership plan of technological enterprises is also very diverse in terms of funding sources. In addition to employee compensation, it also includes self-raised funds, financing loans, interest-free loans, performance bonuses, rewards for net profit extraction, special funds for the company's stock ownership plan, and other methods permitted by laws and regulations.

2.5 Low performance indicators and reduced risk

The performance restrictions of employee stock ownership plans are relatively limited, and the unlocking restrictions are mainly limited to time [3]. The vast majority of plans can be traded according to the plan agreement after the lock-in period ends. Given the flexibility of employee stock ownership plans, when faced with force majeure factors such as internal and external environmental changes, enterprises have a high degree of autonomy to adjust the plan, which can reduce losses, reduce risks, and protect the rights and interests of participants to a certain extent.

3 The process of the impact of employee stock ownership plans on corporate performance in technology enterprises

3.1 Stimulate employee motivation and motivation

A stock ownership plan is a way to motivate employees to invest in their work and pursue excellence. Employee stock ownership plans can motivate employees to invest more energy and time in their work, as they directly benefit from the development and profits of the company. When employees hold equity, they are closely linked to the interests of the company, sharing its growth and profitability. This direct interest correlation will stimulate employees' motivation for innovation, improve production efficiency and quality. Employees will be more proactive in thinking about how to improve workflow, enhance the quality and competitiveness of products or services, thereby promoting the performance improvement of the enterprise. Stock ownership plans allow employees to connect their interests with the long-term development of the company, enhancing their sense of identity and loyalty [6]. The reasons why employee stock ownership plans can improve the quality and competitiveness of products or services are as follows:

3.1.1 Benefit sharing

After employees hold equity, they will directly share in the company's profits and growth. This benefit sharing mechanism motivates employees to be more proactive in the development of the enterprise, and they will pay more attention to the quality of products or services to obtain higher profits and returns.

3.1.2 Long term perspective

Employee shareholding means that they bear certain risks in the success and failure of the enterprise, so they usually have a longer term perspective. They will pay more attention to the long-term development of the enterprise and strive to improve the quality of products or services, thereby enhancing the competitiveness of the enterprise.

3.1.3 Innovation motivation

The employee stock ownership plan has stimulated employees' innovation motivation. Employees have direct economic interests and are more inclined to think about how to improve work processes, improve the quality and competitiveness of products or services. The shareholding plan encourages employees to propose new ideas and innovative solutions, thereby driving continuous innovation in the enterprise.

3.1.4 Sense of responsibility and commitment

The employee stock ownership plan closely connects the interests of employees and the company, making them more responsible and committed. Employees are willing to make more efforts for the enterprise and actively participate in team cooperation to improve the quality and competitiveness of products or services.

3.2 Enhance employee loyalty and stability

The employee stock ownership plan enhances employees' loyalty and sense of belonging to the company. Employees are more inclined to stay in the company for a long time and grow together with the company, as they receive returns on the company's operating performance through shareholding. The
stability and loyalty of employees help establish a stable team, reduce recruitment and training costs, and maintain continuous business operations\(^5\). This stability and loyalty are crucial for the long-term development of the enterprise. The reasons why employee stock ownership plans enhance employees' loyalty and sense of belonging to the company are as follows:

3.2.1 **Interest correlation**
After employees hold equity, they will directly benefit from the development and profits of the enterprise. This interest correlation makes employees more concerned about the long-term development of the enterprise and closely linked to the interests of the enterprise. They are willing to make more efforts for the enterprise, promote its success, and thus enhance their loyalty to the enterprise.

3.2.2 **Identity**
The employee stock ownership plan turns employees into partners and shareholders of the enterprise. They are no longer just employees, but a part closely related to the interests of the enterprise. This identity makes employees more proud and belonging to the company, willing to fight for the honor and reputation of the company.

3.2.3 **Participation in decision-making**
Stock ownership plans usually grant employees certain decision-making or participation rights. Employees can participate in the discussion and formulation of important decisions, express their opinions and suggestions. This sense of participation enhances employees' sense of belonging to the enterprise, and they will be more engaged and responsible in the development of the enterprise.

3.2.4 **Long term stability**
Stock ownership plans encourage employees to establish long-term stable relationships with the company. Employees holding equity means they take risks in the success and failure of the enterprise, so they are usually more willing to stay in the enterprise for long-term development. This long-term stability enhances employees' loyalty and sense of belonging to the company.

3.3 **Promote cooperation and sharing among employees**
The employee stock ownership plan promotes cooperation and sharing among employees. Holding equity allows employees to recognize their mutual interests and establish a sense of common goals and teamwork. They are more willing to share knowledge and skills, work together to solve problems, and jointly promote innovation and development of the enterprise\(^6\). Collaboration and teamwork among employees can help improve work efficiency, strengthen internal communication and coordination, and thus improve the performance of the enterprise.

3.3.1 **Incentive mechanism**
The employee stock ownership plan is an incentive mechanism that can motivate employees to actively share knowledge, experience, and skills. The number of shares held by employees is related to their positions and contributions in the enterprise, so employees will learn and collaborate with each other to improve the performance level of the entire team.

3.3.2 **Collaborative innovation**
Employee stock ownership plans can also encourage collaborative innovation among employees, creating more innovative ideas and solutions. Employees can share their innovative ideas and experiences with other team members, thereby generating more new products or services and improving the competitiveness of the enterprise.

3.4 **Improving corporate governance and transparency**
Employee stock ownership plans can help improve the governance level and transparency of enterprises. Employees, as shareholders, participate in the decision-making process of the enterprise and have direct influence on the development direction and strategic decision-making of the enterprise\(^7\). This participation can promote corporate governance practices, increase the transparency of decision-making, and improve the quality and efficiency of decision-making. Excellent corporate governance structure and processes contribute to the establishment of a stable enterprise management system and provide guarantees for the long-term development of the enterprise.

3.4.1 **Democratic decision-making**
Employee stock ownership plans can encourage enterprises to implement democratic decision-making. As shareholders, employees have the right to participate in the process of enterprise management and decision-making. Enterprises can rely on employees' opinions and suggestions to form consensus and make more democratic and scientific decisions. This democratization of decision-making not only enhances the level of corporate governance, but also enhances employees' sense of participation and belonging to the company.
3.4.2 Information Disclosure and Transparency

The Employee Stock Ownership Plan requires companies to engage in more proactive and extensive information disclosure to enhance transparency. Enterprises need to disclose relevant information such as their financial status, business operations, and strategic planning to their employees and shareholders. This kind of information disclosure encourages the management of enterprises to pay more attention to the transparency of information, improve their sense of responsibility and professional level.

4 Countermeasures and suggestions

4.1 The government encourages enterprises to implement employee stock ownership plans in multiple aspects

Firstly, the government can provide tax incentives for employee stock ownership plans through tax policies to encourage companies and employees to participate. Secondly, the government can establish specialized funds or profit retention plans, and use a certain proportion of profits to provide financial support to enterprises and help them implement employee stock ownership plans. Thirdly, the government can improve relevant laws and regulations, clarify regulatory provisions and operational procedures for employee stock ownership plans, and provide legal protection for enterprises. Fourthly, the government can cooperate with relevant institutions to provide training and guidance on employee stock ownership plans for enterprises, helping them understand the advantages, operational methods, and management skills of employee stock ownership plans. Fifthly, the government can increase the awareness and understanding of employee stock ownership plans among enterprises and employees through promotional activities, and promote joint participation and support between enterprises and employees. Through the encouragement and support of the above measures, more technological enterprises can be promoted to implement employee stock ownership plans, thereby enhancing the sharing of benefits between enterprises and employees, and improving enterprise performance and competitiveness.

4.2 Enterprises actively motivate employees

Firstly, encourage enterprises to support employee stock ownership plans through internal accumulation or self-owned funds. Enterprises can establish specific savings funds or profit retention plans, and use a certain proportion of profits to purchase employee shares. Secondly, appropriately expand the scale. Ensure that the scale of the employee stock ownership plan is appropriately expanded to allow more employees to participate. Enterprises can establish clear participation standards based on factors such as employee contributions and service years, and encourage more employees to participate in shareholding plans. The third is a high level of participation. Encourage employees to actively participate and increase their shareholding ratio. By setting up a mechanism for purchasing shares in stages, corresponding discounts can be given based on employee participation time and performance. Thirdly, companies can provide more incentive measures, such as equity incentives or dividend mechanisms, to encourage employees to hold and increase shares. The fourth is to provide information transparency. Ensure that employees have a clear understanding of the company's operational and financial situation. Establish effective communication channels, regularly disclose the company's business situation, financial reports, and progress of shareholding plans to employees, and enhance employees' confidence and participation in shareholding plans. The fifth is incentive and training plans. Provide incentive and training plans to help employees understand the incentive mechanism and long-term benefits of employee stock ownership plans.

4.3 Improving the Employee Stock Ownership System in Enterprises

To improve the employee stock ownership system, enterprises can take the following measures: Firstly, set clear goals and policies: Enterprises need to clarify the goals and policies of the employee shareholding system, including employee shareholding ratio, distribution method, equity incentive plan, etc. These goals and policies should be closely aligned with the long-term strategy and development plan of the enterprise, ensuring that the employee stock ownership system can effectively promote the development of the enterprise and employee motivation. Secondly, fair and reasonable incentive mechanism: Establish a fair and reasonable employee shareholding incentive mechanism, considering factors such as employee contributions, positions, and performance to determine the equity ratio and distribution method. The incentive mechanism should have operability and sustainability, which can not only motivate employees' enthusiasm, but also meet the interests and long-term development needs of the enterprise. Thirdly, transparent and open information disclosure: Strengthen information disclosure to ensure the transparency of the employee shareholding system. Timely disclose important information such as the financial status, business operations, and development plans of the company to employees, enabling them to understand and participate in the decision-making process of the company. At the same time, encourage communication and exchange with employees to answer their questions and concerns about the employee shareholding system. Fourthly, sound governance mechanism: Establish a sound corporate governance mechanism, including organizational forms such as shareholder meetings and board of directors. Ensure that the implementation of the employee stock ownership system complies with the requirements of laws, regulations, and the company's
articles of association, and follows the principles of fairness, fairness, and transparency. Strengthen supervision and constraints on management to prevent abuse of power or conflicts of interest.

5 Conclusions

The employee stock ownership system encourages employees to be more actively engaged in work, improving production efficiency and innovation ability. At the same time, employees becoming one of the shareholders of the enterprise will provide more effective supervision and management, promoting the healthy development of the enterprise. The employee stock ownership system promotes the construction of corporate culture and forms the concept of "common development and common honor". Employees will pay more attention to the cultural atmosphere and values of the company, actively participate in the construction and promotion of corporate culture. The win-win significance of the employee stock ownership system is not only reflected in the development and profitability of the enterprise, but also in improving employee income, corporate governance level, corporate culture, and other aspects, building a close interest relationship between the enterprise and employees, and society. Summarizing the research results, this article proposes practical suggestions for the employee stock ownership incentive mechanism in technological enterprises. Based on the research findings, provide reference for enterprise decision-makers and guide technological enterprises on how to reasonably design and implement employee stock ownership plans to improve corporate performance.

Project source


References