Articles

Employee Participation in Employee Share Ownership Plans: The Law, Company Objectives and Employee Motives

Michelle Brown,[*] Rowan Minson,[†] Ann O'Connell[‡] and Ian Ramsay[§]

Although Employee Share Ownership Plans (ESOPs) are widely used in Australian companies, little is known about why employees participate in these plans. Yet understanding employee motivations for share ownership has significant implications for corporate governance, human resource practice and public policy. We first review the history of ESOP regulation in Australia in order to identify Federal Government policy rationales for ESOPs. We then identify employee motives for participating in employee share plans. Two hypotheses, using data from both employee shareholders and non shareholders in Australia are investigated: that employees participate because they are motivated by financial considerations or they participate because they believe share ownership is a way of increasing their involvement in decision-making at work. We then compare employee motivations for participating in ESOPs with the policy rationales advanced by the government for its support of ESOPs. We find, based on this comparison, that there is a mismatch between the employee motivations and the government's policy rationales and we identify the implications of this finding for public policy.

1 Introduction

Despite considerable public policy interest in the area,[1] non-executive employee share ownership in Australia has, until recently, been largely uncharted by researchers. Indeed, in 2000 the House of Representatives Standing Committee on Employment, Education and Workplace Relations' inquiry into employee share ownership found that, putting executive

* Associate Professor (Human Resource Management), Faculty of Business and Economics, University of Melbourne.
† Research Assistant, Employee Share Ownership Project, Melbourne Law School, University of Melbourne.
‡ Associate Professor, Melbourne Law School, University of Melbourne.
§ Harold Ford Professor of Commercial Law and Director of the Centre for Corporate Law and Securities Regulation, Melbourne Law School, University of Melbourne. The authors thank Ingrid Landau and Malcolm Anderson for their valuable assistance in the preparation of this article. The authors also thank two anonymous referees for their comments.

1 For an overview of such interest: see J Lenne, R Mitchell and I Ramsay, 'Employee Share Ownership Schemes in Australia: A Survey of Key Issues and Themes' (2006) 14 *International Jnl of Employment Studies* 1.

remuneration plans to one side,[2] 'very little of a substantive nature is known about employee share plans in Australia at all'.[3]

We have three objectives for this article. First, we examine the regulation of Employee Share Ownership Plans (ESOPs) in Australia for the period 1974–2011. The incidence of ESOPs in Australian companies has been determined in part by the laws relating to the establishment and operation of such plans. We chart the changes to the laws, particularly the taxation laws, regulating ESOPs. We also identify the policy rationales advanced by the government for its support of ESOPs.

Our second objective is to examine the reasons why employees participate in ESOPs. We test two contrasting motivations for ESOP participation — a financial motivation and a control motivation — using survey data collected from employees (both shareholders and non-shareholders) at two major Australian companies on their reasons for taking up, or not taking up, shares in their company. Where shares or options are provided to employees as a 'gift', we would expect the take up rate on share plans to be typically high as there is no cost to the employee. Our focus is on contributory plans where employees need to make a financial contribution to acquire shares in their employing company. Employees must make a conscious decision to participate and therefore this represents a suitable opportunity to test the employee motivations for share ownership in the Australian context.

Our third objective is to compare the employee motivations for participating in ESOPs with the policy rationales advanced by the government for its support of ESOPs. The government has in the past set specific participation targets[4] and today continues to promote employee share ownership.[5] We examine whether the government rationales for ESOPs and the policy settings employed to promote share ownership are consistent with employee motives for share ownership. If there is not an alignment, this implies that government policies aimed at encouraging employee share ownership may not enjoy strong support from employees and companies may not derive the potential benefits of ESOPs.

Understanding the motivations for employee share ownership has significant implications for corporate governance, human resource practice and public policy.[6] A greater understanding of why employees participate in ESOPs will, for example, shed light on how employee participation in ESOPs may be increased. This will assist companies who have an ESOP or who wish to implement one. A better appreciation of the issue will also permit assessment of the extent to which employee share ownership is capable of

---

2 House of Representatives Standing Committee on Employment, Education and Workplace Relations, *Shared Endeavours: Inquiry into Employee Share Ownership in Australian Enterprises*, Commonwealth Parliament, Canberra, 2000, pp 10–12.

3 Ibid, pp 41–2. See also pp xxvi, 15–16, 26, 29, 285, 290–1.

4 For example, in February 2004, the then Minister for Employment and Workplace Relations Kevin Andrews announced a target of doubling ESOP participation in workplaces from 5.5% of employees to 11% by 2009: Lenne, Mitchell and Ramsay, above n 1, at 2.

5 See, eg, Explanatory Memorandum, Tax Laws Amendment (2009 Budget Measures No 2) Bill 2009 (Cth), Parliament of Australia, 2009, [1.25]–[1.26], which identifies the government's support for employee share ownership.

6 For a more detailed discussion: see M Brown et al, 'Why Do Employees Participate in Employee Share Plans? A Conceptual Framework' (2008) 18 *Labour & Industry* 45.

fulfilling the objectives most commonly cited by those who favour it.[7] Furthermore, such an appreciation will help determine the desirability and shape of regulatory reform.

The structure of the article is as follows. Part 2 summarises recent research on the incidence of employee share ownership in Australia and the objectives of companies in establishing ESOPs. Part 3 then provides an overview of the regulation of employee share ownership in Australia with a particular focus on recent reform to the taxation incentives provided for participation in ESOPs. Part 4 explains the background and methodology of the study. Parts 5 and 6 set out, respectively, the key characteristics of our sample and our results. In particular, we examine in Part 6 the general attitudes of employees towards ESOPs, employee share ownership patterns, and whether employees have a financial or a control orientation to employee share ownership. Drawing upon the results in Part 6, in Part 7 we compare the attitudes of employees to share ownership with that of the government and explore the implications of this comparison. Part 8 concludes by noting how our research can assist companies design ESOPs that will appeal to employees. We also observe that there is a mismatch between the policy rationales of the government for its support of employee share ownership and the motivations of employees for participating in ESOPs.

2 Employee Share Plans in Australia

2.1 Incidence of ESOPs

The evidence suggests that ESOPs operate in a sizeable number of workplaces in Australia.[8] A study commissioned by the Commonwealth Department of Employment and Workplace Relations in 2004 found that around 10% of Australian businesses had some form of employee share ownership.[9] Four percent of businesses surveyed had a 'broad-based' employee share plan, defined in the study as one open to at least 75% of employees. Data from the Australian Bureau of Statistics indicate that increasing numbers of employees are participating in employee share plans: while in 1979, around 1.3% of employees received shares as a form of employment benefit, this had risen to 5.9% of employees by 2004.[10]

Further insight into the extent and nature of broad-based employee share ownership in Australia, particularly in larger companies, can be gained from a recent study conducted into employee share plan practice in companies

---

7 These objectives are discussed in Part 2.2 below.

8 For a more detailed review of data on the incidence and nature of employee share plans in Australia, see I Landau et al, 'Employee Share Ownership in Australia: Theory, Evidence, Current Practice and Regulation' (2007) 25 *UCLA Pacific Basin LJ* 25; Senate Economics References Committee, *Employee Share Schemes*, Commonwealth Parliament, Canberra, August 2009, [4.1]–[4.13].

9 TNS Social Research, 'Employee Share Ownership in Australia: Aligning Interests — Executive Summary', Department of Employment and Workplace Relations, 2004, p 4.

10 Australian Bureau of Statistics, *Spotlight: Employee Share Schemes*, Australian Labour Market Statistics Cat No 6105.0, ABS, July 2005.

listed on the Australian Securities Exchange.[11] This study found that 57% of respondent companies operated at least one broad-based employee share plan. Significantly more companies reported having a broad-based plan than a narrow-based plan: that is a plan only open to executives. The study also found that broad-based employee share ownership is a recent phenomenon, with over three quarters of those companies with a plan having adopted it since 2000. The most common type of broad-based plan offered was the plan structured to take advantage of the $1000 tax exemption available through (former) Div 13A of the Income Tax Assessment Act 1936 (Cth).[12] The most common type of equity offered under broad-based employee share plans was options (around 49% of plans), followed closely by shares (around 47% of plans).

2.2 Organisational objectives for establishing ESOPs

There is evidence on the objectives of companies in establishing ESOPs. As part of the study conducted into employee share plan practice in companies listed on the Australian Securities Exchange,[13] the authors asked respondents who did have an ESOP to select the extent to which they agreed or disagreed that the plan was implemented to achieve certain objectives.[14] Respondents could select from 14 objectives. Ninety seven per cent of respondents either agreed or strongly agreed that the company sought to show its employees that they were valued by the company. Other common objectives were: sharing financial success with employees (95.5%); aligning employee interests with shareholders interests (94.9%); retaining employees (92%); and attracting employees (81.8%). The seventh most popular objective was encouraging increased productivity (76%). The four least common objectives for having the employee share plan were: utilising the tax concession advantage (32.6%); facilitating additional savings by employees for retirement (31.1%); raising capital (6.7%); and inhibiting takeovers (2.2%).

3 Employee Share Plan Regulation: 1974–2011

Employee share plans first became the subject of federal legislation in 1974.[15] The main regulation of employee share plans has always been through taxation law and therefore this is the focus of this section of the article.[16] However, it should be noted that regulation of employee share plans is also found in corporate law.[17] Here, a range of provisions directed principally at

11 I Landau et al, 'Broad-Based Employee Share Ownership in Australian Listed Companies: An Empirical Analysis' (2009) 37 *ABLR* 412.

12 See Part 3 below for further discussion of the taxation aspects of ESOPs.

13 Landau et al, above n 11.

14 Respondents could identify more than one objective and therefore the percentages in this paragraph add to more than 100%.

15 House of Representatives Standing Committee on Employment, Education and Workplace Relations, above n 2, p 9.

16 For a more detailed discussion of the history of taxation laws relevant to employee share plans: see A O'Connell, 'Employee Share Ownership Plans in Australia: The Taxation Law Framework', Research Report, Employee Share Ownership Project, Melbourne Law School, March 2007.

17 For a detailed discussion of the corporate law framework underpinning employee share

protecting investors in relation to public share offerings also apply to the issuing of securities to employees under ESOPs. The Australian Securities and Investments Commission (ASIC) has issued a Regulatory Guide and Class Order, the effects of which are to provide to companies some relief from a raft of fundraising, licensing and hawking provisions in the Corporations Act 2001 (Cth). This relief is offered, according to ASIC, in recognition of the fact that the primary objective of employee share plans is to foster the ongoing and mutually interdependent relationship between employer and employee, rather than fundraising by companies.[18] Class Order relief is subject to a number of conditions, the most important being that there be a 5% cap on the number of shares that can be issued under an employee share plan, that the recipients be full-time or part-time employees, and that there is a history of disclosure to a well regulated market — in other words, the relief is only available to listed companies.[19] Further regulatory principles for listed companies can be found in the ASX Listing Rules and the Employee Share Scheme Guidelines (issued by the Investment and Fiscal Services Association in 2007 and endorsed by the Australian Institute of Company Directors, the Australian Shareholders Association and the Australian Employee Ownership Association).

As noted above, the main regulation of ESOPs is through taxation law and the general rule governing the taxation treatment of employee shares is that the issuing of shares or rights to an employee 'in respect of their employment' is treated as a substitute for cash income for services. Tax is imposed, at marginal income tax rates, at the time the share or right is acquired. The amount to be included in the employee's assessable employment income is the difference between the market value of the share or right and any consideration provided: that is, the amount of the discount provided to the employee or service provider.

Prior to the introduction of Div 13A of the Income Tax Assessment Act 1936 (Cth) in 1995 the position had been that no tax was imposed until an option was exercised or any restrictions on shares were lifted. Division 13A shifted the tax point to acquisition but permitted taxpayers to defer tax liability in certain circumstances for up to 10 years or to claim an exemption for the first $500 (later increased to $1000) worth of discount. Australian law has, since 1995, provided two alternative concessions from the general rule to promote employee share ownership. While these two concessions continue today, they were significantly reformed in 2009. The pre and post-reform regulatory regimes are outlined briefly below.

3.1 The pre-2009 regime

Prior to the 2009 reforms, employees who received shares or options under an employee share plan could elect either to: (i) pay income tax upfront and receive a $1000 tax exemption (the 'exemption concession'); or (ii) defer paying income tax on the discount for up to 10 years (the 'deferral

---

plans in Australia: see I Landau and I Ramsay, 'Employee Share Ownership Plans in Australia: The Corporate Law Framework', Research Report, Employee Share Ownership Project, Melbourne Law School, March 2007.

18 Australian Securities and Investments Commission (ASIC), 'Employee Share Schemes', Regulatory Guide No 49, ASIC, February 2004, [49.3]–[49.5].

19 ASIC, 'Employee Share Schemes', Class Order No CO 03/184, ASIC, April 2003.

concession').[20] In order to be eligible for either of the two concessions, the shares or rights issued under the employee share plan had to satisfy a number of conditions. These included that the share or right was to be in the company which was the employer of the taxpayer (or in the holding company of the employer company); the equity offered was ordinary shares, or rights to ordinary shares; and the employee not have control of more than 5% of the company or be in a position to cast, or control the casting of, more than 5% of the maximum number of votes that might be cast at a general meeting. Finally, in the case of shares (but not options), at least 75% of 'permanent employees' (defined as employees employed full or part time with 36 months prior service) were entitled to participate in the plan or another employee share plan. In order to be eligible for the exemption concession it was also necessary to satisfy three additional conditions: the shares or rights could not be subject to forfeiture; there was a minimum holding period of 3 years, and a requirement that the plan and any related plan for the provision of finance be operated on a non-discriminatory basis. The deferral concession was available if there were restrictions preventing the employee from disposing of the shares or rights, or conditions that could result in forfeiture, and the employee did not elect to be taxed up-front. In such cases, tax would be imposed (i) when the restrictions ended; (ii) on disposal; (iii) when employment ended; or (iv) after 10 years, whichever occurred first. In fact, many employees chose to pay tax up-front and then to obtain the benefit of the capital gains tax 50% discount on disposal of the shares or rights.[21] This concession was much more attractive to senior executives than the $1000 exemption. The concessions allowed a company to operate plans that were open only to executives (narrow-based plans) either by having two plans — a broad-based plan and a (more generous) narrow-based plan for shares, or a narrow-based plan that only offered options because, as noted above, shares were subject to more onerous requirements.

3.2 The 2009 reforms

The Commonwealth Treasurer announced significant changes to the regulation of employee share plans in the 2009–2010 federal budget.[22] The first major change was to the exemption concession. The government announced that this concession would be limited to 'low and middle-income earners', defined as those with an adjusted taxable income of $60,000 per annum or less. Second, the government announced that the deferral concession would be abolished completely. These measures were to take effect from 12 May 2009. The ability to defer tax (and potentially to evade tax liability) motivated the proposed changes.[23]

The changes were strongly opposed by a range of stakeholders, including

20 Income Tax Assessment Act 1936 (Cth) Pt 3 Div 13A, later repealed by Tax Laws Amendment (2009 Budget Measures No 2) Act 2009 (Cth) Sch 1 Item 18.

21 Income Tax Assessment Act 1997 (Cth) Div 115.

22 Commonwealth of Australia, Budget Paper No 1 — Budget Strategy and Outlook 2009–10, Commonwealth of Australia, Canberra, 2009, p 141. See also the Hon Wayne Swan MP, 'Better Targeting the Employee Share Scheme Tax Concessions', Media Release No 063, 12 May 2009.

23 Swan, ibid.

tax professionals and employer and employee peak organisations.[24] A number of major companies suspended their employee share plans in response to the budget announcement.[25] The government conceded that the proposed changes may have had unintended consequences and undertook a series of consultative measures.[26] Around the same time, the Senate referred an inquiry into employee share plans (including the government's proposed changes) to the Economics References Committee.[27] The government subsequently introduced amended legislation to the Parliament in October 2009.[28]

The government's original proposals for reform were modified significantly in response to stakeholder concerns. Under the amended legislation, which received Royal Assent in late 2009, the exemption concession (renamed the 'reduction concession') is now only available to individuals with an adjusted taxable income of $180,000 per annum or less.[29] The conditions required to access this concession are very similar to those under former Div 13A. The deferral concession remains, but is much more limited. The ability to defer tax on receipt of shares or rights is no longer a matter of election for the employee. Rather, equity received through employee share plans is taxed upfront unless certain conditions are met. Deferral is only available where, under the conditions of the plan, there is a real risk that the shares or rights will be lost or forfeited or where equity is provided through an approved salary sacrifice employee share plan (up to $5000 worth of shares).[30] If deferral is available, tax is payable (i) when there is no real risk of losing or forfeiting the share or right; (ii) when any restrictions that prevent disposal are lifted; (iii) when employment ceases; or (iv) after 7 years, whichever occurs first.[31]

As part of its 2009 reforms to the taxation aspects of ESOPs, the

24 See, eg, Editorial, 'Labor's Share Schemes Blunder', *Australian Financial Review* (Sydney), 19 May 2009; S Lannin, ABC Radio National, 'Employee Share Scheme Changes "Bad Business"', *The PM Program*, 19 May 2009; N Berkovic, 'Union Rage Over Shares Scheme Tax Plan', *The Australian* (Sydney), 20 May 2009; The Treasury, Australian Government, *Reform of the Taxation of Employee Share Scheme: Consultation Paper — June 2009* (Commonwealth of Australia, 2009); and submissions in response, at <http://www.treasury.gov.au/contentitem.asp?NavId=066&ContentID=1573> (accessed 12 February 2012).

25 Editorial, ibid; N Berkovic, 'Share Scheme Draws Demand for Clarity', *The Australian* (Sydney), 26 May 2009.

26 This consultation process consisted of a consultation paper produced by Treasury, above n 24; a public consultation period on a draft Exposure Bill; and a Board of Taxation consultation on: (i) technical issues relating to the Exposure Bill (due one month after its release); and (ii) the market value of employee share plan equity and whether employees of start-up, research and development and speculative-type companies should be subject to separate arrangements.

27 The Committee was directed to inquire into the operation of such plans in Australia, including: structure and operation of plans; benefits; taxation issues relating to compliance of employers and employees participating in employee share plans; the recent proposed changes to the treatment of plans (including the Assistant Treasurer's policy statement); rules governing plans in other countries; and any other related matters: Senate Economics References Committee, above n 8.

28 The Tax Laws Amendment (2009 Budget Measures No 2) Act 2009 (Cth) received Royal Assent on 14 December 2009.

29 Income Tax Assessment Act 1997 (Cth) s 83A–35.

30 Income Tax Assessment Act 1997 (Cth) ss 83A–105(3)–(4).

31 Income Tax Assessment Act 1997 (Cth) ss 83A–115, 83A–120.

government identified the alignment of employer and employee interests and the promotion of workplace productivity as the basis of its support for ESOPs:

> In recognition of the economic benefits derived from employee share scheme arrangements, the rules provide for tax concessions for employees participating in employee share schemes.
>
> Tax support is provided on the grounds that aligning the interests of employees and employers encourages positive working relationships, boosts productivity through greater employee involvement in the business, reduces staff turnover and encourages good corporate governance.[32]

It can be argued that the support the government has provided for the development of ESOPs through taxation incentives is very modest. The exemption concession was last increased (from $500 to $1000) in 1997. The reluctance of successive governments to increase the value of the concession beyond this amount has been the subject of persistent criticism and in 2009 the Senate Economics References Committee observed that a number of submissions received as part of its inquiry into the government's proposed changes to the regulation of ESOPs had suggested increasing the concession to 'somewhere in the range of $1500 to $5000'.[33] In addition, a survey of companies asking, among other things, for views on regulatory reform of ESOPs, found that 77% of respondents supported an increase in the $1000 concession, which was the area of ESOP regulation most in need of reform according to the respondents.[34] Given that this is the concession most commonly accessed in broad-based schemes, it is important to note that the only change has been to make access to the concession more difficult. In summary, although the government has indicated its desire to encourage employee share ownership, the recent reforms provide no additional incentives and in fact make access to the concession more difficult.

An important issue arises from this discussion of the policy rationales identified by the government for its support of ESOPs and the way this support is demonstrated through limited taxation incentives. The issue is the extent to which the policy rationales match what employees perceive as the reasons why they participate in ESOPs. If there is a mismatch then this will limit the achievement of the government's objectives. We therefore now turn to examine the views of employees on ESOPs to understand what motivates employees to invest in these plans.

4 Methodology

4.1 The survey and sample

We sought the views of employees (both shareholders and non-shareholders) through a survey conducted at two major Australian companies with operating ESOPs. The survey asked a broad range of questions which we developed from a review of the literature and some exploratory interviews with human resource managers and union officials.

32 Explanatory Memorandum, Tax Laws Amendment (2009 Budget Measures No 2) Bill 2009 (Cth), Parliament of Australia, 2009, [1.25]–[1.26].
33 Senate Economics References Committee, above n 8, [6.10].
34 Landau et al, above n 11, at 432.

The employee survey was distributed to 2000 employees of two subsidiaries of one of Australia's largest publicly listed retail companies and employers — 500 randomly selected employees who were shareholders at each company and 500 randomly selected employees who were not shareholders at each company — representing 4.2% of their combined workforce of 48,069.

The employees were entitled to participate in the parent company's Exempt Salary Sacrifice Share Plan (ESSSP) and Deferred Salary Sacrifice Share Plan (DSSSP). These plans were offered to all permanent — that is, full-time and part-time, but not casual or fixed term — employees, with no minimum 'in service period' requirement. Under the tax-exempt plan, eligible employees could sacrifice either $1000 or $4500 of salary in exchange for ordinary shares in the parent company, with the allocation price calculated in accordance with the weekly Volume Weighted Average Price. Under the tax-deferred plan, eligible employees could sacrifice a minimum of $1500 of salary.

The two subsidiaries were chosen as subjects of this study as the parent company's plans required a financial contribution from employees. The employees surveyed were offered the opportunity of participating in only two particular employee share plans and plan design would seem to have a significant effect on the participation decision.[35] Existing research indicates, first, that the incidence of broad-based ESOPs is far higher in larger companies than smaller companies[36] and, furthermore, in publicly listed companies than in unlisted companies;[37] second, that ESOPs are particularly common in the retail sector;[38] and third, that the types of plan offered by the two subsidiaries were fairly characteristic of the plans offered by publicly listed companies in general.[39] Thus, our results may be more generalisable than our sampling method would suggest.[40]

---

35 Brown et al, above n 6, at 59–60.

36 I Landau et al, 'An Overview of Existing Data on Employee Share Ownership in Australia', Working Paper, Employee Share Ownership Project, Melbourne Law School, 2007, p 5. Cf Landau et al, above n 11.

37 A O'Connell, 'Employee Share Ownership in Unlisted Entities: Objectives, Current Practices and Regulatory Reform', Working Paper, Employee Share Ownership Project, Melbourne Law School, 2008, pp 9–10. See also Landau et al, above n 11; Landau et al, above n 36, p 5.

38 Lenne, Mitchell and Ramsay, above n 1, at 12, citing data from the 1995 Australian Workplace Industrial Relations Survey. But see Landau et al, above n 36, p 4, citing research undertaken on behalf of the Department of Workplace Relations' Employee Share Ownership Development Unit in 2004.

39 For example, Landau et al, above n 11, found that significant proportions of broad-based ESOPs offered by companies listed on the Australian Securities Exchange involve, as here, the restriction of eligibility to permanent full time and part time employees (62.9%), the offer of shares (46.7%), the provision of securities at market value (68%), no contribution from the employer to the value of the securities (47.7%), no restrictions (such as limited voting rights) on entitlements (80.8%), no restrictions on the disposal of employee securities (51.7%), no minimum holding period (51.7%), no maximum holding period (71.2%), no minimum period of employment requirement (42%) and no link with performance hurdles (57.4%). Furthermore, the authors found that 26.6% of plans which require an employee contribution involve a salary-sacrificing arrangement.

40 M Walter, 'Surveys and Sampling', in M Walter (Ed), *Social Research Methods: An Australian Perspective*, Oxford University Press, South Melbourne, 2006, p 198.

4.2 Survey instrument, administration, data collection and response rate

The employee survey was an anonymous, self-administered, structured questionnaire, with a combination of closed questions with five-point likert-scales. Two different survey instruments were used, one for employee shareholders and another for employee non-shareholders. Both surveys contained the same 21 questions (with a total of 121 items), however, the former involved an additional nine questions (with a total of 30 additional items).

The employee survey was posted to recipients' home addresses with a covering letter from the parent company and the research team. A second copy of the survey was sent approximately 2 weeks later, followed by a 'reminder' letter a week after that. In total, 553 employees completed and returned the survey, giving a final response rate of 28.6% once the 64 undeliverable surveys are accounted for. This level of response is common in surveys of this type in this field.[41]

5 Sample Characteristics

5.1 Extent of employee share ownership

Our sample contained 354 persons who were participants in their respective employer's ESOP (shareholders) (64%) and 199 non-participants (non-shareholders) (36%).

5.2 Demographic characteristics

Our sample, like the study population, was dominated by women: 82.3% of our respondents were women and 16.7% of respondents were male. The study population was also noticeably skewed towards women (72.4%). Most respondents were middle-aged, with 68.1% being 40 years or over and the average and median ages being 44.7 and 46.0 respectively. High school was the highest education qualification attained by the vast majority of respondents (70.3%). Only 26.7% of respondents had attained a qualification above high school level, with less than one in 10 (9.5%) holding undergraduate or postgraduate degrees. Almost three-quarters of respondents reported gross annual income below $40,000, with the average being $34,406. Only 12.1% of respondents earned over $60,000 per annum, and only 3.0% over $100,000 per annum.

Almost 50% of respondents had worked for their employer for 11 or more years, with the average length of service being 13.1 years. Further, 56.3% of respondents classified themselves as sales workers, 17.0% as clerical or administrative workers, 3.7% as machinery operators and 2.2% as technicians

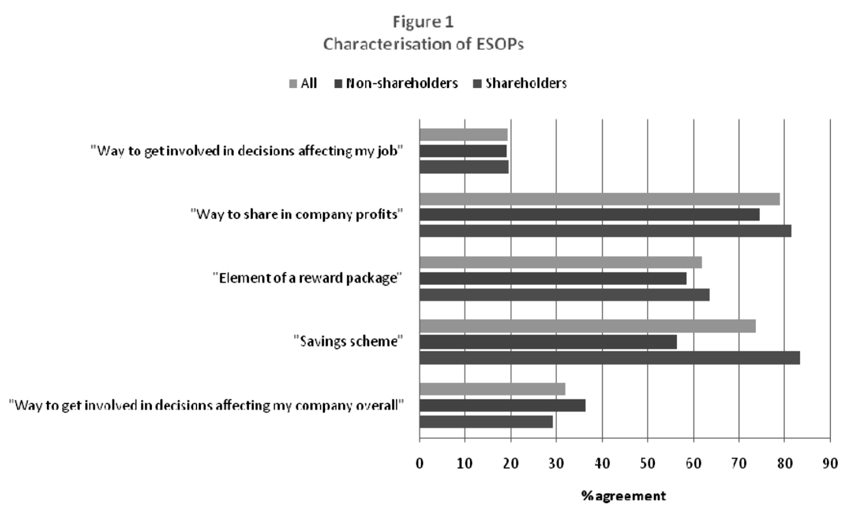
41 See, eg, A Pendleton, 'Employee Participation in Employee Share Ownership: An Evaluation of the Factors Associated with Participation and Contributions in Save as You Earn Plans' (2010) 21 *British Jnl of Management* 555 at 559; A Pendleton, 'Sellers or Keepers? Stock Retentions in Stock Option Plans' (2005) 44 *Human Resource Management* 319 at 324, who achieved a response rate of 24% in each survey.

or trades workers. The remaining fifth were managers (14.2%) or professionals (6.6%). Forty two and a half percent of respondents worked full-time — considerably more than the figure of 15.8% for the study population — while 57.5% were on part-time contracts. Overall, the average number of hours worked per week was 32.0, with just under half (49.7%) of all respondents working 31 hours or more per week.

6 Results

6.1 General attitudes towards ESOPs

The survey asked respondents a number of questions to measure their attitudes towards employee share ownership in general (Figure 1). In this section of the article we set out the combined results for both shareholders and non-shareholders before investigating the differences in the responses of these two groups in Parts 6.2 and 6.3 below.



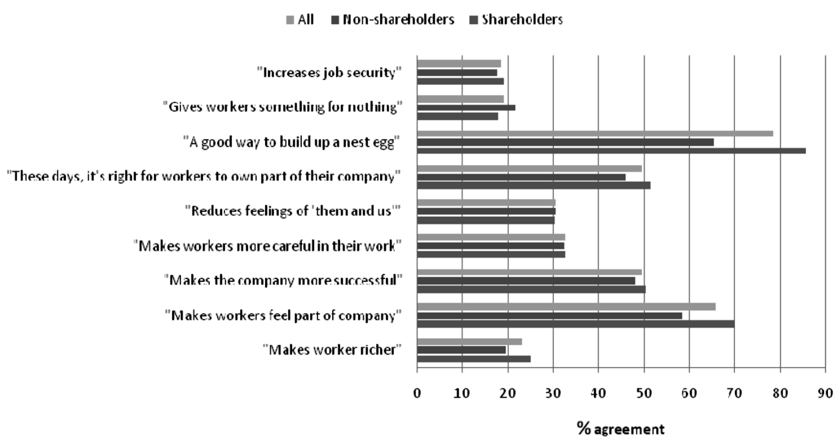
Overall, respondents most commonly characterised employee share ownership as ‘a way to share in company profits’ (78.9%), followed by ‘a savings plan’ (73.7%) and ‘an element of a reward package’ (61.7%) (Figure 1). Less than one third of respondents saw employee share ownership as ‘a way to get involved in decisions affecting [their] company overall’ (31.8%) or ‘a way to get involved in decisions affecting my job’ (19.3%).[42] Using items developed by Dewe, Dunn and Richardson to measure the level of agreement with commonly cited advantages of employee share ownership,[43] respondents most frequently took the view that employee share ownership ‘is a good way to build up a nest egg’ (78.3%), followed by ‘makes

42 This set of questions was adopted from the International Survey on Employee Share Ownership and Work Values, conducted by the Research Centre in Management (Centre de Recherche en Gestion des Organisations) at the University of Montpellier II.

43 P Dewe, S Dunn and R Richardson, ‘Employee Share Option Schemes: Why Workers Are Attracted to Them’ (1988) 26 *British Jnl of Industrial Relations* 1 at 10–11.

workers feel "part of the company"' (65.8%) and 'makes the company more successful' (49.5%) (Figure 2). Just under half of all respondents felt that 'these days, it's right for workers to own part of their company' (49.5%), while approximately 3 in 10 felt that employee share ownership reduces feelings of 'them and us' (30.4%) and makes workers more careful in their work (32.6%). Only 18.6% of respondents considered that employee share ownership increased job security. Running the questions together as a scale (α=0.8194), respondents generally agreed with the positive statements about ESOPs (^{x}=3.19). Of all demographic variables, age was the only one which had a significant relationship with this scale, with older respondents tending to be more positive about employee share ownership (Sig T=0.0036).[44]

Figure 2
Opinions on positive aspects of ESOPs



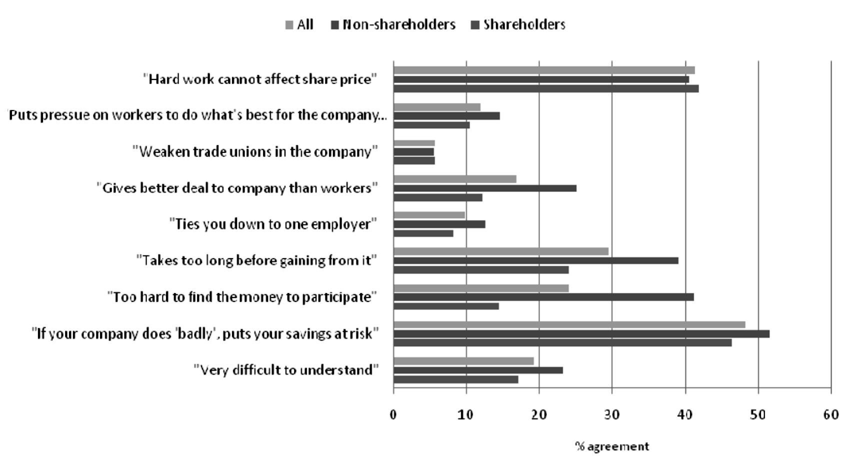
It can be observed that there is some degree of alignment between the views of employees regarding ESOPs and the objectives of companies in establishing ESOPs. As we have seen, financial motives featured most prominently in the responses of employees regarding ESOPs. We saw in Part 2.2 above that the second most popular reason for companies establishing ESOPs was sharing financial success with employees. However, the most popular reason given for companies establishing ESOPs was showing employees that the company values them and the third most popular reason was aligning the interests of employees and shareholders. In other words, a focus on the quality of their relationship with employees featured prominently as a rationale for why companies establish ESOPs. This rationale also featured in the responses of employees, but not to the same extent. As we have seen, about 66% of employees stated that an advantage of employee share ownership is making employees feel part of the company and almost 50% of

44 Here, we ran an ordinary least squares regression with the 'opinions on advantages of employee share ownership' scale as the dependent variable and part-time status, age, education level, gender, length of service, trade union membership, income and occupational group as independent variables. Note that a 'Sig T' value of less than or equal to 0.05 is considered statistically significant.

employees stated that employee share ownership makes the company more successful.

We also sought to identify what employees perceived to be the negative aspects of ESOPs. In relation to commonly perceived disadvantages of employee share ownership,[45] respondents most frequently agreed with the statement 'if your company does badly, [ESOPs] put your savings at risk' (48.2%), followed by 'hard work cannot affect share price' (41.3%), 'it takes too long before gaining from [participation]' (29.4%) and 'it's too hard to find the money to participate' (24.0%) (Figure 3). Only a minority felt that ESOPs 'are very difficult to understand' (19.3%), 'give a better deal to the company than the workers' (16.8%), 'tie you down to one employer' (9.7%) and 'weaken trade unions in the company' (5.6%). Overall, treating the questions as a scale (α=0.7889), respondents generally did not agree with the propositions on the negative aspects of ESOPs (^{x}=2.80).[46] This was particularly the case for those with a high income (Sig T=0.0193) and those in a managerial or professional position (Sig T=0.0072).[47]

Figure 3
Opinions on negative aspects of ESOPs



6.2 Employee share ownership patterns

As noted in Part 5.1 above, 64% of respondents were employee shareholders, while 36% were not. In this section, we look more closely at the share

45 Dewe, Dunn and Richardson, above n 43, at 11–12.

46 In line with the structure of most of the questions in the survey instruments, responses were largely coded as follows: 'strongly disagree' (1); 'disagree' (2); 'neutral' (3); 'agree' (4); and 'strongly agree' (5). Therefore, a mean score greater than 3 indicates a generally positive response, while a mean score less than 3 (as here) indicates a generally negative response.

47 In a similar fashion to n 44 above, here we ran an ordinary least squares regression with the 'disadvantages of employee share ownership' scale as the dependent variable and part time status, age, education level, gender, length of service, trade union membership, income and occupational group as independent variables.

ownership patterns of the employee shareholders.[48] For almost 60% of shareholders, shares in their employer were the only shares they held. Those who owned shares in companies other than their employer tended to be older (Sig T=0.0001) and to work part-time (Sig T=0.0115).[49] The average number of shares held by employees in their employer companies was approximately 247, with just over three-quarters of respondents owning less than 500 shares. The number of shares held tended to increase with age (Sig T=0.0104), income (Sig T=0.0183) and length of service (Sig T=0.0001); however, ownership of non-employer shareholdings had the most significant effect on this variable.[50] Almost 95% of respondents considered the number of shares they held to be 'a very small number' or 'not very many'.

More than three quarters of shareholders (78.0%) reported that they 'usually' participate in employee share offerings when made, more than half (52.4%) that they invest in shares of their company 'whenever possible' and some 44.5% that they prefer to reinvest, rather than keep, dividend income. Moreover, a large majority (70.0%) indicated that they would 'definitely participate' in their company's next ESOP. Treating the four items as a scale measuring ongoing and intended future ESOP participation (α=0.7509), such participation was strongly related to having a positive view of employee share ownership (Sig T=0.0000) and low intention to turnover (Sig T=0.0126).[51]

The financial performance of shares could impact on the willingness of employees to participate in a contributory share scheme. Approximately four in 10 (40.4%) respondents felt that their shares had dropped in value, 14.5% considered that their shares had remained stable, while three in 10 (30.4%) considered their shares to have increased in value. The remaining 14.8% of respondents did not keep track of the value of their shares. The great majority of respondents had either held their shares for less than 2 years (75.6%) or more than 10 years (14.8%), with few (9.5%) in between. While respondents had not held their shares for very long they did intend to hold on to them: nearly all respondents (92.6%) intended to keep their shares for 'a substantial period of time' or 'indefinitely', while less than 1% of respondents intended

48 Except where otherwise noted, the questions discussed in this section were adopted from the International Survey on Employee Share Ownership and Work Values, above n 42.

49 This was the result of an ordinary least squares regression with ownership of other shares acting as the dependent variable and gender, age, education level, income, trade union membership, length of service, occupational group and part-time status as the independent variables.

50 Here we ran two ordinary least squares regressions with the number of shares held as the dependent variable in both. In the first regression, the independent variables were gender, age, education level, income, trade union membership, length of service, occupational group and part-time status. In the second regression, we added ownership of non-employer shares as a further independent variable and it proved to be the only significant variable (Sig T=0.0000), suggesting that the number of shares held and ownership of other shares are highly correlated. This was confirmed by a logistic regression which showed a significant positive relationship (Sig T=0.0000) between ownership of other shares (the dependent variable) and the number of shares held (the independent variable).

51 Here we ran two ordinary least squares regressions with the 'ongoing and intended future participation' scale as the dependent variable and the 'opinions on advantages of employee share ownership' scale and the 'turnover intention' scale as independent variables respectively. The results remained the same when various demographic variables were added as additional independent variables.

to sell their shares after satisfying the minimum holding period. Furthermore, only 2.6% of shareholders agreed with the statement 'I usually sell my company's shares as soon as I can'.[52]

Financial investments of any variety carry risks as well as benefits so we measured the extent to which respondents felt they understood the ESOP in their company. While only 12.2% of respondents felt that they did not understand 'anything' about their company's ESOP, the level of understanding among shareholders was not particularly high. More than half (51.8%) did not understand how voting rights work, 43.4% reported not fully understanding the documents they received about their shares and fewer than three in ten (29.0%) felt that the information they received about their voting rights was 'clear and easy to understand'.

We asked respondents for their views on aspects of employee share ownership. Overall, shareholders ranked 'getting the maximum financial payoff' as the most important aspect of employee share ownership (68.0%), followed by fair treatment (66.8%), a sense of community ('that we're all in this together') (58.2%), employee influence over the overall management of the company (42.3%), and individual influence over decisions affecting daily work (38.2%).[53]

One factor identified in earlier research as a potential driver of ESOP participation is ESOP satisfaction.Using a scale developed by Rosen, Klein and Young[54] to test for satisfaction with ESOP participation (α=0.8648), we found that, overall, shareholders were more satisfied than not with their ESOP (^{X}=3.36). Significantly, more than 8 in 10 (80.4%) respondents indicated that they were 'proud' to own shares in their company and more than half (51.7%) that it was 'very important' to them that their company had an ESOP. Only 4.5% of shareholders 'didn't care' about their company's ESOP.

6.3 Financial and control orientations to employee share ownership

There has been a long-running debate amongst scholars, both at the normative and empirical levels, as to whether employee shareholders bring a financial or a control orientation to ownership.[55] On the one hand, in line with the theory that employee share ownership promotes industrial democracy,[56] some authors argue that employee-owners primarily view their shareholding as a

---

52 This set of questions was adopted from M Poole and G Jenkins, *The Impact of Economic Democracy: Profit-Sharing and Employee-Shareholding Schemes*, Routledge, London, 1990, p 127.

53 These questions were adopted from the National Centre for Employee Ownership, 'List of Survey Items for ESOP Companies', NCEO, 2007.

54 C Rosen, K Klein and K Young, *Employee Ownership in America: The Equity Solution*, Lexington Books, Lexington, Massachusetts, 1986, pp 67–78.

55 Brown et al, above n 6, at 49–51.

56 See, eg, P Derrick and J F Phipps (Eds), *Co-Ownership, Co-Operation and Control: An Industrial Objective*, Longmans, London, 1969; J Vanek (Ed), *Self-Management: Economic Liberation of Man*, Penguin Books, Baltimore, 1975; G Winther and R Marens, 'Participative Democracy May Go a Long Way: Comparative Growth Performance and Employee Ownership Firms in New York and Washington State' (1997) 18 *Economic and Industrial Democracy* 393 at 394.

means by which to increase control over company decision-making. On the other hand, some authors argue that employees primarily seek financial gain from participation in an ESOP.

Kruse, writing against the prevailing view in 1981, discussed the possibility that employee shareholders may, like most ordinary non-employee shareholders, define ownership purely in terms of rights to the profits generated by the investment capital.[57] Several years later, investigating the effects of share ownership on employees with varying degrees of control within employee-owned firms, French noted that three-quarters of the 566 employees surveyed viewed their shareholding as an investment, rather than a chance to become an owner.[58] French argued that most literature on employee share ownership tended to proceed from the assumption that, when they become shareholders, employees expect greater control over decision-making, overlooking the possibility that they in fact expect profits.[59] In doing so, he cited a number of studies that cast doubt on such an assumption[60] and also a number of studies that explicitly supported the latter view, including research by Hammer and Stern who concluded from their study of a furniture factory purchased by the employees to prevent its closure that, contrary to their predictions, employee share ownership did not imply any desire for changes in the distribution of control and that '[r]ather than having any "collective consciousness" of ownership, many employee-owners saw themselves as traditional financial investors'.[61]

Klein developed three theoretical models to explain the conditions necessary for employee ownership to have a positive influence on employee attitudes: first, the 'intrinsic satisfaction model', according to which the simple fact of ownership increases employee satisfaction with the company; second, the 'instrumental satisfaction model', according to which employee ownership increases satisfaction by increasing employee influence in company decision-making; and third, the 'extrinsic satisfaction model', which holds that employee ownership increases organisational commitment only where such ownership is financially rewarding.[62] Klein noted the 'surprising' lack of attention given in the literature to this last hypothesis[63] and, testing her models against a survey of 2804 ESOP participants at 37 companies with operating

---

57 D Kruse, *The Effects of Worker Ownership upon Participation Desire: An ESOP Case Study*, BA Thesis, Harvard University, 1981, as cited in J L French, 'Employee Perspectives on Stock Ownership: Financial Investment or Mechanism of Control?' (1987) 12 *Academy of Management Review* 427 at 429.

58 French, ibid.

59 Ibid, at 428–9.

60 For example, French referenced R Long, 'Desires for and Patterns of Worker Participation in Decision Making After Conversion to Employee Ownership' (1979) 22 *Academy of Management Jnl* 611, whose truck firm studies found no significant difference between the desire to participate in decision-making on the part of worker-owners and workers without shares: ibid, at 428.

61 T Hammer and R Stern, 'Employee Ownership: Implications for the Organizational Distribution of Power' (1980) 23 *Academy of Management Jnl* 78 at 96.

62 K Klein, 'Employee Stock Ownership and Employee Attitudes: A Test of Three Models' (1987) 72 *Jnl of Applied Psychology* 319 at 320–1.

63 Ibid, at 320.

ESOPs, found support for both the extrinsic and instrumental models.[64]

We extend this debate by examining whether employee orientations towards ownership affect the decision to participate in an ESOP. Research into this latter question is limited; however, two early studies merit noting. First, in 1981, Greenberg found as part of his interview and survey research at 14 worker-owned and managed enterprises in the United States that, 'almost without exception', people joined the cooperatives for financial rather than 'political' reasons, such as the desire to participate in the processes of industrial self-government.[65] Second, from their analysis of participation rates in Save-As-You-Earn (SAYE) share option plans in two UK companies, Baddon et al found that over 90% of participants surveyed rated the potential financial rewards as 'very' or 'quite' important in their motives for participation in the SAYE plan; and over 80% rated the fact that there was no risk involved and that it was an 'easy way of saving' as 'very' or 'quite' important.[66] The authors concluded by observing that the financial aspects of share ownership appear to dominate the motives for participation in SAYE plans.[67]

More recently, Pendleton has drawn upon a data source of 2,638 employees in three UK companies with well-established SAYE plans to analyse the demographic and attitudinal factors which influence the decision of employees to participate in ESOPs.[68] Pendleton sought to assess the orientation of employees towards the share plan through constructing two variables: one single item five-point scale asked employees how far 'share schemes give employees more of a say in how the company is run' and a similar scale asked respondents to indicate the extent to which they saw the share plan as delivering financial benefits to workers.[69] He found that a control orientation had a 'tiny' effect on the decision to participate, but that financial orientation was 'positive and significant'.[70] He also found that employee attitudes towards the plan itself were much more significant in influencing the decision-making

64 Ibid, at 327. See also K Klein and R Hall, 'Correlates of Employee Satisfaction with Stock Ownership: Who Likes an ESOP Most?' (1988) 73 *Jnl of Applied Psychology* 630 at 637, where the authors, now focusing at the individual rather than the company level of analysis, again found support for both the extrinsic and instrumental models; D Hallock, R Salazar and S Venneman, 'Demographic and Attitudinal Correlates of Employee Satisfaction with an ESOP' (2004) 15 *British Jnl of Management* 321 at 330, who found from their survey of employees at a medium-sized, privately-held trucking firm with an ESOP that 'an employee's perceived influence on decision-making was a significant correlate of ESOP satisfaction but not as significant as was stock performance'. Cf A Pendleton, N Wilson and M Wright, 'The Perception and Effects of Share Ownership: Empirical Evidence from Employee Buy-Outs' (1998) 36 *British Jnl of Industrial Relations* 99 at 116, whose results from a survey of employees at four employee-owned UK bus companies lend support for the intrinsic and instrumental satisfaction models, not the extrinsic model.

65 E Greenberg, 'Industrial Self-Management and Political Attitudes' (1981) 75 *American Political Science Review* 29 at 33–4.

66 L Baddon et al, *People's Capitalism? A Critical Analysis of Profit-Sharing and Employee Share Ownership*, Routledge, London, 1989, pp 253, 255.

67 Ibid, p 255.

68 A Pendleton, 'Employee Participation in Employee Share Ownership: An Evaluation of the Factors Associated with Participation and Contributions in Save As You Earn Plans' (2010) 21 *British Jnl of Management* 555.

69 Ibid, at 561.

70 Ibid, at 565.

process than attitudes towards the company, concluding that participation is 'driven primarily by instrumental concerns centred on financial returns'.[71] On balance, existing studies suggest that employees approach participation in an ESOP with a financial orientation[72] so we developed the following two hypotheses:

> **Hypothesis 1**: Employees who adopt a financial orientation towards employee share ownership are more likely to participate in an ESOP than those who do not adopt a financial orientation.
>
> **Hypothesis 2**: Employees who adopt a control orientation towards employee share ownership are less likely to participate in an ESOP than those who do not adopt a control orientation.

In testing these hypotheses, share ownership was the dependent variable, while financial orientation and control orientation acted as the independent variable(s) as appropriate. In this sense, our approach was similar to Pendleton's;[73] however, instead of using single-item scales to measure the independent variables, we used multi-item scales in order to increase reliability. For financial orientation, we asked respondents to indicate the extent to which they agreed that employee share ownership is 'a savings plan', 'an element of my rewards package' and 'a way to share in my company's profits', respectively. For control orientation, we asked respondents to indicate their level of agreement with the statements 'employee share ownership is a way to get involved in decisions affecting my company overall' and 'employee share ownership is a way to get involved in the decisions affecting my job'.

At first glance, the overall pattern of responses for shareholders and non-shareholders to these questions was not radically different. Indeed, shareholders and non-shareholders alike tended to consider employee share ownership in financial, rather than control, terms. As Figure 1 demonstrates, for both shareholders and non-shareholders, the most common characterisations of employee share ownership were financial, while the views that employee share ownership is a way of increasing involvement in decisions affecting the company overall and decisions affecting individuals' jobs were similarly rare amongst both groups.

However, further analysis provides strong support for our first hypothesis. As set out in Table 1, shareholders were significantly more likely than non-shareholders to consider employee share ownership 'a savings plan' and 'a way to share in my company's profits'. When the items measuring financial orientation were treated as a scale (α=0.67), the mean score for shareholders was significantly higher than for non-shareholders. Therefore, in our sample, financial orientation acts as a good predictor of ESOP participation.

---

71 Ibid, at 567.
72 Brown et al, above n 6, at 49.
73 Pendleton, above n 68, at 560–1.

Table 1
Financial Orientation

Item	Shareholders		Non-shareholders	
	$\bar{x}$	σ	$\bar{x}$	σ
'A savings plan'	4.01	0.75	3.50***	0.85
'An element of a reward package'	3.60	0.87	3.48	0.87
'A way to share in my company's profits'	3.94	0.74	3.77**	0.79
Financial orientation scale (α=0.67)	3.85	0.59	3.59	0.67

* p < 0.10; **p < 0.05; ***p < 0.01, where p signifies significant difference in the means of shareholders and non-shareholders

Supplementary support for Hypothesis 1 is provided by some of the other items in our survey. For example, in relation to the commonly cited 'positives' of employee share ownership,[74] shareholders were significantly more likely than non-shareholders to consider employee share ownership 'a good way to build up a nest egg' (p=0.0000). Furthermore, there were significant differences in the way shareholders and non-shareholders responded to the supposed financial 'negatives' of employee share ownership — namely, that 'you have to wait too long before you can make money' from ESOP participation or that 'it's too difficult to find the money to participate'. Consistently with our hypothesis, shareholders were considerably less likely to agree with either statement.

Table 2
Control Orientation

Item	Shareholders		Non-shareholders	
	$\bar{x}$	σ	$\bar{x}$	σ
'A way to get involved in decisions affecting my company overall'	2.99	0.94	3.03	1.02
'A way to get involved in decisions affecting my job'	2.73	0.98	2.72	0.99
Control orientation scale (α=0.75)	2.86	0.59	2.87	0.89

* p < 0.10; **p < 0.05; ***p < 0.01, where p signifies significant difference in the means of shareholders and non-shareholders

The data, however, did not support our second hypothesis. As Table 2 shows, there were no significant differences between shareholder and non-shareholder responses to the control orientation questions or the control orientation scale (α=0.75), meaning that those with a control orientation were

74 See, eg, Dewe, Dunn and Richardson, above n 43.

no more or less likely than others to participate in the ESOP.[75]

7 A Comparison of Employee and Government Attitudes to ESOPs

There is a large body of literature which has proposed rationales for employee share ownership. Some of these rationales include improving workplace productivity (as a result of employees feeling that they have a direct interest in the performance of the company and/or through lowering monitoring costs by aligning employee interests with those of the company); promoting workplace cooperation and harmony through reducing the 'them' and 'us' mentality between employers and employees; enhancing industrial democracy through bringing employees into corporate governance; increasing employees' understanding of how the economy is run; providing employers and employees with greater flexibility in determining the nature and mix of remuneration packages; contributing to national savings through providing employees with an additional avenue for savings and investment; promoting innovation, particularly in small and medium unlisted companies and sunrise industries; and facilitating succession planning in small businesses through enabling employee buyouts.[76]

The current Federal Government supports ESOPs as they are seen to have the capacity to align employer and employee interests thereby promoting workplace productivity.[77] The government believes the taxation incentives it provides stimulate participation in ESOPs resulting in benefits for companies and the economy.[78] However, these rationales are not those most favoured by employees when they are asked for their opinions on employee share ownership. Our research indicates that employees have a financial orientation to ESOPs. They most commonly view ESOPs as a way to share in company profits, a savings plan, an element of a reward package, and 'a good way to build up a nest egg'. Our hypothesis that employees who adopt a financial orientation to employee share ownership are more likely to participate in an ESOP received strong support from our statistical analysis. Alignment of employer and employee interests did feature in the responses of employees. For example, 66% of employees stated that an advantage of employee share ownership is that it makes employees feel part of the company and almost 50% stated that it makes the company more successful. However, these rationales featured much less prominently in employee responses than financial considerations.

When we compare the attitudes of employees and the government to ESOPs, it is noticeable that the financial orientation motivations for ESOP participation are not identified by the government. There is no mention of ESOPs being a useful or desirable savings plan for employees, or a way to reward employees, or a way to share in company profits — all matters that are

---

75 We also tested our hypotheses using regression analysis which generated the same results. The results are available from the authors.

76 For further discussion of the possible rationales for employee share ownership, see Landau et al, above n 8.

77 See n 32 above and accompanying text.

78 Ibid.

important to employees. Instead, the government rationales are alignment of the interests of employees and employers, the encouragement of positive working relationships, boosting productivity through greater employee involvement in the business and reduction of employee turnover.[79] It might be possible to argue that the taxation concessions are a means of reducing the costs to employees of participating in an ESOP and that therefore to some extent the government supports financial orientation motivations for ESOP participation. However, the rationales articulated by the government do not acknowledge financial orientation motives. In addition, even if it is thought that the taxation concessions do support employee financial orientation motivations, the recent government changes undercut this support. The changes restrict the taxation concessions available to those who participate in ESOPs. Also, the government's decision to keep the modest taxation exemption concession at $1000 since 1997, despite calls for an increase,[80] means that the value of the concession has decreased over time.

Another indication of the mismatch between government rationales for its support for ESOPs and employee attitudes to ESOPs arises from the statement by the government that greater involvement by employees in the business is a reason for its support of ESOPs. Our research shows that the control orientation towards ESOPs (that share ownership is viewed as a way of increasing employee involvement in decision-making at work) is less important to employees than a financial orientation.

The implications of this finding of a mismatch between the policy rationales identified by the government for its support of ESOPs and our research identifying the motivations of employees for participating in ESOPs are important. The findings suggest that the government policy of supporting employee share ownership has not been based on a sound understanding of what motivates employees to participate in such plans. In addition, the recent government decisions (restricting the taxation incentives available to those who participate in ESOPs and keeping the modest $1000 taxation exemption concession at the same level since 1997) are likely to have the effect of making employee participation in ESOPs less appealing given that these decisions impact upon the financial value of ESOPs to employees.

8 Conclusion

Broad based employee share plans are found in many Australian companies. The taxation laws applying to ESOPs, which are the main way in which ESOPs are regulated, provide financial incentives to employees who participate in ESOPs. However, these financial incentives have been reduced as a result of policy decisions by the government. It would seem that, in part, this is because the government views ESOPs not as a way for employees to benefit financially but as a way to align the interests of employees and employers and increase productivity through greater involvement in the business. However, these are not the reasons that motivate employees to participate in ESOPs. There are two schools of thought on employee motives for share ownership: on the one hand, a financial orientation and, on the other

79 Ibid.
80 See Part 3.2 above.

hand, a control orientation. The data in our study suggest that employees most commonly characterise employee share ownership as a way to share in company profits but they also view ESOPs as a savings plan and an element of a reward package. We found support for the hypothesis that employees who adopt a financial orientation towards employee share ownership are more likely to participate in an ESOP than those who do not. Employees were much less likely to view ESOPs as a way to become involved in decisions that affect the company or the employee's job. The results of our research can assist companies in designing ESOPs that appeal to employees and the results indicate the desirability of companies understanding employee motivations prior to designing and implementing ESOPs. The results also suggest that the government pay close attention to the financial implications for employees of policy initiatives intended to increase the level of employee participation in ESOPs.