

# EMPLOYEE SHARE PLANS



Understanding the  
participation decision

CERTAINTY

INGENUITY

ADVANTAGE

 **computershare**

# Contents

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# Foreword

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*The objective of this research project was to identify and explore the factors that influence employee participation in company share plans. We partnered with The University of Melbourne to help us take a deep dive into the decision-making process and key factors which influence the decision.*

*We collected 1158 responses, from companies in the ASX200.*

The report is split into three parts:

1. Understanding employees

Breaking down our respondent (employee) demographic information and categorising them based on their share plan participation history.

2. The deliberation process

Examining the length of time it takes for employees to make their participation decision, understanding of key elements of the share plan offer, and the number of people consulted.

3. Influencing factors

Exploring appetite for risk, the correlation between tenure and participation and other potential influences.



*We would like to acknowledge and thank The University of Melbourne for facilitating the research and in particular we would like to thank **Michelle Brown** and **Andrew Pendleton (UNSW)** for conducting the analysis and helping us to produce the report.*

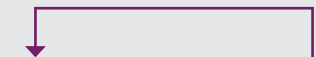
# Glossary of terms

To help you understand the information provided, we've created a glossary of terms:

## Participant segments

For the purpose of providing further insight, our data is segmented into the following participant segments:

### Participants



#### **New participants**

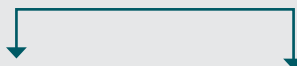
*Employees participating in their company's share plan for the first time this year*

#### **Recurring participants**

*Employees who participate in their company's share plan offer every year*

- > Throughout this report, when we refer to **employees**, we're referring to our survey respondents.
- > **Participants** are individuals who have chosen to accept their employer's share plan invitation and participate in their company's employee share plan.
- > **Non-participants** are individuals who have chosen to decline their employer's share plan invitation and not participate in their company's employee share plan.
- > **ESP** is an acronym for Employee Share Plan.
- > An **offer** is the formal invitation from a company, inviting eligible employees to participate in the employee share plan.

### Non-participants



#### **Previous participants**

*Employees who did not participate this year but who have participated in the past*

#### **Never participated**

*Employees who have never participated in their company's share plan*

# Summary of key findings

*The single most important influence on employees who accept the ESP invitation is previous participation. This means that once employees choose to participate in their company's share plan, they are highly likely to enrol in future years.*



*Gender and income do not have a significant impact on the participation decision.*



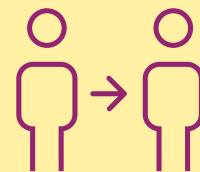
*The time taken to make the participation decision is very short – often immediate in most cases.*

**4yrs**

*On average, employees take over four years to join their company's share plan.*

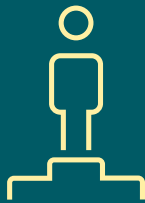
**1/3**

*Over one-third of those choosing to decline their company's ESP offer, have in fact participated before.*



*Most employees do not consult with anyone else about their ESP decision. But, those most likely to be consulted are family members and work friends.*

***The second most important factor influencing participation is a positive view of share plans as a means of securing financial returns.***



*Perceived support for ESP participation from top management and colleagues influences the participation decision. It is in fact, most closely associated with recurring participation.*



*Employees who participate in their company's ESP are more engaged and interested in company performance.*



*Employees do not read all the information provided about the offer. In fact, non-participants read around half of the information and understood approximately two-thirds of what they read.*

# PART 1

## Understanding employees

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**50.7%**  
of all employees surveyed decided to accept their company's employee share plan (ESP) invitation.

Where a share plan is newly established  
(less than 5 years)

**13%**  
of employees accepted  
**87%**  
declined

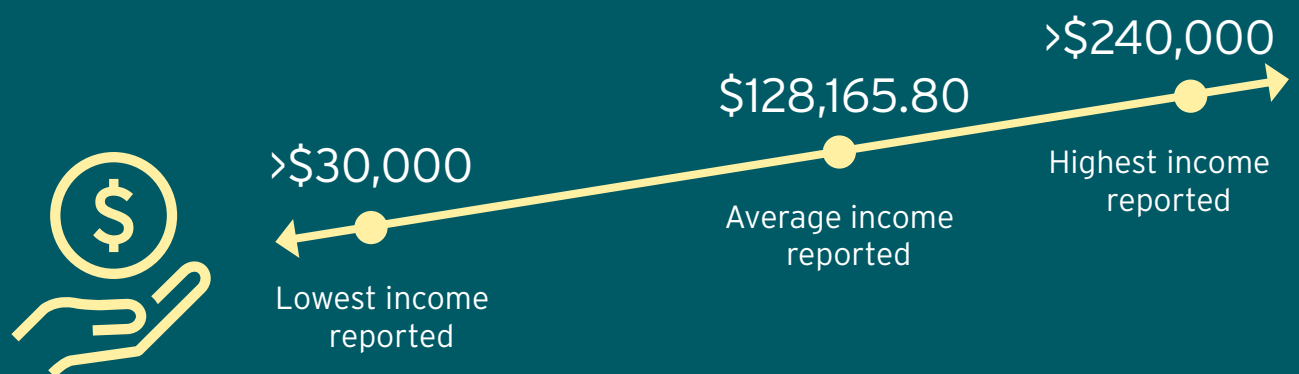
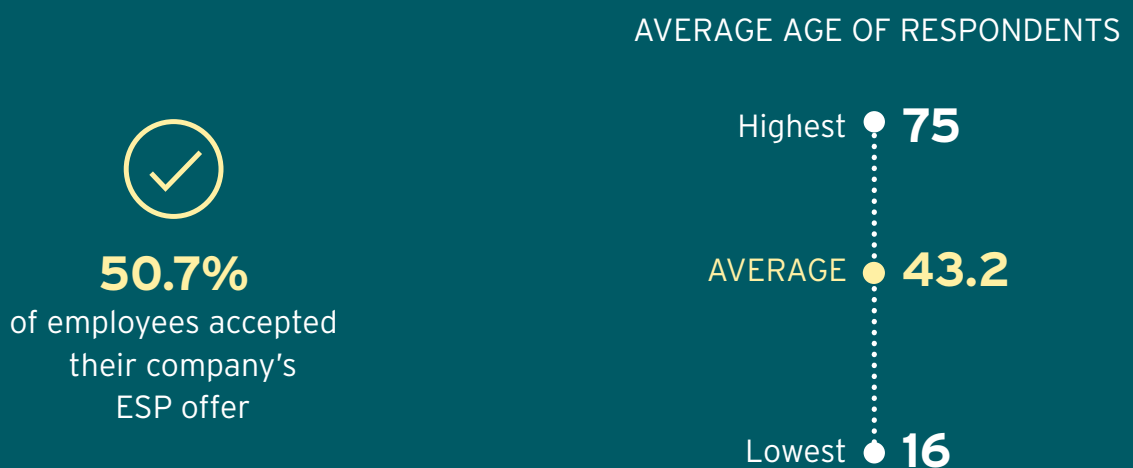
Where a share plan is well established  
(over 5 years)

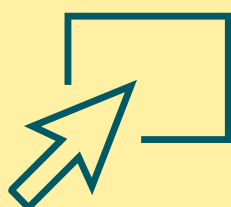
**72%**  
of employees accepted  
**28%**  
declined

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*The differences in the participation rate between new vs established plans is clearly of interest, especially because the success of ESP invitations is typically measured by participation rate. This shows that companies with relatively new plans need to work hard to evolve their offering and encourage take up.*

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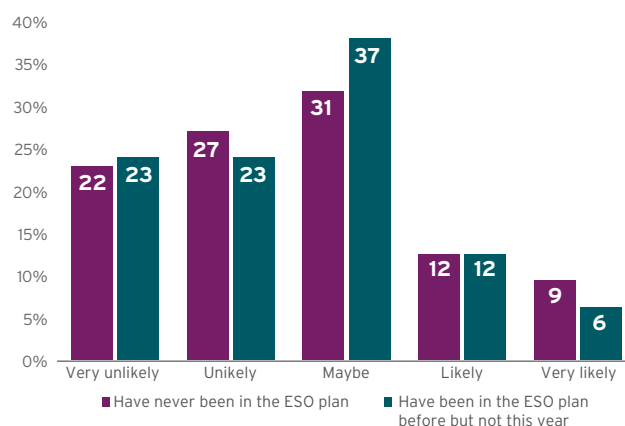


**40%**

of non-participants may be encouraged to join their company's ESP in the future

40% of non-participants say that they might or are likely to participate in the future. Nearly half of each group indicates that it is unlikely or very unlikely that they will participate. Overall, 60% of employees may be encouraged to join their company's ESP in the future.

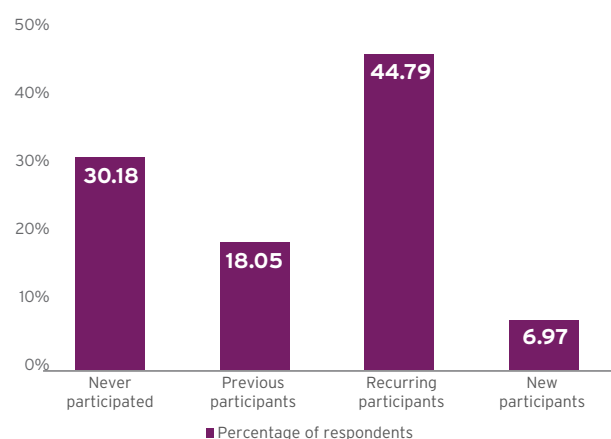
LIKELIHOOD OF FUTURE PARTICIPATION



## Patterns of involvement

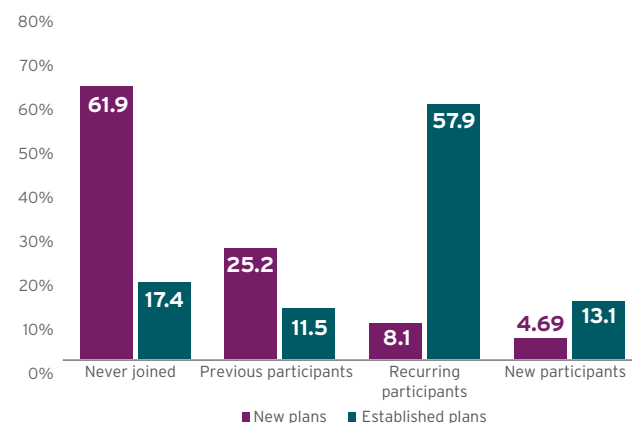
There are approximately two and a half times the number of recurring participants than previous participants: just under one-third of those who had participated previously chose not to participate this year. This creates opportunities for companies to reassess their ease of transaction, and the overall attractiveness of their company's share plan offer.

PATTERNS OF PARTICIPATION IN ESP (PERCENTAGE OF RESPONDENTS IN EACH CATEGORY)



75% of previous participants last participated in the plan in either 2016 (40%) or 2017 (35%) indicating that the decision not to enrol in this instance is a break with recent behaviour. Why do previous participants break with a pattern of previous share plan participation? Does this change arise perhaps from a change in personal circumstances, a change in preferences, or some aspect of share plan experience?

## HISTORY OF ESP INVOLVEMENT



The approach to encouraging participation differs depending where a company is in their share plan journey. For example, companies with established plans could better utilise recurring participants as promoters. For companies that are in the early stages of offering a share plan, the majority of their focus needs to be on educating employees on the value of the share plan.

*Companies with established plans could better utilise recurring participants as promoters. For companies that are in the early stages of offering a share plan, the majority of their focus needs to be on educating employees on the value of the share plan.*



**Over 68%**  
of all employees  
make their  
participation  
decision within  
**the first day**  
of receiving the  
share plan  
invitation

# PART 2

## The deliberation process

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Our research indicates that a large proportion of employees make their participation decision immediately or within the first day of receiving the formal ESP offer from their company.

This means that companies would be wise to create a 'pre-offer' communications campaign to allow employees adequate time to research and educate themselves about the benefits of participation. If the majority of communications about company share plans occur prior to the actual offer being distributed to employees, it could, over time, lead to an increase in participation levels.

For newly established plans however, accepting takes a little longer, with 74% of employees who accepted the invitation, taking up to 5 days to decide, but of those who declined, 68% decided by the end of the same day.

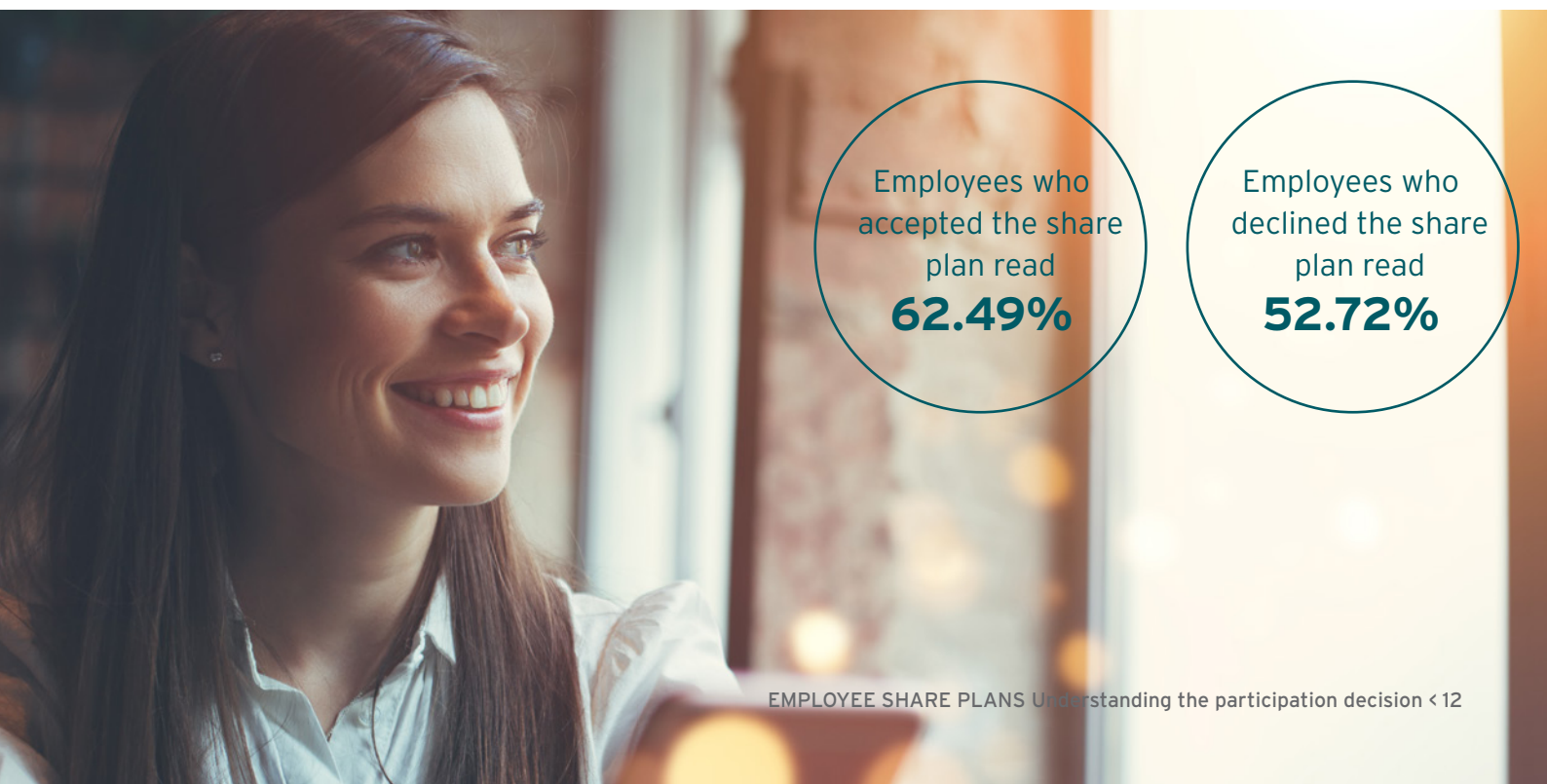
The highest proportion of immediate decision-makers are to be found in the recurring participants group, followed by the previous participants, this implies their previous share plan experience has been positive, leading them to make an immediate decision.

The group who is least likely to make an immediate decision is the 'new participants' - clearly there is more deliberation at work here. Companies should consider how they can help these employees throughout the decision process.

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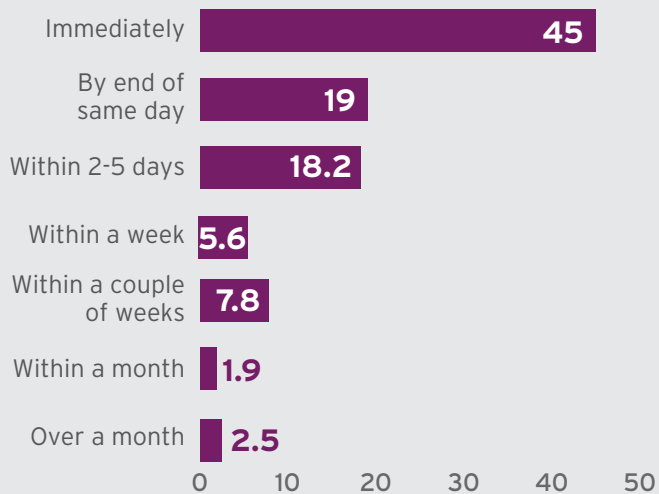
*If companies focus on improving their 'pre-offer' communications, this could have a positive impact on participation levels.*

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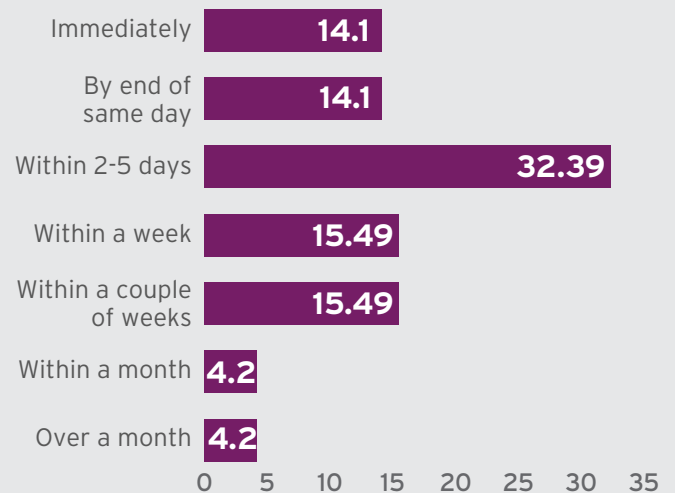


## DECISION-MAKING SPEED FOR RESPONDENT CATEGORIES (PERCENTAGE OF CASES)

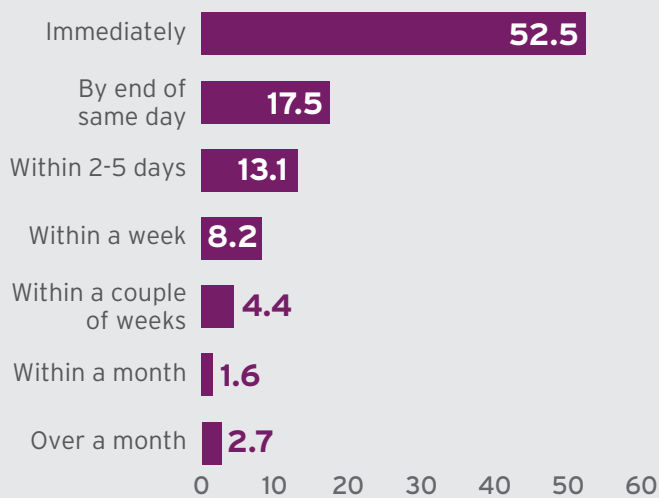
### NEVER PARTICIPATED



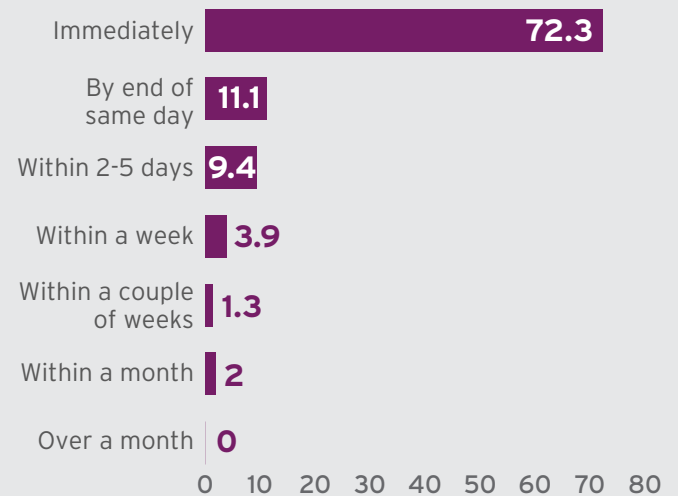
### NEW PARTICIPANTS



### PREVIOUS PARTICIPANTS



### RECURRING PARTICIPANTS



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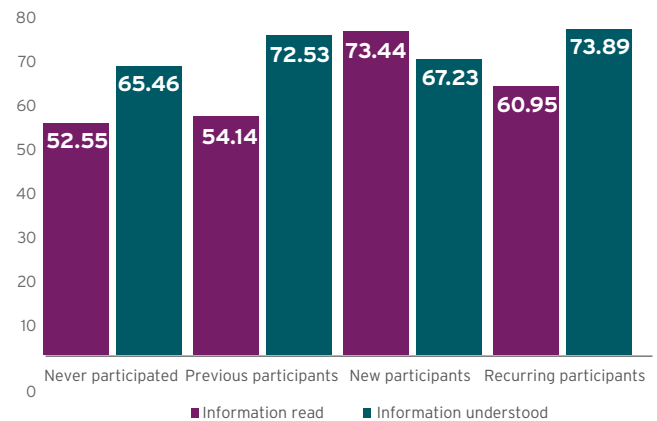
## Understanding the share plan

When it comes to reading and understanding share plan information provided by their employer, employees who accepted the share plan invitation read 62.49% of the material sent, and employees who declined the share plan invitation read 52.72%.

Employees who accepted the ESP offer understood more of the materials provided to them by the company than those who did not. Recurring participants read 60.95% of the information and report the highest level of understanding of the materials at 73.89%. The non-participants are the least likely to read the materials at 52.55% and report the lowest level of understanding of those materials at 65.46%.

If companies focus on improving their communication to increase engagement and understanding, this might induce a higher level of comprehension and in turn, a better participation rate.

THE AVERAGE AMOUNT OF SHARE INFORMATION READ AND UNDERSTOOD (PERCENTAGE)



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*To best target new participants, who read the most but understand the least, companies must consider how to simplify the information and present it in a straight-forward, easy to digest format.*

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**60%**  
**of employees**  
**do not consult**  
**with anyone prior**  
**to making their**  
**participation**  
**decision**



**Employees are most aware of**



how to join the share plan



how much employees can pay

**Employees are less aware of**



where to find information about the plan



how to sell their shares

**Employees are least aware of**



how shares are taxed

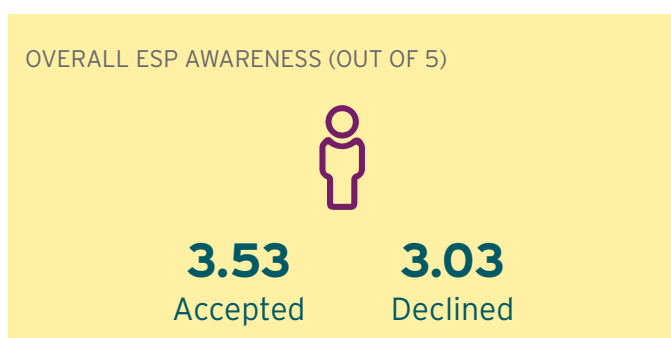


how to change stop or suspend contributions

1 = little or no awareness, 5 = very well aware

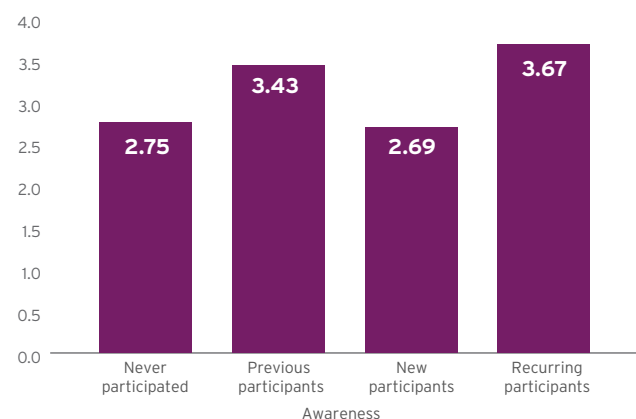
## Impact of awareness on take-up

Employees who feel they are more aware of the key features of an ESP are also more likely to have accepted their company's offer.



Our research indicates that non-participants are the least informed of all participant groups.

### AWARENESS OF ESP AMONGST PARTICIPATION/NON-PARTICIPATION GROUPS (OUT OF 5)

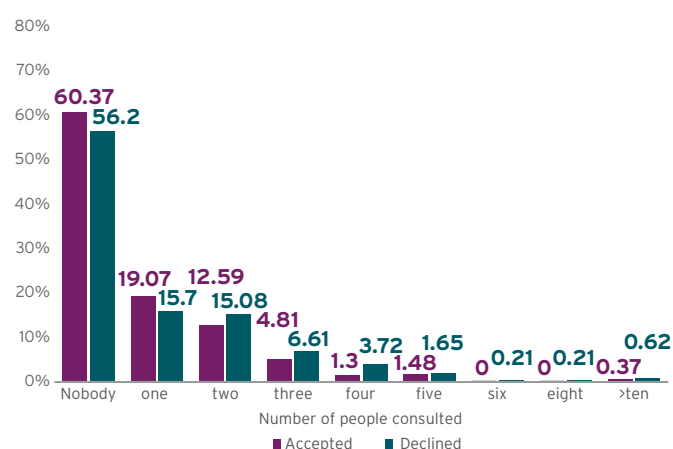


Those with the lowest levels of awareness are those who have never participated and those participating for the first time. Whilst those not intending to join the ESP may have little need to know about the various aspects of the share plan, there is a need to enhance the level of knowledge of those joining the plan for the first time.

## Key influencers

Employees typically make their participation decision without consulting others. Combining these with previous results, indicates that many employees consider ESP participation to be a personal decision.

### NUMBER OF PEOPLE CONSULTED TO MAKE THE DECISION:



Where employees do choose to consult with others about their participation decision, it is most likely to be members of their family or work colleagues. Engagement with managers or share plan champions is very low, with 90% of employees indicating they don't consult with these groups of people at all.

New participants were the most likely to consult with two others when making their participation decision.

*Employees typically make their participation decision without consulting others.*

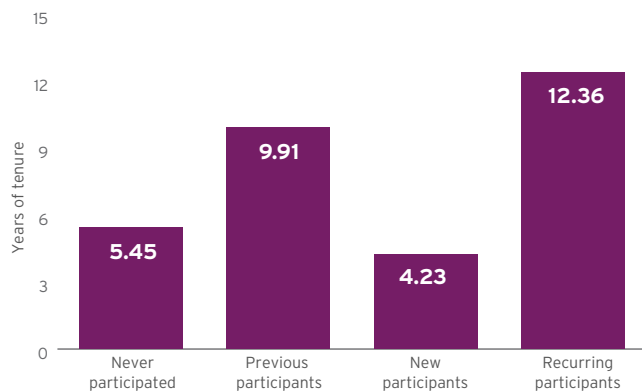
# PART 3

## Influencing factors

### Tenure and participation

There is a strong association between tenure and participation. Non-participants (5.45 years) and new participants (4.23 years) have similar length of tenure, whilst recurring participants (12.36 years) have the longest tenure of all.

AVERAGE TENURE AND ESP PARTICIPATION



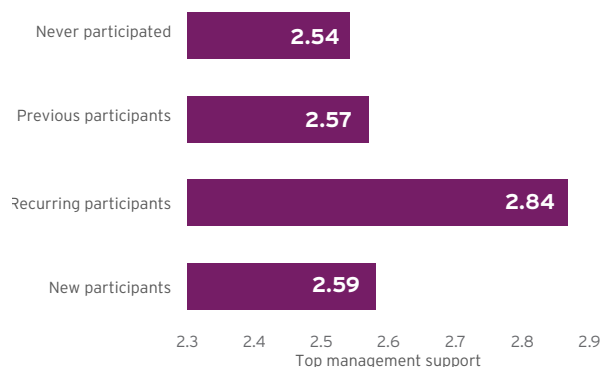
From a participation rate point of view, it is important to encourage new employees to participate: because once they do, they are likely to continue to participate for years to come.

There is an opportunity to better encourage relatively new employees to join the plan at an earlier date: on average they are employed for over 4 years before deciding to participate in the plan. A greater focus on the ESP during induction and early years of employment will encourage new employees to join much faster.

### Share ownership climate

Employee ownership climate does have a significant effect on the probability of joining. Where top management support is perceived to be greater, the probability of employees enrolling (and re-enrolling) in the ESP is greater.

ESP HISTORY AND EMPLOYEE OWNERSHIP CLIMATE



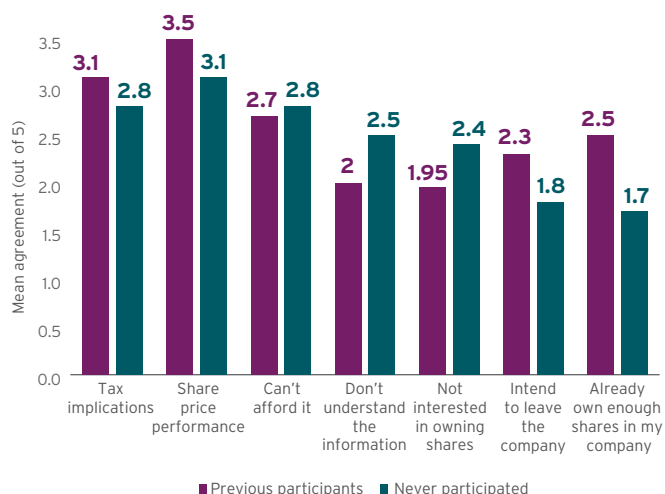
### Barriers to participation

The top three reasons for employees choosing to decline the share plan offer are:

- 1 Anxiety about the company's share price performance
- 2 Anxiety about tax to be paid on shares acquired through the ESP
- 3 Affordability

*On average new employees take over 4 years to decide to participate in their company's ESP. A greater focus on the ESP during induction and throughout the early years of employment may encourage new employees to join much faster.*

## REASONS FOR DECLINING THE SHARE PLAN INVITATION



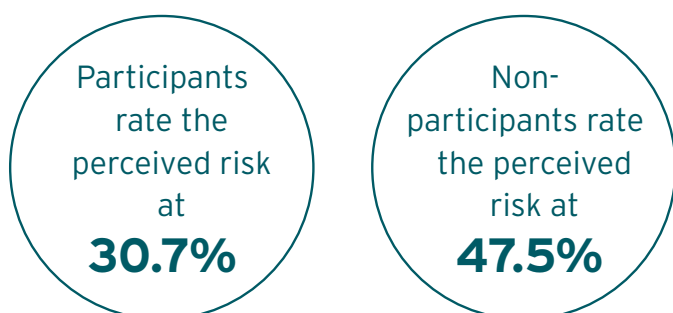
The non-participant group has significantly lower interest in ESPs and are significantly less likely to understand the information provided. It is possible that if their understanding of ESP information was greater, they might become more interested in participating. Unsurprisingly, the previous participants are significantly more likely to say having enough shares in the company is a reason for non-participation.

However, it may be that encouraging awareness of how to join the scheme and other aspects of it, i.e. tax arrangements, would increase the likelihood of employees joining in the future.

## Share ownership and risk perception

We found there are no significant differences between the participant groups when it comes to appetite for risk. However, there are significant differences in relation to the perceived riskiness of owning company shares.

## PERCEIVED RISK OF COMPANY SHARES



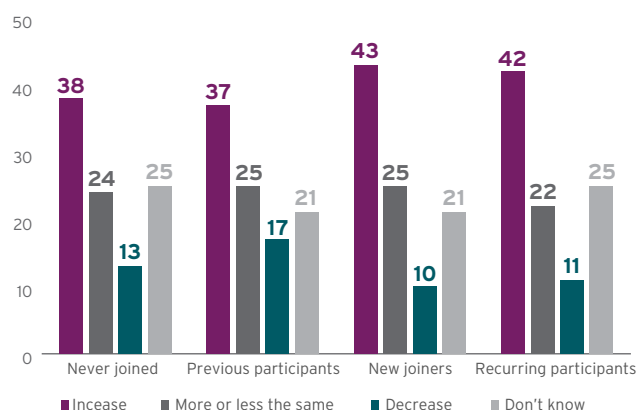
Non-participants rate the risk of owning company shares much higher than participants. The perceived riskiness may well help to explain the decision to decline, and is also consistent with the possibility, mentioned earlier, that those exiting participation have had either a change in circumstance or a negative ESP experience.

We found that employees who perceived that the company share price increased were more likely to have accepted the share plan invitation.

Further, 17.9% of the non-participants perceived the share price fell over the previous 12 months. 10.4% of those who accepted and 15.2% of those who did not accept the invitation did not know about the share price performance over the previous 12 months.

Interestingly, recurring participants are more likely to report an increase in company share price and previous share plan participants were more likely to have reported a price fall over the previous 12 months.

## PERCEPTION OF SHARE PRICE MOVEMENTS OVER THE PREVIOUS 12 MONTHS BY DECISION



# Employees who participate in their company's ESP are more engaged and interested in company performance



**77%**

of those who accepted their company's ESP offer were aware of share price performance.



**Over 50%**

of all share plan participants checked the share price at least weekly.



Employees who declined the ESP offer checked the share price monthly, yearly or not at all.



**10%**

of those who accepted their company's ESP offer perceived a decline in share price performance but accepted anyway.

# Conclusion

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*Our research was conducted in companies with varying histories of providing employee share plans, and has shed new light on the processes by which employees make their participation decision, and on the reasons for not participating.*

We found that the decision to accept or decline the share plan invitation is, in most cases, made immediately upon receipt of the formal offer, and typically without consulting any other people.

This is interesting given not all of the share plan communications are read, and only about two-thirds of the information read is understood by employees. This raises important questions about the timing and effectiveness of share plan communications, and especially the relevance of those communications following the formal offer.

It appears though, that once an employee has decided to participate in their company's ESP, they tend to make the same decision in the following years. It is important for companies to encourage recurring participation by ensuring the employee share plan experience is simple and positive for all employees, regardless of their length of participation in the plan.

Share prices, according to ASX data for the companies surveyed, have not fluctuated widely over the last few years so employees who participated in the past are unlikely to have had a bad experience in the form of a decline in the value of their shares.

The most important influences are whether the respondent has been in the share plan previously and financial orientation, i.e. whether the respondent evaluates the share plan positively as a source of financial returns.

While most employees typically do not consult with anyone else about their decision, employee ownership culture has significant positive effects on the probability of participating, with colleague perceived support for share plans having positive effects on the decision-making process.

Employee Share Plans can prove useful in assisting companies in successfully delivering on their employee engagement strategies, due to their impact on employee tenure and overall engagement. An employee who participates in their company ESP is typically more engaged and invested in company performance, leading to the possibility of increased tenure.

To best target new participants, who read the most information out of all employee segments, but understand the least, companies need to consider how to simplify the information provided and present it in a straight-forward, easy to digest format. Companies also need to consider other methods of engagement such as workshops or seminars to discuss the details of the ESP face-to-face with employees.



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Over the last 35 years, we've developed leading expertise in creating innovative plan designs, implementing engaging enrolment campaigns, and handling complex regulatory, reporting and tax compliance requirements across the globe.

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