Employee perceptions of share ownership schemes: An empirical study

N.E. Mazibuko
Department of Business Management, Vista University,
Private Bag X613, Port Elizabeth, 6000, Republic of South Africa.
MAZBK-ME@pelican.vista.ac.za

C. Boshoff*
Department of Business Management, University of Port Elizabeth,
PO Box 1600, Port Elizabeth 6000, Republic of South Africa
ecahcb@upe.ac.za

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The objective of this study was to investigate some of the problems associated with the introduction and successful management of Employee Share Ownership Schemes (ESOPs). An ESOP is a participative management approach that appeals to some of the needs of both employees and management. The study considered how perceptions of ESOPs can be influenced and managed through managerial antecedents such as trust, empowerment and communication, and empirically measures their impact on outcome variables such as organisational commitment.

The empirical findings revealed that if employees have positive perceptions of their firm’s ESOP (the value and benefit for them) they are more likely to be committed to their firm (organisational commitment) and organisational commitment has been shown to lead to a host of benefits for the firm.

Introduction

In the South African business environment there is often a wide gap between management objectives and employee expectations. In the interests of mutual survival, it is important to close the gap, which requires mutual effort. Different approaches can be considered to achieve this objective. One way this could be attained is by a change in attitudes among both employees and management. This will hopefully lead to the achievement of at least some of the objectives of both parties.

Understandably, employees are always concerned with their own survival. In the absence of sufficient interaction with management and little interaction when negotiating service conditions, employees could easily feel demotivated. They may be in a routine of working to satisfy increasing demands without recognising the need to improve their own contribution to the process of business (this could be one of the reasons why South Africa's productivity has been poor). The attitude has developed among many employees, particularly black employees, that they do not share in the fruits of their labour and that their contribution does not really matter (Lemmer, 1990:2).

Through the years, many companies have made claims about how effective participative management practices and particularly employee ownership can be in bringing about desired results. Some researchers have speculated that by making an employee a shareholder in a business, his zeal for the job is stimulated (Pierce & Furo, 1990:32-33). It is argued that when an employee is given a ‘piece of the action’, he will be motivated to work harder and complain less, leading to lower absenteeism and lower labour turnover. It is believed that considerable motivation for productivity, released by the self-management opportunity, can outweigh the inefficiencies of semi-skilled and inexperienced management (Pierce & Furo, 1990:32). Additionally, employee alienation and organisational effectiveness problems can be arrested by their participation in decision-making, of which employee share ownership schemes (ESOPs) are one form. According to Pierce and Furo (1990), ESOPs may help reverse declining labour productivity and can deter take-overs, save taxes and improve employee morale.

Despite claims of employee share ownership benefits, the literature contains several contradictory observations (Piece & Furo, 1990:33). The research evidence accumulated to date, nevertheless, suggests that employee share ownership can produce favourable results if managed properly.

Fortunately ESOPs are no longer new to South Africa. Initially only a small number of South African companies had introduced ESOPs. Today they are much more common and form a significant part of the Government’s
privatisation programme. According to Maller (1987) and Leoka (1990), ESOPs were first introduced in South Africa during 1987, following the disinvestment of international companies such as Ford Motor Company. About 200 listed and unlisted companies have thus far introduced the concept. Different constituencies in the labour movement have displayed different attitudes towards ESOPs. According to Maller (1987), when ESOPs were first introduced in the 1980s, some unions rejected the idea out of hand, while others (the majority) saw ESOPs as possibly benefiting their members, provided certain prerequisites were met. Thus, in August 1995, the Masibambane trust (an NGO), held an important workshop aimed at promoting ESOPs in South Africa, and working out a solution to the concerns voiced by the unions. According to Nyhonyha and Braithwaite (1996), union representatives indicated that they were prepared to support ESOPs, provided that principles such as the following are upheld: that wage levels and conditions of employment are independent of share ownership; that all employees are eligible for shares; that shares are self-financing; that democratically controlled employee share trusts are formed; that plans are subject to full consultation and decision-making; that trade unions are involved from the initial planning onwards; and that there is full disclosure of information regarding the ESOPs and the companies concerned.

Some South African companies, such as Pick ‘n Pay, have operated a limited ESOP. In 1988 the Anglo American Corporation of South Africa gave 192 000 of its 250 000 employees of all races the opportunity to become shareholders in the company at no cost to themselves. Also, Investec management and staff own a significant stake in both Investec Group Limited and its holding company (Investec Holding Limited) and these shares are managed by Investec Bank Share Trust (Investec Annual Report, 1999:7). Additionally, farm equity schemes (such as the Western Cape and Mpumalanga Farm Equity Schemes) have become a widely publicised option of the land reform programme during the past few years (Fast, 1999:28). According to Fast (1999), farm worker households receive a R16 000 land acquisition subsidy from the government (Department of Land Affairs) to buy a stake in a farm. There were at least 50 such schemes sponsored by the Department of Land Affairs in various stages of development by 1999.

As rational people, employees will, however, only participate in ESOPs if they see that this will benefit them. As a precondition, employees need to have a positive attitude towards ESOPs. The question is, are employees positively inclined towards ESOPs? Do they see benefits in participation through an ESOP? Are ESOPs effective? Also, can the management of ESOPs be improved, and if so, how?

This study considered how perceptions of ESOPs can be influenced and managed through managerial antecedents such as trust, empowerment and communication, and empirically measures the impact of perceptions on outcome variables such as organisational commitment.

Some challenges facing South Africa

Several authors and commentators have recently drawn attention to the need for a common vision among all South Africans. A common vision is all the more important in the South African business environment which has been characterised by adversarial relationships between management and employees in the past (Anstey, 1997:124).

An ESOP is a vehicle which allows both management and employees to share in the profits of the firm. ESOPs thus, according to Maller (1989), increase the motivation levels of employees and can indirectly enhance the notoriously low productivity levels in South Africa.

Poor labour productivity has grave consequences for South Africa. According to Maller (1989), lagging productivity threatens to price South African exports out of world markets and make the home market more vulnerable to overseas competitors. In turn, this will have disastrous consequences for employment and the balance of payments.

The point of departure of this study is that ESOPs are one alternative capable of enhancing employee loyalty to their companies and of encouraging higher productivity (Maller, 1989:6). In other words, if employees are given a share in ownership in exchange for their loyalty to, and identification with, the company, they are likely to work harder and more efficiently.

The nature of employee share ownership schemes

ESOPs offer many advantages. For example, ESOPs are easy and inexpensive to design and implement; they can provide liquidity without the loss of control, and they can add an incentive for employees who have become part owners. However, Long (1978a) argues that there are also disadvantages associated with ESOPs. These disadvantages can be divided into:

- Disadvantages for employees: some employees feel that more work is expected from employees who are members of ESOPs, while other employees feel that they cannot engage in industrial action if they have money invested in the business. It is furthermore unlikely that a company will include non-shareholders on the board of directors to speak up for the rest of the non-shareholders.

- Disadvantages for managers: employees who may overrate their importance because they are shareholders. It may be difficult for managers to view employees as workers rather than shareholders. Due to employee concern for the success of the company, managers will need to work harder and perform better. Finally, employee share ownership will encourage too much participation by employees in the decision-making process which may result in the loss of managerial authority. It may furthermore result in protracted decision-making procedures which may lead to a ‘paralysis’ situation.
The ESOP concept

ESOPs take a variety of different forms. Pierce and Furo (1990) suggest that some of the confusion about ESOPs stems from the fact that many writers have failed to distinguish between the following criteria: the role shares play; the method of share purchase or acquisition; the manner of shareholding; the provision for the sale or transfer of shares; the extension of the employee ownership; the share concentration; the role of outside investors, and the principles of control. For the purpose of this study an ESOP is defined as a company arrangement in which employees hold rights to company equity, information and influence. In other words, shares are made available to all employees who wish to participate, and the company helps them to buy the shares. This scheme can have unique features based on an individual company’s needs.

ESOPs thus not only give employee ownership a stake in the employing company, but also attempt to make remuneration packages more attractive, especially for valued employees. ESOPs therefore provide benefits for the company and its employees. Employees do not need cash in hand in order for them to participate in the scheme (Mthombeni, 1996:46), implying that the cost of participating will arise at a future date.

The limitations of ESOPs

As attractive as ESOP benefits are, there are still limitations and drawbacks in using ESOPs.

Huxham and Haupt (1998), suggest that in some cases companies are obliged to repurchase the shares of departing employees. This can become a major expense. Also, whenever new shares are issued (to provide shares for the ESOP), the shares of the existing owners are diluted. The dilution must be weighed against the tax and motivational benefits which the ESOP can provide.

Managing ESOPs: A theoretical model

The effectiveness of ESOPs will be influenced by the attitudes of employees as well as the behaviour of both the union leadership and management. The actions of all parties could influence the perceptions of an ESOP and thus indirectly the beneficial outcomes such as organisational commitment.

The theoretical framework of employee perceptions of share ownership and the effects of share ownership in a firm (depicted in Figure 1) serve as the basis for this study. The model shown in Figure 1 suggests that employees’ perceptions of ESOPs lead to beneficial outcomes (employee motivation, job involvement, and organisational commitment) but that these perceptions are influenced by a number of independent variables or antecedents. Employee perceptions of ESOPs are thus modelled as an intervening variable. The independent variables can be classified under four basic headings, namely: those primarily influenced by the trade unions, those primarily influenced by management, those primarily influenced by the prevailing general working environment, and those directly related to ESOPs themselves.

The independent variables influencing employees’ ESOP perceptions

The role of trade unions

The majority of empirical studies that have examined the attitudes of trade unions towards ESOPs have found that unions have a fairly neutral attitude towards employee share-holding schemes (Naylor, Seear & Copeman, 1968:107). Some do express concern, however, that once employees are paid a fair wage, management owes a higher loyalty to the consumer than to the employee. This means that unions are sometimes sceptical about the psychological value of a link between job performance and profits and between profits and dividends.

The trade union and trust

The concept of trust can be described as a willingness to rely on an exchange partner in whom one has confidence (Moorman, Zaltman & Deshpande, 1992:315). Trust can be described as a firm belief in the honesty, goodness, worth, justice and power of someone or something, or responsibility (Gambetta, 1988:33) influencing relationships and, in addition to power, communication and goal compatibility (Anderson, Lodish & Weitz (1987). Berry (1993) and Schurr and Ozanne (1985) conclude that trust forms the basis of, and leads to higher levels of, loyalty and commitment in organisations. In similar vein, it is unlikely that employees will hold positive perceptions of their company’s ESOP when they distrust the trade union that is supposed to represent their best interests. In other words, if employees do not trust the union to represent their best interests in ESOP matters, they are likely to have negative perceptions of ESOPs.

The trade union and communication

‘Communication’ is commonly defined as an exchange of information between a sender and a receiver and the resultant interpretation, that is, the meaning between the parties involved (Bowditch & Buono, 1994:132). The main focus of this study is on two-way communication which ought to contribute to positive perceptions of ESOPs if employees believe that their ESOP suggestions and recommendations are being addressed in some way (Yam & Yam, 1993:90). Herbst, Slabbert and Terblanche (1987) report that union members prefer a democratic organisation in the real sense, in that they require their leaders not only to
report back, but to ensure that the unions have their support before deciding on a course of action.

**INDEPENDENT VARIABLES**

**UNIONS**

- Lack of trust
- Two-way communication
- Consideration

**MANAGEMENT**

- Lack of trust
- Two-way communication
- Consideration

**ESOPS**

- Sincerity of management
- Participation in decision-making by management
- Participation in decision-making by unions
- Information sharing by management
- Information sharing by union
- Believability of ESOPS

**WORKING ENVIRONMENT**

- On-the-job training
- Empowerment

**DEPENDENT VARIABLES**

- Employee motivation
- Job involvement
- Organisational commitment

**Figure 1:** The modelled influences employees’ perceptions and outcomes of employee share ownership schemes
Although there is a lack of information on the specific role of communication between unions and their members with regard to ESOPs, Hall (1995) contends that the success of an ESOP depends on how well it is understood by all the participants of the scheme. Hall (1995) further argues that the concept of ESOPs needs to be explained very carefully to actual and potential members, to overcome the initial ignorance as to what the ESOP opportunity really means. In other words, good communication is essential to positive ESOP perceptions among employees.

**The role of management**

Employees are stakeholders in the wealth creation process of the companies they work for and obtain a portion of the outcome in terms of salaries and other benefits. As a result there is a relationship between management and workforce which is unfortunately often (in South Africa) adversarial. The reason for this is that there is sometimes a breakdown that needs to be attended to before employees can fully share in what they create.

**Management and trust**

An important consideration is whether there is sufficient trust between management and employees to successfully implement an ESOP scheme. In other words, will the scheme be viewed positively by employees, or will they perceive it as pressure to work harder in exchange for or without a corresponding increase in compensation? Although there is no empirical evidence directly linking trust between employees and management on ESOP-related matters, the literature (Cook & Wall, 1980; Kruse, 1984; Sherman & Bohlander, 1992) suggests that lack of trust between employees and management will harm perceptions of ESOPs.

**Management and communication**

Two-way communication can enhance the relationship between employees and management. In addition to giving employees a good understanding of what is going on, managers use employees’ questions to gain valuable insights into their concerns and to learn about potential problems. Gilbert (1990) suggests that when an ESOP is introduced, the human resource manager has a major role to play in communicating to employees the financial benefits of the ESOP at the time of its establishment and with periodic updates. In other words, keeping employees informed about ESOP matters, will contribute to positive perceptions of the value of an ESOP.

**The trade union and consideration**

‘Consideration’ refers to the degree to which the leader promotes a climate of mutual trust, respect, psychological support, helpfulness and friendliness (Teas & Horrell, 1981:50). For the purpose of this study, consideration is defined as the degree to which a union is supportive and friendly, consults members of the union, and recognises their contribution. Previous research reported in the management literature suggests that consideration generally leads to positive outcomes such as job satisfaction, motivation, and organisational commitment (Teas & Horrell, 1981; DeCottiis & Summers, 1987; Morris & Sherman, 1981). Although there seems to be a lack of literature regarding the specific relationship between consideration of unions and ESOPs, the management literature suggests that perceived a lack of consideration on the part of unions towards members, with regard to management of ESOPs, will negatively influence perceptions of ESOPs.

**The management of employee share ownership schemes**

There are various factors that can drive the success of ESOPs. Although many of these can be traced back to financial considerations such as tax incentives, many proponents point to the benefits of ESOPs, including higher employee morale, easier recruitment, stronger loyalty, greater productivity, and improved customer service. The release of the power of ESOPs, however, requires proper management. In this study, a number of managerial variables may influence employees’ perceptions of ESOPs.

**Sincerity of management**

‘Sincerity’ is commonly defined as a quality of being trustworthy and honest (Hornby, 1989:1188). A sincere person has feelings or exhibits behaviour that is not pretended, that is genuine, and only says things that he/she really means or believes.

Leoka (1990) maintains that a company must have a sincere desire to involve the employees in sharing financial benefits. This means that the company should practise enlightened labour policies. For instance, it should not use ESOPs as an excuse to exploit labour, in which case the ESOP will most likely fail because of perceived insincerity.

**Participation in decision-making by management and employees**

According to Robbins (1983) organisations frequently use groups to solve problems or make decisions. This diversity of ideas can bring about better dialogue, better comprehension of a problem, and the development of more creative strategies for problem-solving, all of which result in
more effective group performance. Previous research shows a positive relationship between management and employees regarding the participation of both parties in decision-making on managing ESOP activities (Abell, 1983; Estrin, Grout & Wadhwani, 1968). Long (1978b) argues that there is increased employee say in decision-making on ESOPs, and employees feel increasingly free to voice their opinions and make suggestions. According to Olivier (1990), participation in decision-making in this manner will result in, amongst others, greater job satisfaction as employees will feel as if they are working for themselves.

Participation in decision-making by members of the union

The exploratory study preceding this study suggested that many union members are dissatisfied with their input into ESOP-related decision-making because unions sometimes block their direct involvement. They argue that unions do not allow their members to meaningfully participate in ESOP-related debates and decision-making. Although Fogarty and White (1988) argue that trade union members are more likely to call for union involvement in the running of ESOPs, there seems to be little empirical information regarding participation of unions in decision-making on management of ESOPs. Participation in decision-making by members of unions with regard to union involvement in ESOPs is included in the model because it is argued that unions which participate in decision-making processes, with regard to ESOP management, should feel that they can share new ideas and devise new ways of working together more efficiently.

Information availability by management

Information provides the context in which people work. Information and the ability to use it have been linked to many factors such as empowerment, communication, trust, decision-making and other forms of participation. McLagan and Nel (1995) maintain that access to information assists in influencing decisions which are ultimate determinants of power.

Fogarty and White (1988) conclude that employees’ attitudes toward the availability of information reveal that information about the company, its finances and its business developments, is more influential than general information about ESOPs. On the other hand, Peel, Pendlebury and Groves (1991) conclude that companies operating with ESOPs made greater use of traditional and other methods of communicating financial information to employees. Leoka (1990) suggests, however, that for any company to be able to communicate with employees as shareholders requires not only sharing of full information, but also further ensuring that employees understand the information and are treated with the same degree of accountability as ordinary shareholders.

Information availability by union

Although no literature regarding the availability of information on ESOPs by unions could be traced, Maller (1989) believes that employees in some companies claimed that unions had not consulted them before signing the ESOP agreement. Maller (1989) contends that many unions were pressured by management to sign the agreement by threatening to call off the deal, which would effectively endanger the jobs of all employees. In other words, the employees were misinformed about ESOPs.

Believability of ESOPs

McClelland (1987) contends that when messages are consistent and actions match words, the organisation communicates integrity, congruity and direction, and is therefore believable. The exploratory study preceding this study suggested that many employees questioned the actual existence of an ESOP. The absence of any tangible evidence that can be directly linked to the ESOP contributes to this suspicion among many employees.

General working environment

People make a company. Their skills and abilities, performance on the job, and their productivity determine the company’s profitability and growth. In other words, the better the people are at doing their work, the more successful the company is likely to be in selling its products or performing its services. According to Allman (1987), a pleasant working environment motivates the employee. Based on the experience of many companies, an effective way to avoid grievances concerning working conditions and environment is to provide clear job descriptions and instructions to employees. This can only take place in a favourable working environment which can be enhanced by training and empowering employees.

On-the-Job training

At any level of employment or type of training, the goal is to improve performance on the job and, in the process, to increase the personal value of individual employees and the value of employees to their organisation. It is therefore argued that there is a relationship between training and elements such as motivation, education, development, various skills, different age groups, communication, and many others. The exploratory phase of the study revealed that many employees are negatively disposed towards ESOPs because they feel that they cannot meaningfully contribute to the well-being of the company because of poor or inadequate training. In other words, employees feel they do not have the necessary skills. There seems, however, to be a lack of empirical evidence regarding the direct relationship between training of employees on the job and ESOPs, although Peel et al. (1991) argue that very limited use is made of financial training and education of employees.

Empowerment

In the context of this study, empowerment is the sharing of information with employees about the organisation’s performance, rewards based on the company’s performance, knowledge that enables employees to understand and
Motivation can be defined as an attitude towards job performance (which includes innovative and other behaviour, as well as quantity and quality of output) and can further be described as a desire to perform well (Long 1978b:35). Schermerhorn, Hunter and Osborn (1994) refer to motivation as forces within an individual that account for the level, direction and persistence of effort expended at work. A common definition of motivation is the development of a desire within an employee to perform a task to the best of his/her ability, based on that individual’s own initiative.

Crainer (1988) suggests that ESOPs offer a means of enhancing the true motivation of employees by making them feel part of the company. According to Rodrick (1996), Kelso, who is generally considered to be the founder of ESOPs, takes a more positive view that ESOPs are the strongest motivator. It is generally recognised that shares are a medium-term motivator, rather than an instant work motivator. Smith, Lazarus and Kalkstein (1990) suggest that ESOPs provide increased financial incentive, create a new set of attitudes, and build teamwork. Research indicates that the company benefits from a stable and highly motivated workforce (resulting from employees remaining with the company until they can either buy or subscribe to shares) and that motivation stems from employees being committed to achieving high profits to improve the value of their shares. Generally, the belief still favours the contention that ownership does improve employee motivation and that there is a positive relationship between employee motivation and positive perceptions of ESOPs.

Organisational commitment

Organisational commitment refers to the degree to which a person identifies with, and feels part of, an organisation or company (Schermerhorn, Hunt and Osborn, 1997:98). An individual who has high organisational commitment is considered very loyal, which brings about a number of organisational benefits such as higher productivity, better work quality, higher employee morale, reduced turnover, and more employee willingness to exert extra effort. In this study the emphasis is on the attitudinal component organisational commitment, which is a state in which an employee identifies with a particular organisation (or company) and its goals, and wishes to maintain membership in the organisation (or company) in order to facilitate the realisation of such goals.

Buchko (1992) finds that employee commitment to the organisation, both attitudinal and behavioural, and the involvement and satisfaction with current jobs within the organisation, are mostly influenced by the perception that ownership had increased their influence and control. Furthermore, employees who believe that ESOPs enable them to have a greater say in company affairs are more committed to the company, less likely to leave, much more involved in their work, and more satisfied with their jobs. Empirical findings reveal that the creation of a joint payoff relationship through employee ownership does appear to favourably influence commitment (Long 1978b:46). All the hypothesised relationships described above are depicted in the conceptual model in Figure 1. To empirically evaluate the proposed model was the primary objective of this study.

The methodology

The sample
The universe of the study is defined as full-time employees of two large South African companies (one wholesale and one retail) which have an existing share ownership scheme. In other words, a combination of convenience and random sampling was used. Two companies were chosen on a convenience basis. A random sample of 2 600 employees was drawn from the two companies’ employee records. A questionnaire with three covering letters (from management, labour union and researcher) and a reply-paid envelope were mailed to each respondent. One thousand seven hundred (1 700) questionnaires were mailed to company A and nine hundred (900) to company B. The number of questionnaires to be mailed was stratified by the size of each of these two companies. In total five hundred and eighty six (586) usable questionnaires were returned: a 23% response rate. The majority of the respondents (73%) fell in the age category 30 to 49 years of age; 44% had a matric or higher qualification; 68% were union members and 66% were ESOP share holders.

The measuring instruments

Both self-developed measuring instruments and instruments with proven psychometric properties were used to measure the latent variables that are included in the model depicted in Figure 1. All questionnaire items were linked to a five-point Likert-type scale.

Trust in management and trust in union were measured with a shortened version (six-item) of McAllister’s (1995) Interpersonal Trust Questionnaire. A five-item scale was used to measure two-way communication of both management and union.

Consideration was measured by means of a five-item instrument adapted from the work of Teas and Horrell (1981). Five items relating to management and five items relating to union were used to measure consideration with regard to ESOPs.

Participation in decision-making was measured with a five-item scale that was adapted from a Porter-type response scale which had been successfully used by Teas, Wacker and Hughes (1979). Respondents were asked to indicate whether they were allowed by management and their union to express their suggestions, views and ideas with regard to ESOP-related matters. A self-developed five-item scale was used to measure employees’ perceptions of the adequacy of their training.

Empowerment was measured with a short version of Hayes’s (1994) Employee Empowerment Questionnaire. A self-developed four-item scale was used to measure respondents’ perceptions of the economic value of ESOPs for them. Respondents were asked to evaluate how valuable ESOPs were to them and to rate ‘the value of ESOPs’: a belief that the ESOP shares would benefit him/her in the future; how valuable membership was to him/her; how important it was to own shares at present so that he/she could benefit on retirement; and whether his/her involvement in the ESOP matters would have benefits for him/her in the future.

Job involvement was measured with a five-item scale adapted from the widely used instrument of job involvement developed by Lodah and Kejner (1965).

Employee motivation was measured with a shortened version of The Job Opinion Questionnaire by Kanungo, Misra and Dayal (1975).

Five items from the short version of Mowday, Porter and Steers’ (1982) Organisational Commitment Questionnaire were used to measure organisational commitment. Two latent variables were measured using self-generated items: information sharing (five items relating to management and five items relating to union), and believability of management (five items). Information sharing was measured according to whether respondents were able to have access and make use of information in order to understand and appreciate the economic performance of the ESOP.

The statistical methods

Various statistical tests, including Cronbach’s alpha tests and exploratory factor analysis were used to evaluate the validity and reliability of the measuring instruments used. Cronbach’s alpha reliability coefficients were calculated for all the instruments used to measure the latent variables in the empirical model. The next step in the data analysis phase was to assess the discriminant validity of the variables listed in Figure 1. For the purpose of this study, discriminant validity was tested through exploratory factor analysis. The BMDP4M computer programme was used to conduct four sets of exploratory factor analysis (Frane, Jennrich and Samson, 1990). Maximum likelihood was specified as the method of factor extraction and also a Direct Quartimin oblique (correlated factors) rotation of the original factor matrix.

The detailed results of the exploratory factor analysis results are not reported here, but are available from the authors. Suffice to say that it was necessary to remove items from the theoretical model (Figure 1) for discriminant validity and reliability reasons. As a result the theoretical model had to be adapted and not all of the hypotheses shown in Figure 1 could be empirically tested and, in fact, had to be reformulated.

The empirical model

The theoretical model was modified and adapted based on an iterative process of reliability testing and validity testing. This means that, as some items were deleted and new variables were formed as a result of the discriminant validity assessment (exploratory factor analysis), the original theoretical model had to be adapted. Table 1 shows the latent variables, and the individual items measuring them following this process. Following the stepwise reliability and validity assessment, eight exogenous variables (trust in management, reliability of management, responsiveness of union, information sharing by union, believability, on-the-job training, empowerment based on authority, and empowerment based on responsibility), one intervening
variable (perceptions of ESOPs) and one endogenous variable (organisational commitment) remained in the empirical model.

Table 1: Empirical factor structure for path analysis with latent variables

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>Manifest variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust in management</td>
<td>MT5, MT6</td>
</tr>
<tr>
<td>Reliability of management</td>
<td>MT1, MTC1, CM1</td>
</tr>
<tr>
<td>Responsiveness of union</td>
<td>UT2, CU2</td>
</tr>
<tr>
<td>Information sharing of union</td>
<td>ISU1, ISU2</td>
</tr>
<tr>
<td>Believability</td>
<td>BEL1, BEL2</td>
</tr>
<tr>
<td>On-the-job training</td>
<td>JT1, JT2</td>
</tr>
<tr>
<td>Empowerment based on authority</td>
<td>EMP1, EMP2</td>
</tr>
<tr>
<td>Empowerment based on responsibility</td>
<td>EMP3, EMP5</td>
</tr>
<tr>
<td>Perceptions of ESOPs</td>
<td>PERC1, PERC2, PERC3, PERC4</td>
</tr>
<tr>
<td>Organisational commitment</td>
<td>OC2, OC3, OC4, J4, EM5</td>
</tr>
</tbody>
</table>

The following hypotheses were subjected to empirical verification:

H1: Employees’ perceived lack of trust in management, negatively influences perceptions of ESOPs.

H2: Perceived lack of reliability on the part of management with regard to management of ESOPs, negatively influences perceptions of ESOPs.

H3: Perceived responsiveness on the part of unions towards their members with regard to management of ESOPs, positively influences perceptions of ESOPs.

H4: Insufficient information sharing on the part of the union with regard to the management of ESOPs, negatively influences employees’ perceptions of ESOPs.

H5: The higher the believability of the existence of ESOPs the more positive the perceptions of ESOPs.

H6: Insufficient on-the-job training on the part of employees negatively influences the perceptions of ESOPs.

H7: The higher the perceived empowerment with regard to authority to initiate tasks and contribute to organisational performance, the more positive the perceptions of ESOPs.

H8: The higher the perceived empowerment with regard to responsibility to initiate tasks and contribute to organisational performance the more positive the perceptions of ESOPs.

H9: Positive perceptions of ESOPs exert a positive influence on organisational commitment.

Empirical results

Cronbach’s alpha coefficient was used to assess the internal consistency of the measuring instruments. The SAS computer programme was used for this purpose. The results show that all instruments returned alpha values of more than 0.60 except for job involvement (0.476). The Cronbach alpha value of job involvement was regarded as inadequate for further analysis, and ‘job involvement’ was thus deleted from the empirical model. The removal of individual items from any of the other variables did not improve their internal reliability and therefore were all retained.

Path analysis with latent variables

The initial attempt to test the empirical model suggested a high degree of multi-collinearity among the exogenous variables (Hair, Anderson, Tatham & Black, 1995:93). In other words, two latent exogenous variables (in this case ‘trust in management’ and ‘empowerment based on responsibility’) were highly correlated, compromising the results of the Structural Equation Modelling (SEM). Multi-collinearity is a problem in multiple regression and SEM because it reduces the predictive power of an independent or exogenous variable. For instance, it becomes difficult to separate from each other the impact of individual independent or exogenous variable on dependent or endogenous variable. A high degree of multi-collinearity can lead to regression estimates being estimated incorrectly and even to showing wrong signs (Hair et al., 1995:156 and 188; Mason & Perreault, 1991).

It was therefore decided to execute the SEM analysis in two phases. In the first model (Figure 2), ‘trust in management’ was temporarily removed from the model, and in the second model (Figure 3), ‘trust in management’ was replaced and ‘empowerment based on responsibility’ was temporarily removed to overcome the problems associated with multi-collinearity.

To address the objectives of this study, the empirical models depicted in Figures 2 and 3 were fitted to the observed data, using the computer programme RAMONA (Browne & Mels, 1990), by specifying an analysis based on the sample correlation matrix with the maximum likelihood estimation. The resulting maximum likelihood estimates, with their associated significance information in terms of P values, are also shown in Figures 2 and 3.

The influence of employees’ perceptions on ESOPs

Figure 2 shows that perceptions of ESOPs are significantly influenced by ‘reliability of management’ (0.311; p < 0.01), ‘Responsiveness of union’ (0.202; p < 0.05) and ‘empowerment based on responsibility’ both exert a positive influence (0.850; p < 0.05) on perceptions of ESOPs. ‘Information sharing’, ‘believability, ‘on-the-job training’ and ‘empowerment based on authority’ do not exert a significant influence on employee perceptions of share ownership schemes. Positive perceptions of ESOPs in turn strongly influence organisational commitment (0.691; p < 0.01).
Figure 3 indicates that both ‘trust in management’ (point estimate = 0.619; p <0,01) and ‘responsiveness of union’ (point estimate = 0.275; p <0,01) exert a positive influence on employee perceptions of ESOPs. In addition, the influence of ‘on-the-job training’ on ESOPs is significant but only at the 10% level of significance (0,161; p <0,10).

On the other hand, Figure 3 shows that ‘reliability of management’, ‘information sharing by union’, ‘believability’, and ‘empowerment based on authority’ do not exert a significant influence on the perceptions of ESOPs.

Managerial implications

This study revealed that trustworthy and reliable management positively influences employee perceptions of ESOPs. Trust in management can be enhanced by sharing useful information with employees, by understanding each other’s needs, and by dedicating time for employees and resources to serve each other better. Trust must, however, be earned through a partnership built on a relationship where management demonstrates a sincere attempt to care for employees in their place of employment, thereby providing security.

When employees believe management is reliable, this will enhance their appreciation of the value of the ESOP for them, which will ultimately benefit the company. Management can support and maintain reliability perceptions by improving communication between employees and themselves. For example, management must communicate the financial benefits of the ESOP to the employees at the time of its establishment, with periodic updates, as required.

The responsiveness of the trade union facilitates positive employee perceptions of the ESOP once employees have trust and confidence that the union representing them is willing to act in its members’ best interests. To yield the benefits of an ESOP, trade unions must thus be encouraged to share ESOP-related information, listen to employees’ suggestions and ideas, and provide timely feedback.

Based on the results of this study, it can be concluded that overall employee empowerment promotes a situation in which employee involvement initiatives with regard to ESOP matters obtain the full support and encouragement of management. Once employees feel empowered, and are held responsible for initiating tasks and contributing to the company’s performance, they perceive ESOPs positively.

Empowering employees can speed up decision-making processes and reaction times. The creativity and innovative capacities of employees can be released through empowering employees by affording them more responsibilities. Based on this premise, employees can gain a greater sense of achievement in terms of being a share owner (owning a part of the company) and being able to carry out more responsibilities with minimum supervision from management. Managers can empower employees not by giving up control, but by changing the way control is exercised. Although they have to learn to trust their subordinates, delegate more authority, and allow individuals and teams more scope to plan, act and monitor their own performance, managers still retain responsibility to provide guidance and support to their staff as required.

The finding that share ownership does influence organisational commitment implies that organisational commitment can be further enhanced by employee trust in management with regard to ESOP matters. This study has also revealed that unreliable management of ESOPs can lead to a lack of organisational commitment. To enhance organisational commitment, unions have to be quick in responding to members’ demands with regard to information sharing about ESOP matters. In other words, both management and employees must pressure unions to share information regarding ESOP matters. Working environment aspects such as empowerment based on responsibility, create a favourable environment for organisational commitment to develop and prosper.

However, ESOPs can only find acceptance among employees if the schemes are accompanied by certain elements which enlighten employees as to the actual meaning of, and reasons for, their implementation. Companies wishing to implement ESOPs, and those who have already done so, must therefore practise enlightened labour policies and explain the actual contents of ESOPs. Before an ESOP is introduced, employees need to be familiarised with the reasons for their involvement, because they are often left out of certain aspects relating to share ownership schemes.

Limitations of the study and future research

One of the limitations of the study was the lack of discriminatory validity of some of the measuring instruments included in the study. Some of the items used to measure some of the variables did not measure what they were expected to measure. As a result, variables such as sincerity of management, participation in decision-making by union and management, and information sharing by management were deleted from the study.

Another limitation is that employee behaviour was not measured. In this study we accept that only employee perceptions were measured and that the perceptions may or may not influence actual behaviour. We contend, however, that behaviour such as participating in an ESOP will not take place unless positive perceptions are present.

Also, for practical reasons, the study was confined to only a major national retail store and a wholesaler, instead of a wide variety of companies in different industries. This study can be replicated in a wider variety of business firms in future.
Figure 2: Empirical results: The influence of the employees’ perceptions on ESOPs
Figure 3: Empirical results: The influence of employees' perceptions on employee share ownership schemes (ESOPs)
References


