

**EMPLOYEE PERCEPTIONS OF SHARE OWNERSHIP SCHEMES: AN
EMPIRICAL STUDY**

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DECLARATION

I declare that EMPLOYEE PERCEPTIONS OF SHARE OWNERSHIP SCHEMES: AN EMPIRICAL STUDY is my own work, that all sources used or quoted have been indicated and acknowledged by means of complete references, and that this thesis was not previously submitted by me for a degree at another university.

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ABSTRACT

All South Africans need to share a common vision. Constructing a common vision is not an easy task but is certainly worth the try. One aspect could be to persuade people to take risks by encouraging them not to be frightened off by threats of disastrous consequences. The first priority and most critical part of the vision is to draw all South Africans together.

The second aspect of the vision is to attempt to negotiate the future with all participants, especially in the upliftment of the country's economy. The word 'all' should be seen as important and should be stressed because there are genuine players from all spheres who should be given the opportunity of sitting together and discussing issues of concern, with particular reference to the business environment of the country. Economic variables, socio- economic and political issues relevant to the business environment of the country

are discussed in this study. This study concentrates on the important issues of employee participation because employees are the basic foundation of any business. Employees in the workplace have the same basic aim as that of consumers in the market-place. In other words, employees and consumers want the maximum amount of output for their input. For employees, this usually means more say in management decisions, a greater stake in the success of the company, more attention to their ideas, and higher income. A company can be truly participative only when all stakeholders are actively involved in creating the vision, interdependencies and systems of the company and when their day-to-day actions are appropriately participative. Participative behaviour extends beyond the company's boundaries. The truly participative company involves customers, suppliers and union representatives as well as employees, managers and functional staff members.

Since members of all these groups help to create the quality of the company's products and services and of the business relationships uniting them, participation must extend to all these groups. Additionally, participation praises and values the capacity of people by way of encouraging financial participation and by respecting employees. Participation values the capacity of people to grow, to contribute meaningfully to performance.

When people come together in an economic organisation or a workplace, an effort must be made to ensure that the company is productive, that it adds value and that people work together toward a common purpose.

One of the ways of contributing meaningfully in an organisation and adding value can be the involvement of employees in decision-making processes and financial participation. Profit-sharing and Employee Share Ownership Schemes (ESOPs) have been fairly common financial participation practices in many countries. For the purpose of this study, the activities of ESOPs as employee participation option was investigated since it forms part of the management approach called "participative management".

It is believed that ESOPs will contribute to a society based on democracy, equality and respect for the person. Also, employee ownership will make employees more committed

to their jobs, companies and work performance and will also increase labour management co-operation. Furthermore, allowing full participation in decision-making increases employee awareness of the prospects and problems facing the company.

Companies with ESOPs generally report increased employee motivation, productivity and retention. However, implementing an ESOP in isolation will have little bearing on employees. To be an effective motivational tool, an ESOP must be combined with other factors, particularly an employee-participation programme which affords employees greater decision-making responsibilities in their jobs. An ESOP will only be successful if a company does a good job of informing its employees about the programme. Lastly, the successful implementation of employee ownership reduces confrontation and industrial disputes.

The aim of this study was to investigate some of the problems associated with the introduction and successful management of ESOPs. Furthermore, an ESOP considers possible alternatives which will address the needs of both parties (employees and management) with regard to the implementation of ESOPs. A further aim was to investigate how perceptions of ESOPs can be influenced and managed through managerial antecedents such as trust, empowerment, communication and organisational commitment.

Ownership is not a simple concept. Various definitions have been suggested. Some of the confusion stems from the fact that many authors 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 of 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. Some organisational researchers, having looked at variations in employee-ownership systems, observed that ownership systems employ different degrees of employee ownership and employee control. Some are built around employee ownership, some emphasise employee control and others emphasise both ownership and control dimensions. Because the term ESOP cannot be precisely defined and may be understood in different ways by different practitioners, it was decided in this study to define an ESOP

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.

The employee share ownership scheme (ESOP) concept was developed in the 1950s by Louis Kelso a San Francisco lawyer and investment banker, who argued that the capitalist system would be stronger if all employees, not just a few shareholders, could share in ownership of capital producing assets. He believed that the best way to accomplish this goal was to create a corporate mechanism, turning workers into owners. Kelso tried, over a number of years, to convince companies to use this plan by suggesting that productivity would improve and that they could achieve tax breaks.

The ESOP scene is no longer new to South Africa. A small number of companies have introduced ESOPs in South Africa. There is a lot of publicity surrounding the idea of ESOPs and around each new issue of shares to employees.

The empirical findings revealed that perceptions of ESOPs can be enhanced by improving trust between employees and management. Reliable management positively influences the employee perceptions of ESOPs. Employees appreciate and believe in the union that responds to their demands and shares information that is of importance to the members with regard to ESOP matters. This leads to positive perceptions of ESOPs. It is concluded that providing adequate training and empowering employees with more responsibility in their working environment positively influences employee perceptions of ESOPs. This leads to stronger organisational commitment which, as shown by a lot of studies, has beneficial outcomes for business firms, including enhanced profitability.

This study revealed that trustworthy 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 at caring for employees in their place of employment, thereby providing security.

This study revealed that employees have confidence in reliable management. Management can maintain this 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 unions facilitates a positive relationship between employees and an ESOP once the employees believe in and are confident that the union representing them is willing to act in its members best interests. Although the study reveals that the lack of information by unions with regard to the benefits and financial position of ESOPs has no significant direct influence on employee perceptions of ESOPs, this does not strain the relationship between unions and their members. This means that if employees believe that the union representing them always passes on and shares ESOP information that might be useful with them, employees will perceive the ideas of management with regard to ESOP matters as genuine.

The results of this study also indicate that unions may willingly allow their members to participate in ESOP matters once they have overcome their doubts about the reality and existence of ESOPs. It must be taken into consideration that when employees believe the reality and existence of ESOPs, this goes beyond the possession of a share in the equity of a company. Management must be deeply committed to the concept of employee ownership and this can only be possible if an employee-ownership system is implemented.

Based on the results of this study, it is believed that employees feel more capable to meaningfully contribute to the well-being of the company when they are adequately equipped with the required and necessary skills to solve their daily problems and have a positive view of ESOPs. These companies should reflect that ongoing education and training in socio-political issues, business awareness (including company financial and performance reports) and people management (leadership skills) are the major success

factors in a company. Those processes are fundamental in exposing those who lack understanding and knowledge of the meaning of ESOPs and how ESOPs operate.

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, 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 is based on other aspects as well, meaning 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 pressurise unions to share information regarding ESOP matters. Working environment aspects such as, on-the-job training and empowerment based on responsibility, create a favourable environment for organisational commitment to take place.

However, ESOPs can only find acceptance among employees if they 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, practice 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.

To summarise: Employee share ownership schemes or plans can only yield the positive outcomes summarised in this study if employees have a positive attitude towards ESOP's. No study has ever been done to assess which variables influence employee attitudes towards ESOPs. Given South Africa's unique historical background this study makes valuable contribution in identifying the managerial and work environment variables that managers who want to enhance the effectiveness of ESOPs should concentrate their efforts on.

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CHAPTER 1

THE SCOPE AND THE METHODS OF THE STUDY

1.1 INTRODUCTION

When a successful company is growing rapidly to keep pace with the demand for its products or services, its taxable profits inevitably lag behind its current rate of profitability, because many of the costs of making a company grow are preparatory costs. A greater part of preparatory costs are immediate costs which can be deducted from the overall revenue, thereby reducing the taxable profits in the current year. This applies to longer-term costs such as research, design and development, as well as to marketing costs such as advertising. Additionally, if money is borrowed to pay some of these costs, the interest is deductible from revenue before arriving at taxable profits. If the business is not starting a new branch or researching, designing and developing a new product, the taxable profits would be higher. A company which is continually growing over several years is therefore paying lower taxes than its current level of profitability would justify if it were not growing. The revenue authorities do not object to this, because more tax revenue is gained when the company has grown bigger (Copeman 1991:2).

When a company is growing rapidly, its taxable profits may temporarily fall in relation to the increasing amount of business it is managing. Growth increases the opportunities for capital building to the benefit of shareholders, without their having to make decisions on saving. The successful business does the saving on behalf of shareholders, largely in a tax-deferred form. Many contemporary companies want their employees to share in this gain. The motivational advantage for the company in enabling employees to share in this internal growth of capital arises from the fact that there are two kinds of reward to be derived from successful business enterprise. One is cash and the other is growth in the value of the share capital.

Many employees in business firms are managers, supervisors and skilled staff who contribute to the decisions made and therefore fulfil part of the entrepreneurial role, albeit a small part. It is not surprising to find that many employees expect to be able to share in the success of the business. This is seen as an incentive reward for successful work, that is, success being measured in profitable business. It is a natural development of the market economy and benefits all concerned.

It would be natural to think it possible to pay employees a cash bonus that would make up for the fact that they did not have the same opportunities to build capital as business owners. Another option is to consider an employee share ownership plan to provide an opportunity for employees to participate and share in the capital value of the business. Additionally, employee-owned companies seem to do considerably better in sales growth, operation profit margin, return on equity and book value per-share growth than non-employee-owned companies (Wagner and Rossen 1985).

Many South African employees have recently been offered shares in the companies for which they work. In these companies employees are given the opportunities to shares and earn dividends if the company performs well. Management hopes that if employees own shares they will work more productively to improve the position of the company on the stock exchange, thereby enhancing their own earnings from the shares (Maller 1987:54). The validity of this contention is the focus of this study.

1.2 EMPLOYEE SHARE OWNERSHIP SCHEMES (ESOPs) IN THE SOUTH AFRICAN BUSINESS ENVIRONMENT

1.2.1 ESOPs and taxation

South Africa is relatively new to the Employee Share Ownership Scheme (ESOP) scene. The questions must be asked, why are the employers suddenly interested in ESOPs and why are so many new schemes being introduced? The basic reason is that management

is searching for ways to make employees more productive. South Africa's economy is characterised by stagnation and low productivity. This means that the country's levels of output, employment and until recently, investment, are increasing at a decreasing rate.

There is either no or little growth in the economy which can mean a fall in a company's profit level. Companies use many ways to boost profits. Two ways of boosting profit is to put pressure on employees to be more productive and to cut the costs of production. This has often taken the form of cutting the wage bill by retrenching employees. Secondly, companies can continue to make profit by investing their money on the stock exchange. This kind of investment does not build new factories and generate more employment opportunities, but simply makes more money for the investors (Maller 1987:54).

Against this background, Copeman (1991) cites the calculations of the impact of ESOP's in Britain which shows that, when companies make more than five percent real return on capital, employees are better off having shares than cash. Additionally, if the firm tries to compensate cash for the shares employees could have had, within the recommended Investment Committee guideline limits (in Britain), the amount of cash required could be so great as to destroy the company's ability to grow. Another question is whether ESOP's are successful. One of the ways that companies use to increase the productivity of their employees is to give them shares in a company. Unfortunately, not all companies in South Africa have chosen to follow this path. Many smaller firms do not have enough available capital to enable them to give shares to employees. Many employers do not believe in motivating workers by rewarding them for their efforts in this way, and many employers have used other methods, like incentive bonus schemes to try to accomplish the same goal.

1.2.2 ESOPs and the law

Unfortunately, South African tax laws do not encourage the formation of ESOPs. Few employees can afford to buy shares out of their own resources. Loans are heavily taxed and this may jeopardise the success of these schemes. Additionally, hostility to

participating in the workings of capitalism is evident, particularly amongst black employees. There is a widespread perception that most blacks have never reaped the fruits of capitalism and are unlikely to do so in the future. The Commercial Catering and Allied Workers Union of South Africa (CCAWUSA), for example, maintains that no meaningful economic change is possible without the complete overthrow of capitalism.

On the other hand, employers are asking themselves if share ownership is not a too sophisticated concept to enjoy popular appeal amongst black employees (King 1988:35). It is argued that ESOP's are simply a patronising way of expressing doubt that black employees will accept share ownership in the companies in which they work when they already cannot cope with worthless wages and rising expenses, not because they are sceptical that these benefits will rise (Maller 1987:54).

According to some researchers, individual employees may certainly gain from owning shares and may feel a greater sense of identification with the company. It is clear, however, that an individual shareholder's (employee) participation in the decisions of a company is not extended in a meaningful way. Individual employees own a small portion of the total shares of a company and, as minority shareholders, cannot exert more influence over the board of directors than ordinary employees. If employees owned shares collectively (in the form of a trust), they may then have greater influence over a company's decisions. This is the same principle upon which trade unions are built. That is, an individual employee with a grievance will not normally be able to redress that grievance, but with organised power of the trade union behind him, he stands a far greater chance of improving his situation (Maller 1987:58-59).

In South Africa, ESOPs are therefore regarded by some as particularly inappropriate in a context where most black employees do not earn a living wage and would be better off earning higher wages than gaining shares in a company. Some employees view ESOP shares as an attempt to co-opt them economically into management's concern with profitability, as well as the long-term survival of capitalism. Also, the collective trust fund approach has been rejected by some employees because it does not entail an immediate

and direct benefit to them. It appears therefore, as if it is the belief of many employees that management only supplies shares to meet the company's financial needs, suggesting a fair amount of scepticism and even distrust.

There is furthermore some empirical evidence which supports the view that certain types of companies are more likely to engage in schemes which offer tax concessions. The basic finding of the analyses is that approved financial participation exerts a favourable influence on the demand for employee share ownership.

In many instances, trade unions have tried to force management to listen to their views and demands. This process of collective bargaining has enabled employees to question an increasing number of management decisions. Some argue that it is against this background that employers are trying to introduce share ownership schemes designed to replace the collective solidarity and enthusiasm introduced by militant trade unions with the individualism promoted by employers. Employees are therefore under the impression that the ultimate objective of giving or selling shares to employees is to undermine union organisations and to place employees in the uncomfortable position of negotiating wages and working conditions both as employees and as owners of shares.

Apart from the threat to profitability posed by escalating strike action, the growing rejection of capitalism by some employees poses a long term threat to free enterprise. According to Matika (1988), SAMCOR employees once had a strike against share ownership. Furthermore, the head of the Johannesburg Stock Exchange once argued that ESOP's should be used to popularise the free enterprise system (Matika 1988:34). It appears that many employees are uncertain of the actual meaning or honest objective of ESOP's. In addition, open forums are not held on a regular basis, giving employee-shareholders the opportunity to learn first hand from the directors about the current trading position and future developments and to ask any questions they wish.

On the other hand, when employees obtain feedback from the trade unions there seems to be some difficulty in understanding the language of management. In addition, the

individual employee is often not in a position to obtain first-hand information directly from management. In summarising, this study attempts to investigate the following problems associated with ESOPs:

- The apparent mistrust of management and trade unions who fail to provide full details when reporting back to employees.
- The apparent lack of communication between employees/ ESOP members and management. On the other hand, unions appear to block management and outsiders' attempts to communicate directly with the workforce about ESOPs.
- The apparent inadequate freedom of choice regarding the election of trust representatives which originates from the limitations imposed by management in allowing participation in decision-making.
- Employees believe that ESOP's are used as an excuse to improve/increase productivity and financial performance of a company at the expense of employees.

1.2.3 The advantages and disadvantages of ESOPs

According to Long (1978), there are advantages and disadvantages associated with ESOPs. The research findings on disadvantages reveal however, that these can be divided into:

- **Disadvantages for employees:** some employees felt that more work is expected from employees who are members of ESOPs, while other employees felt 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 in the board 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 share owners. 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.

Disadvantages of ESOP companies: are few except for the most frequently cited disadvantage, namely that financial assistance from a parent company is no longer available immediately after management have introduced ESOPs and this comes into being only if the company belongs to a corporate institution. Lastly, a future problem (not a disadvantage) would be the establishment and coordination of future mechanisms to obtain employee input.

To summarise: The introduction of ESOPs is based on the belief that employee owned companies will be more profitable and productive than companies with conventional ownership, all things being equal. ESOPs will contribute to a society based on democracy, equality and respect for the person. Employee ownership will make employees more committed to their jobs, companies and work performance and will also increase labour management co-operation. Furthermore, allowing full participation in decision-making increases employee awareness of the prospects and problems facing the company. Lastly, the successful implementation of employee ownership reduces confrontation and industrial disputes.

1.3 OBJECTIVES

This study investigates some of the problems associated with the introduction and successful management of ESOPs. It furthermore considers possible alternatives which

will address the needs of both parties (employees and management) with regard to the implementation of ESOPs. A further objective is to investigate how perceptions of ESOPs can be influenced and managed through managerial antecedents such as trust, participation in decision-making, communication and motivation.

1.4 HYPOTHESES

In order to address the stated objectives, the following hypotheses were formulated:

- **UNIONS**

H¹ Employees' perceived lack of trust towards unions, negatively influences employee perceptions of ESOPs.

H² The higher the perceived communication frequency between unions and employees, the more positive employee perceptions of ESOPs.

H³ Perceived lack of consideration on the part of unions towards members with regard to management of ESOPs negatively influences employee perceptions of ESOPs.

- **MANAGEMENT**

H⁴ Employees' perceived lack of trust towards management negatively influences employee perceptions of ESOPs.

H⁵ The higher the perceived communication frequency between management and employees, the more positive employee perceptions of ESOPs.

H⁶ Perceived lack of consideration on the part of management towards employees, with regard to the management of ESOPs, negatively influences

employee perceptions of ESOPs.

ESOPs

- H⁷ Perceived lack of sincerity on the part of management towards employees, with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs.
- H⁸ Participation in the decision-making process allowed by management, with regard to the management of ESOPs, positively influences employee perceptions of ESOPs.
- H⁹ Participation in the decision-making process by unions with regard to the management of ESOPs, positively influences employee perceptions of ESOPs.
- H¹⁰ Insufficient information-sharing on the part of management, with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs.
- H¹¹ Insufficient information sharing on the part of the union, with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs.
- H¹² The higher the believability of the existence of ESOPs, the more positive employee perceptions of ESOPs.

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- H¹³ Insufficient on-the-job training, with regard to employees, negatively influences employee perceptions of ESOPs.

H¹⁴ The higher the perceived empowerment to ~~initiate tasks and~~ contribute to organisational performance, the more ~~positive employee~~ perceptions of ESOPs.

OUTCOMES

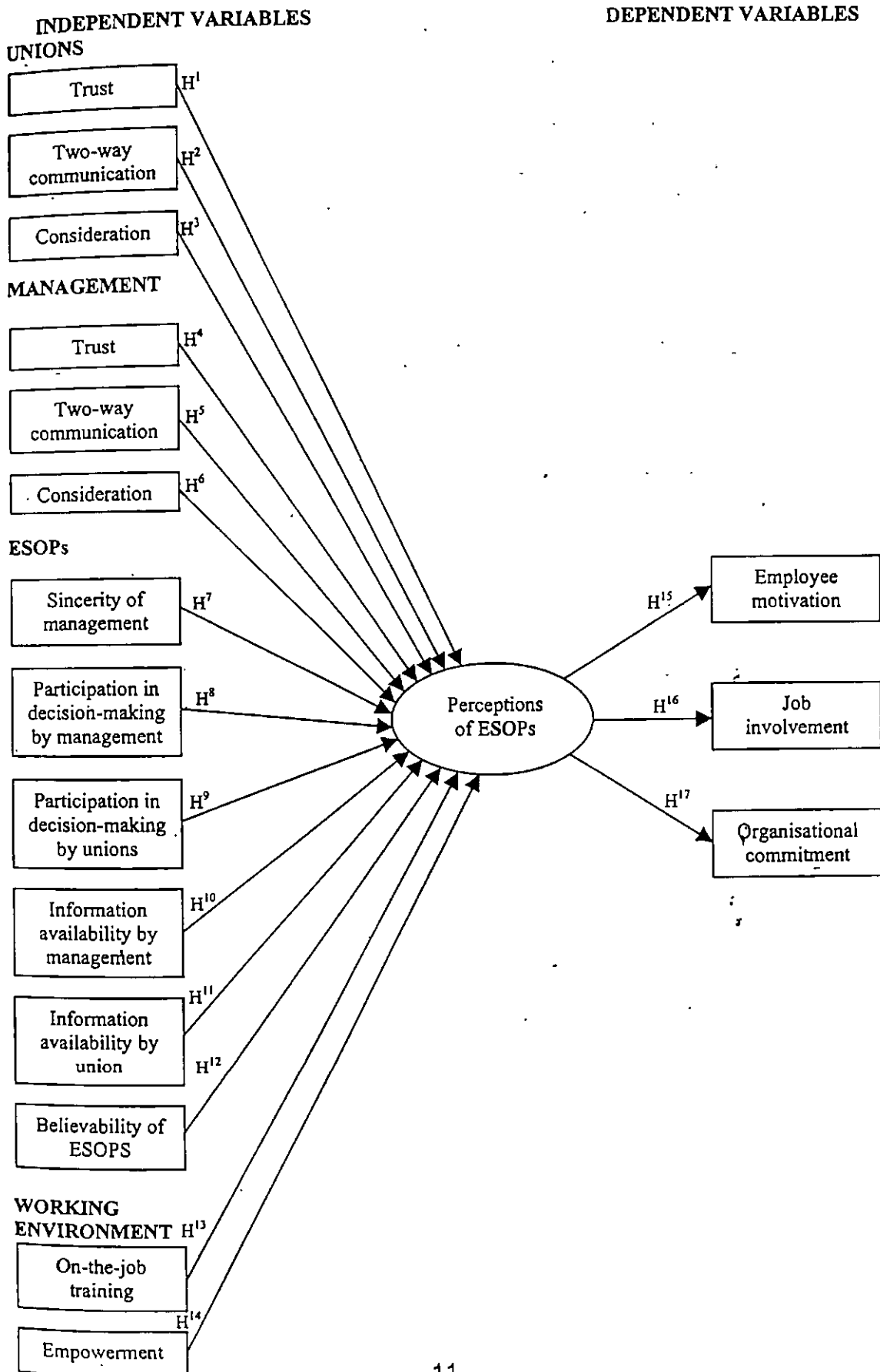
H¹⁵ Employee perceptions of ESOPs exert a ~~positive~~ influence on job involvement.

H¹⁶ Employee perceptions of ESOPs exert a ~~positive~~ influence on employee motivation.

H¹⁷ Employee perceptions of ESOPs exert a ~~positive~~ influence on organisational commitment.

The modelled relationships are depicted in Figure 1.1

FIGURE 1.1
 THE MODELLED RELATIONSHIPS AMONG VARIABLES MEASURING
 INFLUENCES AND OUTCOMES OF ESOPs AS PERCEIVED BY
 EMPLOYEES



1.5

RESEARCH METHODOLOGY

1.5.1 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 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.

Prior to the mailing of the questionnaire a pilot study was conducted. The main aim was to identify any possible mistakes and to gather any relevant comments or suggestions. Ten copies of the questionnaire were firstly given to the head office of company A in the Port Elizabeth-Uitenhage area to distribute ten copies to each human resource manager of the six branches. Employees of those branches were in various divisions and on various management levels and were given an opportunity to complete the questionnaire in order to identify any problem areas and to offer suggestions. Ten copies were given to company B for distribution amongst head office staff in the Johannesburg-Gauteng region. The pilot study identified the problems of employees who were working as casuals in company A for more than two years. Clarification was provided with regard to these employees as they were not regarded as full-time employees and also did not qualify for the employee share ownership scheme. The survey in company B did not reveal any problems.

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 posted was stratified by the size of each of these two companies. Both companies were reminded telephonically and the researcher had to visit various branches of each company to motivate respondents to complete the questionnaires. In total five hundred and eighty six (586) usable questionnaires were returned which indicated a 23% response rate.

1.5.2 The measuring instruments

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 to measure the variables included in this study. The SAS, BMDP4M and RAMONA computer programmes were used to analyse the data. Lastly, a Structural Equation Modeling analysis was used to evaluate the relationships between the set of variables in the empirical model of the hypothesised employees' perceptions. The computer programme RAMONA (Browne and Mels 1990) was used to test the proposed influence of the employees' perception of ESOP's.

1.6 DEMARCATION OF THE STUDY

The study is divided into eight chapters. The outline of the chapters is as follows:

CHAPTER 1: THE SCOPE AND METHODS OF THE STUDY

Chapter 1 describes the scope of the study. Three aspects of ESOPs in the South African business environment are discussed, namely, impact of taxation on ESOPs and the effect of law with regard to the formation of ESOPs as well as the advantages and disadvantages of ESOPs. This chapter focuses on the objectives pursued, the hypotheses addressed, the methodology used and the demarcation of the study.

CHAPTER 2: THE SOUTH AFRICAN BUSINESS ENVIRONMENT: CONTEMPORARY ISSUES

In Chapter 2, a brief overview of the South African economy (1993-1996) is provided under the two sub-headings, namely, South Africa's comparative advantages and the performance of the South African economy. South Africa's economic prospects in 2000 are discussed based on the views of the executives of the top industrial companies. The role of the Reconstruction and Development Programme (RDP) in SA is discussed with specific

reference to the role of the RDP with regard to employees.

The need for employee and management to participate in business environment is discussed extensively. The role of labour unions in SA is briefly outlined. Lastly, a brief overview of the South African economy in 1999 is provided based on the background to the South African economy, growth constraints, growth drivers, risk factors, growth indicators and growth forecasts.

CHAPTER 3: THE NATURE OF EMPLOYEE PARTICIPATION

Chapter 3 narrates the shift towards participation and how participation differs from authoritarianism. The benefits of employee participation (such as, participation in the decision-making process, wealth created, and legal ownership) and the levels of participation as well as the types of participation are addressed in this chapter. A summary of problems experienced in the process of participation is provided.

CHAPTER 4: EMPLOYEE SHARE OWNERSHIP SCHEMES AS AN EMPLOYEE PARTICIPATION OPTION

A literary overview of the nature of employee share ownership schemes is discussed extensively in Chapter 4. The operational issues and the steps in setting up ESOPs, as well as the types of employee share holding schemes, are reviewed. The benefits of ESOPs are briefly explained. This chapter also focusses on the role of ESOPs in South Africa.

CHAPTER 5: THE IMPLEMENTATION OF EMPLOYEE SHARE OWNERSHIP SCHEMES: A PRACTICAL AND THEORETICAL PERSPECTIVE

The nature of ESOPs in South Africa and the practical considerations in company schemes are main issues of discussion in this chapter. A literary overview on ESOPs in other countries forms part of this chapter.

CHAPTER 6: A MODEL OF EMPLOYEE PERCEPTIONS OF EMPLOYEE SHARE OWNERSHIP

The modelled influences of employee share ownership schemes perceptions are discussed in this chapter. Chapter 6 focuses on the role of labour unions, management, individual characteristics and the benefits of share ownership schemes.

CHAPTER 7: RESEARCH METHODOLOGY OF THE STUDY

This chapter describes the research design and methodology. It reviews the sample and the statistical techniques and various measuring instruments used in this study to empirically evaluate the theoretical model and analyse data collected from the questionnaires.

CHAPTER 8: AN EMPIRICAL EVALUATION OF EMPLOYEE PERCEPTIONS OF EMPLOYEE SHARE OWNERSHIP SCHEMES

This chapter reports the results of the reliability and the validity assessments of the measuring instruments. It reports the results of the empirical evaluation of the perceptions of employees towards the union and management with regard to employee share ownership scheme, work environment and the outcomes of employee share ownership schemes.

CHAPTER 9: MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

The empirical results are summarised and concluding remarks are provided in this chapter. The research findings of other relevant studies are compared with the empirical results. The limitations of the study are discussed and recommendations are made for future research.

CHAPTER 2

THE SOUTH AFRICAN BUSINESS ENVIRONMENT: CONTEMPORARY ISSUES

2.1 INTRODUCTION

In a market-based economy, business firms are an important element of the economic system. The decisions made, along with those of consumers and governments, determine to a large extent how the economy operates and performs, and furthermore, influences the pattern of production and consumption over time. In turn, the aggregate effects of the decisions of all three groups create the macro-economic environment in which businesses operate. This environment will have an important influence on a company's operations in the market-place Lucas (1992).

There is no mystery as to what factors are conducive to long-term economic growth in South Africa. These include factors responsible fiscal (for example public money, taxes, debts), monetary and exchange rate policies, the attraction of internationally competitive industries well educated, well trained and well managed employees and political stability which is conducive to business confidence. The process of creating a 'new' South Africa gives rise to a new business environment. Corporate management finds itself in the midst of social, economic and political change and is called upon to deal with all the threats and opportunities related to these changes.

The impact of globalization and the resultant increase in international competition is however, the most important challenge. Free trade will limit and eventually eliminate the extent to which the South African government can protect inefficient firms from international competition. Trade barriers such as tariffs, import duties and quotas will no longer be instruments that free trade agreement signatories (such as GATT and Southern Africa Development Community) can utilise. The question is rather how should South Africa cope with increasing globalization and free trade? The results of international competitive

studies clearly show that one of South Africa's weaknesses in terms of global competitiveness is its poor labour relations, poor work ethic and inappropriate labour legislation.

The basic premise of this study is that a participative management approach is one way of overcoming this weakness resulting in the enhancement of South Africa's global competitive position. Employee Share Ownership schemes (ESOPs) in particular could be a means of allowing employees to share in the benefits of improved productivity and company performance. In this way, the onslaught of international competitors can be overcome.

2.2 A BRIEF OVERVIEW OF INTERNATIONAL BUSINESS

In reality international business has taken place internationally for a long time although it may seem to be a recent development. There is evidence of extensive trade between nations as early as 3000 B.C. despite of all trading problems experienced since then (Punnett and Ricks, 1997:20). For instance, the Egyptians, Greeks and Phoenicians traded with foreigners and encountered many of the same obstacles encountered by present-day businesses such as different languages, cultures, customs, expectations and transportation.

According to Punnett and Ricks (1997), the international expansion of commerce and business developed when products available in one area were desired in other areas where they were not available and when people in one location had particular skills that were valued in other areas. International business therefore continues for many of the same reasons that it began thousands of years ago and has almost always been well known and well received.

Despite all the problems encountered through the international expansion of commerce, there has been an encouraging growth in the formation of international companies in the

second half of the 20th century.

2.2.1 The historical growth of international trade

There are quite a number of life-cycle stages that international business had to go through during its gradual development (Punnett and Ricks 1997: 23-25):

- The first distinguishable era is the **Commercial Era**. It began with the age of the great explorers, which followed Columbus voyage to the New World (1500-1850). During this era, International trade involved individual entrepreneurs seeking personal fortunes in distant lands. This era was further characterised by a close relationship between the entrepreneurs and European monarchs who were interested in direct participation in profit sharing after recognizing the profit potential of overseas ventures. These relationships resulted in the formation of the great chartered companies of the time such as the Dutch East India Company, which was granted exclusive trading rights in certain areas.
- The **Explorative Era** is characterised by the creation of industrial empires based on industrial products rather than attractive goods (1850-1914). During this era, businesses sought secure and cheap sources of raw material in overseas investments because the industrial revolution had changed the nature of the European enterprise. These changes led to many companies gaining large-scale investments in various different countries. The increasing number of Europeans participating in foreign ventures, as well as the importance of these investments to the home economies, encouraged home governments to become involved in colonial rule. These colonies therefore became more dependent on foreign investment and foreign rule, both industrially and politically. On the other hand, European investors found that local employees were not always equipped with the required skills. It was therefore, necessary for them to provide their own management, skilled employees and technicians, as a result of which the

colonies' dependency on foreign influence was further increased. Western influences on host-country politics, economics and culture is evident during this era.

The **Concessionary Era** is characterised by increased commitment by Western enterprises to their host countries (1914-1945). In certain instances, the companies became all powerful, resulting in major concessions being granted to them by the host countries. The early oil concessions in the Middle East, and United Fruit's agreements in Central America, are typical examples of such concessions. All services that governments could not provide were happily accepted from foreigners. These services included housing, health and sanitation services, financial services, education, distribution of food and other goods. Over time however, a sense of nationalism and local economic development took place. The new sense of national identity, combined with improved economic conditions, eventually led to the end of the Concessionary Era. Furthermore, during the great depression of the 1930s many companies replaced high-priced, home-country national employees with trained local employees and cut back on the services previously provided by the companies in the host countries.

The **National Era** is characterised by increased hostility Western enterprises and aggression toward foreigners' interference in local affairs (1945-1970). These countries often sought to exert their freedom by imposing restrictions on foreign enterprises. As a result of many changes occurring throughout the world in the political arena, and because many of the newly independent countries were not well equipped to effectively run their internal affairs, the national era was one of instability. The objective was to discourage international business. It was a period of major global expansion for businesses during which multinational companies were established. Businesses therefore sought both markets and productive inputs around the world, and the idea of global rationalization became popular for the first time. In other words, companies could produce different

components of an item in different parts of the world to achieve efficiency and cost effectiveness. Furthermore, World War II encouraged the development of worldwide communication and transportation systems, as well as the development of new technologies which all contributed to the ability of businesses to take a global view of operations.

Developments in international business during the 1970s had its own problems. This situation, combined with increased host-government hostility toward foreign investment, led to a period of United States divestment in the early 1970s. This hostility was aimed at United States companies probably because, despite their success, they had often been culturally insensitive to their hosts with regard to their business practices. In other words, United States companies believed that their business practices were always superior. Moreover, United States companies adopted a more 'careful' approach to foreign operations (than they had previously done) which could easily be interpreted as an 'unreasonable' approach by counterparts in foreign countries (Punnett and Ricks, 1997:25).

During the early 1970s, Japanese companies became increasingly aggressive and successful in their internationalization and in selling their products in foreign markets. The United States also experienced increased investment by other foreigners in mid-1970s through 1980s. According to Punnett and Ricks (1997), a different shift in ownership occurred during the 1980s, which made identification and comparison of directions of investment more difficult as many companies were becoming truly global through shares sold in share markets around the world.

2.2.2 The impact of globalization

Globalization is an umbrella term which refers to an accelerating rate and/or a high level of economic interaction between people of different countries, leading to a qualitative shift in the relationship between nation-states and national economies (Baker, Epstein and Pollin 1999:2). In other words, globalization is the extent of economic interaction between

people in different countries which is growing, at an ever-accelerating rate, with regard to trade, foreign exchange transactions, foreign investment and human migration. Furthermore, it is widely held that apart from the increased international economic interaction, the increased quantitative in interaction is producing qualitative change in the way nation-states operate within any given country's economy. According to Baker *et al.* (1999), globalization lead to the erosion of the power of nation-states to influence economic activity in their countries as economies become more integrated, while the power of private businesses and market forces increased.

Globalization refers to the widening and deepening of international trade, finance, information and culture in a single, integrated market with the aim of producing the best outcome for growth and human welfare (El Toukhy 1998:465). Furthermore, this objective can be achieved as natural and artificial barriers are reduced or removed. In other words, new technological advances have sharply reduced transport, telecommunication and computation costs and have overcome the natural barriers of space and time separating national markets. For example, El Toukhy (1998) contends that between 1920 and 1990, maritime transport costs fell by more than two-thirds and, between 1960 and 1990 operating costs per mile for air travel fell by sixty per cent. Communication is presently much easier and cheaper. Between 1940 and 1970, the cost of an international telephone call fell by more than eighty per cent and between 1970 and 1990 by ninety per cent. In the 1980s, telecommunication traffic expanded by twenty per cent a year. The Internet is now used by more than fifty million people with the number of subscribers doubling every year.

According to El Toukhy (1998), artificial barriers have been eased with the reduction in trade barriers and exchange controls. For instance, in 1947, the average tariff on manufactured imports was forty seven per cent. By 1980 it was only six per cent and, with full implementation of the Uruguay Round of GATT, it should fall to three per cent. Other artificial barriers were removed with the resolution of political conflict, such as the cold war and the apartheid system in South Africa which divided the world for decades. Although, high technology production had been limited to rich countries with high wages, it is

presently not necessarily true.

El Toukhy (1998) argued that technology is now more easily transferred to developing countries, where sophisticated production can be combined with relatively low wages. Furthermore, the international spread of culture has been important although globalization normally refers to the international flows of trade and capital. According to the Human Development Report (1997), an international global culture is emerging. For instance, international ideas and values are increasingly being mixed with local national identities in areas such as music, cinema and books.

2.2.3 General Agreement on Tariffs and Trade (GATT)

Having analysed the development and problems in international business, it is however, apparent that benefits and net gains from free international trade can be achieved in the absence of constraints and if the motives behind it are purely for mutual benefit. Disputes in international trade arise when its impact on domestic firms are considered. In other words, foreign imports seem to take business away from domestic companies (Jeannet and Hennessey, 1995:57).

According to Jeannet and Hennessey (1995), like all competitive or technological changes free trade has its problems. This means, free trade lowers the price of imported goods and raises the demand for efficiently produced domestic goods by increasing competition. In other words, in these stimulated export industries, sales, profits and shares will increase. Although, consumers of imported goods and producers of exported goods benefit from these new conditions, certain other groups are negatively affected by this action. Domestic producers of import-competing goods are one of the most visible groups experiencing noticeable decreases in market share, profits and share prices. It is therefore clear that there are both victims and beneficiaries in the free trade system. Many countries therefore consider the loss of job opportunities for its own people as the major reason for protectionist legislation (which can be in a form of tariffs, quotas or qualitative trade transactions) and try to strike a balance between the benefits and inevitable losses

experienced by companies participating in free international trade.

At an international conference in Havana, 1948, to consider international trade, participating countries adopted a complex charter for the International Trade Organisation (ITO), which was to deal with international commercial policy. The ITO could not however get off the ground because the charter was never legally signed by national governments. An interim arrangement, the General Agreement on Tariffs and Trade (GATT), has, by default, become the international body dealing with international trade matters (Ethier 1995:261).

Although the GATT is technically an agreement rather than an organisation (as its name implies), and participating nations are therefore contracting parties rather than member states, it has acquired a physical form, with a small permanent secretariat in Geneva and a Council of Representatives (Ethier 1995:261). According to Ethier (1995), there are three aspects to GATT. The first aspect is the agreement itself, establishing standards for commercial policies of contracting parties. Two standards are fundamental, namely, quotas are prohibited and each nation must adhere to the Most-Favoured Nation (MFN) clause with all contracting parties. There are however exceptions to each of these rules. For example, quotas are allowed for dealing with temporary balance-of-payments problems and customs unions (which depart from the MFN clause). On the other hand, the MFN clause is an agreement between two nations to apply tariffs to each other at rates as low as those applied to any other nation. If a country reduces tariffs on goods from some other country, it therefore also applies these new lower rates to goods from all other countries that have MFN status with it (Ethier 1995:255).

The second aspect of GATT is its role in the settlement of trade disputes between nations. GATT has no enforcement machinery, it does provide an impartial resource that has been of considerable use in the past, notably during the 1960s. GATT procedures furthermore help ensure that the interests of third countries are taken into account by the parties directly involved in any disputes. The third aspect of GATT is its sponsorship of tariff reductions. These reductions have been accomplished in a series of multilateral

negotiations or rounds.

According to Ethier (1995), the first two GATT rounds, held during 1949 to 1951 because the ITO was dying its slow death, substantially lowered tariffs. This success probably indicated that special interests were not very sensitive to tariff cuts at that time. For example, the United States held a very strong position, whereas the weakened European industries were sheltered by quotas and other direct controls. Trade was further liberalized however, when these quotas were eliminated in the late 1950s. The liberalization achieved by GATT is mainly relevant to trade in manufactured goods between industrialised countries. More than one hundred nations that either belong to GATT or accept its provisions include many Less Developed Countries (LDCs) in addition to the principal industrialised nations. Most of the formerly communist states either belong or intend to join. LDCs generally follow protectionist policies.

The next three rounds achieved only modest success, as protectionist pressures began to mount. According to Jeannot and Hennessey (1995), Australia's Center for International Economies (CIE) prepared a detailed model of the international trading system in order to measure the impact of reduced protectionism on world trade. The strategy best suited to many countries was a general agreement on issues such as tariffs. The GATT negotiations have however reduced the industrialised countries' tariffs on manufacture to relative insignificance by historical standards. Other issues now seem more pressing. These were addressed in the most recent GATT round, the Uruguay Round (so named because the preliminary meeting was held in Punta del Este, Uruguay in 1986).

GATT, which was launched in September 1986, was further discussed, completed and signed on 15 December 1993 in Geneva by most countries (Bradley, 1991). According to Bradley (1991), the aim was to remove as many invisible trade barriers as possible while, at the same time extending the GATT's competence and powers. Moreover, the removal of trade discrimination is the main feature of GATT. In other words, every country which is a signatory to GATT opens its markets to every other country. Its implications are that, once an agreement between two countries is reached, the benefit of such an agreement

is automatically extended to every other country.

GATT operates in three ways. One is a framework of multilaterally agreed rules governing the trade behaviour of countries. It is furthermore a forum for trade negotiations and it acts as an international court for the resolution of trade disputes among countries (El Toukhy 1998:466). According to El Toukhy (1998), the following are three basic principles on which GATT is based:

- **Non-discrimination** - this refers to equal treatment of nations and elimination of discriminatory trade barriers, but incorporating the most-favoured nation clause. There are two exceptions, to this principle however, that weaken its effectiveness. They are the exception to allow regional integration and the exception of the generalised system of preferences, authorised in 1971 in response to demands from developing countries for preferential treatment of their exports;
- **Reciprocity** - this requires a country accepting a tariff concession to offer comparable concessions in return. Developing countries are exempted from their reciprocity obligations;
- **Transparency** - this refers to opposition to quantitative restrictions on trade such as quotas for greater transparency. GATT, however, allows for exceptions to quantitative restrictions that are temporarily allowed to countries experiencing balance of payments difficulties. Moreover, discriminatory action such as balancing and compensating for duties against dumped imports is permitted under certain circumstances.

Since its establishment, GATT has provided for a substantial improvement in the possibility of market access to those countries that are committed to multilateral trade. The agreement furthermore includes new areas covering agriculture, services, intellectual property rights, trade related investment measures, dispute settlement, subsidies, anti-

dumping, safeguards and balancing and compensation for measures. The agreement furthermore provided for the establishment of the World Trade Organisation (WTO) in January 1995 (El Toukhy 1998:467-468).

Although, a free trade area/ association removes all tariffs, quotas and other government-inspired barriers to trade between member countries, each member country maintains its own level and form of protection against third countries. Such an association requires a host of supplementary regulations to prevent trade deflection, that is, where goods from outside the group being imported into the lowest-tariff country are then exported to high-tariff members. When such imports are secondary inputs in a commodity produced in the low-tariff member and then exported to a high-tariff member, these regulations must specify how much value may be added to qualify for duty-free importation. An alternative is to levy a tariff on such secondary inputs only, but this is administratively very difficult to achieve. The differences in member countries' tariffs on imports from third countries can create economic inefficiency, because they encourage processing within the low-tariff country, which is not necessarily the most efficient member (Kumar 1995:3).

2.2.4 The impact of free trade in South Africa

According to Jeannet and Hennessey (1995), the changing situation in South Africa is largely a function of the political evolution in the country. In other words, international sanctions, as well as those imposed by the United States government and some 150 cities, states and countries, resulted in 214 United States firms exiting between 1984 and 1991. Since July 1991, some of those firms returned when the ban on investing in South Africa was lifted. The majority of companies now entering South Africa are those that purposely did not deal directly with South Africa whilst under apartheid rule.

Nonetheless, South Africa is one of the committed countries in the GATT. Therefore, full participation in free trading is one of the country's important tasks. Through free trading South Africa has experienced economic success. For instance, total merchandise exports in 1998 amounted to R156.2 billion, indicating an increase of 8,9% on 1997, while

merchandise imports amounted to R146.8 billion, indicating an increase of 13,3% (these figures, and those in the table below, refer to the Southern African Customs Union (SACU) which includes Botswana, Lesotho, South Africa and Swaziland). Furthermore, the value of South African imports and exports has risen by 922% and 689% between 1980 and 1998 (South African Institute of Race Relations 1999:430).

Table 2.1 shows the value of total exports and imports (excluding 'invisible' exports and imports) and the annual change from 1980 to 1998.

TABLE 2.1
SOUTH AFRICAN TRADE : 1980 - 1998

Year	Exports		Imports	
	Rbn	Increase (decrease)	Rbn	Increase (decrease)
1980	19.80	35.3%	14.36	46.4%
1981	18.03	(8.9%)	18.44	28.4%
1982	19.19	6.4%	18.37	(0.4%)
1983	20.62	7.5%	16.20	(11.8%)
1984	25.32	22.8%	21.64	33.5%
1985	36.24	43.1%	22.69	4.9%
1986	42.16	16.3%	26.85	18.3%
1987	43.23	2.5%	28.67	6.8%
1988	49.43	14.3%	39.43	37.5%
1989	58.78	18.9%	44.45	12.7%
1990	60.93	3.7%	44.13	(0.7%)
1991	64.36	5.7%	48.21	9.3%
1992	68.04	5.7%	52.49	8.9%
1993	78.50	15.4%	59.72	13.8%
1994	88.81	13.1%	76.26	27.7%
1995	101.50	14.3%	98.51	29.2%
1996	125.73	23.9%	115.52	17.3%
1997	143.44	14.1%	129.62	12.2%
1998	156.18	8.9%	146.81	13.3%

Source: Bureau for Economic Research (1999)

According to South African Institute of Race Relations (1999), 48% of South Africa's imports in 1998 were from Europe, 29% from Asia, 18% from the America, just under 3% from Oceania and 2.5% from Africa. On the other hand, some 31% of South Africa's export went to Europe, 17 % to Asia, 14% to Africa, 10% to America and 1% to Oceania.

Table 2.2 shows South Africa's top ten trading partners in 1998 and compares their ranking with the rankings of 1997.

TABLE 2.2
SOUTH AFRICA'S TOP TEN TRADING PARTNERS: 1998

Country	Position		Imports from South Africa (Rbn)	SA exports (Rbn)	Total trade (Rbn)
	1998	1997			
United States	1	2	19.6	14.9	34.5
Germany	2	3	20.8	9.1	29.9
United Kingdom	3	1	14.4	10.9	25.3
Japan	4	4	11.2	9.9	21.1
China/Hong Kong	5	5	8.0	3.9	11.9
Netherlands	6	7	3.8	6.2	9.9
Italy	7	6	5.8	4.0	9.8
France	8	12	6.3	2.9	9.2
Belgium	9	14	2.5	4.4	6.9
Taiwan	10	9	3.7	3.0	6.7

Source: South African Institute of Race Relations (1999/ 2000)

During 1998, South Africa's exports to other member countries of the Southern African Development Community (SADC) (excluding Botswana, Lesotho, Namibia and Swaziland) rose by 1.9%, while imports fell by 10.3%. South Africa's trade surplus with the rest of the SADC region widened in 1998 to R13.3 billion, compared to R12.8 billion in 1997. South Africa's depressed trade with the region was partly as a result of steep falls in commodity prices in 1998, higher interest rates because of financial market instability and currency depreciations, socio-political unrest in Zimbabwe and military conflict in Angola and the Democratic Republic of Congo. SADC countries that were not members of South African Customs Union (SACU) accounted for 10% of South Africa's exports, but supplied only 1.4% of its imports (South African Institute of Race Relations 1999:432).

A final agreement has been reached with the Southern African Development Community (SADC) members regarding the abandonment of most tariffs levied by South Africa on imports from SADC (van der Kooy 2000:23). This has been agreed upon with the aim of promoting economic development in Southern Africa. Moreover, this is expected to take place within five years and, in turn, SADC will phase out its import tariffs on South African

goods over twelve years. According to van der Kooy (2000), various heads of state are expected to approve and authorise this agreement at an SADC summit meeting to be held in Namibia in early August 2000.

Whilst the agreement on the abolition of trade tariffs on imports and exports among SADC members is aimed at promoting economic development in Southern Africa, these countries are still faced with the task of dealing with competitiveness. Despite the fact that South Africa's trade with SACU countries is in practice and already tariff free, South Africa still levies tariffs on 69% of goods imported from countries such as, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe. These levies will be only abolished in September 2000. While South Africa's textile and clothing industries are worried about unfair competition, smaller member countries will have to overcome their income and debt problems. Against the background of increasing international competition, the focus should be on establishing, among other things, appropriate competitiveness strategies for the country.

2.3 A BRIEF OVERVIEW OF THE COMPETITIVE ADVANTAGE OF NATIONS

Competition in many industries has internationalized, not only in manufacturing industries but increasingly in services industries (Porter, 1990:14). In other words, firms increasingly compete with truly global strategies involving selling worldwide, sourcing components and materials worldwide and locating activities in many nations in order to take advantage of low cost input factors. On the other hand, they establish common interests with firms from other nations in order to benefit from their strengths.

According to Porter (1990), globalization of industries matches the firm from the factor endowment (the factor that brings capital) of a single nation. For instance, raw materials, components, machinery and many services are available globally on comparable terms. Transportation improvements have also lowered the cost of exchanging factors or factor dependent goods among nations. Furthermore, having a local steel industry; for example, is no longer an advantage when buying steel. It may well be a disadvantage if there are national policies or pressures that promote purchasing from high-cost domestic suppliers.

Porter (1990) contends, however, that innovation is the main key in driving and sustaining international competitiveness through the increased focus on the industry and product that has been emphasised in the past three decades. According to Czinkota, Rankainen and Moffett (1996), a firm must avail itself of all dimensions of competition. Porter classified competition into four major components of national advantage:

- **Factor Conditions** : the appropriateness of the nation's production factors to successfully compete in a specific industry. Although these factor conditions are very important in the determination of trade, they are not the only source of competitiveness. It is the nation's ability of a nation to continually create, upgrade and deploy its factors of production that will determine its global competitiveness;
- **Demand Conditions** : the degree of health and competition the firm must face in its original home market. In other words, firms that can survive and flourish in highly competitive and demanding local markets are much more likely to gain a competitive advantage in international markets. Furthermore, it is the character of the market, not its size, that is more important in promoting the continual competitiveness of the firm and demanding customers can be interpreted as a characteristic of this aspect ;
- **Related and Supporting Industries** : the competitiveness of all related industries and suppliers to the firm further influence international competitiveness. This means that a firm that is operating within a mass of related firms and industries gains and maintains advantages through close working relationship, proximity to suppliers and the time-lines of product and information flows. Furthermore, the constant and close interaction is successful if it occurs not only in terms of physical proximity but through the willingness of firms to work at it; and

• **Firm Strategy, Structure and Rivalry** : the conditions in the home-nation that either hinder or aid the firm's establishing and sustaining of international competitiveness. It is further noted that no single managerial, ownership or operational strategy is universally appropriate. It depends therefore, on the fit and flexibility of what works for a particular industry in that country at that time.

The question may now be posed: Does South Africa have a competitive advantage in the context of international trade?

2.3.1 South Africa's comparative advantages

South Africa has adequate comparative advantages. According to Sunter (1987), it has excellent infrastructure such as roads, bridges, electricity grids and many other advantages from which to launch itself for further growth. Unfortunately, not all areas in the country enjoy the same quality of infrastructure, but this can improve with time. Although South Africa is still number one in the world in important mineral resource categories, including gold, it is those nations which have no natural resources and, therefore, have to live off their ability to produce and educate their population which emerge as winners in global competition. Although South Africa has cheap electrical power by world standards, it also has an energy-intensive economy.

The trade route around the Cape remains important. Vital minerals such as coal and iron ore are transported in bulk carriers, and more of Europe's oil goes around the Cape than through the Suez Canal. South Africa is a beautiful country with a wonderful climate and tremendous tourist potential.

South Africa probably has one of the most sophisticated financial services industries in the world. Foreign visitors are surprised at the ability of this comparatively small country to handle large projects such as Sasol, Iscor, Escom collieries and new gold mines, suggesting superb project management skills. According to Sunter (1987), South Africa exports millions of rands worth of goods to countries to the north of Africa. Under a

favourable political scenario, South Africa's proximity to Central and Southern African markets is clearly an asset. South Africa with its excellent medical skills, could establish an industry catering exclusively for the increasing number of sick children and elderly people needing medical attention who may be searching for a more comfortable place to retire. The list below is a summary of South Africa's comparative advantages as suggested by Sunter (1987: 87):

- * Good infrastructure
- * Abundant mineral resources
- * Cheap power
- * Important trade route
- * Beautiful country/moderate climate
- * Gold benefit for bilateral trade swops
- * Sophisticated financial services
- * Ability to handle large projects
- * Proximity to African markets
- * Medical skills

Despite these potential comparative advantages, South Africa's competitive position in the global economy has remained weak.

2.3.2 South Africa's competitive position

According to the World Competitiveness Yearbook of the Institute for Management Development (IMD) in Switzerland, South Africa's world competitiveness ranking in 1999 remained the same as in 1998, being placed 42nd out of 47 countries. According to South African Institute of Race Relations (1999), the world competitiveness yearbook is compiled annually by the IMD using some 288 criteria which are subsequently grouped into eight 'input factors' for the 47 countries reviewed. The criteria cover both 'hard data' such as statistical information from regional and international institutions and 'soft data' in the form of an opinion survey of executives in the countries. This data is then used to calculate

rankings for the various countries. Table 2.3 shows comparison between South Africa and a selected range of countries from 1993 to 1999.

TABLE 2.3
WORLD COMPETITIVENESS RANKINGS OF SELECTED RANGE OF COUNTRIES
FROM 1993 - 1999

Country	1993	1994	1995	1996	1997	1998	1999
United States	1	1	1	1	1	1	1
Singapore	3	2	2	2	2	2	2
Netherlands	8	8	8	7	6	4	5
Canada	17	20	13	12	10	10	10
Australia	20	16	16	21	18	15	12
United Kingdom	16	14	15	19	11	12	15
Japan	2	3	4	4	9	18	16
New Zealand	18	10	9	11	13	13	20
Chile	19	24	20	13	24	26	25
Malaysia	14	18	23	23	17	20	27
China	-	34	31	26	27	24	29
Italy	27	28	29	28	34	30	30
Philippines	35	37	36	31	31	32	32
Thailand	26	26	27	30	29	39	34
Brazil	44	43	38	37	33	37	35
South Africa	43	42	43	44	44	42	42

Source: South African Institute of Race Relations (1999/ 2000)

In 1999, South Africa ranked behind countries such as the Philippines and the People's Republic of China in terms of competitiveness. Since 1994 South Africa has only gained in three areas, namely, the domestic economy (seven places higher in 1999 than in 1994), government (six places higher) and infrastructure (three places higher). In science and technology, South Africa fell 16 places in the same period. Its management ranking remained the same (South African Institute of Race Relations 1999:437). -

Table 2.4 shows how South Africa is ranked on each of the eight input factors used to determine overall competitiveness for the period 1994 to 1999.

TABLE 2.4
SOUTH AFRICA'S RANKING ON EIGHT INPUT FACTORS: 1994-1999

<i>Input factor</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Domestic economy	42	42	44	42	40	35
Finance	26	27	31	36	31	32
Government	38	35	37	34	31	32
Infrastructure	37	30	32	33	35	34
Internationalisation ^a	35	38	39	46	45	42
Management	35	38	40	37	38	35
People	46	46	46	46	46	47
Science and technology	28	31	34	40	39	44

Source: South African Institute of Race Relations (1999/ 2000)

According to South African Institute of Race Relations (1999), in a further competitiveness survey published in July 1999 by the World Economic Forum and the Harvard Institute for International Development, South Africa was placed 47th out of 59 countries. Global executives regard South Africa as one of the five least secure countries surveyed. The country was placed last in terms of labour practices such as firing and hiring workers, labour relations, work ethic and labour legislation. South Africa had a competitive advantage in the quality of its port infrastructure, share market access and financial market sophistication. Other disadvantages include inadequate schooling, personal safety and quality of scientists and engineers.

According to Productivity Statistics 1998, South Africa's relatively high inflation rate remained a stumbling block to its competitiveness. While South Africa's inflation rate was 8.6% from 1996-1997, that of Sweden was only 0.5%, followed by France at 1.2%, Japan at 1.7%, Germany at 1.8%, the United States at 2.3% and the United Kingdom at 3.1%. Despite South Africa's potential comparative advantages, as identified by Sunter (1987), two disadvantages could hamper attempts to improve its global competitive position. These are its economic growth prospects and inflation and its labour market constraints (labour relations, work ethic and labour legislation). These two factors demand further exploration.

2.4 CHALLENGES IN THE SOUTH AFRICAN BUSINESS ENVIRONMENT

2.4.1 The economic challenges

During the period 1975 to 1994, a political and ideological struggle intensified, which resulted in a power shift away from whites into black hands. This struggle left an indelible mark on the economy, with real GDP growing at an average rate of around 1.7% over this period – significantly lower than the annual percentage increase in the population. The following are some of the main reasons for this decline:

- Inappropriate policy measures, based on political considerations and an inappropriate view of South Africa as a developed industrial country with mature and legitimate political institutions and a stable economic structure.
- Over-reliance, for too long, on primary commodities. South Africa continued to rely on its mineral wealth, despite the switch that occurred sometime during the 1970's – the focus of world trade moved from primary goods to secondary and tertiary goods and services.
- High defence expenditure, a stagnating economy and an eroding tax base which placed an additional burden on scarce resources.
- South Africa's international isolation in the form of trade sanctions and disinvestment resulted in huge damage to the South African economy, particularly since this was a period during which the structure of the new global economy was being put in place.

By the time political power changed hands in 1994, it was clear that, in addition to political and social changes, significant economic restructuring was required in order to facilitate economic growth.

The current structure of the South African economy makes it very unlikely that growth rates of more than 3% to 5% per annum could be achieved, even under very favourable conditions. The following are some of the more significant growth constraints:

- *Insufficient capital investment* - This results from a combination of low gross savings, low Foreign Direct Investment (FDI) and high Foreign Debt Repayments (FDR). FDI offers the greatest potential for a quick increase in capital investment. South Africa is, however, competing for capital on the global stage and, therefore, must create positive economic, social and political perceptions in order to capture more than its fair share of global FDI.
- *Balance of Payments Considerations* - South African economic growth is often restrained by the extent and composition of its international trade in goods. The economy has become exceptionally capital intensive over the last three and a half decades. The demand for imported goods (production equipment, cars, luxury goods etc.) consequently rises during times of accelerated economic growth. If the rise in imports is not accompanied by a corresponding increase in capital inflows and/or exports, the balance of payments will come under pressure. The South African Reserve Bank will then have little choice but to maintain or raise already high real interest rates, thereby dampening economic activity.
- *The structure and ideological disposition of the trade union movement* - Because COSATU and other black trade unions were granted the right to strike during a period when blacks had no political rights, they became a powerful factor during the freedom struggle. They succeeded in effecting sharp rises in the wages of blacks – in many instances, more rapid than the increase in productivity. These relatively high wages arguably contributed to the high level of black unemployment and the polarisation of the socio-economic positions of the haves and have-nots. The influence of COSATU on government, furthermore resulted in relatively inflexible labour legislation being tabled (currently under review).

- *A large public sector and the burden of government debt* - The ratio of government expenditure on current items relative to capital formation increased dramatically from the 1950's through to the present time. The major contributors to current spending are public sector salaries and interest on public debt. In addition, government borrowing has, to an increasing extent, been used to finance current government spending. Funds to finance this spending must come from increased taxes or by re-allocating funds from other areas (e.g. capital formation), thereby restricting economic growth.
- *The absence of the required levels of social stability* - Political and criminal violence, corruption and social instability act as major impediments to the country's development. In addition to restricting factors such as effective education, resource allocation and productivity, they affect South Africa's ability to attract Foreign Direct Investment (FDI). All of these factors result in decreased economic growth.
- *Low skills levels* - The skills profile of the South African economy is not in line with that required for success in the global economy. It is related to the educational system, as well as to other socio-political factors such as the "brain-drain".

In the recent interview of executives of the top 100 industrial companies listed on the JSE they were found to be positive about South Africa's economic and political outlook for the year ahead, but have criticised government for not doing enough to attract foreign investment (2000:3). According to the annual economic and socio-political-environment survey conducted by the Bureau of Market Research at the University of South Africa, the executives interviewed believe that South Africa has passed a turning point in the economic cycle and is now in a fully-fledged recovery stage.

The findings of 2000 are in contrast to those of 1999 when business leaders were sceptical because of high interest rates, low gross domestic product figures, the Asian markets crisis and the impending general election. According to Msomi (2000), reduced inflation current

currency stability, a stable monetary and fiscal policy and broadly improved prospects for economic growth have raised hopes for a more sustained improvement in South Africa's economic fortunes. Most executives interviewed predict a 3.3% economic growth in 2000 and believe that South Africa's net gold and other foreign reserves will improve. About 75% of the executives are positive about the global economy and rule out any external negative impact on South Africa. The same percentage of executives, however, are of the opinion that the government's privatisation programme falls short of the expectations of local and foreign investors and as many as 70% feel that South Africa's global competitive situation calls for a vigorous implementation of GEAR, government's macroeconomic framework (Msomi 2000:3).

The executives further believe that the current level and instability of interest rates are major impediments to new investment projects and effective business planning. According to Msomi (2000), 73% of the executives are critical of several pieces of legislation. For example, they believe that labour laws will hamper job creation while 58% of the executives complain that the new Competition Act will create confusion in the business sector. Furthermore, more than 75% of executives believe that government is not competent to carry out its fundamental duty of maintaining law and order. The business community believes that government takes too long to act against corrupt individuals and sometimes no action is taken at all. The business community would like to see effective and consistent government administration. Also, government needs to be consistent in order to boost investor confidence.

According to the executives, challenges facing business this year are economic growth, global competitiveness, greater confidence, labour laws and the fight against crime and corruption. Since these issues define the prevailing South African business environment, it is imperative that corporate executives respond with their own revised and innovative programmes. These variables are affecting the monetary, fiscal, labour and trade policies which in turn affect business planning.

2.4.2 The labour challenge

It is critical for South Africa to develop a competitive economy if it is to improve economic growth and to raise the standard of living of the population. Therefore, one of the fundamental pillars of competitiveness and economic growth is productivity. The word 'productivity' is often in business and management circles and in government because of its association with the advanced corporate and national objectives of increased profits, enhanced economic growth, improved standards of living and increased employment (Skhosana 1998:1)

Dr Visser, the previous executive director of the National Productivity Institute (NPI), once argued that South Africa's labour productivity was 'satisfactory', but that too few people were working. South Africa's productivity should be considered from a multifactor productivity perspective. For instance, multifactor productivity of the main economic sectors includes agriculture, commerce, communications, construction, electricity, finance, manufacturing, mining and transport, community services (private economy) and the government sector are excluded. A measure of improvement in the quality of all factor inputs and how they are used, includes technical progress, improvement in the workforce, management practices and economies of scale (South African Institute of Race Relations 1999:283).

According to the South African Institute of Race Relations (1999), growth in productivity in the manufacturing sector during 1997 was particularly affected when compared with the overall non-agricultural sectors. The following were the reasons:

- rationalisation of work practices, which resulted in lower employment growth relative to output growth;
- calm industrial relations, with relatively few workdays lost through industrial action;

- emphasis on core activities and specialisation by manufacturers;
- increased human resources development, such as on-the-job training; and
- 'technically improved equipment' which replaced labour-intensive methods of production.

According to the South African Institute of Race Relations (1999/2000), since 1994, total employment in the non-agricultural and non-domestic sectors of the economy fell consistently, while labour productivity rose noticeably (in 1995 and 1998 by 5.3% respectively) with increased real remuneration per employee, ranging from 1.7% in 1994 to 7.8% in 1998.

2.4.2.1 Productivity constraints

According to South African Institute of Race Relations (1999), growth in nominal remuneration per employee in 1998 exceeded the growth in output prices. In other words, the real product wage (ratio of remuneration per employee to output prices) rose by 7.4% in 1998 and this was the third consecutive year of acceleration. There was solid growth in labour productivity during 1998 with a 5% growth in output per employee in the formal economy. Heightened strike activity in the second half of 1998, however slowed down productivity growth. According to figures compiled by the National Productivity Institute, although South Africa was the only country in a selection of nine to have a negative productivity record in 1996, it recorded the highest increase in labour unit costs. South Africa's wage and salary cost per unit produced in manufacturing increased by 231% (according to the National Productivity Institute) from 1970 to 1997. In other words, the wages of South African manufacturing employees were high compared to productivity levels.

Table 2.5 shows productivity and labour costs of nine countries during 1996. It reveals that South Africa had the second lowest productivity growth of the nine countries surveyed and

by far the fastest growth in unit labour costs. In other words, although productivity has improved to some extent it has been:

- slower than in other countries
- attained at a price -higher remuneration which has harmed profitability

This implies that productivity gains have not been converted to an improved globally competitive situation.

TABLE 2.5
PRODUCTIVITY AND LABOUR COSTS IN NINE COUNTRIES:1996

<i>Country</i>	<i>Productivity growth</i>	<i>Growth in unit labour costs</i>
Australia	5.29%	1.50%
Germany	5.78%	(4.00%)
Ireland	3.17%	(1.50%)
Japan	2.70%	(2.20%)
Singapore	3.19%	(3.04%)
South Africa	(0.87%)	7.50%
South Korea	6.63%	1.30%
Taiwan	5.97%	(0.67%)
United States	0.31%	(0.30%)

Source: South African Institute of Race Relations (1999)

A change in mind-set is necessary if productivity is to be improved. This mind-set should be based on embracing a productive culture. According to Skhosana (1998) the following core values can assist in influencing productivity:

- **Firstly**, all employees (management as well as labour) should focus on the marketplace. In other words, employees must be fully committed in ensuring that output is truly acceptable to the recipient of the output. A market orientation in employees leads to a market orientation of the organisation as a whole. Market orientation implies focussed attention to factors such as excellent delivery performance, world-class quality products, high flexibility and reliability. Because measurement drives behaviour, measuring the degree to which every employee's output meets the expectations of the recipients of the output (the market) may

affect market orientation. Only when the reasons for not meeting the recipient's expectations are known, will it be clear whether people, machinery, materials or systems caused such failure. Individuals should then be given the required knowledge and skills to eliminate the cause of the problem and should be empowered to do so.

- **Secondly**, every employee should, at all times, want to maximise the use of his own time and of the resources under his control. Waste of material, space and time must be avoided.
- **Thirdly**, management and employees should have a systematic view of the organisation as a whole. Systematic thinking requires identification of key constraints preventing productivity improvement in an organisation.
- **Lastly**, trust and being prepared to share relevant information are prerequisites to productive behaviour. Participative management, where people feel free to communicate without fear, would support trust and promote transparency.

2.4.3 The role of labour unions in South Africa

According to the South African Institute of Race Relations (1999/2000), some 3.8 million employees belonged to registered trade unions in 1998, indicating an increase of 11% on the 1997 figure. The Department of Labour however cautioned that these figures were based on self-reporting by unions and that there were indications that some unions were overstating their membership. The number of registered trade unions, nevertheless increased by 46 in 1998, bringing the total to 463. According to South African Institute of Race Relations (1999), the Department of Labour attributed the increase in the number of registered trade unions to the following:

- the Labour Relations Act of 1995 which provided for the registration of unions in

sectors not covered by the Labour Relations Act of 1956 (such as the public sector);

- the procedures for registering a trade union with the department had been simplified; and
- splits among trade unions resulting in the registration of 'break-up' unions.

Although the number of registered trade unions more than doubled between 1992 and 1998, actual membership increased by only 31%. The figures of the economically active population have been revised and may therefore not be the same as those of the 1997/98 survey. Furthermore, from 1997, total trade union membership figures do not include unregistered trade union membership. In terms of the Labour Relations Act of 1995 the Department of Labour is no longer required to keep records of unregistered trade unions. Because, trade unions play a very important role in the workplace, more emphasis is placed on the role of trade unions in the business environment, particularly in productivity.

Many issues arise when considering employer/employee relations. No discussion of the workplace should, however, overlook one of the basic institutions structuring employer-employee relations, determining the terms and conditions of employment, and shaping the environment in which people work, namely trade unions (Shaw and Barry 1992: 276). Shaw and Barry (1992) suggest that, from the onset, unions have been driven by attempts to protect employees from the abuse of power by employers. This is based on the indisputable premise that employers have tremendous power over individual employees. In other words, they can employ, dismiss, relocate and terminate services, set work hours and wages, create rules and work conditions and increasingly participate in decisions affecting the workplace. The role of labour unions is therefore very important in the business environment of a country.

2.5 THE NEED FOR EMPLOYEES AND MANAGEMENT TO PARTICIPATE IN BUSINESS ENVIRONMENT

There are a number of factors contributing to the recent popularity of participative management in business circles. A need for productivity improvement and employee motivation are just two of the important factors. The economic crisis, which began in the early 1980s, has highlighted management's search for ways to improve productivity and profitability. It is important, however, to look at the effects of the crisis on the management strategies of South African companies. Higher labour productivity has been put forward as a key determinant in promoting economic growth. According to Maller (1989), lagging productivity threatens to price South African exports out of world markets and furthermore to make the home market more vulnerable to overseas competitors. In turn, this will have disastrous consequences for employment, balance of payments and particularly, on labour productivity. Maller (1989) contends that South Africa had made slow progress with regard to improving labour productivity compared to the more advanced economies.

Maller (1989) argues that the attitude in the workplace is one of taking as much as possible and giving as little as possible in exchange. In other words, participants in the workplace are more concerned about gains to be obtained from the company than in putting effort into their allocated tasks. This has an extremely detrimental effect on productivity improvement programmes. According to Maller (1989), labour is one of the major causes of low productivity. On the other hand, unit labour cost is the one set of input costs that is relatively easy to rationalise and reduce. During economic downturn, management often pursues a cost-cutting strategy by introducing wholesale retrenchment of unskilled employees and by retaining wage levels below the rate of inflation.

The crucial factor in boosting labour productivity is not so much the absolute amount paid out in wages, but rather the efficiency of wages. According to Maller (1989), in conventional terms, productivity is expressed as the ratio of total outputs to total inputs. Maller (1989) argues that labour productivity would therefore be calculated based on total

value of outputs, divided by the costs of labour. In other words, if management could create a more efficient working environment which produces more goods at little extra cost, wage levels could then theoretically rise, followed by increased productivity. Management increasingly attempts to link wages increased to increased productivity. In other words, salaries and wages must be held in line with productivity performance, which South Africa have not succeeded in doing. The traditional motivation technique is that of performance-linked incentive bonuses, which appears to be relatively widespread. According to Maller (1989), a survey of companies associated with the Work Study Association showed that more than fifty percent of surveyed companies employ incentive bonus schemes which are specifically directed at production employees.

According to Maller (1989), Dr Jan Visser, the previous managing director of the National Productivity Institute (NPI) and one of the proponents of productivity improvement, maintains that there is a continuous need for management to devise strategies which will provide a firm base for productive attitudes among employees. In addition to keeping wage costs as low as possible and paying by results, management should motivate employees, thereby stimulating productivity, initiative and creativity.

Management strategies, quality circles and employee share ownership schemes being pursued in South Africa in order to enhance employee loyalty to their companies and to encourage higher productivity (Maller 1989:6). In other words, employees are given a share in ownership in exchange for their loyalty to and identification with the company.

According to Maller (1989), it is no longer sufficient to increase labour productivity by motivating employees to work harder and more effectively. Employees are required to use their own initiative in changing labour processes.. Changes in technology, marketing strategies and the organisation of work itself has furthermore generated a demand for greater labour flexibility. Multi-skilled employees, who can use creativity and initiative, have become highly appreciated. Labour needs have therefore gradually changed from employees capable of performing disciplined, repetitive detailed tasks to employees who are innovative and flexible. Employee participation encourages the development of these

particular attributes by giving employees the opportunity to show initiative.

Management should not only depend on the understanding and pure theory of economic variables. Management needs to focus on establishing strategies that can be used to fight the negative impact on aspects such as employee performance, workforce stability and turnover, the quality of output, business turnover and profit levels of the company.

Maller (1989) suggests that if employees are offered an opportunity to be involved in planning and decision-making, they will be reluctant to compromise their company's performance and, consequently, will hold back from taking part in industrial action. Employee share ownership in particular holds the promise that employees will develop a sense of loyalty to their company because their material interests will coincide with those of the company, that is, maintaining high share prices.

Maller (1989) suggests, however, that a partnership between management, employees and shareholders requires genuine practices in the area of employee share ownership and participative management. Employees are, therefore, important stakeholders in commerce and industry. If that position is to be recognised and greater motivation encouraged through greater involvement in the affairs of each company, individual employees will have to participate in share ownership schemes. According to Maller (1989), the popularity of participative management, and ESOPs in particular, is founded on managements' perception of human resource problems in South Africa and represents a managerial vision of their resolutions. On the other hand, the blame for low productivity levels is often attributed to trade unions. Maller (1989) maintains that employees are always ready to believe union organisers who often spread the word that they are being exploited.

2.6 SUMMARY

As in all other countries, South Africa has its own unique economic problems which are partly attributed to globalization. South Africa is furthermore subject to the impact of GATT. In South Africa's endeavours to become an industrialised nation, its government needs to

stress necessity of accelerated industrialisation drive and a free trade growth strategy to establish a prosperous society with an economy that is fully competitive, dynamic, robust and flexible.

All South Africans need to share a common vision.. Constructing a common vision is not an easy task but is certainly worth the try. One aspect could be to persuade people to take risks by encouraging them not to be frightened off by threats of disastrous consequences. The first priority and most critical part of the vision is to draw all South Africans together. South Africans must be encouraged to look beyond the categories of colour and group realising that the individual is a far more complex phenomenon, with many associations other than those of colour and group. In other words, the individual is the basic building-block of mankind. The main reason why South Africans should put each other first is because when officers of a sinking ship argue till the water covers their mouths, all drown. It is therefore in everyone's interest to man the pumps to stop the ship from sinking'. This means that if South Africans operate as individuals, in their own territories, they will never be able to build a strong business environment.

The second aspect of the vision is to attempt to negotiate the future engaging all participants, especially in the upliftment of the country's entire economy. The word 'all' should be seen as important and should be stressed because there are genuine players from all spheres who should be given the opportunity of sitting together and discussing certain issues of main concern, with particular reference to the business environment of the country. Improved productivity is also required and can be attained by an appropriate mind-set change which can be brought about by following the undermentioned guidelines:

- there should be no employment loss as a result of productivity improvement;
- management should not only focus on spending less per unit of input.
- the gains from improved productivity must be shared equitably. For example, capital/management must earn larger profits, labour must earn higher salaries and

have shorter working hours, government must receive taxes and the consumers must receive higher-quality products/services for lower prices.

In other words, ESOPs can be one of the solutions to South Africa's economic problems by allowing all participants to share in the profits earned by improved productivity. The role of the trade unions in the workplace must be considered in the workplace and the need for employees and management to participate in the workplace relative to the business environment of the country were discussed in this chapter. Not much was discussed regarding particular individual efforts.

Finally, employees in the workplace have the same basic aim as that of consumers in the marketplace. In other words, employees and consumers want the maximum amount of power. For employees, this usually means more say in management decisions, a greater stake in the success of the company, more attention to their ideas and higher income. The following chapter concentrates on the important issues of employee participation because employees are the basic foundation of any business. Without them it is difficult to guarantee the success of any business, even if its form is that of sole proprietorship.

CHAPTER 3

THE NATURE OF EMPLOYEE PARTICIPATION

3.1 INTRODUCTION

Since the 1950s, and increasingly during the 1980s and 1990s, many companies have been trying to break into new performance activities that will bring about success. In the past, many companies launched expensive change efforts but many of these efforts failed. Although the approaches adopted by different countries vary significantly, they do share a number of common elements. In addition, the pace and direction of their approaches have been affected by economic circumstances and the relative balance of capital-labour power and influence. In addition, the current emphasis on competitiveness, efficiency and technological development appears to be a continuing one. This in return requires particular emphasis on approaches that directly involve employees. A major challenge to be faced in this regard is how to combine the representative structures and more direct workplace forms of participation (Tacy 1986:7).

Participation behaviour is complex. It is affected by a multiplicity of different variables, not all of which may be directly causal, whilst some may only be contributory in a minor way. However, rather than attempting to include all participation systems in this discussion, the purpose of this chapter is to highlight a few important aspects that can be considered by a company with regard to the nature of employee participation. In this way, an understanding of the concept of participation and participation levels is reached, a few relevant elements are identified and the reasons and outcomes of employee participation are analysed.

3.2 THE PARTICIPATION CONCEPT

From a social psychological standpoint, Chell (1995) has tried to highlight some psychological questions arising from a consideration of the concept of participation. The following are examples:

- What is the nature and process of interaction in groups and what factors shape the nature of interaction between people?
- How does participation in decision-making manifest itself and what are the social influence processes which take place ?
- What constitutes information-sharing and what are its effects ?
- What situational factors may both structure and shape the nature of the interaction, the influence which occurs and the information-sharing?
- How do situational factors structure and shape interaction and influence-processes and information-sharing?
- What ends may particular individuals or groups be attempting to achieve through participation and how may the manipulation of various factors affect the outcomes of participation?

For the purpose of this chapter it will however, not be necessary to attempt to address all of these questions. It is common knowledge that all employees participate in industry by virtue of producing the substance of human material existence. Additionally, participation is a relatively continuous activity which assumes the involvement of different people pursuing particular, common objectives (Poole 1986:1).

Participation is not a unitary concept but consists of interrelated elements (influence,

information-sharing and interaction to name a few central to this concept), which may be clearly demonstrated in the decision-making process of a company in a wide variety of ways (Chell 1985:1).

Participation can be moulded into many different forms, acquiring a wide variety of meanings for different groups of social parties. This is true in general, it can be related to the participation of employees in management decisions at workplace and company levels (Knudsen 1995:5). On the other hand, Vroom and Jago (1988) describe participation as the amount of influence that an individual feels he has in decision-making.

Chell (1985) identifies 'influence' as one of the elements of participation that is different from other elements such as 'interaction'. Chell (1985) believes that within any company there are individuals who may be sources of considerable influence. These individuals tend to become involved in discussions and meetings, particularly where there are vested interests to be guarded or secured. Again, these individuals tend to derive satisfaction from their part in the participation process, whether be it in informal or formal meetings or in discussions.

On the other hand, the interaction of one person or group of persons through an exchange of consciously directed verbal and non-verbal acts becomes participation as soon as there is an implicit or explicit intention to change or mould the other party's attitude with the view to sharing and shaping decisions. However, given that people have different views on participating in an activity or event, it is proper to address the question of what could be the reasons for participation. In other words, what motivates and causes participation.

3.3 A SHIFT TOWARDS PARTICIPATION

There are several reasons why the move towards participation is accelerating. Most firms were initially guided by authoritarian systems. These systems are characterised by managers who think and employees who do. The formulation of a strategy and the implementation of strategy are therefore, separate activities. In contrast, in a participative

environment, people with different roles think at the same time about the same things but not in the same way (McLagan and Nel 1995:24). The problem arises from the fact that many companies pursue change through a variety of interventions, many of which have failed to achieve the desired outcomes.

McLagan and Nel (1995), cite the following examples:

- Strategic planning is supposed to position a company so that it can compete successfully and make the best use of resources for future needs: Even if the plan sets inspiring new directions, there can however be many problems because most companies are not equipped to deliver on strategies that take them into new performance directions. Furthermore, strategies that exceed a company's ability to act can be disabling and, in that process, people become frustrated, and subsequent plans lose power and credibility. Improved strategies can even reduce the company's capacity to act.
- Companies that use values and vision as their main link between management and employees can be failed by fate in that the best efforts to inspire and create common bonds among all groups and employees within a company seem unable to achieve aligned action in the long run. On the other hand, common vision and values, on their own, neither increase trust between managers and employees nor do they ensure that people change their behaviour.
- Many companies emphasise employee involvement whereby managers encourage work teams in production and service settings to solve problems together and recommend ways of improving efficiency or effectiveness. Sometimes it is not intended to manipulate situations to affect outcomes within organised and formally constituted groups. It is rather, because of their different aims and objectives that people in real decision-making events will, through subtle and sometimes not so subtle actions, influence employee involvement processes, thereby attempting to manipulate those events to effect their desired outcomes.

The effects of this may lead to different opinions and views and some of the employees' energy and effectiveness may gradually decrease and, what started as a good idea, may become useless and the target of criticism.

- Total quality management (TQM) focusses on processes as major tools used in applying pressure for significant improvements in performance and this focus requires a company to make a number of changes in the way it functions. TQM programmes have problems in that they are often imposed from the top. They are routinely hampered by difficulties involving procedures and bureaucracy with the company losing sight of its customers and their quality needs.
- Better pay and performance management schemes seem to be the answer for some companies. Pay for individual or group performance, gain sharing, profit sharing and new ways of conducting performance reviews are favoured solutions. Some reason that, if only a company can get the rewards and incentives right, the desired behaviour will follow. These schemes, too, seem to fall short because as long as people are making more money, they favour such schemes. On the other hand, performance review works in circles, new forms replace old ones and each new system is initially accepted with high hopes. After some time, people find ways of beating the system and it fails.
- Another point of focus for some companies is cost cutting. Customers rarely pay higher prices without obtaining greater value and yet costs rise routinely. Management will try to explain the situation to employees in order to reach an understanding that they have a common cause, and therefore need to support one another. Appeals like these are routinely met with distrust and members of staff may be reluctant to propose truly powerful actions as they fear that their jobs may be eliminated. Staff may sometimes not understand the economics of the business well enough to make strong recommendations. Most companies do not have the capacity to respond, even if the call for cost-cutting ideas is worthwhile. Management abandons the task feeling that employees simply do not care.

Employees on the other hand, dismiss this task as just another attempt by management to pressurise employees.

- Restructuring has long been in existence but changes are gradually developing in restructuring techniques. In recent years, restructuring has undergone further change whereby it focusses on things such as value chains, self-organising and self-managing teams and processes. These new structures seek to emphasise customer and service by finding the most efficient and effective sequence of value-adding activities from supplier to customer. New operations or businesses are generally the most frequent users of these new structures because they do not have to overcome firmly fixed habits or traditions and there is less real evidence of sustained success for older companies.

According to Tacy (1986) the 1990s introduced several new solutions to the problem of how to drive essential change. These include diversity and learning organisational interventions. The type of fundamental change which dramatically increases quality, productivity and retains a high number of customers however, remains difficult to capture. There is, nevertheless, more important perspective when the close focus is on unsuccessful, fragmented or partly successful efforts of the past. Many successful companies have found only partial solutions to the competitive challenges still being faced because something greater than individual interventions is taking place. These partial changes can be seen as an experience of early attempts to launch a new system of governance, that is, a new vision of institutional governance. This situation is undergoing a shift which is replacing authoritarianism with participation, which shift requires greater changes in the assumptions of management and other parties regarding how successful companies must work. This emerging new age of participation affects values, structures, roles, processes, competencies and the nature of life and interaction in every company.

On the contrary, there are positive aspects to be derived from the shift toward participation. According to Chell (1985) people are motivated to participate in a firm by a need for fulfilment. This need can be expanded to include a need for achievement which takes into

account both the internal motive and work environmental factors of expectancy of success and incentive value. One of the driving forces of the move toward participation can include the aspect of information which is increasingly available in real time and in formats which make it usable. Until recently, people were needed to synthesise, interpret, and format information when required to do so. Much information can now be obtained directly and people can manage their own activity and participate without the interference or direction from authorities.

Globalization is a further positive move toward participation. This can be achieved through people, organisations and even through countries that in the past were relatively isolated but now find themselves confronted by technology such as the fax machines, cellular phone and the Internet. Companies therefore, often design, manufacture and sell in several different countries. Increased interdependence requires increased participation. In addition, as technology transforms employees, participation receives a further boost in that technology changes the nature of work, freeing up time that can be used for participation. While, it reduces the number of people required to produce a given good or service, it increases the scope of production for which each employee is responsible. In other words, it increases the size of the individual job and the associated responsibility. Technology in the work situation makes the individual's impact more significant and his or her commitment and the involvement more critical (McLagan and Nel 1995:16).

According to McLagan and Nel (1995) if employees cannot be guaranteed lifetime employment, they at least wish to be involved and have their opinions heard as long as they are in a company. This demand to participate has already exerted great pressure on authoritarian structures to open up access to governance and opportunity.

Lastly, the rise in importance of the customer is a further important factor driving the move toward participation. Quality can be one of the minimum requisites for customer satisfaction. The increased mobility of customers means that their ability to shop around and therefore, their range of choice, has increased and companies must be in a position to quickly respond to a customer's request. In practice, the person who receives the

customer's request must be empowered to do whatever it takes to secure and retain the customer. In other words, people must be able to think, choose and participate. These and the other forces of change do not, however, operate in isolation. They meet at some point and simultaneously influence one another.

3.3.1 Authoritarianism versus participation

In an authoritarian system, management is made up of people in senior positions. They manage the workplace. In a participative environment, most employees are self-managing, that is, they direct their own work flow. According to Peters (1988), there are still formal leaders who are accountable for the company's strategic positioning, but they are no longer isolated from the main areas of activity in a company. They are therefore, part of the leadership of the entire operation.

In authoritarian systems, people in top positions are more important than others in the same company. There are many systems and programs which can be used to support their skills and abilities. In contrast, the participative company shows great respect and actively supports the dignity, rights and responsibilities of all. People in traditional systems often guard and carefully collect knowledge and use it for power and position. In participative institutions, such behaviour is considered to be theft of knowledge capital. On the other hand, learning and sharing knowledge are two key values: people teach one another and everyone is assumed to be a learner. The learning flow can be toward management as well as from it. Formal leaders are not seen as superiors but as people employed to manage a company (McLagan and Nel 1995:25-26).

According to McLagan and Nel (1995), performance can be defined in various forms. In the authoritarian system, performance is often short-term and focussed on the financial gain of shareholders. In the participative company, performance focuses on the customer, adding of value, benefit and on the ability to work harder. The focus of participation is on short-term and long-term value and on satisfying multiple stakeholders. All people in the

system are equally responsible for creating it.

At this point it may be proper to clarify the scope of challenge which brings about a shift towards participation. Table 3.1 depicts some transition tensions which result in a shift from an authoritarian system to participation.

TABLE 3.1
SOME TRANSFORMATION TENSIONS

<u>Authorisation</u>	<u>Some Transformation Tension</u>	<u>Participation</u>
<p>Managers think, employees do.</p> <p>People at the top matter most Many systems serve them and their information needs.</p> <p>Knowledge is an important asset for personal power and gain. Teaching occurs from top to bottom.</p> <p>Formal leaders are supervisors</p> <p>Shareholders are primary or exclusion stakeholders</p> <p>Etcetera</p>	<p>Powerful forces for change</p> <ul style="list-style-type: none"> • new information • environment • globalisation • production technology • the new workforce • the customer as "boss" <p>Imbedded and habitual practices and traditions.</p> <p>Resistance to change.</p> <p>Business School reinforcement of authoritarian practices and values.</p> <p>Mistaken assumptions that changing one or two practices equals total governance change.</p> <p>Use of the language of participation to describe authoritarian practices.</p> <p>Time to develop participation skills.</p> <p>Time to learn about what moves in participation.</p> <p>Etcetera</p>	<p>People in various roles think about the same things from different perspectives</p> <p>People everywhere are self managing, with formal leaders using authority-based control as a last resort.</p> <p>Everyone's rights, accountability and dignity are honoured and supported.</p> <p>Learning and sharing knowledge are key values. People teach each other in all directions.</p> <p>Formal leaders are stewards.</p> <p>Customers, shareholders, employees, and future generations are stakeholders.</p> <p>Etcetera</p>

Source: McLagan and Nel (1995:25)

3.4 BENEFITS OF EMPLOYEE PARTICIPATION

Participation appears to be a logical response to today's conditions and challenges. According to McLagan and Nel (1995), companies that constantly and broadly involve their people in what used to be managerial work are more productive and financially successful than companies that do not. The focus must nevertheless be on complete participation by an employee in a company and research conducted since the mid 1980s strongly suggests that participation is worth the price (Hautmant 1992: 18).

According to Hautmant (1992), the complete participation by an employee should include the following:

- participation in the decisions which create wealth;
- participation in the created wealth; and...
- participation in the legal ownership of the company.

3.4.1 Participation in the decision-making process

Management should set out participative structures which develop the enquiring mind of the employee and should not make decisions on that which is of concern to the employee without consulting the employee. Empowered employees who share formal and informal powers with management have concerns which are not different to those of management. Enlightened employees discuss increasing market share, lowering the break-even point of a new store and improving productivity.

There are several stages of participation in decision-making:

- * participation in the conception;
- * participation in the realisation;
- * participation in the execution.

Participation in the conception of a decision creates expectations and beliefs that the employee defines his own products and objectives before getting down to work.

Participation in the realisation assumes that the employee exercises freedom over the way he wishes to execute his work.

Participation in the execution assumes that the employee shares the execution of the work with others. The experience of the company is that the entrepreneurial freedom of an employee and, therefore, the employee's acceptance of an Employee Share Ownership Scheme is in direct relationship with the opportunity the employee has to participate not only in the execution of a decision but also in its conception and realisation.

3.4.2 Participation in the wealth created

The employee's view is that participation in the decision-making process is active. The employee's need for mental and physical action is fulfilled and his participation in individual/sub-team/team/mega-team rewards becomes legitimate. In other words, the employee has earned a right to a reward (Haumant 1992:18). For example, Haumant (1992) suggests that a company can have a comprehensive reward system which can be re-evaluated and redefined yearly by management and employees. This reward system can be made up of quite a number of distinct schemes which reward various forms of participation at various operational levels.

The cohesive drive of all teams is for the company to succeed and for the strong individuals to carry the weak. At the end of each year the company can compare the percentage increase in staff benefits (salary and other incentive schemes) with the percentage increase in dividends paid to shareholders. It can then declare an equalising wealth creation bonus which ensures that neither group exists at the expense of the other. This bonus is divided equally amongst all staff members.

3.4.3 Participation in legal ownership

The company embarks on a campaign to explain the reasons why employees should extend their moral ownership (participation in the decision-making) to legal ownership. The distinction between manager and workers and owners is not neutral. Owners have the power of decision on the key options which govern the fate of a company (merger, closure, acquisitions). Even in a participative culture, managers and employees only control the day-to-day affairs of the company. The gap between owners and employees could only be bridged if workers could legitimately participate in boardroom decisions (Haumant 1992:19).

According to Haumant (1992), a survey conducted in April 1991 amongst 103 shareholders within the same institution, confirmed that:

- the advantages of being an owner-employee were seen as beneficial to both the employee and the company;
- the disadvantages of being an owner-employee were few;
- the money loaned by the company to employees to access share ownership was considered well spent as it did not stop the company from creating new job opportunities; and the housing assistance scheme launched in the previous year had already fulfilled the most urgent need of the employees.

Two studies draw basic or landmark conclusions regarding the economic impact of participative practices. According to McLagan and Nel (1995), the following several noteworthy conclusions are drawn from the first study led by Levin (1988):

- Companies that share profits and gains with employees have significantly better financial performance than companies that do not.

- Companies that share information broadly and that have broad programmes of employee involvement (the researchers refer to information sharing and involvement as areas of intellectual participation) perform significantly better than firms that are run autocratically.
- Flexible work design - flexible hours, rotation and job enlargement, multi-skilling - is significantly related to financial success.
- Training and development have a positive effect on business financial performance.
- The existence of formal grievance procedures to protect employee rights significantly affects the bottom line in both unionised and non-unionised companies.
- Companies that combine group economic participation, intellectual participation, flexible job design and training and development have an added productivity boost - two-thirds of the difference observed in bottom-line impact was due to the combined effect of these practices.

According to McLagan and Nel (1995) the second study led by Huselid and Becker which involves the financial results and work practices of 826 companies in 1992 and performance and work practices of 748 companies in 1994. According to McLagan and Nel (1995), these researchers reported the following findings with regard to participation:

- Participative work practices are significantly associated with decreased turnover, increased productivity and improved financial performance.
- Participative practices have a substantial impact on financial results. Each standard deviation increase in their use increases a company's market value per employee.

- High-performance work practices reduce turnover and absenteeism.
- High-performance work practices have strong positive effects on performance even when other policies, practices and technology used within a company is not progressive.
- Companies vary widely in the extent to which they adopt more progressive work practices. Many companies have not yet adopted a range of such practices. Those who have, adopted more progressive work practices have a definite competitive advantage.
- Implementing participative practices appears to have a short-term cost and an increase in their usage was associated with temporary declines in cash flow and a negative gross return on assets.

One possible explanation for the last finding is that companies in crisis may be more willing than others to aggressively invest in such practices. A further possibility is that progressive companies are more likely than others to make cost-intensive investments in information and work technologies that affect cash position and current ratios.

Other research results by some economists, behavioural scientists and psychologists, with regard to participation, concluded that there is a complementary link between participatory arrangements and cooperative behaviour among employees. This link focuses on the possible effects of participation on factors such as the employees's commitment to the company's goals, their trust in the company's managers and their sense of goodwill toward other members of the company. The interpretation of this situation is that participation may actually change the goals of the employees so that they more closely conform to the goals of a company (Levine and Tyson 1990:187).

Employee participation seems to be of assistance when making alternative compensation

plans such as profit sharing and gain sharing. Employee share ownership plans work better and also have their own beneficial effects (Blinder 1990:13). According to Poole (1986), Britain has some additional stimuli in favour of participation especially employee share-ownership incentives contained in the 1980 Finance Act. The most far-reaching legislation stemmed from an amendment in the House of Lords currently incorporated in Section 1 of the Employment Act, 1982. This section which took effect from 1 January 1983, has made it a statutory requirement that, in every director's report (in companies with more than 250 employees), a statement must be included describing the action taken during the year to introduce, maintain and develop arrangements aimed at:

- systematically providing employees with information of concern to them as employees;
- consulting employees or their representatives on a regular basis so that the views of employees can be taken into account when making decisions which are likely to affect their interests;
- encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means; and
- achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.

In addition, schemes in some companies are seen by senior management as part of an integrated participative philosophy which reflects the moral commitment owed to employees by management. It is seen as part of a general move to increase participation in a firm through ownership and, in return, expects to inspire employee loyalty and commitment (Ramsay, Leopold, Baddon and Hunter 1989:11).

Profit -sharing and share ownership have been fairly common practice in many countries and have been supported, in one form or another, by the legislation of such countries.

Employee participation is however, viewed as the principal means of obtaining greater control by employees over several aspects of their working lives and, in so doing, increases their powers in comparison with that of management (Poole 1986:16). In terms of the formal patterns of control, within a company a number of levels can therefore be identified.

3.5 LEVELS OF PARTICIPATION

In many countries there is a distinction between bargaining on wage and non-wage issues. Industrial democracy arrangements, set down through legislation and/or collective agreement, cover non-wage, local enterprise level issues. Bargaining on wages and working hours is conducted separate from those arrangements, between the employers and trade unions concerned, generally through the shop steward structure and frequently within centrally determined limiting factors (for example, collective bargaining at the peak level). There are exceptions in some other countries where, for example, the works council can also play some role in wage issues, but within the framework set by collective agreements (Tacy 1986:7).

Poole (1986) has identified a number of levels of participation which broadly correspond with the formal patterns of decision-making within a company and wider society from a different point of view. Table 3.2 illustrates the levels of participation.

TABLE 3.2
LEVELS OF PARTICIPATION

<ul style="list-style-type: none">• On-the-job decision-making by individuals• Workgroup or work team• Sectional or departmental• Plant or undertaking• Enterprise• Industry• Economy

Source : Poole (1986:16)

The first level concerns individual on-the-job decision-making where an employee is

viewed as having some right to organise his or her activities within certain discretionary limits. Technological factors are however generally very important at this level because the higher the degree of employee skill, the more difficult it is to directly measure his or her work activities and the greater the freedom from managerial supervision. In contrast, in a technological environment where the level of skill required of an individual employee is not of any great importance, it is easier for management to control the employee's activities and to introduce such schemes as measuring daily work and productivity gains. These schemes are specifically designed to reduce the employee's own initiative and autonomy (Poole 1986:16-17).

According to Poole (1986), the second level consists of work teams or workgroups within which the decisions may cover production questions and are likely to do so whenever group activities are involved in the actual production process. Additionally, at this level there are a number of further possible decision-making areas which may involve employee actively but which, as a rule, management has sought to determine unilaterally and to clearly explain it as rights or privileges. These may include hiring and dismissing, starting and stopping times, the distribution of wages, hours of work, overtime and many others.

It has generally been argued that, the higher the level of decision-making, the less likely it is for employees to have any major influence on the outcome of events, and the more actively managerial rights and privileges are defended. Moreover, there are a number of sectional and departmental levels between the levels of plant and workgroups which have proved difficult for employees to penetrate. Additionally, in moving to the highest decision-making levels there are again a number of potential and logically separable decision-making levels, namely, plant (or undertaking), enterprise, industry and economy (Poole 1986:17).

Participation can occur across a broad spectrum of activities. According to McLagan and Nel (1995), participation can also occur on at least five other major levels ranging from prescribed action, obeying rules and following procedures, influencing or defining the mission, values and strategies of the business. Companies involve employees on these

five levels as follows:

- **Level 1: Prescribed Action**

At level 1, employees follow procedures and do as they are told. Prescribed action can apply to activities ranging from sweeping the floor to developing strategy for the business as a whole. Participative organisations consider prescribed action as important. Once staff have committed to prescribed action, they persist in that action until there is an agreement or understanding that the action required must change. Level 1 activities are those which follow routine or procedures such as housekeeping, safety practices, machine-paced work and routine management work such as salary administration or budget reconciliation.

- **Level 2: Activity Participation**

At level 2, employees participate by influencing how the work is done, which is part of their immediate job, that is, they decide on the tools and techniques used and how to arrange their activities and actions in sequence. Real and meaningful participation is experienced at this level. Working in quality circles, setting requirements for the quality of work, job enrichment, gain sharing and attainment of multi-skills to increase task flexibility are typical examples of activities at this level.

- **Level 3: Role Participation**

At level 3, employees participate by determining what they or their teams will accomplish. Participation on this level requires broad knowledge regarding customers and the organisation's operations. People need to have more and relevant information in order to make wise decisions and recommendations. Activities at this level include setting production and activity goals, identifying the needs of the customers, determining how to respond to them, setting goals for suppliers and hiring team members.

- **Level 4: Context Participation**

At level 4, employees participate by moving outside the boundaries of their own or of their team's job to influence the processes and structures around and beyond them. Employees go beyond their immediate job authority at their own discretion, to solve crises or immediate problems with customers. Typical examples of activities on this level can include selecting or advising on the selection of leaders, choosing suppliers, influencing the size of budgets and budget trade-offs, deciding equipment and work technology, providing supervisors with performance feedback and re-engineering processes that involve others beyond the immediate team.

- **Level 5: Vision Participation**

At level 5, employees participate by shaping or influencing the most essential assumptions which guide their company. Individuals and teams work together to determine the company's broad direction. Their experience and insight becomes part of the strategic and planning data which shapes goals and strategies and they are meaningfully involved in determining priorities and directions.

Activities on this level assist in determining values, goals, strategies and other frameworks that determine what the company is and will be. Such activities include assisting to determine the values, principles and mission of a company. This level involves decisions on how management processes, such as strategic planning, will occur and who will be involved.

Broadly speaking, levels 1, 2 and 3 activities relate to task issues, while activities on levels 4 and 5 relate to power issues, because the goal of the participative age is to make high involvement and empowerment the basic foundation of performance. Companies which try to involve people in meaningful ways have the task of influencing all groups to get involved at any level on which meaningful influence is possible and on which it will add value or raise commitment (McLagan and Nel 1995:192).

There are two major transitions that any group of people goes through on its way to full participation. This takes place when people who are only used to following orders and taking prescribed action (level 1) begin to get involved in determining either their own roles (level III) or their activities (level II). The other transition occurs when people begin to influence the decisions about circumstances beyond the interests or spheres of their own job (level IV). This situation can be related to what happened in South Africa when trade unions were legalised in the 1970s. The restraints against activity and role participation were released (levels II and III), but companies generally blocked involvement beyond those levels.

South African institutions therefore liberalised but did not democratise. They brought a form of controlled involvement that initially helped to reduce the employees' frustration and moderate their demands. This involvement helped to develop the skills and power base which increased employees expectations for involvement beyond level II. As a result South African labour legislation is moving into areas that support power participation by the people who do the work (McLagan and Nel 1995:194).

According to McLagan and Nel (1995), the basic transformation of an organisation really takes place when people in every part of the company begin to get involved at the context and vision levels. Employees need access to financial and strategic information for participation at these levels to be successful. Only with such information can they become responsible and value-adding in the key power areas of budgeting, promotions, selection of customers and suppliers and, ultimately, the firm's direction. This ensures that managers are still in charge of most of these activities, but policy is no longer determined by small groups of individuals. Moreover, the movement toward participation on multiple levels should not be chronological.

The most significant gains can be made by introducing aspects of all five levels at once. Introducing change this way makes it clear that participation requires some minimal guidelines with regard to actions to be taken as well as the more complex and potentially exciting activities associated with vision.

Table 3.3 shows the pattern of involvement in a highly, participative company.

TABLE 3.3
THE SPECTRUM OF INVOLVEMENT IN A HIGHLY PARTICIPATIVE COMPANY

The spectrum of involvement in a highly participative company				
Involvement Level	Executives	Managers	Staff	Typical Activities
V Vision Participation				Decisions/influence on - values - strategies - mission Decisions about organisation structure Decisions about management process and culture
IV Context Participation				Selecting/advising on selection of leaders Choosing suppliers Influencing size of budgets
III Role Participation				Setting production/work goals and standards Production scheduling Determining customers' needs and responses to the needs Setting supplier goals Hiring/firing team members
II Activity Participation				Quality circles Statistical process controls Determining methods for the work Multiskilling across tasks Gain sharing
I Prescriptive Action				Housekeeping Safety Machine-paced work Some management processes

Source: MacLagan and Nel (1995:193)

3.6 TYPES OF PARTICIPATION

There are many forms of participation, two being direct participation (involving face-to-face interaction) or indirect participation (involving representatives) which has implications for the level within the organisational hierarchy where different forms of participation may be

witnessed. An important distinction can also be made between individual and representative participation (Chell 1985:3).

3.6.1 Direct participation

Direct participation means that an individual employee takes over or is drawn into certain managerial decisions which have traditionally been taken by management alone (Knudsen 1995:5). The entire company's first order of business, in a participative company, must be to support frontline employees as individual contributors and as teams. The aim is to ensure that there are no barriers between the people who make and distribute the product and those who serve customers (McLagan and Nel 1995:202). According to McLagan and Nel (1995), today's most successful company mostly consists of people who do the work and have knowledge of it, they think, they have power, they know their job, customers and suppliers. They think about the best way of doing their jobs.

Furthermore, they think about unique ways of meeting specific customer needs and about things which can be done to support the direction of the business. Individuals and teams have power to act in crises, power to stop the line if quality is poor and to remove products from shelves if they are not up to standard. They have ideas which they make known, providing vision and strategy. Over time, as individuals working alone and in teams develop skills, new perspectives, and trust, they furthermore develop budget power. One of the best thinkers on present day business strategies, best known as a management theorist, gives an example which highlights the role of frontline staff in what used to be the exclusive field and one of the major tasks of top executives: "Out in the field, a salesman visits a customer. The product isn't quite right, and together they work out some modifications. The salesman returns to the company and puts the changes through; after two or three more rounds, they finally get it right. A new product emerges, which eventually opens up a new market. The company has changed strategic course" (Mintzberg 1994:30).

Direct participation may take several forms, such as the delegation of a greater degree of discretion over the immediate work tasks, the creation of autonomous groups or quality

circles and meetings at workgroup, workshop or departmental level. Generally, direct participation is only applicable to lower-level management decisions. Typically they are decisions regarding how work operations are to be carried out, although there are also examples of direct employee involvement in middle or higher-level management decisions concerning technical and organisational change (Knudsen 1995:5-6).

3.6.2 Indirect participation

Indirect participation implies that the participation of employees takes place through representatives and is based on collective interests of all participants. Typical institutions for indirect participation are shop-steward meetings with management, with shop-stewards being elected by and representing the members of a specific trade union at the workplace; work councils which are the bodies elected by all employees at the workplace with a right to meet regularly with management; and joint committees which are mixed bodies consisting of management as well as employee representatives. In companies with several workplaces and in groups of participation bodies established at workplace level, participation may be supplemented by central bodies for the whole company or the whole group. A further possibility is the representation of employees on the company or supervisory board by shareholder representatives. Indirect participation may therefore take place within both the operational units (workplace or plant level) and the financial units (company or firm level) (Knudsen 1995: 6).

3.7 THE CHALLENGE OF PARTICIPATION IN THE WORK PLACE

Participation is socially acceptable governance, and is moralistic in that it fits the prevailing democratic situation of times and research shows that it can work. It is therefore, hard to oppose participation and yet there are few companies that operate participatively (McLagan and Nel 1995:229).

According to McLagan and Nel (1995:229), the rational dream of participation must be reconciled with its emotional and human reality. In other words, many people are not fully

developed emotionally, nor are they fully responsible. Some long for the protective cover of dependent and even coercive management, while others will abuse any power that comes their way. These and other legitimate fears and concerns keep people from putting their full energies into the transformation from authoritarian to participative roles and into ways of working and being together.

The shift from authoritarianism to participation is not an easy move to make and it is not easy to make participation work once it has started. This is due to the fact that there are many difficult issues accompanying the change or a new direction toward success. Although some of these difficult issues may threaten participative companies over a long period, none have a strong enough effect to serve as a reason not to change towards participation. These issues must not however, be ignored or dismissed. Some can involve fears which make it easy for resisters to play on the hopes that they can block participation before it has an opportunity to get off the ground. This is especially true of accusations involving the impact of participation on performance with regard to the concerns regarding the length of time needed to make decisions, the effects of group-think on quality and the loss of focus on uncompromising performance (McLagan and Nel 1995:238).

Some of these issues can be viewed as loss of control, the effect of group-think on quality, loss of individuality, apathy and abdicating managers which are really experienced in authoritarian companies. Their negative effect decreases dramatically under participation. A whole system of change must take place before these issues subside and they will not subside unless participation is firmly entrenched in the processes, structures and assumptions of the organisation.

McLagan and Nel (1995:229-238) cited a few of these *problems* as follows:

- **Decision-making will take too long:** It can indeed take longer to make a participative decision because of the involvement of many people and dealing with the resulting conflict takes time. In the early stages of participation, managers often go overboard in involving people and it is possible for people to

have inappropriate expectations of involvement.

- **Control will be lost:** Managers in particular fear that people will not work in the best interests of the company unless there is strong direction, close supervision and clear consequences for non-compliance. Moreover, managers may abdicate by neglecting their duties in the early stages of participation, and employees may use their freedom as an opportunity to rebel.
- **Group-think will reduce quality and efficiency:** When people get together in groups they often underperform, in that they drop out, are reluctant to confront or they use the group as a platform from which to air their personal agenda. Pressure to perform poorly or to be a hero at the expense of the group can build up. These tendencies have the effect of reducing quality. Nevertheless, the concern that participation will not be able to deliver high performance in the long-run cannot be ruled out.
- **Individuality will be lost :** Some people fear that they will get lost in the group, some wonder what to do about the star performers and others do not want a workplace in which everyone is treated the same.
- **Apathy is a threat:** Some managers often refer to employees as people who lack interest in their work and who always need someone to coerce them into taking responsibility and into being accountable. Employees see management as people who are only interested in power.
- **Managers will abdicate:** Managers of many companies have risen in the ranks because they have been able to survive and get results in authoritarian systems. When confronted by the loss of their traditional, initial managerial authority, they often feel helpless. They may be confronted by new aspirations and demands from employees who wish to be involved but, at the same time, do not yet fully

understand what involvement means or what it requires from them. Against this background, many managers give participation the benefit of the doubt. They aggressively delegate work, but are unsure of what to do thereafter. Managers abdicate if they do not have the necessary skills to assist and support their subordinates as they confront the uncertainties that come with the new rights and responsibilities.

Participation requires people to adopt a new, mature, general view of life. Everyone must therefore accept the responsibility of choice and free will in order to be contributing and involved decision-makers. Participation furthermore, also calls for meaningful influence, meaning that people must have both the ability and the right to put their views forward and to shape the decisions affecting them. Additionally, participation demands activism, meaning that people must act if they are to break away from the assumptions of the old system and must take a bold stand in maintaining their beliefs and ideas without fear of abuse.

Lastly, participation requires that diversity be deeply valued. Committing to participation requires people to open their minds and emotions to others' views and practices that are different from theirs. Such commitment takes more than just being understanding of how people differ. It requires commitment to move with and through others' differences to solutions that no one could have foreseen on his or her own (McLagan and Nel 1995:226).

3.8 SUMMARY

A company can be truly participative only when all stakeholders are actively involved in creating the vision, interdependencies and systems of the company and when their day-to-day actions are appropriately participative. Participative behaviour extends beyond the company's boundaries. The truly participative company involves customers, suppliers and union representatives as well as employees, managers and functional staff members. Since members of all these groups help to create the quality of the company's products and services and of the business relationships uniting them, participation must extend to all

these groups. Additionally, participation praises and values the capacity of people by way of encouraging financial participation and by respecting employees. Participation values the capacity of people to grow, to contribute meaningfully to performance. It does not suggest that respect, growth, financial participation and meaningful contribution occur in isolation but that when people come together in an institution, they do so with a purpose.

When people come together in an economic organisation or a workplace, an effort must be made to ensure that the company is productive, that it adds value and that people work together towards a common purpose.

One of the ways of contributing meaningfully in an organisation and adding value can be the involvement of employees in decision-making processes and financial participation. Profit-sharing and employee share ownership have been fairly common financial participation practices in many countries. Various other forms can be considered by an individual firm or firms but, for the purpose of this study, the next chapter investigates the activities of employee share ownership schemes as an employee participation option.

CHAPTER 4

EMPLOYEE SHARE OWNERSHIP SCHEMES AS AN EMPLOYEE PARTICIPATION OPTION

4.1 INTRODUCTION

There is often a wide gap between management aims and employee expectations. In the interests of mutual survival, closing the gap often requires mutual effort. This could be attained by a change in both employee commitment to the firm and employer commitment to the employees who are joined with management in the battle for survival. This will hopefully lead to achievement 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 fulfill 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 of how effective employee ownership can be in bringing about the desired results. Some researchers speculated that by making an employee a shareholder in business, at his place of employment, his zeal for the job is stimulated (Pierce and Furo 1990:32-33). Furthermore, 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 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 and Furo, 1990:32). Additionally,

employee alienation and organisational effectiveness problems can be arrested by their participation in employee share ownership schemes. According to Pierce and Furo (1990), ESOPs may help reverse declining labour productivity and can deter takeovers, save taxes and increase employee morale that accompanies the establishment of employee share ownership schemes.

Despite claims of employee share ownership benefits, the literature has so far uncovered several contradictory observations (Pierce and Furo 1990:33). The research evidence accumulated to date, nevertheless, suggests that employee share ownership can produce favourable results if managed properly. The objective of this chapter is to analyse the nature of ESOPs, provide a general overview of South Africa with regard to ESOPs based on the efforts of some of the companies which have attempted to implement ESOP schemes, what employee ownership is, how ESOPs work, how to establish an ESOP and the benefits of share ownership schemes.

4.2 THE NATURE OF EMPLOYEE SHARE OWNERSHIP SCHEMES

People who own shares in a company are the owners of that company. Managers are not necessarily the owners of a company and are very seldom the sole owners, although they may well own some of the shares (Maller 1987:51). One way managers and employees can own shares in a company is by means of an employee share ownership scheme (ESOP). ESOPs offer many advantages. ESOPs are easy and inexpensive to design and implement; they can provide liquidity without the loss of control and they can add incentive for employees who become part owners. ESOPs still remain relatively unknown and misunderstood. Various researchers have carried out extensive investigation with regard to the origins of ESOPs, hoping to shed some light on the value of ESOPs.

4.2.1 The background of ESOPs

After the second world war (1939-1945), works councils were established in many European firms. As a result, employee representation on management boards in the West

Germany coal and steel industry took place (Maller 1987:53). The process of greater worker participation in the affairs of companies has grown during the past 30 years and has taken many forms, such as representation at board level, collective bargaining and consultation with trade unions and different forms of employees' committees with various rights. ESOPs are one of the more recent forms of worker participation(Maller 1987:53).

According to Rodrick (1996), the employee share ownership scheme (ESOP) concept was developed in the 1950s by Louis Kelso, a San Francisco lawyer and investment banker who argued that the capitalist system would be stronger if all employees, not just a few shareholders, could share in ownership of capital producing assets. Although the idea was not totally new, the concept had received little attention before that time. Kelso's idea was that everyone should own productive capital, thereby building a personal capital estate. He believed that the best way to accomplish this goal was to create a corporate mechanism, turning workers into owners.

According to Rodrick (1996), Kelso tried, over a number of years, to convince companies to use this plan by suggesting that productivity would improve and that they could achieve tax breaks. In 1973, Kelso convinced the chairman of the United States tax-writing Senate Finance Committee that tax benefits for ESOPs should be permitted and encouraged under employee benefit law. Federal legislation promoting ESOPs appeared thereafter, Employee Retirement Income Security Act of 1974 (ERISA), which governs employee benefit plans. A statutory framework was established for ESOPs. In the following years, the number of ESOPs expanded dramatically once it was realised that the ownership sharing idea was in the economic interest of company owners. The United States congress has modified the laws governing ESOPs from time to time, most notably in the Tax Reform Acts of 1984 and 1986 and in legislation passed in 1996.

Since 1974, the number of ESOPs has expanded dramatically. Presently there are approximately 10 000 ESOPs and similar plans covering over 11 million employees in the United States. ESOPs are found in public traded and closely held companies of every size.

Most of these companies have over 15 or so employees due to the costs of setting up and administering an ESOP (Schidgall and Bechtel 1990:80).

ESOPs have been a feature of American corporate life since 1974. More than 20 of the top 100 companies have schemes whereby employees hold more than 10% of their company's shares. American tax laws are such that companies are given tax concessions if they operate an ESOP. The result is that more than 11 million employees (6 - 8% of the entire workforce) own shares in the companies for which they work. The ESOP scene is no longer new to South Africa. A small number of companies have introduced ESOPs in South Africa.

ESOPs form part of the management approach called "participative management". ESOPs began essentially with the recognition of trade unions. Some may argue that ESOPs came about not because managers wished to encourage employee participation in the decision-making of the company, but mainly because trade unions became too powerful for management to ignore. In recognising unions managers began to talk about co-operation and common interests of employees and management because they realised that antagonistic relationships could be detrimental to profitability.

4.2.2 The nature of an Employee Share Ownership Scheme (ESOP): Some international perspectives

Ownership is not a simple concept. Various definitions have been suggested. Pierce and Furo (1990) suggest that some of the confusion 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 of 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. Some organisational researchers, having looked at variations in employee-ownership systems, observed that ownership systems employ different degrees of employee ownership and employee control. Some are built around employee ownership, some emphasise employee control and others

emphasise both ownership and control dimensions. Because the term ESOP cannot be precisely defined and may be understood in different ways by different practitioners, there is a need to review a number of definitions of an ESOP:

- The ESOP Centre in London defines an ESOP as an arrangement involving an ESOP trust which is capable of borrowing in order to acquire employer shares for subsequent allocation to all or most employees. The ESOP Centre's definition therefore emphasises that an ESOP must offer shares to a cross-section of employees in a company or group and not just senior executives.
- An ESOP is an arrangement involving an employee benefit trust which, with financial assistance from the employer, acquires substantial quantities of employer shares or securities for subsequent allocation to some or all employees (Reid 1991:1).
- An ESOP is an organisational arrangement in which a significant proportion (though not necessarily all) of the people who work in the firm (regardless of whether they are salaried or hourly employees) hold rights to organisational equity, information and influence. The extent to which each of these rights is put into place varies considerably across firms operating under the set of rules to be followed with regard to ESOPs (Pierce and Furo 1990:35).
- An ESOP is a trustee employee retirement benefit plan, designed to invest primarily in qualifying employer securities. It is a separate legal entity and may incur debt to purchase such securities. The ESOP acquires shares from either the employing firm or the shareholders and holds them until they are ultimately distributed to the employees. The ESOP must generally distribute the vested shares within a prescribed period in the case of resignation, dismissal, death or retirement of the employee (Wise, Racette and Phillips 1992:28).
- According to Rodrick (1996), an ESOP is an employee benefit plan which makes

the employees of a company owners of shares in that company. Several features make ESOPs unique compared to other employee benefit plans. Firstly, only an ESOP is required by law to invest primarily in the securities of the sponsoring employer. Secondly, an ESOP is unique among qualified employee benefit plans in its ability to borrow money.

- An ESOP is a programme which helps employees to acquire equity in their company, usually with the same rights and obligations of any other shareholder. Two of the defining characteristics of ESOPs are that shares are made available to all employees who wish to participate, and that the company helps them to buy the shares (Nyhonyha and Braithwaite 1996:45).
- An ESOP is a tax qualified employee benefit plan, designed primarily for investment in employer stock (Chang 1992:9).
- According to Block (1991), an employee share-ownership scheme is a qualified retirement plan which can be used to provide employee share ownership and, at the same time, to advance a number of other objectives. The basic idea behind any ESOP is that common shares (or convertible preferred shares) are distributed to the accounts of employees and are eventually passed on to them at retirement or departure from the company.

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 that the company helps them to buy the shares. This scheme can have unique features based on an individual company's needs.

4.3 OPERATIONAL ISSUES OF ESOPs

Generally, ESOP funds are assumed to be used for business expansion, to start a new company, to reduce debt or to transfer ownership from owners to employees. On the other hand, employee ownership can be accomplished in a variety of ways, of which an ESOP is one. The following discussion is based mainly on American cases and tax laws.

4.3.1 Employee Share Ownership Scheme (ESOP)

Lynch (1988) suggests that employee ownership can be accomplished in a variety of ways. Employees can buy shares directly, be given shares as a bonus, can be given share options or can obtain shares by way of a profit sharing plan. Some employees become owners by way of employee cooperatives where everyone has an equal vote. By far the most common form of employee ownership in the US is the ESOP. Although ESOPs were almost unknown until 1974, over 10 000 companies presently have ESOPs, covering over 11 million employees.

According to Scholes and Wolfson (1990), companies can use ESOPs for a variety of purposes. While most of the press attention has focussed on ESOPs in public companies used as a takeover defence, this accounts for less than 4% of ESOPs. Buyout of failing companies (1% of the plans) or exchange of shares for concessions (3% of the plans) are not common purposes for implementing an ESOP. Instead, ESOPs are most commonly used to provide a market for the shares of departing owners of successful closely held companies, to motivate and reward employees or to restructure benefit plans in order to take advantage of special tax incentives. In almost all cases, ESOPs are a contribution to the employee, not an employee purchase.

4.3.2 Typical ESOP rules

Scholes and Wolfson (1990) describe an ESOP as an employee benefit plan, similar in some ways to a profit-sharing plan. It is tax-qualified, meaning the ESOP sponsors (such

as owners or the company itself) receive tax benefits in return for adhering to certain rules. An ESOP is a defined contribution plan in that the employer makes annual contributions which accumulate to produce a benefit not defined in advance.

According to Lynch (1988), in creating an ESOP, a company sets up a trust fund, into which it contributes new shares of its own shares or cash to buy existing shares. Alternatively, an ESOP can borrow money to buy new or existing shares, with the company making cash contributions to the plan, enabling it to repay the ESOP loan. Regardless of how the ESOP acquires shares, company contributions to an ESOP trust are tax-deductible, within certain limits. Shares in an ESOP trust are allocated to individual employee accounts. Although there are some exceptions, all full-time employees over 21 years of age generally participate in an ESOP. Allocations to ESOP participants are made either on the basis of relative pay or by some other formula.

According to Lynch (1988), employees who are ESOP participants receive the shares in their ESOP accounts when they leave the company, which the company must buy back from them at its fair market value (unless there is a public market for the shares). Private companies with an ESOP must have an annual outside valuation to determine the price of their shares. According to their number of allocated ESOP shares, employees in private companies must be able to vote on major issues, such as closing or relocating. The company can, however, choose whether to pass voting rights (such as for the board of directors) on other issues. In public companies, ESOP participants must be able to vote on all issues (Scholes and Wolfson 1990:2).

4.3.3 Functions/uses of ESOPs

An ESOP can be used for the following purposes:

- **To buy shares of a departing owner:** According to Scholes and Wolfson (1990), owners of privately held companies can use an ESOP to create a ready market for their shares. Under this approach, the company can make tax-deductible cash

contributions to an ESOP in order to buy out an owner's shares or it can have the ESOP borrow money to buy the shares (see below). Once the ESOP owns 30% of all the shares in the company, the seller can reinvest the proceeds of the sale in other securities and defer any tax on the gain.

- **To borrow money:** According to Reid, Tremaine and Langley (1990), ESOPs are unique among benefit plans in their ability to borrow money. The ESOP borrows cash which it uses to buy company shares or shares of existing owners. The company then makes tax-deductible contributions to the ESOP to repay the loan, meaning that both the principal amount and interest is deductible.
- **To create an additional employee benefit:** According to Scholes and Wolfson (1990) and Buchanan (1998), a company can simply issue new or treasury shares to an ESOP, deducting their value (for example up to 15% of covered pay) from taxable income. Alternatively, a company can contribute cash, buying shares from existing public or private owners. In public companies, which account for about 10% of the plans and about 40% of ESOP participants, ESOPs are often used in conjunction with employee savings plans. Rather than matching employee savings with cash, the company matches them with stock from an ESOP, often at a higher matching level.

As demonstrated above, an ESOP is a versatile financial tool which can be used by a selling shareholder to obtain significant tax benefits in selling a portion or all of his or her company. According to Rodrick (1996), an ESOP can furthermore be used when there is a spinoff of a division or corporate expansion which can increase employees earnings.

4.3.4 Limitations

As attractive as ESOP benefits are, there are, however, limitations and drawbacks in using ESOPs. The law does not allow ESOPs to be used in partnerships or professional corporations. In South Africa, any gain made by the exercise, cession or release of any

right to acquire any marketable security (sub-section 10 of the Taxation Act 38 defines marketable security as any security, stock, debenture, share option or other interest capable of being sold in a share market or exchange or otherwise) will be included in the taxpayer's income if the right was obtained by the taxpayer, as a director (or former director), or in respect of services rendered by him as an employee. On the other hand, Section 8A of Taxation Act 38 directs that the tax liability will arise on the day on which the option is exercised, or otherwise dealt with, and will be calculated as the difference between the amount paid for the shares and the market value at that date, less any amount paid for the options (Huxham and Haupt 1998:440). In other words, the tax liability can be a burden to the taxpayer.

Huxham and Haupt (1998) maintain however, that Section 10 (1) (n E) of the Tax Act 38 stipulates that if the taxpayer purchases shares under a share incentive scheme and the transaction is cancelled or the shares repurchased from the employee, the employee will not be taxed on the amount received by him for the shares, provided it is not more than what he paid for the shares. In other words, the taxpayer is liable if he makes a profit from selling shares.

A further disadvantage is that a closely held company with an ESOP must repurchase shares from departing employees. This can become a major expense. According to Desai (1999), a closely held company is a business that has a limited number of owners and is not publicly traded nor listed in the JSE. Family businesses fit into this category, along with others controlled by a few people who may or may not be related. In comparison with other South African forms of ownership, a close corporation fits into this category.

On the other hand, the cost of setting up a simple ESOP scheme is reasonable. Whenever new shares are issued (to provide shares for the ESOP), the shares of existing owners are diluted. The dilution must be weighed against the tax and motivational benefits which the ESOP can provide. Finally, an ESOP will improve corporate performance only if it is combined with opportunities for employees to participate in decisions affecting their work.

4.4 TYPES OF EMPLOYEE SHARE HOLDING SCHEMES

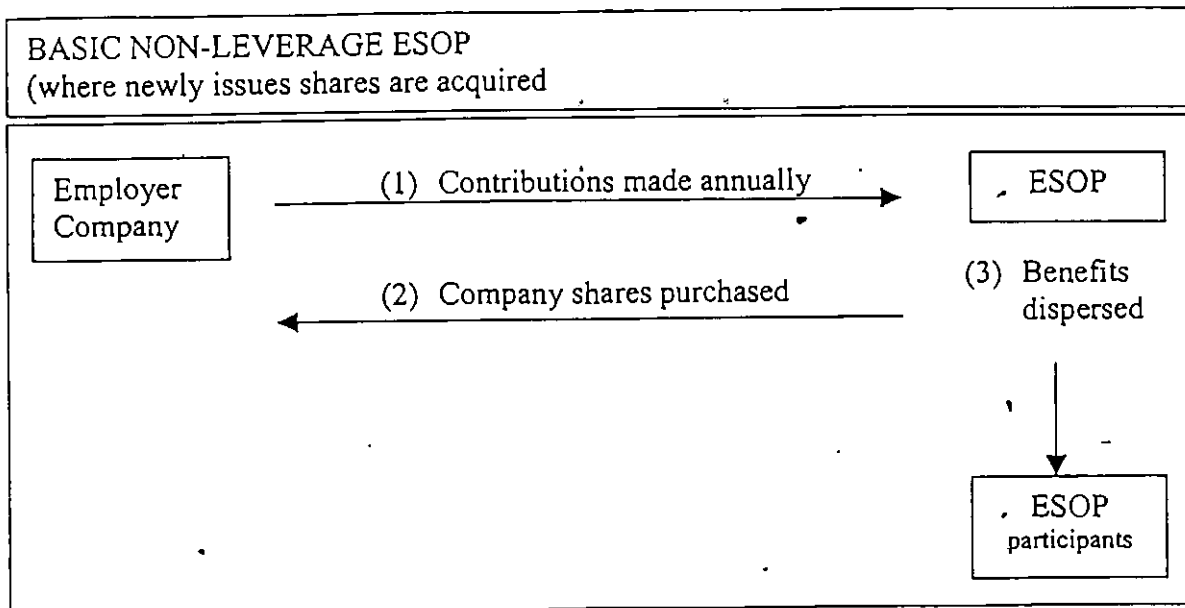
Since 1978, many countries, especially Britain, have encouraged the implementation of Employee Share Ownership schemes.

4.4.1 Leveraged and non-leveraged ESOPs

ESOPs are either leveraged or non-leveraged. A non-leveraged plan is basically a standard defined-contribution plan, where the employer periodically contributes cash or shares to the ESOP.

Participants accrue tax-free benefits in their accounts under a vesting schedule (Wise *et al.* 1992:30). See figure 4.1 for a graphical representation.

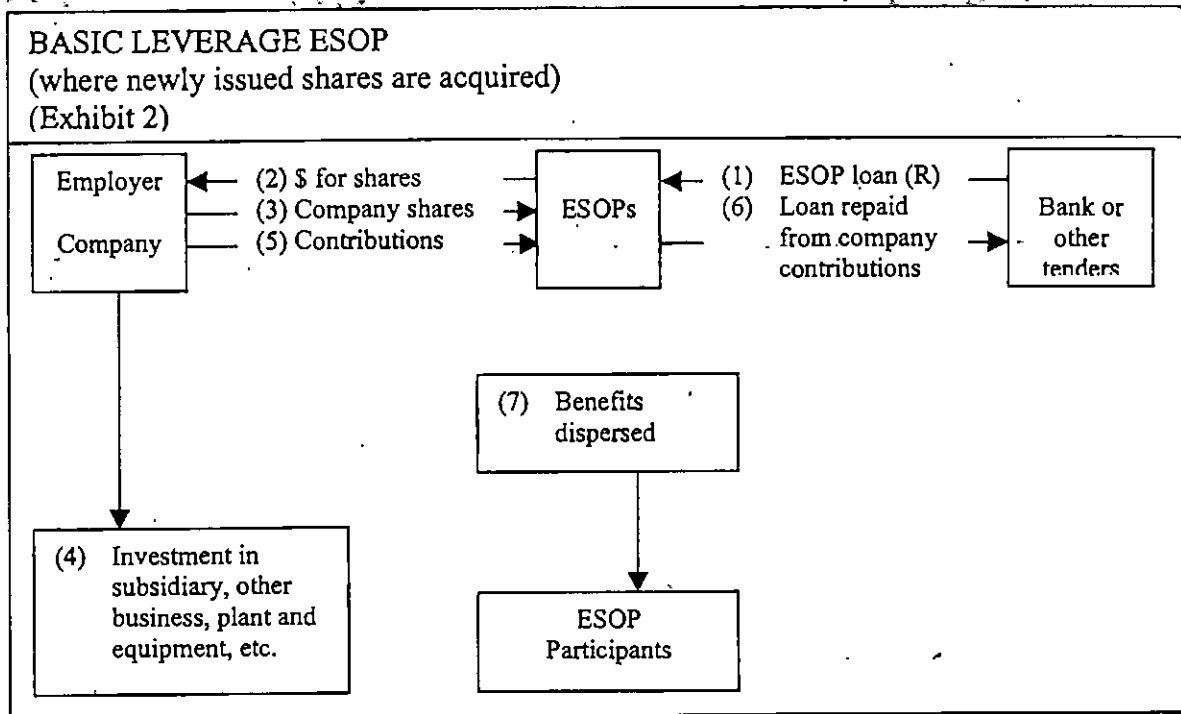
FIGURE 4.1
BASIC NON-LEVERAGE ESOP



Source: Wise *et al.* (1992:30).

In a leveraged ESOP, the trust borrows to acquire employer securities. The loan is guaranteed by the sponsoring employer, which annually contributes amounts to the ESOP in order to pay off the loan. The shares are held in a suspense account and are released only as the debt is repaid. This plan would therefore involve a release schedule, an amortization schedule (pay off in regular amounts) and a vesting schedule (see figure 4.2).

FIGURE 4.2
BASIC LEVERAGE ESOP



Source: Wise et al. (1992:31).

Additionally, Chang (1989) predicted that all things being equal, shareholder gains should be higher for leveraged ESOPs than non-leveraged ESOPs because of the lower borrowing rate on ESOP loans and tax deductions from dividends paid on ESOP shares, resulting in a higher impact on the size of contribution on returns for leveraged ESOPs. Most of the accounting controversies surrounding ESOPs relate to leveraged plans. According to Wise et al. (1992), the major recommendations with regard to accounting issues may be summarised as follows:

- An ESOP debt, guaranteed by the employer, should be recorded as a liability in the employer's financial statements when the employer is liable for future contributions to the ESOP to service the debt. Assets held by the ESOP belong to the employees and may not be included in the employer's financial statements.
- The offsetting debit to the liability recorded by the employer should be accounted for as a reduction of shareholder's equity.
- Both the liability recorded by the employer and the offsetting debit should be reduced as the ESOP makes payments on the debt.
- The amount contributed (or committed) to an ESOP, relative to a given year, should be the amount the employer charges to expenses; the compensation and interest elements of the contribution should be reported separately.
- All shares held by an ESOP should be treated as outstanding when calculating earnings per share.
- Dividends paid on ESOP shares should be charged to retained earnings and should never be included in compensation expenses.

During the past few years, the more sophisticated ESOP plans have departed from the traditional loan amortization schedule because they have been implemented to meet complex tax and corporate finance objectives, sometimes calling for irregular debt service payments. In the light of this trend, an alternative approach to calculating interest and compensation expense has been suggested.

For example, loan interest is recorded as interest expense and compensation expense is determined under the following formula:

$$\frac{\text{Shares allocated to employees}}{\text{Total shares purchased} \times \text{Original principal amount}}$$

On the other hand, for non-leveraged ESOPs, the number of outstanding shares is calculated using a so-called "treasury-stock method" or is based on the number of shares allocated, released or committed for release. Convertible preferred will be considered as common share equivalents in all cases.

4.4.2 A tax deduction and tax credit ESOP

Prior to the United States Tax Act (1986), there were two basic types of ESOPs, namely, a tax deduction and a tax credit. According to Scholes and Wolfson (1990), in the case of a tax deduction ESOP contributions to the trust give rise to tax deductions, whereas, contributions give rise to tax credits in the case of a tax credit ESOP. The credit ESOP was therefore eliminated by the 1986 Tax Act.

Scholes and Wolfson (1990) suggest that the 1986 Tax Act added significant tax incentives for ESOPs by making provision for shareholders in a closely held company to be able to obtain a tax-free rollover on the sale of their shares to an ESOP, if it attained at least 30% ownership of the company and if the seller purchased qualified replacement securities such as corporate bonds. Secondly, the corporation could receive a deduction for dividends paid on ESOP shares, provided that the dividends paid were paid out to current employees. Lastly, a bank, insurance company or other commercial lender was permitted to exclude from income 50% of the interest received on loans to ESOP sponsors from income, provided that the proceeds of the loan were used to finance the acquisition of employer shares for the ESOP.

In addition to the above, there are many ways in which organisations involve their employees in share ownership. The methods used are largely governed by each organisation's specific objectives for ESOPs. The following are a few examples commonly found in South African companies:

- **Share allotments:** This arrangement occurs when company shares are allotted to employees free of charge. This scheme is often based on merit. A company will offer an amount of free shares to an employee as recognition for hard work. This is a performance-based share-option scheme and is usually preferred by employees at higher levels of management. A further example of this type of scheme is where a company offers free shares to its management (executive) staff as a way of retaining them (tying them down)). The incentive here is that, if senior staff own a direct stake in the company, they will remain in it and work harder. This is the most common form of free share allotments in South African companies.(Leoka 1990:18).
- **Special share offer:** According to Leoka (1990), a company may decide to offer a specific number of shares to employees at a special, preferential price for a number of reasons. Many South African companies that have introduced ESOPs have settled for this scheme.
- **Phantom shares:** Under this scheme, employees are allotted imaginary shares in a company. Employees benefit from the dividend income which is the same as that received by other ordinary shareholders of a company, although the shares are not real and cannot be converted into cash. While lacking the benefits of allowing capital gains to shareholders, it has the advantage of allowing all employees to share in the profits of the company. It is therefore an unusual way of educating employees in share ownership and investment while offering them the opportunity to participate in company profits (Leoka 1990:18).

4.5 BENEFITS OF ESOPs

It can generally be said that ESOPs establish a formal link between the gains and successes of the company and the individual's well being, irrespective of the type of ESOP. Some of these benefits can be viewed as reasons for and advantages of introducing ESOPs to interested companies. An example of a benefit is when an ESOP assists a company to avoid any potential breach of the institutional investors' limits on new share issues. It is furthermore felt that by putting shares into an employee trust, employees could be given more say in the destiny of their company in the event of a take-over bid (Reid 1991:13).

One of the advantages of an ESOP is that a company can start small and gradually build the plan. Should the company ever be sold, the cash-out is handled on a share basis. The positive aspect is therefore that owners and employees share in the market value they have all helped to build (Storey 1995:14).

Tax benefits have proved effective in the establishment of an ESOP. The following are examples of the tax-based benefits of ESOPs for American companies:

- **For the company:** According to Buchanan (1998), the major tax benefit is the deduction allowed for both interest and principal payments on the loan. In other words, highly leveraged plans can realise substantial savings from this deduction. Participating companies can deduct dividends paid on shares held by the employee share trust.
- **For the lender:** Reid *et al.* (1990) suggest that lending institutions gain tax benefits to an ESOP because they have to pay taxes on only half of the interest earned on loans made to companies with ESOPs. This tax break theoretically allows the financial institution to lend funds at a lower interest rate than that on

loans of equal risk made to non-ESOP entities.

- **For the owners:** Reid *et al.* (1990) suggest that the tax laws allow owners of privately held companies who sell their shares to an ESOP to defer taxes on their gains, provided that they reinvest the proceeds in the shares of another US owned company within one year after the ESOP commences. The ESOP must own at least 30% of the company for this to occur.
- **For the employees:** According to Storey (1995), vested employees are not taxed on their company's contributions to an ESOP credited to their account until they receive payment in cash or shares when they leave the company. Admittedly, although this tax break is no different from the tax treatment of pension plans, it puts ESOPs on an even footing from the employee's point of view.

4.6 ESOPs IN SOUTH AFRICA

ESOPs can play a powerful role in democratising economic power in South Africa. ESOPs can give the majority of the population, who do not have access to capital, the means to achieve ownership of some portion of the South African economy, as well as a supplementary income. 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 early 1980's, some unions rejected the idea out of hand, while others (the majority) saw ESOPs as possibly benefiting their members, provided certain prerequisites were met.

The employee ownership schemes of some South African companies, the impact of share

equity schemes, the farming industry and a Trust that organises a workshop with the hope of setting up corrective measures by all concerned companies and various other interested parties will be briefly discussed below.

4.6.1 The Anglo Employee Equity Scheme

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. The purpose of the plan was to give employees an opportunity to acquire an equity stake in the corporation, and to share in its long-term growth and dividend performance.

According to Leoka (1990) 19 companies affiliated to the corporation participated in this scheme, the main provisions of which are:

- The plan provides for the issue of Anglo American Corporation ordinary shares to all eligible employees (those with two or more years service) at no cost to themselves, with the company meeting any fringe-benefit tax liability.
- The shares are held by Trustees on behalf of individual participants for four years, during which time they may not be sold. Each participant is given a "safe custody" receipt, receives dividends, receives an employee shareholders Annual Report (and the full corporate report on request), and may direct the Trustees on how to vote on the shares in general meetings of the corporation.
- There are three options at the end of the four -year period. The shares may be left with the trust, transferred to the employee or sold to the trust at the open stock market price.

- If an employee leaves because of retirement or redundancy, or in the event of death, any one of these options may be immediately exercised; but the shares of voluntary leavers or those dismissed for other reasons, remain in the trust for the four-year period.
- Participation is voluntary and open to all employees with a minimum of two years service in the corporation or in any of its participatory subsidiary or associated companies.

4.6.2 Pick 'n Pay Employee Share Ownership Scheme

Pick 'n Pay Stores Limited is an investment-holding company with subsidiaries which retail food and general merchandise on a cash basis throughout the country. Trading is conducted from fourteen hypermarkets. Income is further derived from wholesaling, motor vehicle centres and an upmarket household goods chain. Pick 'n Pay Holdings Limited (PICWIK) is a 52% shareholder in Pick 'n Pay Stores Limited. In turn Raymond Ackerman Holdings is a 50% shareholder in Pick 'n Pay Holdings Ltd (PICWIK) (King 1992:35).

According to Fine (1987), Pick 'n Pay executive chairman Raymond Ackerman resigned in 1987, after 20 years as the managing director, to undertake his biggest marketing effort. He travelled round his empire of more than 100 stores in an effort to persuade the then 17 000 full-time employees to become shareholders of Pick 'n Pay. Employees were offered at least R1 200 worth of shares, the value of which could double in a short time. After explaining what shareholding means, and the benefits thereof, Pick 'n Pay's main aim was to make shareholders of 50% of its staff.

Pick 'n Pay's intention was to implement a share ownership scheme whereby the business would take the initiative in building more houses and giving staff a stake in the company. One of its further aims was to try and turn South Africa into a home-owning and share-

owning democracy, instead of expecting the government to do everything to secure the country's future. Mr Ackerman told the correspondence editor of the Weekly Mail (15 October 1987) that he knew some trade unions would come to accept that the scheme meant to give employees a meaningful stake in the company. Pick 'n Pay could, therefore, through its business operations, give its employees the experience of power-sharing in the economic field (Hood 1987:5).

According to the correspondence editor of the Weekly Mail (1987:10:15), employees were allowed to buy twin shares from the trust after five years if they had the money, or the shares would automatically become theirs after 10 years through dividend repayments into the trust. Following the splitting up of shares, Ackerman was at pains to emphasise that there was no hidden agenda. He indicated that the introduction of the ESOP was motivated by experience in America, the circumstances following the strike which hit the retailing group in 1986 and the results of attitudinal research among employees. The latter indicated a strong need among the employees to have a material stake in the group they worked for (Cairncross 1987:2).

The Commercial Catering and Allied Workers Union of South Africa (CCAWUSA) reacted negatively to the scheme. It alleged that it was not consulted and that the scheme was designed to create uncertainty with regard to a sense of loyalty to the company without providing a meaningful stake in it. In an attempt to avoid industrial action and to boost employee productivity, Pick 'n Pay hoped to make employees identify with and feel a sense of commitment to the company whilst boosting productivity (Fine 1987:8).

According to Cairncross (1987), the Human Resources Director of Pick 'n Pay then responded to these criticisms of the absence of prior consultation and various aspects of the scheme, including the motivation behind the offer. He said that Pick 'n Pay neither saw it as replacing efforts to increase the minimum wage, nor would it affect any of the other benefits offered to employees such as housing and education. It was not designed to avoid

industrial action. The question of whether share-ownership would give employees any greater say in company decision-making and productivity were primarily effected through enlightened and correct management practices and acceptable and negotiated procedures. In addition to increase wages and other benefits, offering shares to a wider group of employees was one of the ways in which employees at all levels could share in the company's growth and prosperity.

According to the Weekly Mail (1987), Cosatu argued that as economics and politics were clearly related in South Africa, giving employees a stake in the economic system should be rejected if this was not accompanied by genuine change in the political system. Then, as at present, a major concern of black trade unions was to improve the real wage level of their members. At the time, Cosatu's policy was that employee share schemes should not be used as an alternative to the union's primary demands, particularly when they were implemented without proper consultation with unions or were offered to employees individually.

4.6.3 Impact of Equity Share Schemes on Western Cape and Mpumalanga regions' farm employee shareholders

In the past, farm employees did not enjoy the same employee protection as in other sectors of the economy and often lacked the security of land tenure (de Villiers 1999:287). Government recently addressed the plight of farm employees via a number of land and labour reforms. Land reform mainly focussed on restitution of land rights and transfer of land to farming groups, but has only made a limited contribution to individual farmer settlement (de Villiers 1999:287).

Share equity schemes are however, one of the options of land reform programmes which are operating in the agricultural industry. There are about 50 share equity schemes sponsored by the Department of Land Affairs. Share equity schemes are joint enterprises, entered into by farm employees and a commercial farmer and/or third-party investor. Farm

employees are each allowed a R16 000 land acquisition subsidy to buy a stake in a farm. The Surplus People Project and Land Agriculture Policy Centre recently conducted a survey, assessing whether participating farm employees were satisfied with the four equity share schemes operating in the Western Cape and Mpumalanga regions. According to Fast (1999), share equity schemes are in an early stage of development in the farming industry. The study identifies some problems that need to be dealt with if the schemes are to contribute to the alleviation of poverty and enterprise development among the rural poor.

Based on the results of the survey, Fast (1999) contends that the farm employees were frustrated by the lack of immediate visible benefits, such as increased income and improved living conditions. The nature of some equity schemes is the key reason for the lack of visible benefits, which usually focus on capital-intensive production. Because this kind of production entails a long waiting-period before the initial investment is recovered, there is a difficulty in meeting the immediate needs of the employees and the long-term investment requirements of farming enterprises. Unfortunately, in most cases, farm employees lack investment experience and capital appreciation and many have waited a lifetime for their desperate circumstances to improve.

According to Fast (1999), the following are a few recommendations which were made, based on the results of the survey:

- Visible benefits should be built into each year of the financial plan. These targets should be related to employees' expressed needs, and they should be communicated to employees in order to hold management accountable for meeting the targets.
- Farm employees on equity sites should have access to land for their own use, for purposes such as cultivation and grazing.

The participating employees in Mpumalanga were very optimistic about one of the schemes, primarily due to the modest benefits they had already received. Two of the

schemes were however reported to be in serious financial difficulties. According to Fast (1999), the following factors were responsible for these difficulties:

- The schemes in question were carrying a high debt which was difficult to service in the current interest rate climate.
- Participants had paid too much for the farms, which contributed to the high debt level.
- Poor management decisions had been made on one of the farms. Farm employees had played no meaningful role in these decisions.

Unfortunately, all equity partners suffer if a farm goes into liquidation. Whilst consequences are worse for farm employees, in that they lose their jobs, their housing and their R16 000 grant which is, in effect, their life-savings, the other equity partners have skills, expertise and investments to enabling them to embark on other ventures (Fast 1999:28).

In order to address this problem, the study report recommended that urgent attention be given to improving valuations and legal processes, to ensure that the interests of farm employees' are adequately protected and promoted. It stated that an effective way of reducing the risk to farm employees is to ensure that they have secure tenure at the equity site, and that this tenure is separate from the scheme. In other words, if the scheme were to go bankrupt, each farm employee household would still have access to secure accommodation.

There are relatively inexpensive ways of securing this tenure. The study report recommend the following:

- The commercial farmer could donate residential land by means of subdivision.

- A notarial deed of personal servitude could be registered. Such individual rights would be registered on the title deed, and could include rights additional to those conferred by the Extension of Security of Tenure Act of 1997.
- A long-term lease could be registered. This amounts to ownership.

4.6.4 The ESOP workshop of the Masibambane Trust

In August 1995, the Masibambane trust, which is 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. Participants in the workshop included:

- government representatives, representations of the Katz Commission on Tax, the Commissioner for Inland Revenue and numerous members of parliament;
- representatives of various trade unions and labour co-ordinating bodies, including Cosatu, Nactu, Sactwu and the NUM;
- business representatives.

In the course of the two-day workshop, a consensus emerged that employee participation in the economy should be promoted and that ESOPs should be an important focus of public policy. Union representatives indicated that they were prepared to support ESOPs, provided that the following principles were followed:

- that wage levels and conditions of employment be 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.

The South African tax regulations are particularly hostile to the creation of ESOPs, resulting in a tax liability for an employee or company. In comparison, the success of ESOPs in both the United States and the United Kingdom has been driven by tax base incentives. Companies may make tax-deductible contributions to employee share trusts, for the acquisition of shares to be distributed to employees. In the United States both the principal and interest on ESOP-related financing are tax-deductible.

South African companies wishing to set up an ESOP must usually allow new, lowest paid employees to buy the shares (the Company's Act, No.61 of 1973, forbids a company to give away its shares unless fair market value is received). If the company at present provides financing at an interest rate lower than the official one, the employees are taxed on this fringe benefit. Furthermore, if an employer makes shares available at a discounted price, the difference between the market value and the actual price is deemed to be taxable income.

In summary, Nyhonyha and Braithwaite (1996) suggest that a South African model for ESOPs should include the following (strategies):

- *Restrictions on transferability*

Employee empowerment, which is an important goal in the introduction of these

programmes, would have little meaning if, after a short period, the shares were sold on by employees. In the case of Amalgamated Beverage Industries (ABI), shares were listed two years later, were sold at R5,30 and moved up from that point. Eight years after the share offering to employees it was estimated that only 30 % of participants still retained shares. Shares should therefore be issued with time limitations on their transferability (a period of five to ten years).

- *Discounted and free shares to employees*

In the case of parastatals, shares may be obtained on a give-away basis from government. The company may make payments on behalf of its employees which are deducted from their salaries; or dividends may be withheld until the shares are paid for in full. Employees may directly pay for shares in some cases, with financing provided by the parastatal.

- *Percentage of ownership*

ESOPs may be instituted whether or not a parastatal is being partially or wholly privatised. In some cases, such as when outsourcing, larger participation might be recommended but, in general, 5 to 10% of parastatal equity should be reserved for employees. Employee buyouts should be considered when outsourcing or selling off a service function such as security or printing.

- *Corporate governance*

A small percentage of shares, broadly held in small numbers by individual employees, could have the effect of making management less accountable. Voting rights attached to employee shares could be pooled in a voting trust and controlled by elected representatives who then vote on all employee shares as a block. By using a voting trust, employee shareholdings could enhance management accountability.

- *Differential pricing*

If the recommendation is made to privatise a parastatal, differential pricing could be used to provide for maximum revenue and broad employee participation. Shares could be placed in either a private placement with a strategic investor, or offered publicly at a higher price. This premium would be used to subsidise the cost to government of providing shares to employees at a discount.

- *Layout of employee ownership*

Blasi (1988) suggests that employee ownership can be insignificant or extremely minimal (up to 15%), sizable (16% to 50%), the majority (51% to 99%) or complete (100%). In other words, it can involve insignificant or total employee involvement and equip or favour employees with many or few of the rights and responsibilities associated with ownership.

Blasi (1988) therefore, suggests that the layout of an ESOP can be arranged in four basic ways, such as the following:

- **Minimal employee ownership and very little employee involvement in the ownership or management of the company.** The justification for this arrangement is that, when employees own a small part of the company, it makes no sense to involve them in the rights and responsibilities of ownership. In other words, ownership is intended merely to supplement wages.
- **Minimal employee ownership and some or extensive employee involvement in the ownership and management of the company.** The reasoning for this is that, when employees own a small part of the company, it makes sense to provide them with the rights and responsibilities of ownership because this will help a little equity to go a long way.

- **Sizable, majority or total employee ownership and very little employee involvement in the ownership and management of the company.** In this situation, the theory is that when employees own a large part of the company, it does not make sense for employees to have many of the rights and responsibilities of ownership because employees simply cannot manage such rights and responsibilities efficiently, both in terms of the company's interests and their own.
- **Sizable, majority or total employee ownership and some or extensive employee involvement in the ownership or management of the company.** The idea hence, is that when employees own a large part of the company, it makes sense for them to have many of the rights and responsibilities of ownership because that is the way a private property system works. Nevertheless, each type of employee ownership will not always be limited to a specific set of supporters and sponsors.

ESOPs, and the other strategies discussed above, are just some of the ways in which government can incorporate mechanisms for black economic empowerment in its restructuring programme. Black employees who are the majority in most parastatals will be provided with a further stream of income and an ownership stake in the economy. Black businesses, competing for the opportunity to buy any shares the government makes available, should become more familiar with ESOPs as vehicles for broadening share ownerships to employees. When they discuss important issues, ESOPs will probably be a part of most deals.

According to Leoka (1990), there are various reasons why South African organisations in particular offer shares to employees. The following are some of the important reasons:

- Some companies will offer employees a stake in order to realise their need for a sense of belonging in the company. This emanates from the fact that employees

become motivated when they own a part of the company they work for.

- Shares may be offered to employees in order to enhance productivity. Share ownership is a good way of sharing the correlation between hard work and divided income as well as capital gain.
- ESOPs may be introduced as a way of addressing the negative perception among some South African employees that all the profits unfairly go to management and directors although workers are the ones who are directly involved in the production process.
- Some companies use share schemes to retain key staff. Senior executives in marketing and production and key personnel, such as design engineers and information technology experts, may therefore be offered shares in addition to other executive benefits. The objective is to ensure their continued employment in the company.

Buchanan (1998) suggests the following additional reasons:

- To provide tax-favoured mechanisms for owners of closely held companies to sell part or all of their ownership interests.
- To improve corporate performance by getting employees more involved.
- To attract and retain good employees.
- To provide employees with a substantial capital stake in their company.
- To allow companies to borrow money and repay it in pre-tax contributions.
- To buy out divisions or subsidiaries.

In recent years, some South African companies have introduced employee share schemes as an industrial relations exercise to avoid the spread of socialist and anti-capitalist tendencies among employees. Others have introduced these schemes in the hope that they will reduce strikes and stay-aways. In the United States some saw employee share ownership as a means of strengthening capitalism, while a country such as Yugoslavia (a communist country at the time) has a long history of employee ownership (Pierce and Furo 1990:36).

Lastly, it is quite possible that the most enlightened reason for introducing an ESOP is to increase the workers' income while broadening the remuneration package base. In South Africa, a large portion of dividend income is tax-free and some enlightened companies have decided on share schemes as a means of improving employee income.

4.7 A BRIEF SUMMARY OF ESOPs IN OTHER COUNTRIES

ESOPs have been popular and successfully implemented in many countries, such as the United States of America and the United Kingdom. The ESOPs structures of these two countries are discussed below.

4.7.1 The structure of an ESOPs in the United States

A variety of schemes can be found in the United States where the employee share scheme concept originated. One of these is known as an Employee Share Ownership Scheme ESOP. By 1991 there were approximately 10 000 ESOP companies in the United States. Employee ownership can take two forms, namely, direct, where employees own shares in the company as would ordinary shareholders in a joint-stock company, or 'beneficial', where employees own shares through a trust known as an Employee Share Ownership Trust (ESOT).

The United States' Employee Retirement and Income Security Act of 1975 stipulates that the holdings of an Ownership Trust must be primarily invested in the shares of its company,

unlike the holdings of the usual profit-sharing trust, which may be diversified or of a pension trust, which must be diversified (Conte and Tannenbaum 1978:23).

Contributions to the Trust are governed by an Employee Share Ownership Scheme (ESOP). Depending on the plan, contributions may be made on the basis of a profit-sharing principle (whereby a fixed percentage of company profits is annually transferred to the Trust). There are specific tax exemptions when an ESOP borrows money from a United States bank and uses the funds to buy shares in the employing company. These exemptions are as follows:

- Half the interest income received by the lender is exempted from income tax in the lender's hands.
- Dividends paid by the company, to the ESOP, are deductible for tax purposes in the hands of the company rather than being treated as a distribution of profits.

There are striking similarities between the ESOPs, on both sides of the Atlantic, on an economic and commercial level. Because of these similarities, commentators, politicians and practitioners have naturally borrowed the name 'ESOP' from the American pioneers. These similarities are discussed later in this chapter.

4.7.2 The structure of an ESOP in the United Kingdom

In the United Kingdom, an ESOP usually comprises two distinct components. The first component is a Discretionary Employee Benefit Trust ('the ESOP trust'), whose trustees are appointed by the employer company. This trust is dedicated to investing in shares or securities of the employer company and is empowered to borrow money for this purpose. At the discretion of the trustees, the trust fund may be used to confer benefits on one or more of the employees. The second component comprises one or more employees' share schemes designed to effectively deliver shares tax into the hands of the individual employees (Reid *et al.* 1990:18). In other words, an individual employee will pay tax after

receiving dividends as earnings or income. The trust will often be established offshore so as to improve its United Kingdom tax position.

According to Chance (1991), the trust itself is not capable of having revenue-approved status even if it is a qualifying Employee Share Ownership Trust (ESOT) under the rules of the Finance Act of 1989. The share delivery scheme is often a revenue approved share option or profit-sharing share scheme.

According to Chance (1991), the new tax rules of the Finance Act of 1989 were introduced and designed to encourage the implementation of ESOPs. The United Kingdom ESOP has furthermore attracted attention because it seems to offer a new solution to several commercial problems. Therefore, it is not only an employees' share participation scheme but also a new tool of corporate finance. Additionally, the ESOP as the employees' representative can also improve the position of employees as investors in government privatisation and leveraged buyouts.

4.7.2.1 Sources of finance for United Kingdom ESOPs

An ESOP can obtain finance from a variety of sources. According to Reid *et al.* (1990) these sources can include the following :

- loans from the company or its subsidiaries;
- loans from an external financier;
- voluntary contributions from the company or its subsidiaries;
- dividends;
- interest on convertible securities;
- sales of shares to employees;
- sales of shares to a profit sharing scheme;
- sales of shares to third parties; and
- 'put and call' option financing.

The simplest way of financing an ESOP is for the company to make a loan to the trustees on interest-free terms. This is attractive because it is straight-forward, in that the terms of the loan will not need to be negotiated in detail. Furthermore, the cost is invisible in the sense that the cost of the loan will not be shown as a separate expense in the profit and loss account and, if the loan is repayable on demand, it can be shown as a current asset in the balance sheet (Reid et al. 1990: 35-36).

Many banks and other financial institutions in the United Kingdom are willing to financially assist ESOPs. One of the major advantages of arranging external finance for an ESOP is that the borrowing should have no immediate impact on the company's own balance sheet. In addition, if the ESOP's and the company's cost of borrowing are the same (which they should be if the company is able and willing to guarantee the loan), external borrowing should be no more expensive than a loan from the company itself (Reid et al. 1990:37).

According to Reid et al. (1990), the company will often make a series of voluntary monetary contributions to the ESOP which should be deductible for corporate tax purposes if properly arranged. In other words, this can mean that the ESOP provides a way of obtaining tax relief for principal repayments as well as interest payments.

Reid et al. (1990) contends that if the ESOP fulfils its usual role of holding shares in the company, it will normally have the opportunity of receiving dividends on those shares. In other words, those dividends can be used to pay the ESOP's expenses, such as interest on its loans. Company funding of an ESOP by way of dividends does not give rise to any additional costs and the payment of dividends will not directly and immediately affect the company's earnings.

An ESOP will often distribute shares to employees through direct sales. This may be a sale by way of a share option scheme of some kind, or a share purchase scheme or through no scheme at all. On the other hand, because the ESOP is a discretionary trust

for the benefit of employees, it is free to sell to employees at less than market value if the trustees find this appropriate (Reid et al. 1990:40).

According to Reid (1991), the ESOP will often have a profit-sharing scheme as a major component. This means that the profit-sharing trust will receive voluntary contributions from the company and purchase shares from the ESOP trust, thereby realising capital within the ESOP trust.

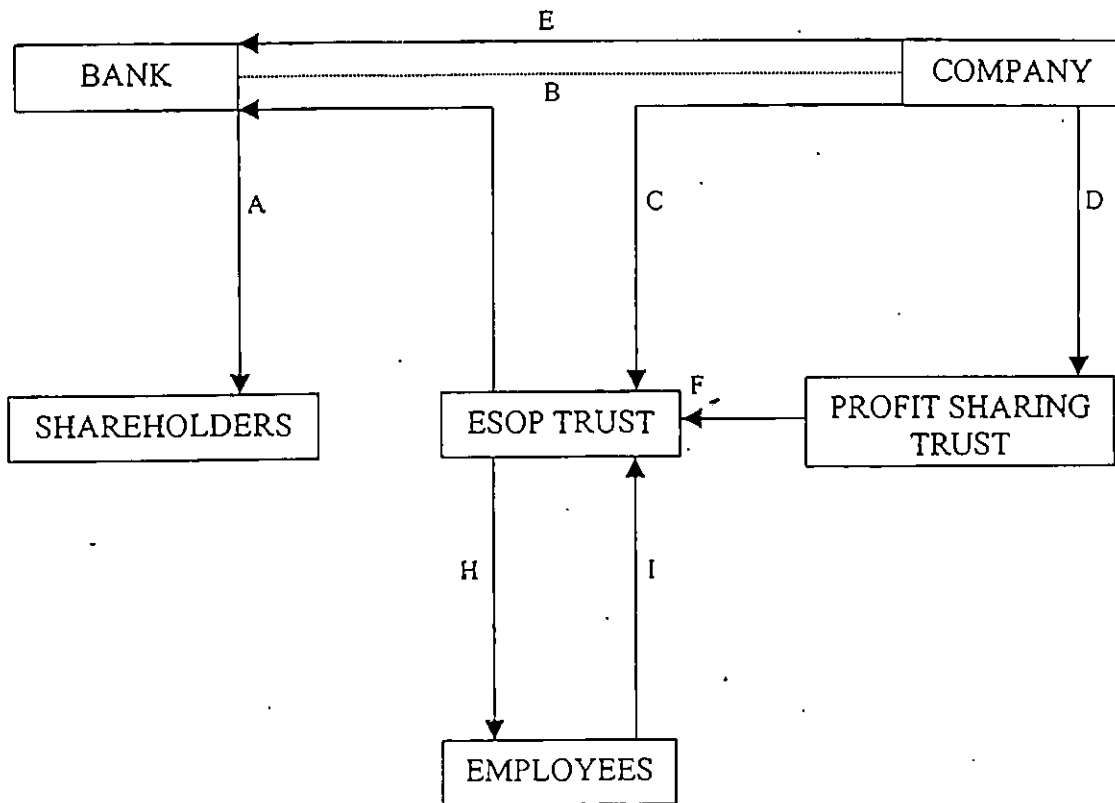
Reid et al. (1990) further argues that there is no reason, in principle, why the sale should not take place at less than market value if all the beneficiaries of the profit-sharing scheme are also beneficiaries of the ESOP trust. In other words, this could enable the company to finance the profit-sharing scheme at a lower cost than if the shares were purchased in the market at the time of distribution or newly issued.

4.7.2.2 The 'Put and Call' Option Scheme as a source of finance for an ESOP

The put and call option scheme is a way of structuring an ESOP that enhances the level of security available to the bank. It furthermore makes full use of tax credits attached to the ESOP's income (Reid et al. 1990: 41). In other words, in the put and call ESOP, the bank acquires the shares to be distributed through the ESOP. The bank thereafter enters into an option agreement with the ESOP, under which the bank can put the shares into the ESOP on the specified dates or in specified circumstances and the ESOP can call for the shares at any time.

Figure 4.3 shows the 'put and call' ESOP cash flows.

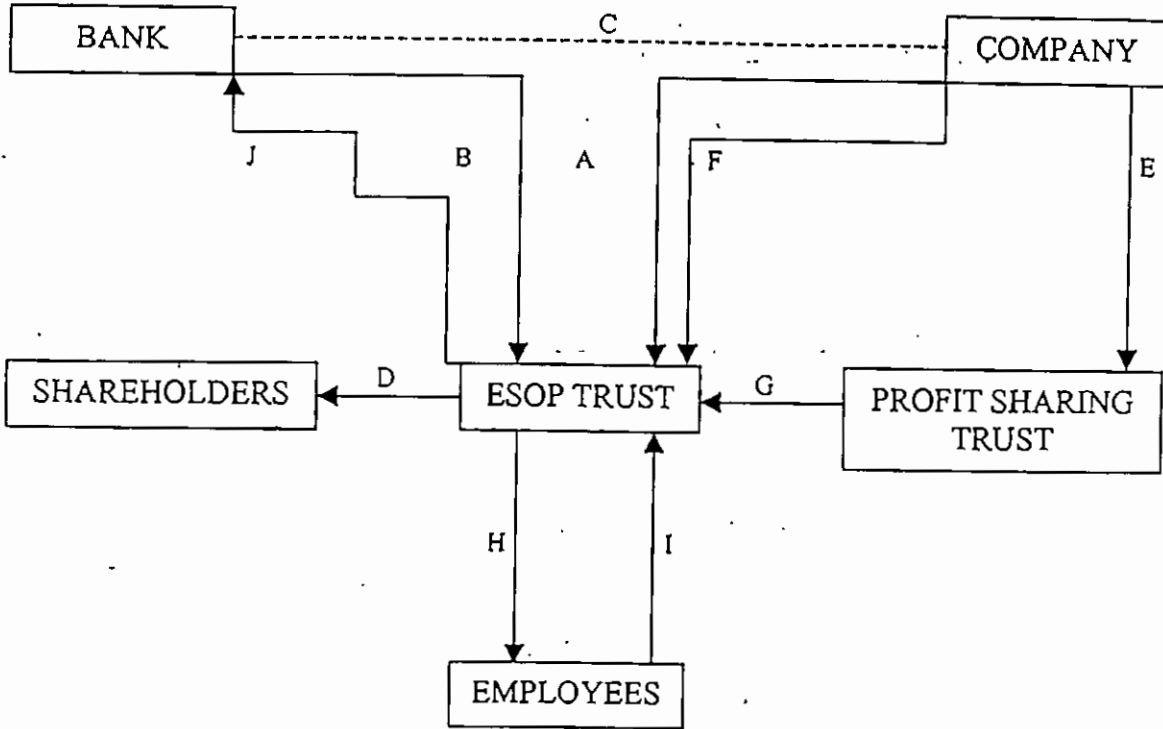
FIGURE 4.3
THE 'PUT AND CALL' ESOP CASH FLOWS



Source: Reid et al. (1990:34)

- A - Bank purchases shares from existing shareholders.
- B - Company guarantee ESOP trust's liabilities to bank under option agreement.
- C - Company makes loans and/or voluntary contributions to ESOP trust.
- D - Company makes voluntary contributions to profit-sharing trust
- E - Company pays dividends to bank.
- F - Profit-sharing trust purchases shares from ESOP trust.
- G - ESOP trust purchases shares from bank.
- H - ESOP trust sells shares to employees.
- I - Employees sell shares to ESOP trust.

FIGURE 4.4
INTERNAL AND EXTERNAL COMPANY CASH FLOWS IN THE UNITED KINGDOM



Source: Reid *et al.* (1990: 20).

- A - Company lends money to ESOP trust.
- B - Bank lends money to ESOP trust.
- C - Company guarantees bank's loan to ESOP trust.
- D - ESOP trust purchases shares from existing shareholders.
- E - Company makes voluntary contributions to profit-sharing trust.
- F - Company makes further loans and/or voluntary contributions and pays dividends to ESOP trust.
- G - Profit-sharing trust purchases shares from ESOP trust for employees.
- H - ESOP trust sells shares to employees.
- I - Employees sell shares to ESOP trust.
- J - ESOP trust pays interest/repays principal debt to bank.

- The tax advantages of the United Kingdom ESOP are much more limited than the United States ESOP. For example, the income and capital gains from the United States ESOP are exempted from United States tax in much the same way as United Kingdom approved pension schemes but in contrast to a United Kingdom ESOP.
- The United Kingdom ESOP can be designed to benefit selected employees only. The United States ESOP has to be non-discriminatory.
- The United Kingdom ESOP is shorter-term in that it is designed to deliver shares to employees during service, whereas the US ESOP is principally a retirement or break in service benefit.
- The United Kingdom ESOP delivers actual shares to individual employees, whereas the United States counterpart tends to encourage the employee to receive money representing the realisation proceeds of shares. One of the reasons for the ESOP's popularity amongst United States unquoted companies is that it can provide employee share participation without necessarily giving rise to large numbers of small individual minority shareholders. Furthermore, the latter would be entitled to considerable statutory rights, such as rights of action for alleged or imagined wrongdoing by the directors.
- The United Kingdom ESOP may include a share option scheme as the means of delivering shares from the ESOP trust to employees. The United States ESOP does not entail any employee share options.

ESOPs have enjoyed a period of phenomenal growth in America. In 1974 there were about 300 US ESOPs which rose to 10 000 by 1988. More than 11 million of the United States labour force are ESOP participants. Many of the largest United States corporations, such as Procter & Gamble, McDonalds and Avis have established major leveraged ESOPs involving billions of dollars of financing. The ESOP is therefore an established feature of

commercial life in the United States of America and is assisted by approval and attendant tax incentives. On the other hand, there are far fewer tax advantages for an ESOP in the United Kingdom. For example, the income and gains of the United Kingdom ESOP are not normally exempted from tax. Despite this, an increasing number of quoted and unquoted companies are establishing ESOPs in the United Kingdom.

South Africa is no exception compared to other countries with regard to the setting up of ESOPs because it is capable of complying with the contents of the Acts and Rules stipulated in the South African Statutes (Section 38 (1) and (2) in the Company's Act, No. 61 of 1973 and Income Tax Act 8a and 10 (n) (e) No.58 of 1962. Although there are few differences between the SA ESOP and those of other countries, the basic functions and activities are the same. For example, in the ESOP there is not much emphasis on quoted or unquoted company's activities in relation to the ESOPs in other countries.

A profit-sharing scheme is not included as a funding feature in the establishing of an ESOP Trust within South African companies. An example of funding is when money is paid into the trust to assist employees to buy shares.

4.8 SUMMARY

Companies with ESOPs generally report increased employee motivation, productivity and retention. It must be noted, however, that implementing an ESOP alone will have little bearing on employees. To be an effective motivational tool, an ESOP must be combined with other factors, particularly an employee-participation programme which affords employees greater decision-making responsibilities in their jobs. An ESOP will only be successful if a company does a good job of informing its employees about the programme. Certain aspects which may improve or influence methods used to establish ESOPs need further investigation.

CHAPTER 5

THE IMPLEMENTATION OF EMPLOYEE SHARE OWNERSHIP SCHEMES IN SOUTH AFRICA

5.1 INTRODUCTION

The concept of employee share ownership entered the South African industrial relations arena in the 1980s and has since generated much interest in the business community. The number of ESOPs has increased dramatically in recent years, focussing attention on whether ESOPs are used to enhance employee incentives or to prevent external hostile bids. Many companies have already followed the route of share purchase schemes for their employees and these schemes are likely to play an even greater corporate role in the future. Some researchers emphasise that employee share ownership schemes in particular hold the promise that employees will develop a sense of loyalty to their company because their material interests will coincide with those of the company (Maller 1989:7). The main objective of this chapter is to investigate the theoretical and practical experiences of implementing employee share ownership schemes in South Africa.

5.2 THE NATURE OF ESOPs IN SOUTH AFRICA

South African share schemes are linked to economic empowerment. In other words, if an employee owns a share in a company, his own financial situation will be affected and, if the company does well, both the employee and the company will benefit. ESOPs can therefore be regarded as direct employee ownership which has been long demanded of the companies that they work for (Cloete 1996: 40).

The question is whether a prospective investor should take the nature of such a scheme into consideration when planning a contribution to the company's shares. Some

companies have raised share capital on the Johannesburg Stock Exchange (JSE) in an effort to assist their employees to own shares in the companies they work for.

It is estimated that the number of companies listed on the JSE with employee share ownership was approximately 100 by 1989. According to Maller (1989), the majority of these companies were introduced within two years, that is, from 1987 to 1989. In 1990, the number of companies listed on the JSE with ESOPs was estimated at 120. Cloete (1996) believes that share capital raised for this purpose has increased consistently since 1991 and reached one billion rand (R1bn) in 1994. In 1995, R681 million was obtained by these means and about R281 million was taken over the first 3 months of 1996. (See Table 5.1.)

TABLE 5.1
SHARE CAPITAL RAISED ON THE JOHANNESBURG STOCK EXCHANGE
(JSE): 1991-1996

R million	1991	1992	1993	1994	1995	1996*
Take-overs	1 846	2 839	3 632	2 986	1 664	797
Rights issues	6 529	7 403	7 263	2 881	6 834	1 662
Capitalisation issues	192	1 141	697	2 272	5 370	617
Share schemes	233	677	590	1 091	681	281 (3 months)
Prospectus	692	239	578	341	942	333
Other	145	5	798	417	4 238	375
Total	9 637	12 304	13 558	9 988	19 729	4 065

Source: F&T Weekly, 19 April 1996

Davidow (1999) suggests that the number of companies listed in the JSE with ESOPs raised a share capital of more than three billion rand (R3bn) in 1997. By the end of

September 1999 companies with ESOPs raised share capital of one billion rand (R1bn).
(See Table 5.2.)

TABLE 5.2
SHARE CAPITAL RAISED ON THE JSE: 1996-1999

R. million	1996	1997	1998	1999	1999 (Month end)
Acquisition of assets	6,413	21,601	33,840	30,396	16,490
Rights issue	9,835	9,671	14,490	13,536	2,268
Script dividend	6,812	6,366	14,474	3,807	1,770
Share incentive	925	3,471	2,803	2,270	1,379
Via prospectus	944	297	3,353	283	3,399
Waiver of pre-emptive rights	2,935	5,170	7,665	5,656	6,720
Other	535	3,286	224	626	1
Total	28,399	49,862	76,849	56,574	32,027

Source: JSE (September, 1999)

There are two types of share schemes in use in South Africa. The scheme regarded as the better option is one over which strict control is exercised. There are usually trustees involved in such an operation and approval for placing the shares on the JSE has to be obtained. In addition, the number of shares to be given to each employee is determined together with the price and the qualifying criteria. The second commonly used scheme is that in which existing shareholders decide to simply take some of their shares and give them to the employees. In this situation the JSE has no option but to allow the company to give the shares to whomever it wishes. The latter type of scheme has previously led to problems between companies and the JSE.

It is important therefore for the prospective investor (employee) to make sure of what type of share scheme a company operates. He should take note of how many shares in the company's issued share capital are allocated to employees. It is important for

management of the relevant company to adhere to the company's Act (Section 38).

The directors of a company manage the company on behalf of the shareholders and, as shareholders, are paid salaries by the company. Some directors are actively involved in the daily management of the company and can make use of additional staff such as professionals to assist them in managing the business. When employee share ownership is offered, the same structure remains because the management of the company remains the same (Maller 1987:51).

In South Africa, it appears that employee share ownership usually amounts to between 1% and 2% of total shares in the companies. Maller (1987) noted that there are some significant exceptions such as that of Ford Motor Company which had allocated 24% of its shares to employees in the 1980s. This structure grants an allowance for variation when a certain amount of money is put into a trust-fund on behalf of employees and is used to buy company shares.

According to Maller (1987), employees collectively own a certain number of shares and elect representatives to attend shareholders' annual general meetings on their behalf. Maller (1987) maintains that, in the 1980s Ford Motor Company was one of the companies to consider this type of option by offering South African Motor Corporation employees this option of collectively owning and administering 24% of Samcor's shares. It is unknown whether there are any other South African companies which use this type of structure.

The range of issued shares of companies having ESOPs currently runs between 1% and 20%. Despite the above-mentioned positive move (increasing the issued shares) of some companies such as Ford Motor Company, there is still an element of exposure to risk for the financial situation of the ESOP. This means that once a company's share scheme approaches 20% of its total issued shares, large-scale selling-off of shares by employees can lead to unstable share prices, but if it amounts to say less than 5%, the risk of

instability is much smaller.

Lastly, the company's labour and trade union relations should be considered. According to Cloete (1996) there are a number of mechanisms preventing large-scale selling-off of scheme shares, meaning that there are rules and regulations to be used in many schemes when trying to prohibit the unexpected selling of scheme shares by employees.

5.3 STEPS IN SETTING UP AN ESOP

If a company has decided that an ESOP is worth investigating, there are several steps to be taken to implement the plan. According to Rodrick (1996) and Johanson (1997), the following steps are recommended:

- Determine whether other owners are willing to sell shares or to be influenced in selling, rather than assuming that the existing owners of companies are willing to sell. Employees should not organise a buyout unless they have some reason to think that the parent firm is willing to sell, or they may be other owners of a private company who will never agree to an ESOP, even if it seems appealing to the principal owners.
- Conduct a feasibility study which should inform the owner whether the characteristics of his company are such that he is a good candidate for a sale to an ESOP. This feasibility study may involve one or more discussions with qualified ESOP attorneys, a full-blown written feasibility analysis prepared by an outside financial consultant, marketing surveys, management interviews, detailed financial projections or it may simply be a careful business plan performed in-house. Full-scale feasibility studies are generally, needed only where there is some doubt regarding the ESOP's ability to repay the loan.

Any analysis must however consider several aspects. Firstly, it must assess just how much extra cash the company has available to devote to the ESOP and whether this is adequate for the purposes for which the ESOP is intended. Secondly, it must determine whether the company has an adequate number of employees for ESOP participants to make the ESOP contributions deductible. It must remember to include the effects of other benefit plans maintained in these calculations. Lastly, estimates must be made of what the re-purchase obligation will be and how the company will handle it.

- The feasibility study must rely on rough estimates of the value of the shares for the purpose of calculating the adequacy of cash and payroll. These estimates will be fairly accurate in public companies because they can be based on past price performance. They will be more speculative in private companies. If the circumstances are such that the ESOP alternative is feasible, the next step is to obtain a professional evaluation of the entire company and of the portion of the company that is being sold to the ESOP.

A company may first wish to have a preliminary valuation carried out to see if the range of values produced is acceptable. If the range of values is acceptable a full valuation will follow. A valuation by an independent appraiser is one of the legal requirements for a transaction between an ESOP and the owner of a company establishing an ESOP. An ESOP cannot pay more than fair market value for the shares purchased from the owner. The independent appraisal is used by the ESOP fiduciary (a board of trustees, an administrative committee, or an institutional trustee) to ensure that the ESOP does not pay more than fair market value for the shares, as determined at the date of sale.

It is crucial to carry out an evaluation before implementing a plan because, if the value is too low, sellers may not be willing to sell. Alternatively, the company may not be able to afford the share price. The valuation consultant will look at a variety

of factors, including cash flow, profits, market conditions, assets, comparable company values, goodwill and overall economic factors.

- If these first three steps prove positive, the company can obtain assistance from an attorney to draft the ESOP plan document. The ESOP trust agreement must furthermore be designed and implemented as the valuation process progresses. The company should carefully evaluate its options and advise the attorney of how it wishes the ESOP to be set up. This could save the company a considerable amount of money in consultation time.
- There are several potential sources of funding. If the company does not have adequate cash resources to finance the purchase of shares by the ESOP it must obtain a loan from a commercial lender, and loan terms must be negotiated. In addition, a share purchase agreement between the owner of the company and the ESOP must be negotiated and prepared.

The company's debt to the commercial lender and the ESOP's debt to the company is normally repaid over a five or seven-year term, with tax-deductible contributions by the company to the ESOP. Contributions to the ESOP, used to pay the interest on the ESOP's loan from the company, are fully deductible. According to US laws, contributions used to repay an ESOP's principal loan are deductible up to an amount equal to 25% of the total compensation paid or accrued to all participating employees, as long as no more than one-third of the contributions are allocated to "highly compensated employees".

According to Section 10 (1)(ne) of Share Incentive Schemes of the Income Tax Act, No.58 of 1962 certain amounts received by or accrued to an employee under a share-incentive scheme operated for the benefit of employees are exempt from normal tax. These are commonly referred to as 'stop-loss' provisions in share-incentive schemes. The exempt amounts are those derived from:

- the cancellation of a transaction in which the taxpayer bought shares under the scheme, or,
- the re-purchase from the taxpayer of shares bought by him under the scheme but only if the re-purchase price does not exceed the selling price of the shares to him.

This exemption will only be granted if, in consequence of the cancellation or re-purchase, the taxpayer has not received or become entitled to receive any compensation or consideration other than the repayment of any portion of the purchase price actually paid by him (Huxman and Haupt 1998:439).

Dividends paid on shares acquired by an ESOP with an ESOP loan are generally deductible to the extent in which they are used to repay that specific loan, provided that the company establishing the ESOP and issuing the dividends is not subject to the alternative minimum tax. In this event the dividends may not be fully deductible.

According to Rodrick (1996), an ESOP can borrow money from the following sources:

- Banks are generally receptive to ESOP loans but it is recommended, as with any loan that a variety of options must be considered before any company can finalise negotiations. Sellers or other private parties can make loans, but do not qualify for interest income exclusion.
- A further source of funding is ongoing company contribution, aside from loan repayments. While ESOPs must, by law, invest primarily in employer securities, most ESOP experts believe that they can temporarily invest primarily in other assets while building up a fund to buy out an owner.
- A third source is existing benefit plans. Pension plans are not a practical source

of funding, but profit-sharing plans are sometimes used. Profit-sharing assets are simply transferred wholly or partly to an ESOP. This is common among firms, but caution must be exercised. If employees are not given a choice in the switch, trustees of the plan must be able to demonstrate that the investment in company shares was carefully planned by identifying advantages and avoiding risk. If they are given a choice, there could be a security law issue.

Lastly, employees can most commonly contribute to the plan by wage or benefit concessions. Although most ESOPs do not require concessions they are necessary in some cases.

5.4 PRACTICAL CONSIDERATIONS IN COMPANY SCHEMES

Some types of ESOPs have been briefly discussed in Chapter 4. It is important, however, to understand all relevant concepts such as equity and dividends before considering a share ownership scheme and how it is actually implemented in some firms.

5.4.1 Some important concepts in share schemes

- *Shares:* When a company is initially formed, it raises capital through the creation and issuing of shares to finance it. The shares are effectively sold to buyers who then become shareholders. The shareholders, having put up the money for the company, become joint owners of the company. In other words, owning shares is a means of owning part of a company, having a say in the running of its affairs (in direct proportion to the percentage of shares held) and sharing in its profits in the same proportion (Findlay, 1990:24).
- *Equity:* According to Leoka (1990), equity is generally accepted as ordinary shares that carry no fixed interest. In other words, although there are different classes of

shares, every share is equal within each class. Each share has the same rights and the owner of each share is entitled to an equal portion of the company, no matter how many shares there are in total, or what price is paid for them. A shareholder who owns 200 shares in a company, owns ten times more than someone who only owns 20 shares in the same company.

The total number of shares within a company can change from year to year, while the number of shares in issue can vary dramatically from company to company. A shareholding must therefore always be seen in relation to the total number of shares in issue of a particular company.

- *Dividends* : These are a share of profits paid to shareholders in a company. A shareholder receives a return on the capital which he has invested in the form of dividends. It is similar to the interest that a client receives for money invested in the bank in that it is payment for the use of money which a client has invested. There are however significant differences between owning shares and saving money in the bank. There is no guarantee that the money itself will ever repay the capital and, furthermore, the way to recoup the money is by selling the shares (Leoka 1990:26).

Whether or not the company is the one for which the shareholder works, owning shares is a way of owning a part of that company, and of benefiting financially in the form of dividends and capital growth (Leoka 1990:26). The main focus of this chapter will be on share option and equity schemes under the umbrella of two commonly practised ESOP methods, namely, share allotment and special share offers. Company case studies and examples are analysed, followed by a general overview of share option schemes.

- *Ownership*: The concept of spreading wealth through the share market refers to the spreading of share ownership among more people. In other words, a part of the wealth of a country is held in the form of shares. Whether or not the company is the one for which the shareholder works, owning shares is a way of owning a part of that company, and of benefiting financially in the form of dividends and capital growth (Leoka 1990:26).

5.4.2 Employee Share Option scheme in practice

ESOPs involve employee ownership of a stake in the employing company. It is one of the more popular schemes that has strived 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), meaning therefore that the cost of participating arises at a future date.

5.4.3 The functioning of ESOPs

Employees are enabled to purchase shares, but there are restrictions regarding the disposal of the shares in question. According to Mthombeni (1996), employees are granted an option by a company or trust (also known as a share incentive trust), in the following manner:

- The option entitles the employees to subscribe to a specified number of shares at market value.
- The option cannot be exercised before the lapse of a specified period (usually 3 to 5 years).
- Employees do not acquire the shares until the option is exercised and therefore do not receive any dividends or income from the shares.

- If the share price increases from the date it was granted to the date it is exercised, employees gain the amount of the difference. This raises the question of what is expected of the participants in order for the whole company to follow the right path of the stipulated rules and regulations of the scheme.

5.4.4 Legal obligations of ESOPs

A share incentive scheme is a legal scheme in which not more than 10% of the equity share capital of a company is held by the directors and full time employees, by an associated institution in terms of a share incentive scheme, by trustees in terms of Section 38 of the Company's Act, No.61 of 1973 or is collectively held (Huxham and Haupt 1998:260). Additionally, the company is prohibited from granting financial assistance to employees to buy or subscribe to shares in the company itself or its holding company (Section 38 read together with Section 226 (1) of the Company's Act, No.61 of 1973).

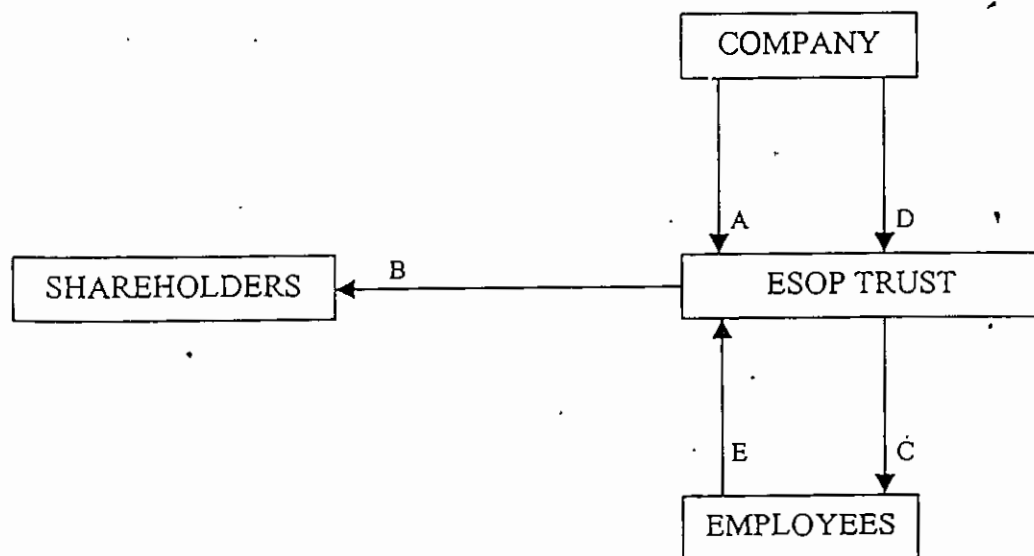
Financial assistance by way of a share option scheme is not prohibited if it complies with the requirement that the participants are bona fide employees. In other words, employment must be genuine (preferably, full time employees).

Secondly, where directors also participate in the scheme, a share incentive trust must be used as a vehicle for offering the shares. This is a requirement of Section 226 (1). The lending of the money by the company whose business is the lending of money is not prohibited by Section 38 (2)(a). Any company wishing to issue or sell shares to its directors on loan account may therefore only do so in terms of Section 38(2)(c) of the Company's Act, No.61 of 1973, by forming a trust which sells shares issued to it by the company, to employees and directors. The intention is to provide shares to employees on loan account. Although many different types of trust arrangements exist, the shares are generally acquired by the trust either by means of an issue of shares by the company, by means of a purchase on the open market or from employees who terminate their services. Where the trust holds a large number of shares which it intends selling over a number of

years, profits will be realised in later years if the share price increases. The question arises as to whether such profits are taxable. The answer depends on whether the proceeds from the sale of the shares are of a capital or revenue nature (Huxham and Haupt 1998:33). In the case of CIR v Pick 'n Pay Employee Share Purchase Trust (1992 AD), in a split decision the court held that the income arising from the sale of shares to employees gave rise to a capital receipt in the trust.

According to Huxham and Haupt (1998) the majority finding was based on an application of the "scheme of profit making" test to the exclusion of all other tests. The majority felt that it was irrelevant to consider whether or not the trust was carrying on a business or whether or not the shares constituted floating (as opposed to fixed) capital if there was no "profit making scheme" involved. On the other hand, the minority held that because the shares were acquired for the purpose of resale, they were floating capital. The following diagrams summarise the structure of the typical South African ESOP. Figure 5.1 illustrates the Internal Company Cash Flows.

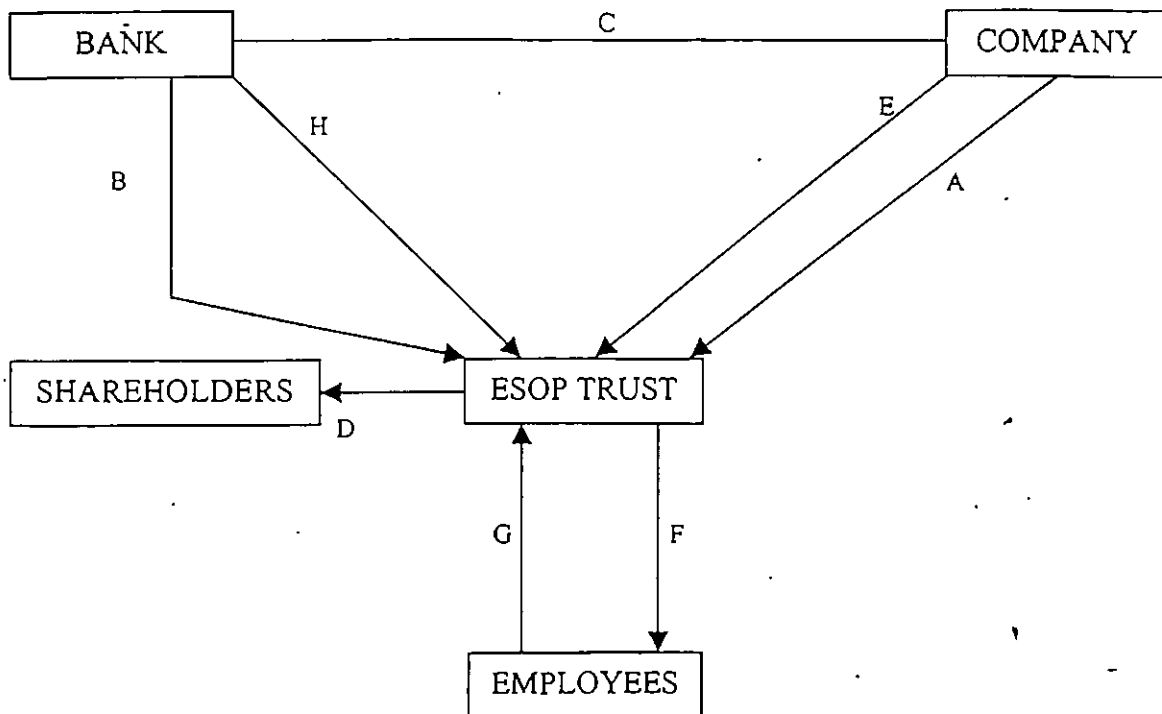
FIGURE 5.1
INTERNAL COMPANY CASH FLOWS: THE STRUCTURE OF THE SOUTH AFRICAN ESOP



- A - Company lends money to ESOP trust.
- B - ESOP trust purchases shares from existing shareholders.
- C - ESOP trust sells shares to employees.
- D - Company makes further loans and / or voluntary contributions and pays dividends to ESOP trust.
- E - Employees sell shares to ESOP trust.

Figure 5.2 illustrates the Internal and External Company Cash Flows.

FIGURE 5.2
INTERNAL AND EXTERNAL COMPANY CASH FLOWS: THE STRUCTURE OF THE SOUTH AFRICAN ESOP



- A - Company lends money to ESOP trust.
- B - Outside market (bank) lends money to ESOP trust.
- C - Company guarantees bank's loan to ESOP trust.
- D - ESOP trust purchases shares from existing shareholders.

- E - Company makes further loans and /or voluntary contributions and pays dividends to ESOP trust.
- F - ESOP trust sells shares to employees.
- G - Employees sells shares to ESOP trust.
- H - ESOP trust pays interest/ repays principal amount to the bank

5.4.5 Taxation implications for ESOPs

Among others, the South African Income Tax Act, No. 58 of 1962 incorporates and accommodates the activities of share options. Section 8a of the Act, in relation to share option schemes, emphasises that any gain made by the exercise, cession or release of any right to acquire any marketable security will be included in the taxpayer's income if the right was obtained by a taxpayer as a director (or former director) or in respect of services rendered by him as an employee. Most importantly, Section 8a directs that the tax liability arises on the day on which the option is exercised or otherwise dealt with, and is calculated as the difference between the amount paid for the shares and the market value at the date, less any amount paid for the options. For example, if an employee of XYZ Ltd is given an option to acquire 2 000 shares in XYZ Ltd, at a price of R2,00 per share, at a time when the shares have a market value of R3,00, and he exercises his option one year later when the shares have a market value of R4,00, his tax liability will be as follows:

Market value at date of exercise	R2 000	@ R4	R8 000
Amount paid	R2 000	@ R2	R4 000
Taxable portion			R4 000

An amount of R4 000 is added to his gross income in terms of paragraph (i) of the definition, which makes specific reference to amounts determined in terms of Section 8a. South African companies are further expected to comply with Section 10 (i)(nE) of the Income Tax Act, No.58 of 1962 which stipulates that if a taxpayer purchases shares under

a share incentive scheme and the transaction is cancelled or the shares repurchased from the employee, the employee will not be taxed on the amount received by him for the shares, provided it is not more than he paid for the shares.

Mthombeni (1996) further contends that tax liability is the only major disadvantage of the scheme because it forces employees to dispose of a substantial portion of shares in order to settle tax liability. This runs counter to the primary objective of share option schemes, which is to allow employees to own a portion of their company in order to share in its future growth.

5.5 IMPLEMENTATION OF ESOPs IN SELECTED SOUTH AFRICAN COMPANIES

The majority of South African companies have attempted to comply with the stipulated legal requirements of ESOPs according to Section 38 of the Company's Act, No.61 of 1973 as well as the Income Tax Act, No.58 of 1962. The ESOP arrangement of farm equity schemes and three companies are discussed in this section, namely, Anglo American Corporation, Pick n' Pay and INVESTEC. These companies complied with the requirements of Section 38 (1) and (2)(a) and (b) of the Company's Act, No.61 of 1973.

(i) Anglo Employee Equity Scheme

In November 1987, the Anglo American Corporation (AAC) allocated five shares to each employee paid for by the company. By 1988, 192 000 of its 250 000 employees in South Africa had been given the opportunity to become shareholders in the company at no cost to themselves. The purpose of the plan was to give employees an opportunity to acquire a stake in the corporation, and to share in its long term growth and dividend performance. Nineteen of AAS's affiliated companies participate in this scheme. The main provisions were:

- The plan provides for the issue of AAC ordinary shares to all eligible employees, that is, those with a minimum of two or more years service at no cost to themselves, with the company meeting any fringe benefit tax liability.
- Participating employees are required to retain their shares in the Anglo American Group Employee Shareholder Trust for at least four years, during which time they may not be sold. Each participant obtains a "safe custody" receipt, receives dividends, receives an Employee Shareholders Annual Report (and on request the full AAC Report), and may direct the Trustees on how to vote the shares in general meetings of the corporation.
- An employee has three options at the end of the four years. The shares may be left with the trust, transferred to the employee or sold to the Trust at the open stock market price on the JSE.
- If an employee leaves because of retirement, redundancy or in the event of death, any one of these options may be exercised immediately; but the shares of voluntary leavers, or those dismissed for other reasons, remain in the Trust for the four year period.
- Participation is voluntary and open to all employees with a minimum of two years service in the Corporation itself or in any of its subsidiary or associate companies participating in the plan.
- Initially, five shares were offered to each employee, at a value of approximately R250 and approximately 121 000 employees took up the offer (63% of those eligible accepted). The second allocation was made in 1989 when a further five shares were offered with a market value of R400 per share. AAC therefore announced that the number of eligible employees who had accepted shares had

increased to 64.4%.

- At the time, the ten shares were worth approximately R1 300 and earned dividends of around R29 per share per year. A further five shares were offered during 1990.

(ii) The Western Cape and Mpumalanga Farm Equity Schemes

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), share equity schemes are joint enterprises, entered into by farm employees and a commercial farmer and/or third party investor. There are at least 50 such schemes sponsored by the Department of Land Affairs in various stages of development.

Fast (1999) suggests that share equity schemes offer commercial farmers considerable advantages, such as the following:

- Farm worker households receive a R16 000 land acquisition subsidy from the government (Department of Land Affairs) to buy a stake in a farm. This money is used for debt reduction and/or capital investment. This enables farmers to leverage capital without having to make high-interest loans.
- Share equity schemes can further provide access to financing facilities and additional water rights, as water policy is aimed at improving black people's access to scarce water resources.
- Equity schemes have potential advantages for farm employees, giving them a financial stake in commercial agriculture, from which they have been excluded in the past.

- Lastly, if the scheme does well, there are opportunities for transferring skills and increasing income.

(iii) The Pick 'n Pay Employee Share Ownership Scheme

Pick 'n Pay Stores Limited is an investment holding organisation with subsidiaries retailing food and general merchandise on a cash basis throughout the country. Trading is conducted from 14 or more hypermarkets and over 100 supermarkets. Income is further derived from wholesaling, auto centres and an upmarket household goods chain. Pick 'n Pay Stores Limited is 52% held by Pick 'n Pay Holdings Limited (PIKWIK) which in turn is held by Raymond Ackerman Holdings (King 1988: 35).

Pick 'n Pay have operated a limited ESOP for the past 25 years. Employees qualified for share ownership if they had completed ten years service or achieved 'manager' status. During 1987, Pick 'n Pay announced a significant extension of the employee share ownership scheme to more employees. Employees were offered at least R1 200 worth of shares, the value of which could double in a short time. Pick 'n Pay's main aim was to make 50% of the staff shareholders after explaining what shareholdership means and the benefits it would yield (King 1988:35).

By the end of 1987 16% of the company employees (approximately 2 703 of a total 18 000) owned shares in Pick 'n Pay. The company intended to raise this proportion to 50% over the following 3 to 4 years by changing the criteria for employee share allocation. According to Maller (1989), shares were made available in the following ways:

- Existing shares would be split four ways to reduce the share price and make more shares available to employees.
- Employees with five years' service would be eligible.

- Grades lower than 'manager' would also be eligible.

In other words, Pick 'n Pay and PICWIK (the holding company) shares were split into four (for example, Pick 'n Pay shares which were trading at R45 at the time would be split, meaning that a share would cost approximately R11 and a PICWIK share approximately R5,50). In terms of the new scheme, employees with five years' service were included, as well as senior staff below managerial level (Hood 1987:5).

Pick 'n Pay estimated that within one year of the introduction of these plans, 30 to 40 percent of Pick 'n Pay employees would own shares. It was reported that the share holding allocated to employees amounted to 5% of equity. The purchase capital of between R25 and R30 million was advanced into a trust fund by the company (no new shares were issued). The trust was expected to buy shares on behalf of employees and its trustees would exercise voting rights for them. The trustees are appointed by the board of directors and consist of a number of internal and external directors (Maller 1989: 21).

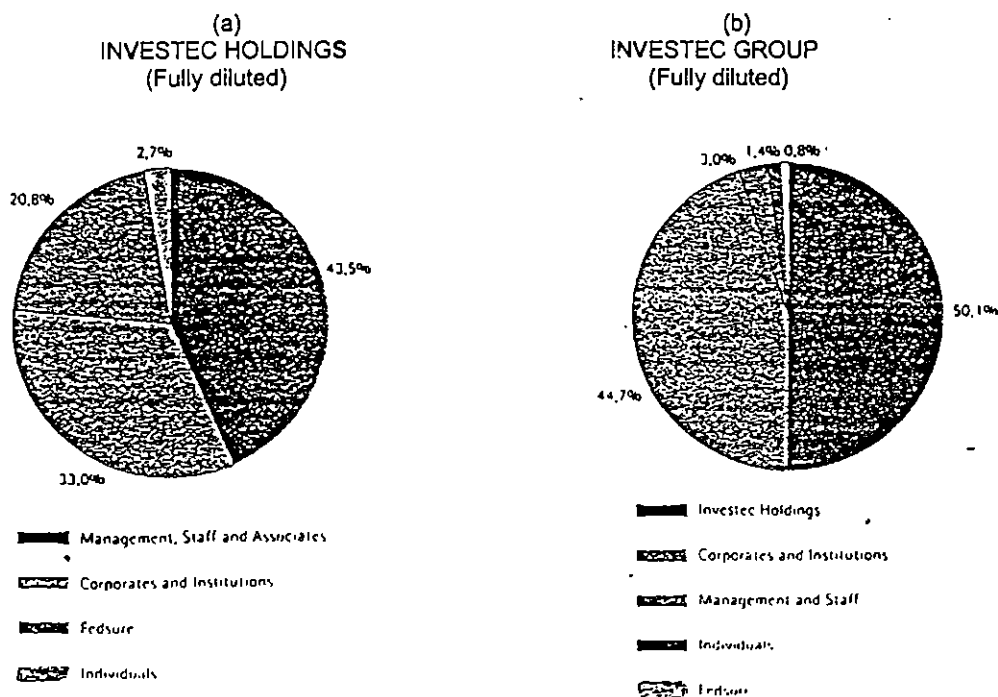
According to Maller (1989) employees have the option to purchase their individual shares after five years, or waiting ten years until they automatically own them, by virtue of the payment of dividends into the trust fund. If an employee leaves the company within the first five years, the shares are ceded back to the company, unless the company approves of the reasons for leaving.

Pick 'n Pay's intention was to implement a share scheme whereby the business would take the initiative in developing more houses and giving staff a stake in the company. Another future aim was to try to turn South Africa into a home-owning and a share-owning democracy instead of expecting the government to do everything to secure the country's future (Davis 1992:15).

(iv) Investec Bank Share Trust

Investec is an independent banking group, with management and staff owning a significant stake in both Investec Group Limited and its holding company, Investec Holding Limited (Annual Report 1999:7). According to Investec Annual Report (1999), the direct interest of management and staff in the fortunes of the group continues to play an important role in its performance. Investec Bank Limited is therefore one of the South African companies which has complied with a part of Section 38(2)(a) which states that the lending of money in the ordinary course of its business by a company whose main business is the lending of money (Company Legislation Handbook 1996:22). Figures 5.3 (a) and (b) shows (a) Investec Holding Limited and (b) Investec Group Holding Limited shareholder analysis.

FIGURE 5.3
THE SHAREHOLDER ANALYSIS OF INVESTEC HOLDING LIMITED
AND INVESTEC GROUP HOLDING LIMITED



Source: Investec Group Limited and Investec Holding Limited Annual Report (1999: 7).

Table 5.3 shows Investec Group ordinary shares and Investec Holding ordinary shares.

TABLE 5.3
THE INVESTEC GROUP ORDINARY SHARES AND INVESTEC
HOLDING ORDINARY SHARES

INVESTEC GROUP ORDINARY SHARES				
Number of shareholders	Holdings	% of total shareholders	Number of shares	% of issued share capital
2 995	1 - 500	79,1	433 170	0,5
331	501 - 1 000	8,7	261 234	0,3
300	1 001 - 5 000	7,9	391 869	0,9
60	5 001 - 10 000	1,6	423 431	0,5
65	10 001 - 50 000	1,7	1 367 464	1,7
16	50 001 - 100 000	0,4	1 127 948	1,4
21	100 001 and over	0,6	76 054 716	94,7
3 788		100,0	80 359 832	100,0
INVESTEC HOLDINGS ORDINARY SHARES				
Number of shareholders	Holdings	% of total shareholders	Number of shares	% of issued share capital
1 724	1 - 500	72,0	228 632	0,6
220	501 - 1 000	9,2	168 687	0,4
294	1 001 - 5 000	12,3	629 142	1,6
54	5 001 - 10 000	2,2	382 850	0,9
63	10 001 - 50 000	2,6	1 377 487	3,4
11	50 001 - 100 000	0,5	748 531	1,8
28	100 001 and over	1,2	37 234 466	91,3
2 394		100,0	40 769 795	100,0

Source: Investec Group Limited and Investec Holding Limited Annual Report (1999:7-8).

Investec Group Limited currently sells Investec shares to the trust and then lends money to the trust (Investec Bank Share Trust) to acquire the shares. Each employee of Investec Group Limited is entitled to receive a share allocation, only after having been employed

by the bank for six months or more. These allocations are generally based on the employees' remuneration package, but management ultimately decides on the final allocation of shares offered to each employee. This scheme is an incentive designed to reward employees for hard work and commitment.

Once the employee has received a share allocation and decides to accept the offer, he must sign the acceptance and return it to the staff share division as soon as possible. The staff share division accepts the employee's offer onto their system, which keeps detailed records of each employees transactions. If a signed acceptance is not received from the employee, it is considered that he is not accepting the offer. Additionally, for the first two years after the date reflected on the offer letter, the employee is not allowed to deal with any of the shares offered to him. In other words, the offer remains inactive, for two years. This is referred to as the 'two year non dealing period'.

Investec Group Limited has developed two types of schemes which are offered to their employees. They are as follows:

- **THE STAFF SHARE OPTION SCHEME**

The staff share option scheme is usually offered to Investec employees who earn less than R100 000.00 per annum. When an employee is offered shares on the staff share option scheme, it means that no liability or risk is incurred if the offer is accepted by the employee. Even if the share price drops, the employee is not liable for the payment of the shares. After the two year non-dealing period, the employee is allowed to actively deal with the shares. The staff share division sends out reminders to all employees whenever any of their share offers become due. Each employee is then given the option to either buy or sell his portion of shares (that is, a maximum of 25% or a minimum of 10% of the total allocation).

An important aspect of the staff share option scheme is that each employee has to pay tax on the capital gain (dealt with under Taxation Implication Section 8(a) of the Tax Act of 1962). This is the difference between the market price on the anniversary date of the share offer and the original offer price of the shares. It must be noted further that dividends are only transferred to the employee once he has purchased the shares and registered them in his name.

- **THE STAFF SHARE PURCHASE SCHEME**

The above share purchase scheme is usually offered to employees who earn in excess of R100 000,00 per annum. In this scheme, Investec Group Limited offers each employee an allocation of shares, which the employee accepts by signing an acceptance letter and returning it to the staff share division which then opens a loan account against that employee's name, reflecting the capital balance outstanding for the shares offered (that is, the amount of shares offered, multiplied by the share offer price).

The capital balance bears simple interest, compounded annually as from the date of the sale at the lower prime interest rate and the official rate prescribed in terms of the Seventh Schedule to the Income Tax Act, No.58 of 1962. The current (1998) official interest rate is 16%. Dividends earned against the shares offered to the employee is credited to his loan account bi-annually. In other words, the bank lends the employee the money for a maximum of ten years measured from the date of acceptance of the offer, which includes the two year non dealing period. During the third and successive years the employee may commence payment of a maximum of 25% or a minimum of 10% of the total amount.

- **Eligibility**

All staff members employed by Investec Group Limited and its subsidiaries are offered shares from time to time at the directors' discretion. It should be noted that the offer is

made to the employee personally and may not be transferred, ceded or pledged in any way, except for a transfer to a trust for the benefit of the employee or his immediate family. An employee has approximately two weeks from the date of receipt of the offer to make a decision and to notify the staff share scheme division accordingly. Each employee's entitlement is set out in the letter addressed to him personally. Investec employees are strongly motivated and encouraged to discuss with their managers before accepting or declining an offer, especially if certain issues are not clear.

- Share Price and Costs

The price of the shares is the middle market price of the shares on the JSE, on the most recent trading day immediately preceding the date of the offer. The price at which the offer is made is set out in the letter addressed to each employee. The Trust will lend money to all employees for the purchase price against collateral security of the share, meaning that a pledge of shares is made to the trust for a maximum period of ten years, measured from the date of acceptance of the offer. During the first two years no repayment of this loan is required. Share transfer and issue expenses are added to the share price, including the Marketable Securities Tax at 0.25% of the consideration payable to the Receiver of Revenue.

- Dividends

Dividends are usually payable in June (final) and December (interim) of each year. Dividends are first applied payment of interest (charged on the loan from the trust for the purchase price) which has accumulated on the purchase price of those shares at the time of the payment of the dividend. Any excess dividends are thereafter applied payment of the purchase price of the shares (only applicable to the Staff Share Purchase Scheme).

- Exercising Options

From the date of payment, the risk of a price decrease lies with the employee. From the date of payment, he may deal with the shares as he deems fit. If the employee wishes to sell the shares he must offer them to the trust at the then value, which the trust must accept or reject.

It has been agreed however that in order to enable the employee to manage the downside exposure in relation to the shares offered but which cannot be released because the laid down qualification period has not yet elapsed, the trustees will normally consent to the sale of some or all of the shares to the trust at any time, except within the two month period prior to the announcement of year-end results and at a price which is the lowest acquisition cost of the shares or the current market price, less brokerage estimation.

If the employee disposes of shares to the trust under the dispensation referred to above he would be responsible for any loss and would be obliged to settle it immediately, unless other arrangements are made. If there are any shares left after disposal, the normal rules will continue to the leftover shares.

- Resignation conditions

If an employee terminates his employment with Investec Group Limited, or its subsidiaries, at his own initiative, he will be entitled to pay for and take up those shares to which he was entitled at the date of termination. The rest of the share allocation, which is still in the trust at the time of the resignation, is returned to the trust. The shares which the employee does not wish to take up are considered to be re-acquired by the trustees, at a price equal to the market price of the shares at the date of termination of services. This amount will firstly be applied to the employee's share loan. The employee is however liable for any balance still outstanding in respect of shares to which he is entitled at the date of his

leaving the company.

If any employee is dismissed on grounds which qualify him for summarily dismissal, the sale of shares is cancelled. If employment ceases for any reason other than those set out above, the employee is entitled to pay for and take up his full entitlement of shares and the trustees may, at their discretion, allow extended terms for payment of the outstanding purchase price, up to a maximum of 24 months after the date of termination of employment.

5.6 SUMMARY

ESOPs can only find acceptance among employees if they 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 practice 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. Important elements of ESOPs are discussed in the following chapter with the hope of shedding some light on the actual meaning, influence and outcomes of ESOPs.

CHAPTER 6

A MODEL FOR EMPLOYEE PERCEPTIONS OF EMPLOYEE SHARE OWNERSHIP SCHEMES

6.1 INTRODUCTION

Based on both experience and empirical research, it has been suggested that employee share ownership has a substantial impact on employee job attitudes and behaviour, and therefore on organisational performance. Many researchers have stressed the importance of the alignment of the goals and the needs of employees with those of the organisation to enhance organisational effectiveness. In other words, they refer to a process whereby the integration of the individual with the organisation takes place. Other authors have argued that one way of achieving integration is by creating relationships where two or more parties combine their efforts and financial resources in order to gain rewards (such as profit) from the environment. Employee ownership is just one situation (Long 1978:30).

Organisational performance is a function of many factors. Market and economic conditions, capital availability, management expertise and employee behaviour can certainly all be regarded as key factors. It is one thing for employees to be in favour of an ESOP scheme but quite another to suggest that their introduction will have an impact on their work lives in any substantial way. There are nevertheless, organisation-related benefits associated with ESOP's and also potential employee-related incentives that can lead to greater productivity. Before any company attempts to take advantage of these benefits it must give careful consideration to certain factors of concern that may affect both company and employee (Block 1991:21).

The previous chapter summarised the implementation of ESOPs by companies in South Africa as well as other countries. This chapter discusses employees' perceptions, attitudes and points of view regarding ESOPs. This chapter is limited to a discussion of the findings of the available empirical work of various researchers concerning the nature,

influence and outcome of Employee Share Ownership Schemes. This is achieved by means of a brief analysis of the influences and outcomes of ESOPs modelled for the purpose of this study (Figure 6.1).

It must be kept in mind that the broad purpose of this study is to investigate how the acceptance and management of ESOPs in South Africa can be improved. The entire model is thus based on the premise that the effectiveness of ESOPs can only be achieved if a positive attitude amongst employees can be established.

The model is thus based on the classical consumer behaviour model of perception → attitude → behaviour.

6.2 THE MODELLED INFLUENCES OF EMPLOYEE SHARE OWNERSHIP SCHEME PERCEPTIONS

Employee ownership is more than just possessing of a share in the equity of a company. Employee ownership is complex and multi-dimensional in nature and operates as both a formal and psychological experience. Pierce and Furo (1990) suggest that ownership can be described in terms of three basic and fundamental rights, each of which may be present to a greater or lesser degree in certain contexts.

The rights frequently associated with ownership are the right to possession of some share of the owned object's physical being and/or financial value, the right to information regarding the status of that which is owned and the right to exercise influence over the owned object.

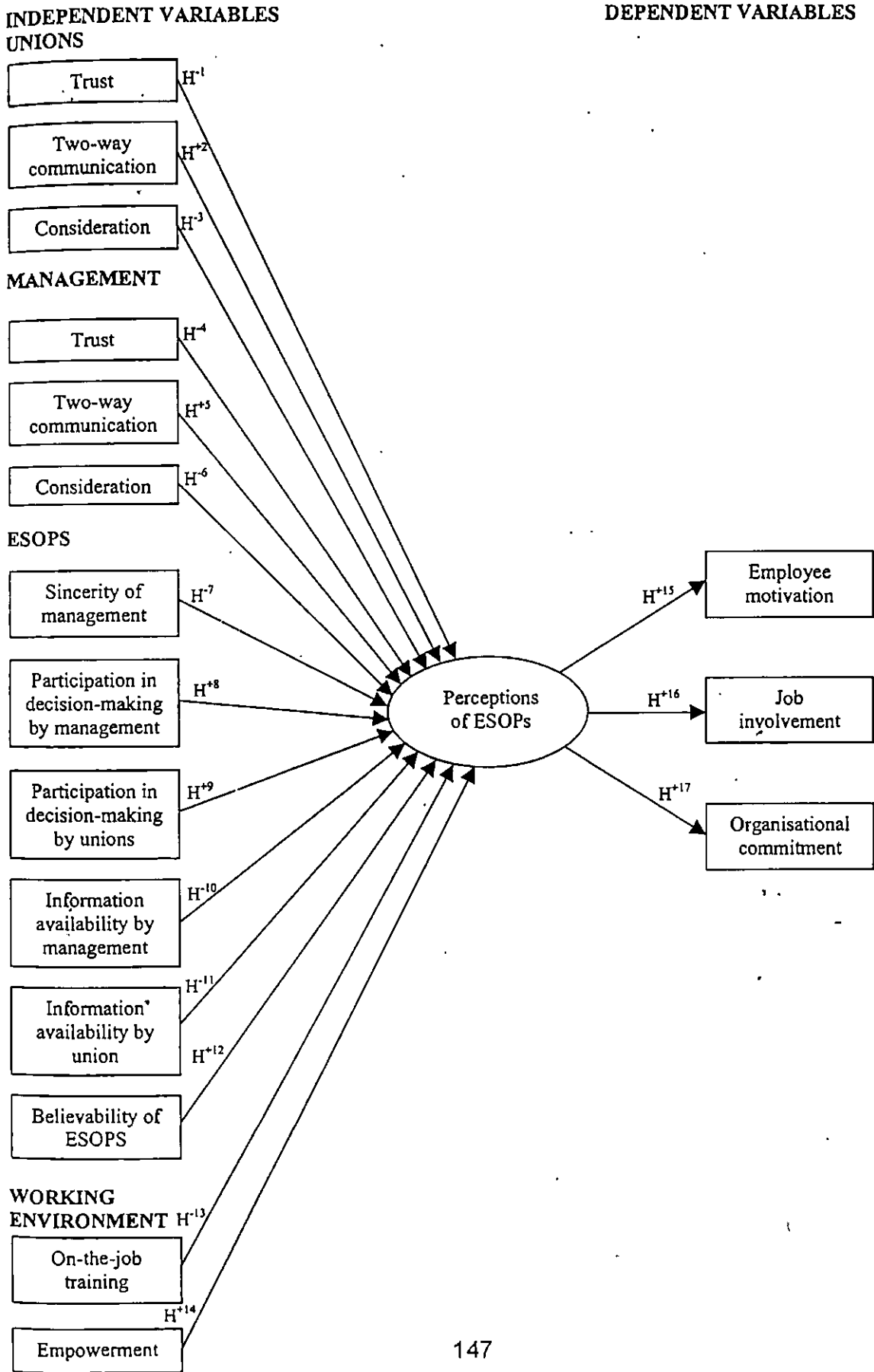
ESOPs may be used for a multitude of purposes, including the raising of capital, buying out existing owners and many more. Some researchers have examined employee ownership from a humanistic point of view and have seen it as a route to increased

employee satisfaction and commitment. From a business efficiency perspective, giving employees a stake in their organisations is seen as a way of encouraging a responsible attitude on the part of the employees and as a means of generating a common interest between management and employees (Olivier 1990:513).

The effectiveness of ESOPs is subject to various attitudes of employees towards unions and management which could influence the activities of an ESOP. These may include aspects regarding participation in the working environment with on-the-job training, honesty, organisational identification, integration and many others such as experiences and keeping all company constituents informed of all activities taking place.

The theoretical framework of employee perceptions of share ownership and the effects of share ownership in an organisation (depicted in Figure 6.1) serves as the basis for this study. A number of major influences on and outcomes of ESOPs are modelled. These influences can be divided into the working environment, the role of labour unions and the role of management.

FIGURE 6.1
 THE MODELLED INFLUENCES EMPLOYEES' PERCEPTIONS AND
 OUTCOMES OF EMPLOYEE SHARE OWNERSHIP SCHEMES



6.2.1 Trade unions

The role of trade unions in the business environment has evolved in three different ways. Firstly, they are labour market institutions and can therefore mostly be found in democratic and capitalist societies in which labour is performed in exchange for a wage or salary and in which employees have the freedom of association. Secondly, they are part of a social movement aimed at setting its members free from the restrictions of improving their economic status. Finally, trade unions are interest groups, in that they exert pressure on government, parliaments and public administrators and are comparable to other groups that defend special interests. The economist or business manager can therefore study trade unions as labour institutions which are interested in the impact of human action on wage determination, labour market supply and demand, unemployment, productivity, prosperity and income distribution (Van Ruysseveldt, Huiskamp and Van Hoof 1995:37-38).

The majority of empirical studies that have examined trade unions as an imposing influence on ESOPs have found that unions have a fairly neutral attitude towards employee shareholding schemes in that, whilst some are negative, they approve of some activities of these schemes (Naylor, Seear and Copeman 1968:107). For example, Naylor *et al.* (1968) argue that trade unions would not wish to oppose profit-sharing because it meant additional money for their members.

Although, some unions regard profit-sharing as a generous act on the part of management, on the other hand, they express concern that once employees are paid a fair wage, management owes a higher loyalty to the consumer than to the employee or to the employee as consumer (to be more accurate). This means that unions are sometimes sceptical regarding the psychological value of a link between the profit or share and dividends.

6.2.1.1 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 and Deshpande 1992: 315). Trust can be defined as a firm belief in the honesty, goodness, worth, justice, power of someone or something or responsibility (Gambetta 1988:33). According to Moorman *et al.* (1992), the definition of trust extends to two general approaches in the literature. Firstly, trust is viewed as a belief, expectation about an exchange partner's trustworthiness resulting from the partner's expertise, reliability or intentions. Secondly, trust is viewed as a behavioural intention or behaviour which reflects a reliance on a partner and involves vulnerability and uncertainty on the part of the trustor. Both belief and behavioural intention components must therefore be present for trust to exist.

Trust takes on many shapes and forms. In old social systems (which are not currently in use) it has a different character from that of civilised social systems. Trust can occur spontaneously or can be built over a period of time. In other words, trust can be built by personal perceptions or one could put trust in general system mechanisms. It avoids a clear-cut ethical instruction. Trust can only be fully understood from the point of view of its function and when compared with other functionally equivalent mechanisms (Luhmann 1979: 93).

Social scientists have long explored the nature of social exchanges and its relationships. A number of factors such as power of leaders, communication, teamwork, commitment, career choices and trust could influence the nature and success of social exchanges and relationships (Hunt and Morgan 1994:24; Luhmann 1979). For example, Luhmann (1979) discovered that trust reduces social complexity by extending beyond available information and generalising expectations of behaviour, in that it replaces missing information with an internally guaranteed security. Therefore, it remains dependent on other reduction mechanisms developed in parallel with it for example law, organisation and language but

cannot, however, be deduced from them.

The role of trust in relationships is found to be potentially important, in that trust is conceptualised as a feature or aspect of relationship quality (Moorman *et al.* 1992: 315). For example, Dwyer and Oh (1987) and Crosby, Evans and Cowles (1990) describe trust as a feature of relationship quality, along with satisfaction and opportunism. Anderson, Lodish and Weitz (1987) view trust as a feature of relationships, in addition to power, communication and goal compatibility. According to Moorman *et al.* (1992), trust has further also been conceptualised as a determinant of relationship quality. Similarly, Anderson and Narus (1984 and 1990) view trust as a determinant of the amount of cooperation and the functionality of conflict between parties.

Parasuraman, Zeithaml and Berry (1985) view trustworthiness, in addition to believability and honesty, as part of credibility which determines the perceptions of service quality. Additionally, Anderson and Weitz (1990) portray trust as a determinant of communication between parties. Because economic action is firmly fixed within the networks of social relationships, researchers have argued that efficiency within complex systems of coordinated action is only possible when interdependent actors work together and trust between such actors is seen as a determining factor (McAllister 1995: 24).

According to McAllister (1995), recent developments in the organisational sciences reflect the importance of interpersonal trust relationships for sustaining individual and organisational effectiveness. An analysis of inter-firm alliances (relationships between firms) over time suggests that repeated ties between firms creates trust that clearly appears in the form of the business contracts (Korsgaard, Schweiger and Sapienza 1995:105). In strategic alliances, Sherman and Bohlander (1992) argues that the main problem in the success of alliances is the lack of trust.

There are many other business-related relationships that can be influenced by trust. Berry

and Parasuraman (1991) report that customer-company relationships require trust in marketing services. In similar vein, Kumar (1996) has shown that trust could enhance manufacturer-retailer relationships, in that when both sides trust each other, they are able to share confidential information, to invest in understanding each other's business and to dedicate people and resources to serve each other better. Berry (1993) and Schurr and Ozanne (1985) concluded that trust forms the basis of and leads to higher levels of loyalty and commitment in organisations.

Empirical support for those findings has been provided by Estrin, Grout and Wadhvani (1987) who report that unions have not always been enthusiastic about the ownership of shares by employees. The reason for their adopting this attitude may be that different employees purchase different numbers of shares and this finally creates divisions within the workforce, which is likely to weaken unions. Maller (1989) argues that, in the past, unions were accused of being co-opted to the managerial way of thinking which may lead to a situation wherein a union may find itself compromising its strength.

In summary, an effective relationship between employees and an ESOP is not possible if employees do not believe that the union representing them and or the ESOP will act in their (the employees') 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.

Because there is ample evidence that labour unions are not enthusiastic about ESOPs (Naylor *et al.* 1968; Estrin *et al.* 1987), it is hypothesised that:

Hypothesis H¹: Employees' perceived lack of trust in unions, negatively influences perceptions of ESOPs.

6.2.1.2 Union and communication

Communication is commonly defined as an exchange of information between a sender and a receiver and the resultant inference (the perception of meaning between the individuals involved) (Bowditch and Buono 1994:132). Some authors describe communication as a personal process which involves the transfer of ideas and information from one person to another (Terblanche 1983:69). Communication is therefore a two-way process. Penrod (1983) argues that senders are also receivers and that both sender and receiver can send messages to each other, sometimes simultaneously. Furthermore, a sender usually wishes to know whether or not the message got through to the receiver (the sender depends on feedback).

There are various forms of communication. The main focus of this study is on two-way communication which could contribute to trust by giving the employees the knowledge that their suggestions and recommendations are being addressed in some way (Yam and Yam 1993:90). According to Bowen, Lewicki, Hall and Hall (1997), two-way communication means that information can flow back and forth between the original communicator of a message and the receiver. The receiver can ask questions, receive clarifications, and in other ways give the communicator feedback on what has been heard or done.

Communication is essentially a social process, but because human beings are not the only social animals, communication is not a uniquely human process. According to Penrod (1983), messages have a relational level of meaning that indicates the amount of power and control the participants have in relationships. On the other hand, social psychologists often view communication in relational terms, and have devised ways of coding interactions that reveal such patterns of dominance. For example, speakers who yield control in an exchange accept or agree with what the other person says, ask questions that seek supportive answers, utter incomplete sentences that invite the other person to finish them, or ask question(s) that continue the dialogue. Communication is therefore a form

of interpersonal transaction with many underlying meanings.

Such communication relationships can be traced back to ordinary people engaged in an argument or chat, government's and employees', business unions (bargaining power) representatives and from many other different situations. For example, Van Ruysseveldt *et al.* (1995) argue that employees have a right to participate in the employment relationship involving disputes, agreements or general consensus and some major decisions through trade unions.

Herbst, Slabbert and Terblanche (1987) maintain that as long as man engages in economic activity and sells his labour, there will be disputes between an employer and an employee due to the fact that bargaining takes place in the labour field between union and management because both implicitly accept that the other party has power. Bemowski (1992) therefore maintains that two-way communication stresses and demands feedback for effective results to take place. A top-down strategy along with a bottom-up strategy ensures that appropriate input is considered. Improvement cycles for personal leadership and quality awareness rely on this type of feedback. Herbst *et al.* (1987) report that union members prefer a democratic organisation in the real sense. They require their leaders to not only report back but to ensure that the unions have their support before deciding on a course of action.

Although there is a lack of information on the specific role of communication between unions and their members with regard to ESOPs in the company they work for, Maller (1989) reports that after employees engage in discussions with their union on ESOPs, negotiations between union and management often lead to communication breakdowns between employees and unions. As a result, the attitude of employees towards ESOPs is negative.

On the other hand, 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 overcome the initial ignorance as to what the offer really means. In other words, good communication is essential.

Against the background of these findings it is hypothesised that:

Hypothesis H²: The higher the perceived communication frequency between unions and employees, the more positive the perceptions of ESOPs.

6.2.1.3 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 and Horrell 1981:50). According to Schriesheim and Stogdill (1975), consideration concerns the socio-emotional behaviour of the leader with regard to the promotion of comfort and well-being of subordinates. For the purpose of this study, consideration is defined as the degree to which a union is supportive, friendly, consults members of the union and recognises their contribution. Previous research reported in the management literature suggest that consideration generally has very positive outcomes such as job satisfaction, motivation and organisational commitment (Teas and Horrell 1981; DeCottiis and Summers 1987; Morris and Sherman 1981). Although there seems to be a lack of literature regarding the specific relationship between consideration of unions and ESOPs, previous research in the management literature suggests that:

Hypothesis H³: Perceived lack of consideration on the part of unions towards members, with regard to management of ESOPs negatively influences perceptions of ESOPs.

6.2.2 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. On the other hand, there is a problem of traditional owner, manager and workforce relations which are perceived to be based on conflict. The reason for this is that there is sometimes a communication breakdown which needs to be attended to before employees can fully share in what they create.

6.2.2.1 Management and trust

The concept of trust appears in a variety of publications dealing with behaviour in organisations and in institutional settings. General consensus exists that trust between individuals and groups within a company is a highly desirable ingredient in the long-term to ensure stability of a company and the well-being of its members (Cook and Wall 1980:39).

According to Cook and Wall (1980), there are various methods that can be used in investigating trust activities in companies. Three main approaches are commonly used. Rosen and Jerdee (1977) maintain that the first approach is the most indirect method which involves inferring trust from other forms of behaviour. For example, this procedure can be a situation in which trust is inferred from the willingness of persons in a position of power to involve subordinates in participative decision-making. A second approach is to create a situation in which the development of trust between or within groups is essential to the performance of a prescribed task.

The third approach involves trust based on individual differences in other people in general or in social groups and institutions. For example, Jones, James and Bruni (1975) maintain that there is a relationship between employees' confidence and trust in their leader. Cook and Wall (1980) argue that among other forms of trust, interpersonal trust

at work regarding mutually dependent work groups within an organisation may be placed along two different dimensions. According to these authors, such dimensions can be the faith in the trustworthy intentions of others. On the other hand, these dimensions can be the confidence in the ability of others. They are capable of performing to the best of their ability and are reliable.

In some companies, top management works hard to build and maintain trust by carrying out its commitment and, given time, employees will actively support the changes in responsibility and authority given to them as team members. On the other hand, employees need to know and believe that management is serious about wanting people (as team members) to take risks and express their opinions and that the formation of teams is not just a new mechanism to gain additional work from employees.

The question may arise as to whether there is sufficient trust between management and employees to implement an ESOP scheme, that is, 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.

Kruse (1984) suggests that the introduction of an ESOP may raise employee expectations by labelling the employees as 'owners'. When the experience fails to fulfill employees' expectations of what 'ownership' means in practice, cynicism and disillusion results which may harm trust. In addition, Maller (1989) argues that employees are encouraged to invest in their companies' shares which they (employees) interpret as capital risk. 'Although there is no empirical report regarding trust between employees and management on ESOP related matters, one can gather from the above suggestions that lack of trust between employees and management will harm perceptions of ESOPs.

It is accordingly hypothesised that :

Hypothesis H⁴: Employees' perceived lack of trust towards management negatively influences the perceptions of ESOPs.

6.2.2.2 Management and communication

Communication activities occur not only between individuals and small groups, but sometimes between a few senders and many millions of recipients. Such large-scale communication includes television, radio and all printed mass media. These events do not take place in isolation. They can take place in business, religious, government, political and many other organisations as long as there are people engaged in personal interaction processes. The importance of communication in business firms has been stressed by many industrial psychologists. Terblanche (1983), for example, views communication as the centre and the main focus of supervisory and overall organisational effectiveness.

Organisational communication is the process by which information is exchanged in the organisational setting, meaning that information flows through both formal and informal structures. In a business environment, communication flows downward, upward and laterally. In other words, people within the same institution, (employees and management) exchange information and establish a common understanding in upper and lower levels of management and across the organisation (Bowen *et al.* 1997:231).

A business firm consists of a variety of formal and informal relationships. Examples are relationships between employees and employers (represented by management in most cases), between sellers and buyers and even between sales organisations. Two-way communication keeps ideas moving through all these relationships. Two-way communication can enhance the relationship between employees and management. For example, Miller (1992) maintains that two-way discussions increase involvement in that managers present the facts not as known, but as part of free-flowing discussion in which people can ask questions. Communication therefore makes clear understanding possible.

In addition to giving employees a good understanding of what is going on, managers use employees' questions to gain valuable insight into employees' concerns and to learn about potential problems.

Thaler-Carter (1990) argues that finding out what employees want cuts costs and improves efficiency. Additionally, employees prefer and enjoy getting information directly from their supervisors or management.

Although communicating generally leads to positive outcomes, a decision on the medium of communication is very important. Some information needs to be communicated on a personal basis, while other information may be widely advertised through newspapers.

Kumar (1996) views a relationship between two parties (such as an organisation and its suppliers of goods or raw materials) as bilateral communication. Open and honest dialogue where parties encourage each other to be proactive and frank in pointing out each other's weaknesses, is a sign of a healthy relationship.

Two-way communication can furthermore have an impact on aspects related to personal characteristics of both employees and management. Ratan (1993) maintains that one has to have two-way communication to be successful. Ratan (1993) argues further that young employees need to be asked to carry out their tasks and be provided with reasons as to why they should do so because they may find better and faster methods of taking care of such tasks once they are furnished with all the necessary details. According to Ratan (1993) employees need recognition and feedback regarding their efforts and performance.

Although two-way communication often results in heated debates, it builds a spirit of togetherness amongst the people who work for the same company, enhancing mutual trust. Moreover, when subsidiary managers or senior employees participate in global strategic decision-making, they come to view the decision as their own, as a result of

which, they often defend and uphold these decisions (Kim and Mauborgne 1993:13).

Gilbert (1990) suggests that when an ESOP is introduced to company management, 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. Additionally, management must facilitate the development and maintenance of cooperation between management and employees.

Hall (1995) and Chance (1991) argue that from a management perspective, good communication is essential when introducing an ESOP. Through practical experience they find it necessary for management to carefully explain the concept to overcome the initial ignorance as to what the offer really means. Although this is not an easy task, these authors agree that such efforts bear fruit. In other words, having better informed employees has better payoffs. Bricklely and Hevert (1991) and Hosansky (1984) conclude that better informed employees are likely to be beneficial to the company from a public relations standpoint. Based on this information, the assumption may be that keeping employees informed will contribute to a positive relationship between employees and management.

Fine (1987), Maller (1989) and Baddon, Hunter, Hyman, Leopold and Ramsay (1989) all argue that there is a lack of communication between employees and management with regard to ESOP-related matters in some companies. These authors base their argument on the fact that employees in some companies are usually represented on the ESOP trust by a board of trustees whom they have had no say in electing. Furthermore, in some other companies, employees automatically qualify to receive shares, meaning that there are no prior consultation procedures involved. Some of these researchers argue that if there was no prior consultation, but that attempts were made to communicate after the decision had been made, management is seen to have designed the scheme, thereafter selling the ideas to the employees (the opposite of two-way communication).

It is accordingly hypothesised that :

Hypothesis H⁵ : The higher the perceived communication frequency between management and employees, the more positive the perceptions of ESOPs.

6.2.2.3 Management and consideration

For the purpose of this study, consideration refers to the degree to which the managers are supportive, friendly, considerate, consult subordinates and recognise their contribution to the operations and functioning of the company's ESOP. There seems to be a positive relationship between consideration and variables such as job satisfaction, job performance, motivation and organisational commitment. Teas and Horrell (1981) report empirical support for the view that employees in various occupations indicate that subordinates tend to be more satisfied with their superiors and their jobs when they have considerate leaders (as described above).

Podsakoff, Todor, Grover and Huber (1984) suggest that consideration acts to clarify what is expected by rewarding employees for desired behaviour. On the other hand Teas (1983) find that there is a negative relationship between both role conflict and role ambiguity and consideration. Early research findings (Morris and Sherman 1981:518; DeCotiis and Summers 1987:459) indicate that employees who believe that their superiors are considerate leaders will be more committed to their organisations. Johnston, Parasuraman, Futrell and Black (1990) however found that consideration does not directly influence organisational commitment. There seems to be lack of research findings directly linking consideration and ESOPs. Based on the findings reported in the management literature (De Cottiis and Summers 1987; Podsakoff *et al.* (1984); Teas and Horell 1981), it is hypothesised that:

Hypothesis H⁶ : Perceived lack of consideration on the part of management towards employees, with regard to the management of ESOPs negatively influences employee perceptions of ESOPs.

6.2.3 Management of Employee Share Ownership Schemes

There are various reasons that can lead to the introduction of ESOPs by companies. Although the majority of experts agree that many of these can be traced back to financial considerations such as tax incentives, many agree that the benefits of ESOPs, including higher employee morale, easier recruitment, stronger loyalty, greater productivity and improved customer service do not result automatically. The power of ESOPs therefore needs to be properly facilitated and applied. In this study, a number of variables may influence employees' perceptions with regard to ESOPs. According to the model in Figure 6.1, the variables included in this study are sincerity of management, participation in decision-making by management and employees, unions and members, availability of information by management and unions and believability of ESOPs.

6.2.3.1 Sincerity of management

Sincerity and honesty are concepts that are assumed to be interrelated and are often used interchangeably. 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 really means or believes. In similar terms, Murphy (1993) describes an honest person as one who tells the truth, does not cheat, is frank and direct.

It is argued that there is a positive relationship between sincerity and trust. For example, in the case of pay, Bews and Martin (1996) maintain that pay alone will not buy trust. Trust must be earned through a partnership that is built on a relationship where the employer

demonstrates a sincere attempt at caring for the employees in the organisation, thereby providing security.

There seems to be insufficient literature on the relationship between sincerity of management towards employees and employee perceptions of ESOPs. Park and Song (1995) report that ownership awarded to employees (as a result of owning shares) not only enhances employee incentives but also entrenches managers. In other words, management may be using the ESOP as a means of entrenching their power. In other words, ESOPs are sometimes used to protect and empower managers with even more authority. In this way managers could expropriate (for example, the employees' right to vote according to the number of shares they own) the ESOP's voting rights to entrench themselves. If that occurs, it can be concluded that management is insincere.

Conte and Tannenbaum (1978) suggest that managers in a company respond more favourably where employees are not represented on the managing board of directors. Leoka (1990) maintains that a company must have a sincere desire to involve the employees in profit-sharing. 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.

Based on these arguments, it is hypothesised that:

Hypothesis H⁷: Perceived lack of sincerity on the part of management towards employees, with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs.

6.2.3.2 Participation in decision-making by management and employees

There are various ways of describing decision-making as a concept. Robbins (1983)

suggests that one way is to define it as a continuing process of identifying a problem or opportunity and choosing alternative courses of action for dealing with a problem or opportunity. Decision-making processes have been a point of focus for many theorists and researchers, as well as organisational behavioural theorists.

According to Robbins (1983) organisations frequently use groups to solve problems or make decisions. These groups are commonly known as committees. Robbins (1983) maintains that groups allow the coming together of people with different characteristics and similar needs. 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. Various relationships such as those between decision-making and communication, performance, involvement and trust have been identified based on these efforts.

There are however important differences in decision-making by individuals and by groups. Hampton, Summer, Webber and Arkel (1973) maintain that groups offer advantages in certain types of problems when conditions are favourable. In other words, groups work best when confronted by specific problems with clear-cut answers when open communication is facilitated because status and hierarchical distinctions are absent or not important. Robbins (1983) further maintains that training, experience, age and personality also affect group effectiveness, but groups tend to make fewer errors, are typically willing to take higher risks and tend to improve on the performance of average individuals.

Hampton *et al.* (1983) suggest however, that although groups take longer than individuals to make decisions, groups produce better performance. According to Robbins (1983), these findings support other researchers who argue that group decision-making offers advantages where being correct or avoiding mistakes is of greater importance than speed. It is therefore argued that group decision-making is superior in respect of accuracy and efficiency in decision-making.

To make effective decisions, managers must first obtain information from their companies. Peers, subordinates, other managers and their environments such as customers, suppliers and other constituencies are all potential sources of information.

Managers make many decisions in risky and uncertain environments where situations are often ambiguous and the available information is limited. Additionally, some decisions can be programmed and used over and over again in routine situations. Many decisions must be made as unique responses to non-routine situations (Schermerhorn, Hunter and Osborn 1994: 553) and participation in decision-making enhances the quality of decision-making in uncertain environments.

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 and Estrin *et al.* 1987). Long (1978) 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.

Maller (1989) suggests, however, that although employees are given an opportunity to participate in decision-making with regard to ESOP management, ESOPs imply participation in capitalist forms of ownership which are seen as fundamentally unequal. Put differently, Maller (1989) argues that limited equity is being offered to employees which does not represent any effective advance in extending employees' influence over the corporate decision-making process. Baddon *et al.* (1989), argue that in some companies the formal opportunity for employees to speak up as shareholders does not take place. Other authors suggest that employees in many companies are often represented only by an ESOP trustee and that this person is frequently a company official, giving employees little say in major decision-making (French 1986:474).

Despite these limitations in present communication structure, it is suggested that:

Hypothesis H⁸: Participation in the decision-making process allowed by management, with regard to the management of ESOPs, positively influences employee perceptions of ESOPs.

6.2.3.3 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. In other words, 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 scant empirical findings 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 that 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. On the other hand, through these efforts employees may well appreciate the financial gain of owning shares.

It is accordingly hypothesised that:

Hypothesis H⁹: Participation in decision-making process by unions, with regard to the management of ESOPs positively influences employee perceptions of ESOPs.

6.2.3.4 Information availability by management

Information provides the context in which people work. McLagan and Nel (1995) argue that if access to information is limited, fragmented, and controlled by authorities, then this context creates conditions for authoritarian governance. If access is unlimited, integrated, and open to all, then the context enables participative governance. People therefore need to be able to access and use information in order to take charge of their own work life.

Information and the ability to use it has been linked to many factors such as empowerment, communication, trust, decision-making and other various forms of participation. McLagan and Nel (1995) maintain that access to information assists in influencing decisions which are ultimate determinants of power. As a result, people can be empowered through that process because they have information. Additionally, leaders without information cannot be accountable, and relationships turn brittle, become insecure and can very easily break because of suspicion. It is therefore argued that no organisation can become truly participative unless it restructures and rechannels information so that everyone has what he needs for empowered performance.

Many researchers maintain that no group exists without communication. Group effectiveness often depends on the effectiveness of its communication which, among other things, is based on exchange of information, feelings and attitudes of its members. A group works out various mechanisms so that its leaders and its members are reciprocally informed about what is happening in the group and between the group and its external environment (Morris 1982: 488). It is therefore argued that information, by way of one or more messages, is one of the elements which assist in the formulation of the communication process.

At times it is appropriate for managers to withhold information. For example, Miller (1992) maintains that if plans are confidential, managers are wrong in discussing what they know,

and if plans are not definite, discussion may only cause undue anxiety about what cannot be influenced. In times of uncertainty, any information is valued. In the absence of information, rumour will be used to fill the gaps.

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. These authors further argue that financial information can flow through a variety of informal channels such as financial presentations by managers and discussions with relevant unions.

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 management must further ensure that employees understand the information and are treated with the same degree of accountability as ordinary shareholders.

It is accordingly hypothesised that:

Hypothesis H¹⁰: Insufficient information-sharing on the part of management, with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs.

6.2.3.5 Information availability by union

Although no literature regarding the availability of information on ESOPs by unions can 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 pressurised 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 the whole issue of ESOPs.

It is accordingly hypothesised that:

Hypothesis H¹¹: Insufficient information-sharing on the part of the union, with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs.

6.2.3.6 Believability of ESOPs

Mixed signals usually take one of three forms. The first occurs when separate messages are targeted at different audiences. For example, McClelland (1987) argues that the organisation informs shareholders and investors about the prospects for growth and increased demand for the product but informs the union of the need for tight cost control and increased pressure from foreign markets just before wage bargaining time. The second occurs when one audience hears two different messages and the third occurs when words do not match actions. Despite this there is a positive side. 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 suggests 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.

It is accordingly hypothesised that:

Hypothesis H¹²: The higher the believability of the existence of ESOPs, the

more positive the employee perceptions of ESOPs.

6.2.4 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. This is confirmed by Frederick Herzberg's theory concerning working conditions on the job and how they affect employee motivation. Herzberg's theory maintains that a work 'climate' that minimises job satisfaction, such as unpleasant work surroundings, poor supervision and personality clashes, reduces employee productivity (Allman 1987:19).

Although there seems to be some positive outcomes resulting from a pleasant working environment, problems can occur in any workplace. For example, stress-related injuries have become the principal occupational injury of white collar and service employees and are extremely costly for employers (Voluck and Abramson 1987:95). According to Voluck and Abramson (1987), people doing routine and mechanical jobs are especially likely to experience stress. Secretaries, virtually all health care employees, telephone operators, data entry and other clerical personnel are particularly prone to stress. Additionally, employees under stress tend to have high rates of absenteeism, body pain, anxiety, depression and hostility towards their employers.

Several studies have repeatedly identified sources of stress that employers can control or eliminate, including unpredictable policies, unexpected changes, mistrust, criticism of performance, lack of communications, rumours, increase in responsibility, crowded and uncomfortable working conditions. Various grievances spring from these stressful situations (Voluck and Abramson 1987:19).

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. In other words, this can only take place in a favourable working environment which can be enhanced by, amongst others, training and empowering employees.

6.2.4.1 On-the-Job training

Training is a set of activities that provides an opportunity to acquire and improve job-related skills. It occurs not only initially but at any time improved skills are needed to meet changing jobs requirements. On the other hand, on-the-job training (the main focus of this study) involves job instruction while performing the job in the actual workplace. Job rotation is a common form of training which provides a broad range of experiences in different types of jobs in a firm. It is often used to provide a background for future managers and is sometimes used to alleviate employee boredom (Schermerhorn *et al.* 1994:111).

In South Africa there is an ongoing and increasing need for employee development as a result of economic, social, political and technological developments as well as a need for new skills to keep up with the needs of the labour market. According to Cilliers (1991), the main role player in this development is government, which is responsible for legislation and facilitation of education and training, as well as individual and groups of employers who also have to take responsibility for manpower development and training.

Any company wishing to remain competitive must have access to knowledge of customers, competitors, products, markets, technology, and processes. Knowledge of the art and science of management is also necessary. Continuous learning must become a priority. Learning fast and applying that new information or technique quickly is equally important. Keeping up with new methods, changing trends and advancing technologies is not just a

good idea, it is vital and essential (Manning 1989:16).

According to Manning (1989), competitiveness cannot rely on the strength of the sales and marketing people alone. It involves the whole company. Among other things, competitiveness calls for personal discipline, strong leadership and considerable investment in training and development. On the other hand, managers must be better trained in functional skills. They need a broad knowledge of the whole business and the world in which it operates. Lower level employees must learn basic skills (in some cases basic literacy skills), how business works, and precisely what is expected of them.

Schultz (1982) argues that training and development takes place at all levels of employment, from unskilled young adults to corporate senior personnel, from the first day on the job to the final period before retirement. Training is a continuous organisational activity and is not restricted to specific job skills. Much training activity is directed towards changing attitudes, motivation and interpersonal skills. 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 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.

Training can also be linked to aspects such as career development. Yam and Yam (1993) maintain for example that companies have become much more concerned about staff development. This includes adequately educating people in terms of the skills required to realise company objectives as well as on-the-job and off-the-job training. Employees must preferably be able to choose to take courses that are related to their jobs.

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 organisation 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 literature 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.

It is accordingly hypothesised that:

Hypothesis H¹³: Insufficient on-the-job training with regard to employees, negatively influences employee perceptions of ESOPs.

6.2.4.2 - Empowerment

In the context of this study, empowerment is the sharing of information with employees about the organisation's performance, rewards based on company's performance, knowledge that enables employees to understand and contribute to the organisation's performance and power to make decisions that influence organisational direction and performance. Employees are therefore empowered if they obtain information about organisational performance, are rewarded for contributing to organisational performance, have the knowledge and skills to understand and contribute to organisational performance and also have power to make decisions that influence organisational direction and performance (Bowen and Lawler 1992:32 - 35).

The term 'empowerment' is difficult to understand in that at face value, one could assume that it has something to do with giving power to those who do not have it, referring to people at lower levels of the organisation. Empowerment is not giving power to people at lower levels of the organisation as they already have plenty of power as individuals or teams through a wealth of knowledge and motivation (Budett 1991: 23). Instead, employees too often find themselves in a situation whereby the power they have is

channelled in such a way that the aims and goals of the organisation and those of the employees are in conflict.

A further problem related to empowerment is the traditional approach which assumes that if someone obtains more power, someone else must lose it. Budett (1991) maintains that it is this belief and the insecurity behind it that prevents many senior personnel from encouraging and supporting employee involvement initiatives. This author further suggests that it is a similar fear that all too often inhibits union representatives from supporting initiatives that give more organisationally directed responsibility to their members. A more sensible and realistic way of understanding power is the one that recognises that power can be passed by management to an individual or a team, down the hierarchical chain or lines of authority. Empowerment can then be seen as power which employees take as a result of opportunity provided by the organisation, without those giving power having to lose anything.

According to Blanchard, Carlos and Randolph (1996), empowerment has been related to so many other elements such as information sharing, trust, self-directed teamwork and autonomy. These authors argue that the first step is to share information with everyone, for example, information on how the business is progressing regarding profits, budgets, market share, productivity, defects and many other important aspects. In other words all the information required to make any important decisions that have to be made to serve the customer, ensure quality, and make a profit for the company must be shared with employees.

On the other hand, once management shares the information, and trust develops, a manager can begin to establish standards. This requires shifting the explanation of a mistake from something bad or wrong to an opportunity to learn. This encourages people to think and monitor their own performance. Empowerment also encourages innovation. People are given permission to take risks, make mistakes, challenge the way things have

been done in the past and develop their ability to learn and use their talents.

In order to achieve empowerment, people have to learn new ways of thinking and working together. Blanchard et al. (1996) suggest that managers would require a structure, that is, they would create autonomy through boundaries, such as the company's vision, needs, values and beliefs of the members of the organisation. Budett (1991) refers to boundaries as what is expected from employees. For example, employees are expected to follow rules and regulations and are obliged to abide by the job description which traditionally outlines the authority or responsibility which helps in avoiding and limiting job overlap.

According to Budett (1991), a management by objectives process is required in this regard to define the specific outputs to be achieved. In other words, these are controlling measures that are facilitated by a specific determination of what has to be achieved and by when. Management can replace the hierarchy of management with self-directed teams. A team of empowered people is far more powerful than a disconnected set of individuals.

The solution is therefore to get teams to do much of what the management hierarchy had previously done. For example, a self-directed team consists of a group of employees with responsibility for an entire process or product. They plan, perform and manage the work from start to finish. Team leadership may be rotated, but the team decides how it must work.

Additionally, empowerment comes from teaching people to do things which make them less dependent on others. Sparks, Bradley and Callan (1995) show that empowerment has beneficial outcomes such as customer satisfaction and service quality performance.

No literature regarding the direct relationship between ESOPs and empowerment of employees could be found. Based on the literature reviewed here, it can be argued that employee empowerment in terms of sharing information regarding the financial

performance and growth rate of the market share of the company, as well as the importance of the contribution of each and every employee in the company, will positively influence the attitudes of employees.

It is accordingly hypothesised that:

Hypothesis H¹⁴: The higher the perceived empowerment to initiate tasks and contribute to organisational performance, the more positive the employee perceptions of ESOPs.

6.3 THE MODELLED OUTCOMES OF EMPLOYEE SHARE OWNERSHIP SCHEME

ESOPs are viewed by many companies as a solution to what the owners perceive to be problems of industrial society, that is, dissatisfaction of employees, poor quality of working life and declining productivity (Sellers and Hagan 1994; Conte and Kruse 1991 and Kaufman 1997). ESOPs are therefore generally linked to favourable organisational consequences. For the purpose of this study, three outcomes of ESOPs are included, namely employee motivation, job involvement and organisational commitment.

6.3.1 Job involvement

Job involvement is referred to as the extent to which the individual psychologically identifies with his job. In other words, job involvement describes an employee's attachment to his or her work (Mathieu and Zajac 1990:182 and Schulz 1982:302). A literary review reveals several conceptualisations of job involvement, including job involvement defined as the degree of importance of an individual's job to self-image, the degree to which an individual actively participates in his job and the degree to which an individual's self-esteem or self worth is affected by his perceived performance level (Lawler and Hall 1970). Kanungo (1982) maintains that the job is important to the self-image of

employees with a high level of job involvement. Kanungo (1982) further argues that these individuals psychologically identify with and really care about the kind of work they do on their job.

The individual may have various attitudes, but organisational behaviourists focus their attention on a very limited number of job-related attitudes. These job-related attitudes relate to variables in their work environment. There are several key attitudes that are of concern. These attitudes include job satisfaction, job involvement and organisational commitment (Robbins 1983:56). For example, Blau (1986) finds that job involvement and organisational commitment represent two related but distinctly different work-related attitudes.

Kanungo (1982) suggests that different interpretations of job involvement have evolved while studying the relationship of job involvement to numerous factors including performance, turnover, absenteeism and job characteristics. For example, Blau (1986) argues that individuals who express high involvement in their jobs are likely to be more productive, more satisfied, and are less likely to resign than employees with low job involvement.

For the framework presented in this study, and while there is no complete agreement over what the term means, a workable definition states that job involvement measures the degree to which a person identifies with his job, actively participates in it and considers his performance important to his self-worth. An employee who acquires a share of ownership is likely to feel, to a greater extent, like a part of the organisation for several reasons. For example, Long (1987) argues that an employee's shares constitutes physical and legal evidence of his association with the organisation and the act of acquiring shares could itself probably lead an individual to feel involved psychologically. Long (1978) further argues that such an employee is entitled to receive additional information such as that pertaining to activities of ESOPs. Additionally, ownership may result in increased

involvement because feelings of shared goals and that one's fate is tied to that of the organisation would almost certainly be expected to increase feelings of solidarity.

The empirical results reported by Buchko (1992) indicates a positive relationship between ESOPs and employee involvement. According to these findings, employees' involvement with current jobs within the organisation are most influenced by the perception that ESOP ownership had increased their influence and control and that employees were more involved in their work.

Based on the belief that ESOPs enable employees to be much more involved in their work and to have more influence as owners, it is hypothesised that:

Hypothesis H¹⁵: Perceptions of ESOPs exert a positive influence on job involvement.

6.3.2 Employee motivation

The relevance of the concept of motivation has been explored in both the internal and external business environment. Watson (1994) maintains that business has come to realise that a motivated and satisfied workforce can powerfully deliver to the bottom line. In other words, motivated employees lead to satisfied customers which in turn leads to business success, all things being equal.

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 1978:35). Schermerhorn *et al.* (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 his best ability, based on that individual's own initiative.

Employee motivation is a real challenge. According to Allman (1987), there is always something that motivates an individual to do his job every day. Whether it is money, security or challenge, most individuals will try and work hard because of these motivating factors. Without some sort of motivation, employee output would be nonexistent. The challenge is to release that motivation, but this is not easy because motivation to work is complex and is often driven by both external and internal factors.

According to Wiley (1992), external factors can either be positive or negative. For example, punishment may include the threat of dismissal or the refusal to increase an employee's salary. On the other hand, rewards (a positive factor) may include a salary increase or promotion. The problem with motivating by reward is that rewards often run out. Internal motivation, on the other hand, is not easy to achieve. Wiley (1992) argues that internal motivation develops in an atmosphere that harmonises certain dimensions such as the nature of the job, the personal qualities of an employee, the qualities of a supervisor and company philosophy.

The question is how can managers motivate their employees and keep them satisfied? Wiley (1992) suggests that motivation can be achieved with the help of a supportive working environment and the use of motivation techniques (such as employee involvement, appreciation, job importance, goal-setting, environment, evaluations, competition and criticism). Managers must furthermore learn how to manage the motivation process and must thereafter constantly update this method as employee needs change over time. The first steps in managing the motivation process will be to evaluate the individual employee's needs and to develop motivation tactics that coincide with these needs.

Whilst motivation is generally viewed as a driving force (the reason we do certain things), motivation is subject to a number of roles and relationships. In other words, motivation comes in many forms. Marsden and Richardson (1994) maintain that there is a

relationship between motivation and pay. Arnolds' (1999) research findings suggest that monetary rewards are strong motivators of top management, middle management and front-line employees. According to Marsden and Richardson (1994), many employees accept that the principle of motivation leads to greater clarity in setting job targets for some staff and that it does succeed in motivating some employees. Allman (1987) maintains that motivation techniques (such as employee involvement, appreciation, job importance, goal-setting, environment, evaluations, competition and criticism) influence manager employee relations.

It is generally recognised that shares are a medium-term motivator, rather than an instant work motivator. Smith, Lazarus and Kalkstein (1990) suggests 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.

Long (1978) reports that there is greater potential for monetary gain for both managers and employees. According to Arnolds (1999), the need for pay has a direct influence on employee productivity. Long (1978) argues that input from employees who actually do the job is increased because they own shares. They can furthermore encourage others to do their work more effectively. Despite the above discussion, Long's (1978) research findings show that there is no significant difference between the motivation levels of share-owners and non-share-owners. This finding does not however necessarily indicate that share ownership may not have directly increased the motivation of shareholders. It may have increased the motivation of both shareholders and non-shareholders through peer group pressure.

Crainer (1988) suggests that ESOP's 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. Kelso's idea was that everyone should own productive capital, thereby, building a personal capital estate. He believes that the best way to accomplish this goal is to create a corporate mechanism to turn employees into owners. On the other hand, Kelso tries to convince companies to use this plan by suggesting that productivity will improve and that they can obtain tax breaks. Gilbert (1990) emphasises that every employee has the right to own a share in the company he or she works for, and that ownership makes the employee productive and more careful in giving his best performance.

Generally, the belief still favours the contention that ownership does improve employee motivation. In other words, there is a positive relationship between employee motivation and ESOPs.

Based on these arguments, it is hypothesised that:

Hypothesis H¹⁶: Employee perceptions of ESOPs exert a positive influence on employee motivation.

6.3.3 Organisational commitment

Organisational commitment refers to the degree to which a person identifies with and feels part of an organisation (Schermerhorn, Hunt and Osborn 1997:98). An individual who has high organisational commitment is considered very loyal. Rowland and Ferris (1982), Florkowski (1987) and Mowday, Porter and Steers (1982) agree with several other researchers that organisational commitment consists of three primary components namely, willingness to exert considerable effort on behalf of the organisation, strong belief in and acceptance of organisational goals and values and a definite desire to maintain

organisational membership.

Among others, the main dimension of organisational commitment is commonly known as loyalty 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. Efforts to define organisational commitment continue but several researchers have recommended restricting the definition to the attachment resulting from or based on employee's compliance (conformity driven by rewards and punishments), identification (a desire for affiliation) and internalisation (individual values congruent with organisational goals and values). This is more related to an approach which is known as an 'attitudinal approach in organisational commitment'.

The second approach which can be incorporated into the definition of organisational commitment is the behavioural approach in which an individual is viewed as committed to the organisation if he is bound by necessary costs such as fringe benefits, salary as a function of age or tenure. An individual therefore becomes committed to an organisation because it has become too costly for him to leave. In this study the emphasis is on the attitudinal approach in organisational commitment which is a state in which an employee identifies with a particular organisation and its goals and wishes to maintain membership in the organisation in order to facilitate such goals.

Organisational commitment has been linked to so many dimensions which, in turn, establish relationships. An important factor in facilitating commitment appears to be the degree of an employee's social involvement in the organisation. This finding suggests that the greater the social interaction, the more social ties the individual develops with the organisation. For example, Florkowski (1987) argues that there is a relationship between profit-sharing and organisational commitment and as a result for executives, supervisors and employees, personal support for profit sharing should increase an individual's expressed level of organisational commitment to the company.

Porter, Steers and Mowday, and Boulian (1974) view commitment as vital because it does not only lead to important outcomes such as decreased turnover, higher motivation, and increased organisational citizenship behaviours, but it further results from such things as recruiting and training practices and organisational support which can be influenced by the company. Berry and Parasuraman (1991) maintain that in the services relationship marketing situation, relationships are built on the foundation of mutual commitment. It can therefore be argued that commitment is central to all the relational exchanges between the company, its employees and various other institutions.

Research findings reveal that there is a similar relationship between organisational commitment and employees' perceptions of ESOPs. Buchno (1992) finds that employee commitment to the organisation, both attitudinal and behavioural and the involvement and satisfaction with their current jobs within the organisation, is 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 were 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, among other aspects (Long 1978:46).

Based on these findings it is hypothesised that:

Hypothesis H¹⁷: Employee perceptions of ESOPs exert a positive influence on organisational commitment

6.4 SUMMARY

Employees are stakeholders in the wealth creation process of the companies they work for (Leoka 1990: 23). There seems to be a number of problems that can be related to ESOP matters. For example, there could be a communication breakdown between employees, management and relevant trade unions with regard to ESOP matters in that employee shareholders are rarely given an opportunity to learn firsthand from management about the company's current trading position and future developments and to ask any questions. On the other hand, when employees often obtain feedback from trade unions there could be some difficulty in understanding the language of management. A lack of trust and sincerity on the part of management and trade unions who fail to provide full details when reporting back to their members can further hamper the successful introduction of ESOPs. A further problem could be the lack of opportunity for the employees to fully participate in the decision-making process with regard to ESOP matters.

Once all the constituents are well informed and there is at least a broad understanding of the different risk and reward elements of all parties with regard to ESOP matters, then, and only then, will participants be able to make meaningful choices about whether or not they wish to be part of the ownership and management of an ESOP.

Against this background, various influences and attitudes flowing from employee ownership are discussed in this chapter. Each variable is explained, the roles and relationships of such concepts are briefly discussed and limited only to the scope of this study. A number of influences on ESOPs included in the theoretical model are:

- The role of trade unions: trust, two-way communication and consideration.
- Perceptions of management: trust, two-way communication and consideration.

- Management of ESOPs: sincerity of management, participation in decision-making by management, participation in decision-making by unions, information availability by management, information availability by union and believability of ESOPs.
- Working environment: on-the-job training and employee empowerment.

The potential outcomes of the introduction of ESOPs in an organisation are briefly explained and included in a theoretical model, namely, employee motivation, job involvement and organisational commitment.

CHAPTER 7

RESEARCH METHODOLOGY OF THE STUDY

7.1 INTRODUCTION

This chapter describes the statistical procedures used to empirically assess the theoretical model proposed in Chapter 6 and depicted in Figure 6.1. The various measuring instruments used to collect data from the sample is evaluated to assist in the presentation and interpretation of data and to measure the different relationships among variables that are under investigation in this study.

7.2 METHODOLOGY

7.2.1 The sample

The universe of the study is defined as all full-time employees of two large South African companies (one a retail and one wholesale). In other words, a combination of convenience and random sampling is used. Two companies were chosen on a convenience basis. A random sample of 2600 employees was drawn from the two companies' employee records. A questionnaire with three covering letters (from management, labour union and the researchers) and a reply-paid envelope were mailed to each respondent.

Prior to the mailing of the questionnaire, a pilot study was conducted. According to Huysamen (1996), it is advisable to test survey questionnaires on a small group of individuals who are representative of the population. The main aim is to identify any possible mistakes and to gather any relevant comments or suggestions. Ten copies of the questionnaire were given to the head office of company A in the Port Elizabeth-Uitenhage area to distribute to each human resource manager of the six branches. Employees of

those branches were in various divisions and on various management levels and were given an opportunity to complete the questionnaire in order to identify any problem areas and to offer suggestions. Ten copies were given to Company B for distribution amongst head office staff in the Johannesburg-Gauteng region. The pilot study identified the problems of employees who were working as casuals in company A for more than two years. Therefore, clarification had to be provided with regard to these employees as they were not regarded as full-time employees and also they did not qualify for the employee share ownership scheme. The survey in company B did not reveal any problems.

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 posted was stratified by the size of each of these two companies. Both companies were reminded telephonically and the researcher had to visit various branches of each company to motivate respondents to respond to questionnaires. This was done to avoid the low response rates often associated with mail surveys.

Five hundred and eighty six (586) usable questionnaires were returned which indicates a 23% response rate. Returned questionnaires were inspected, edited and coded. The purpose was to ensure that the data is accurate, consistent with other information, uniformly entered, complete and arranged to facilitate coding. The coding of the questionnaire was done by the researcher in conjunction with the statistician responsible for assisting in the analysis of the data. Each questionnaire received from respondents was given a reference number (0001 - 0586). Details on the demographic composition of the realised sample are provided in Table 7.1.

Table 7.1 reports a frequency distribution of respondents among various categories. More than eighty percent (87%) of the respondents fell within the age range of 20 to 49 years of which 40% were between 30 to 39 years of age. Most of the respondents had standard nine or lower (56%) as their highest level of formal education, while more than 40% had

matric plus tertiary education.

TABLE 7.1
THE COMPOSITION OF THE RESPONDENT GROUP IN DEMOGRAPHIC TERMS

		n	%
Age	20 - 29	84	14
	30 - 39	233	40
	40 - 49	196	33
	50 - 59	66	11
	60+	7	2
		586	100
Education	Std 9 or lower	326	56
	Matric or equivalent	176	30
	Matric + diploma	67	11
	Matric + degree	17	3
		586	100
Tenure	0 - 5 years	116	20
	6 - 10	194	33
	11 - 15	174	30
	16 - 20	83	14
	21 +	19	3
		586	100
Income	+ R499	0	0
	R500 - R2 499	297	51
	R2 500 - R4 999	214	37
	R5 000 - R7 499	38	6
	R7 500 - R9 999	26	4
	+ R10 000	11	2
		586	100
Method of payment salary/ wage	Monthly	586	100
	Weekly	-	-
	Hourly	-	-
		586	100
Union member	Yes	401	68
	No	185	32
		586	100
Share ownership	Yes	386	66
	No	200	34
		586	100

Method of payment of salary/wages for all respondents was the same, with all respondents (100%) being monthly paid. No respondents were earning less than R499 per month. More than fifty percent of the respondents (51%) were earning between R500 to R2 499 per month followed by 37% of the respondents earning between R2 500 to R4 999 per month.

More than sixty percent of the respondents (63%) had job tenures at their current employment ranging from six to fifteen years. Twenty percent of the remaining 37% were respondents with less than five years work experience with their current employers and the last 17% included respondents with more than sixteen years work experience with their current employers.

Sixty eight percent of the respondents were labour union members. Only 32% were not union members. More than sixty percent (66%) of the respondents were share owners. Most of the respondents that were non-share owners indicated that they sold their shares, meaning that they were once share owners and decided otherwise by choice.

7.2.2 Questionnaire design

A structured questionnaire was used to measure each of the variables identified in the model (presented in Figure 6.1). A series of four to six items was used to measure each variable. The respondents were asked to rate these items on a five point Likert-type scale ranging from strongly agree to strongly disagree. These items sought to assess the respondents' perceptions of each of the variables under investigation.

Self-developed instruments were used for those variables for which there were no pre-existing measuring instruments. Each of these instruments consisted of five or more measurement items, allowing for elimination at the analysis stage. In other words, enough self-developed items were provided so that, if some of these instruments proved to be

unnecessary, invalid or unreliable, there would still be enough items available to complete the statistical analysis. Copies of three covering letters are shown in Appendix 1. A copy of a questionnaire is shown in Appendix 2. Appendix 3 consists of a copy of the individual items considered as measures of the latent variables.

7.3 STATISTICAL TECHNIQUES USED IN THE STUDY

According to Labovitz & Hagedorn (1971), the researcher needs to engage in some process of data reduction and data analysis because collected data often needs to be organised and interpreted. Huysamen (1996) stresses that, through the application of various statistical and mathematical techniques, the researcher can focus separately on specific variables in the data set. The following are some examples of techniques used and examined during the data analysis stage of the research project. These include the assessment of the reliability and validity of the measuring instruments in this study and the structural equation modelling (path analysis) technique used to empirically assess the theoretical model.

7.3.1 Reliability

The extent to which the results are similar over different forms of the same instrument or occasions of data collecting is referred to as reliability (Mc Millan and Schumacher 1993: 227). The goal of developing reliable measures is to minimise the influence of chance or other variables unrelated to the intention of the measure.

According to Parasuraman (1991), reliability is a criterion for evaluating measurement scales. It represents how consistent or stable the ratings generated by a scale are. Different examples of types of reliability are briefly described below.

7.3.1.1 Stability reliability

Stability reliability is reliability over time. In other words, it addresses the question of whether the indicator or measuring instrument delivers the same answer when applied in different time periods.

7.3.1.2 Representative reliability

Representative reliability is reliability across sub-populations or groups of people. In other words, it addresses the question of whether the indicator or measuring instrument delivers the same answer when applied to different groups. If an indicator yields the same results for a construct when applied to a different sub-population, it means that the indicator has high representative reliability.

7.3.1.3 Equivalence reliability

Equivalence reliability applies when researchers use multiple indicators, that is, when multiple specific measures are used in the operationalisation of a construct. An example is the case of several items in a questionnaire all measuring the same construct. In other words, it addresses the question of whether the measure yields consistent results across different indicators that measure the same construct. In this case, a reliable measure gives the same result with all indicators.

7.3.1.4 Internal consistency

Among reliability procedures there are procedures that are designed to determine whether all the items in a test are measuring the same thing. These are called the internal consistency procedures which require only a single administration of one form of a test (Ary, Jacobs and Razavieh 1990: 275). Cronbach alpha is an internal consistency procedure identified as suitable for the purpose of this study.

Cronbach alpha is used when measures have multiple scored items, such as attitude scales or essay tests. According to Huysamen (1996), coefficient alpha can be used with dichotomous items (that is, items which can earn a mark of either one or zero only, such as correct or incorrect items) as well as multiple point items (that is, items which may be assigned more than two values) as in the case of a rating. This study opted for a Likert attitude scale in which an individual respondent had to respond to each question on a five-point scale. The responses to the questionnaire used in this the scale are as follows: Strongly Disagree (1), Disagree (2), Indifferent (3), Agree (4) and Strongly Agree (5). Cronbach alpha was used to assess internal reliability of items used to measure attitudes.

7.3.2 Validity

According to Parasuraman (1991), validity is a criterion for evaluating measurement scales. In other words, it represents the extent to which a scale is a true reflection of the underlying variable or construct it is attempting to measure. According to Parasuraman (1991), there are various types of validity, namely:

- **Content validity** represents the extent to which the content of a measurement scale seems to tap all relevant facets of an issue that can influence respondents' attitudes.
- **Predictive validity** is a scale evaluation criterion representing how well a measured construct is able to predict some other variable or characteristic it is supposed to influence.
- **Construct validity** provides an indication of the degree of the relationship between the instrument and the construct being measured. In other words, it is a scale evaluation criterion that relates to the question that probes the actual meaning of the nature of the underlying variable or construct measured by the scale.

- **Discriminant validity** is a form of construct validity which refers to the extent to which a construct is not associated with other constructs on a theoretical basis. It means that an attempt can be made to establish whether the individual questionnaire items are indeed measures of the separate constructs as the literature suggests. For the purpose of this study, discriminant validity was tested through a statistical approach known as an exploratory factor analysis.

7.3.2.1 Factor analysis

Exploratory factor analysis statistical approach that can be used to analyse interrelationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). In other words, the general purpose of factor analytic techniques is to find a way of summarising the information contained in a number of original variables into a smaller set of variates (factors) with a minimum loss of information (Hair, Anderson, Tatham and Black 1995:16).

According to Hair et al. (1995), factor analysis can meet a number of objectives. To be more specific, factor analysis techniques can meet objectives such as the following:

- Identify the structure of relationships among either variables or respondents. In other words, factor analysis can examine either the correlations between the variables or the correlations between the respondents.
- Identify representative variables from a much larger set of variables for use in subsequent multivariate analyses.
- Create an entirely new set of variables, much smaller in number, to partially or completely replace the original set of variables for inclusion in subsequent techniques, ranging from the dependence methods of regression, correlation or

discriminant analysis to cluster analysis (grouping respondents or cases with similar profiles on a defined set of characteristics) which is a interdependence technique.

• **Comprehensive Exploratory Factor Analysis (CEFA)**

An exploratory factor analysis is a statistical approach that can be used to analyse interrelationships among a large number of variables and to explain these variables in terms of their common underlying dimensions (factors). The objective of this approach is to find a way of condensing the information contained in a number of original variables into a smaller set of variates (factors) with a minimum loss of information (Hair *et al.* 1995:16).

Exploratory factor analysis is a widely used method of analysis, particularly in the behavioral sciences. Although there have been some substantial developments in the last twenty-five years, many have not been included in readily available factor analysis programmes and, consequently, cannot be utilised by practitioners. Most factor analysis programmes have facilities for obtaining maximum likelihood and ordinary least squares estimates of factor loadings which suffice in most practical situations. There are, however, alternatives to maximum likelihood (Swain 1975a) that have not been tried much because they are not generally available. Frequently non-iterative solutions, with squared multiple correlation coefficients as approximations for communalities, are provided. Non-iterative solutions may, however, use consistent estimates of communalities (Albert 1944; Ihara and Kano 1986) rather than approximations. Again this alternative has not been available to the practitioner.

The choices of rotation procedure are often limited to Varimax (Kaiser 1958) for orthogonal rotation and Direct Quartimin (Jennrich and Sampson 1966) for oblique rotation. These rotation criteria are well suited to situations where a perfect cluster solution with only one substantial loading per row of the factor matrix exists. They are not well suited to more complex solutions with several non-zero loadings per row. Thurstone (1935; 1947), the

originator of multiple factor analysis, originally intended the concept of simple structure to incorporate complex solutions and provided his 'Box Data' (Thurstone 1947:369-376) as an example of a complex simple structure. Yates (1987), discusses this matter carefully. Available programs are currently unable to recover simple structure from the Box Data. Some rotation criteria that can recover the simple structure from this data have been proposed but are not well known (McCammon 1966; McKeon 1968 and Yates 1987). An alternative approach is to use Varimax (or Direct Quartimin) in conjunction with a weighting scheme (Cureton and Mulaik 1975) that enables the recovery of simple structure from the Box Data. Rotation approaches that are worth trying, but are not readily available, do therefore exist.

One of the reasons for the current emphasis on confirmatory factor analysis is that standard errors for factor loading and factor correlation estimates are available in a number of programmes. This is not the case for exploratory factor analysis. Methods for estimating standard errors of rotated factor loadings are given by Jennrich and co-authors in a sequence of papers starting with Archer and Jennrich (1973) and culminating with Jennrich and Clarkson (1980). The algebra involved is quite complicated and the results have not been implemented in readily accessible factor programmes.

According to Browne, Cudeck, Mels and Tateneni (1998) in CEFA, the generality of the method has been given precedence over its speed, although speed of algorithms has not been disregarded. A number of potentially interesting rotation criteria are incorporated in the programme.

7.3.3 Structural equation modelling

Structural equation modelling is a multivariate technique, combining aspects of multiple regression (that is, examining dependence relationships) and factor analysis (that is, representing unmeasured concepts, known as factors, with multiple items) to estimate a

series of interrelated dependence relationships simultaneously (Hair *et al.* 1995:621). In other words, structural equation modelling examines a series of dependence relationships simultaneously. According to Hair *et al.* (1995) it is particularly useful when one dependent variable becomes an independent variable in subsequent dependence relationships. It therefore means that it is a technique that allows separate relationships for each of a set of dependent variables.

7.3.3.1 Path analysis

According to Hair *et al.* (1995), path analysis is based on calculating the strength of the causal relationships from the correlations among the constructs. In other words, it is employing correlations to estimate the relationships in a system of structural equations. The method of the path analysis is based on specifying the relationships in a series of regression-like equations (portrayed graphically in a path diagram) that can then be estimated by determining the amount of correlation attributable to each effect in each equation simultaneously. When employed with multiple relationships among latent constructs and a measurement model, it is then termed structural equation modelling.

7.4 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 6.1.

All questionnaire items were linked to a five-point Likert-type scale. Five response options, namely, strongly disagree, disagree, indifferent, agree and strongly agree were used to score the responses to each questionnaire item.

7.4.1 Trust

As a concept, trust can be defined as a firm belief in the honesty, goodness, worth, justice, power of someone or something or responsibility (Gambetta 1988:33). One of the independent variables measured in this study are defined as 'employees' perceived trust towards unions and trust towards management, influence perceptions of ESOPs.

Trust in management and union is measured with a shortened version of McAllister's (1995) interpersonal trust questionnaire. A six-item scale is used for both trust in management and trust in union. Most previous research on trust seems to have focused on the measurement of the degree of general trust in an organisation. Nicholas (1993), for example, measures trust in management and an organisation as a whole by using self-developed 'twenty trust builders' scale based on a fifty-item measure.

7.4.2 Two-way communication

For the purpose of this study, two-way communication can be defined as information that flows back and forth between the original communicator of a message and the receiver (Bowen, Lewicki, Hall and Hall 1997). In other words, the receiver can ask questions, receive clarification and give communicator feedback on what has been heard or done. Furthermore, through two-way communication, employees in a company are given the knowledge that their suggestions and recommendations are being addressed. One of the dependent variables in this study was described as 'two-way communication between union and employees and between management and employees influences the perceptions of ESOPs'.

A five-item scale is used to measure two-way communication in general of both management and union with regard to ESOPs. The short five-item scale which was adapted from the original Interpersonal Trust Questionnaire (McAllister 1995) is used.

7.4.3 Consideration

The perceived consideration of union towards employees and the perceived consideration of management towards employees with regard to the management of ESOPs is a further independent variable modelled in Figure 6.1.

Consideration is measured by means of a five-item instrument adapted from the work of Teas and Hórrrell (1981). Five items relating to management and five items relating to union are used to measure consideration with regard to ESOPs. For the purpose of this study, respondents were asked to indicate how considerate management and union are with regard to ESOPs matters.

7.4.4 Sincerity

In this study, sincerity is defined as a quality of being trustworthy and honest. In other words, sincerity refers to a person who has feelings or exhibits behaviour that is not pretended but genuine, only saying things that are really meant or believed and is straightforward. The independent variable in this study was defined as 'perceived sincerity of management towards employees with regard to the management of ESOPs'.

Respondents evaluated their management's sincerity on a self-developed scale consisting of five items linked to a five-point Likert-type scale.

7.4.5 Participation in decision-making

According to Robbins (1983), participation in decision-making allows the coming together of people with different characteristics and similar needs and who are engaged in a continuous process of identifying a problem or opportunity. In this study, participation in decision-making can therefore be described as a process of bringing together the diversity

of ideas which can bring about better dialogue, better comprehension of a problem and the development of more creative and effective group performance, in this case the ESOP.

The independent variable in this study was 'participation in decision-making process allowed by management and decision-making process allowed by union with regard to the management of ESOPs'.

Participation in decision-making is measured with a five-item scale which is adapted from a Porter-type response scale which was successfully used by Teas, Wacker and Hughes (1979). This scale was, however, linked to a five-point Likert-type scale. Teas *et al.* (1979) report Cronbach alpha values of 0.855 and 0.819 respectively for the Porter-type scale. 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 matters.

7.4.6 On-the-job training

On-the-job training involves instruction while performing the job in the actual workplace. The independent variable is described as 'on-the-job training on the part of employees'.

A self-developed five-item scale is used to measure training in a work environment. The respondents were asked to rate 'the adequacy of training that I receive': to solve my day-to-day problems; to equip me with the skills I need; to understand all aspects of my job; to cope with a heavy load; and to cope with a difficult assignment' on a scale ranging from 1 (strongly disagree) to 5 (strongly agree).

7.4.7 Empowerment

In this study, empowerment is defined as the sharing with employees of information about the organisation's performance, rewards based on organisation's performance, knowledge

that enables employees to understand and contribute to the organisation's performance and power to make decisions that influence organisational direction and performance. As an independent variable, empowerment is described as 'the perceived empowerment to initiate tasks and contribute to organisational performance. Empowerment is measured with a short version of Hayes's Employee Empowerment Questionnaire (1994). From the Employee Empowerment Questionnaire, only five items with factor scores higher than 0.6 in the original study are used.

7.4.8 Employee perceptions of ESOPs

Employee perceptions of the value of ESOPs was modelled as an intervening variable in Figure 6.1. It is defined as 'the perceived value of ESOPs to the employee or respondent'. A four-item scale was developed to measure the perceptions of ESOPs. Respondents were asked to evaluate how valuable ESOPs are to them and to rate 'the value of ESOPs': a belief that the ESOP shares will benefit him/her in the future; membership is very valuable to him/her; it is important to own shares now so that he/she can benefit on retirement; and whether his/her involvement in the ESOP matters now, will have benefits for him/her in the future on a scale ranging from 1 (strongly disagree) to 5 (strongly agree).

7.4.9 Job involvement

Bowen and Lawler (1992) suggest that job involvement entails setting of tasks by management which each employee must complete, but that employees have considerably more control over how they perform their duties. In other words, jobs must be redesigned and employees trained to deal with their increased responsibility. Job involvement is modelled as an outcome variable or dependent variable in Figure 6.1.

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

Many researchers, including Gorn and Kanungo (1980) and Kanungo (1982) have provided evidence of the reliability and validity of the instrument in their studies.

7.4.10 Employee motivation

The development of a desire within an employee to perform a task to his/her best ability, based on that individual's own initiative, is referred to as employee motivation in this study. Employee motivation is modelled as a dependent variable in this study.

Employee motivation is measured with a shortened version of The Job Opinion Questionnaire by Kanungo, Misra and Dayal (1975) which was developed and pretested in the subsequent studies. A five-item scale linked to five-point Likert-type scale was used. Many researchers, including Jain, Normand and Kanungo (1979), have proved the validity and reliability of this instrument.

7.4.11 Organisational commitment

Organisational commitment is the degree to which an individual identifies with and feels a part of the organisation. In this study, organisational commitment is modelled as a dependent variable.

The short version of Mowday, Porter and Steers' (1982) organisational commitment questionnaire was used to measure organisational commitment. Five items linked to a five-point Likert-type scale are used. The developers of the scale and subsequent studies (Curry, Wakefield, Price and Mueller 1986; Pierce and Dunham 1987) have proved the reliability and validity of the instrument.

7.4.12 Other self development measures

Other variables measured using a number of self-generated items were information sharing (five items relating to management and five items relating to union) and believability of management (five items).

For the purpose of this study, information sharing can be described as a situation in which people are able to access and use information in order to take charge of their own work life. Other independent variables measured in this study are defined as 'information sharing on the part of management and information sharing on the part of union with regard to management of ESOPs matters which influence the employees perception of ESOPs'.

Information sharing is measured based on whether respondents are able to have access and make use of information in order to take charge of their own information and their ability to use it. For example, items measuring information sharing are as follows: 'How often in the last year do you recall: receiving information from management on ESOPs' financial position, receiving information from the union explaining the benefits of ESOPs to members'.

For the purpose of this study, believability takes place when information or message is consistent and actions match words and when the organisation communicates integrity, congruity and direction. The dependent variable was defined as 'the believability of the existence of ESOPs'.

Believability is measured based on whether messages with regard to ESOPs are consistent and the organisation communicates direction and congruency to employees. Examples of the items are as follows: 'I doubt the existence of an ESOP in this company' and 'I doubt if there is any written information in the documents of this company that one

can read on the ESOP scheme'.

7.4.13 Instruments used for the demographic profile of the respondents

In the companies where the fieldwork for this study was carried out, individual demographic variables were measured to evaluate their effects on the respondents' perceptions towards union, management and the working environment with regard to ESOPs. A single-item instrument is used for all selected individual variables. A three- to six-point response scale is used for all selected variables with the exception of ownership and labour union membership which was determined by instruments requiring yes/no responses.

Age was measured with a single-item measure and scored on a five-point scale, namely:

- 1 = 20 to 29 years
- 2 = 30 to 39 years
- 3 = 40 to 49 years
- 4 = 50 to 59 years
- 5 = 60 and more years

Table 7.1 revealed that only 13% of respondents were over fifty years of age, and that 87% of the majority ranged from twenty to forty-nine years of age.

A single-item instrument is used to measure education and scored on a four-point scale as follows:

- 1 = standard 9 or equivalent or lower
- 2 = standard 10 or equivalent
- 3 = matric plus diploma(s)
- 4 = matric plus degree(s)

The majority of respondents had standard nine or lower (56%) as their highest level of

formal education.

A single-item instrument was used to measure job tenure. Each respondent was asked to indicate how long he/she has been employed by the company. The following five-point scale was used:

- 1 = less than 5 years
- 2 = 6 to 10 years
- 3 = 11 to 15 years
- 4 = 16 to 20 years
- 5 = 21 years and more

Table 7.1 reveals that the majority of respondents (80%) had been in their current employment for more than six years and 17% of that percentage had been in their current employment for more than sixteen years.

Income level was measured with a single-item instrument. Respondents were asked to indicate their levels of income on a six-point response scale.

The scale is as follows:

- 1 = R499 or less
- 2 = R500 to R2 499
- 3 = R2 500 to R4 999
- 4 = R5 000 to R7 499
- 5 = R7 500 to R9 999
- 6 = R10 000 and more

More than eighty percent of the respondents (88%) were earning incomes ranging from

CHAPTER 8

EMPIRICAL EVALUATION OF EMPLOYEE PERCEPTIONS OF EMPLOYEE SHARE OWNERSHIP SCHEMES

8.1 INTRODUCTION

The results of reliability and validity assessments of the measuring instruments used to measure each variable are reported in this chapter. This chapter reports the results of the empirical evaluation of the perceptions of employees towards the union and management with regard to their employee share ownership scheme.

8.2 DATA ANALYSIS

8.2.1 Internal reliability of the instruments

Cronbach's alpha coefficient is used to assess the internal consistency of the measuring instruments. The SAS computer programme was used for this purpose. The results reported in Table 8.1 indicate 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 is thus deleted from the empirical model.

The initial Cronbach alpha value for 'union trust' was 0.748, which is acceptable for basic research, according to Nunnally (1978). The removal of item (UT1) improved the coefficient to 0.758. This improvement led to the exclusion of UT1 from subsequent statistical analyses.

The removal of individual items from any of the other variables did not improve their internal reliability and were therefore all retained.

TABLE 8.1
CRONBACH ALPHA VALUES OF MEASURING INSTRUMENTS:
THEORETICAL MODEL

Measuring instrument	Initial value	Final value
Union trust	0.748	0.758
Union two-way communication	0.700	0.700
Sincerity of management	0.792	0.792
Consideration of union	0.669	0.669
Management trust	0.765	0.765
Management two-way communication	0.748	0.748
Consideration of management	0.700	0.700
Participation in decision-making by management	0.707	0.707
Participation in decision-making by union	0.700	0.700
Believability	0.700	0.700
Perceptions of ESOPs	0.702	0.702
On-the-job training	0.825	0.825
Empowerment	0.609	0.609
Job involvement	0.476	Deleted
Employee motivation	0.700	0.700
Organisational commitment	0.766	0.766
Information sharing by management	0.870	0.870
Information sharing by union	0.923	0.923

8.2.2 Discriminant validity of the instruments

The next step in the data analysis phase was to assess the discriminant validity of the variables listed in Table 8.1. According to Parasuraman (1991), discriminant validity is a form of construct validity which refers to the extent to which a construct is not associated with other constructs on a theoretical basis.

The BMDP4M computer programme is used to conduct four sets of exploratory factor

analyses (Frane, Jennrich and Samson 1990). Maximum likelihood is specified as the method of factor extraction and a Direct Quartimin oblique (correlated factors) rotation of the original factor matrix. The first set of four factor analyses involved general perceptions of employees towards union with regard to trust (UT), two-way communication (UTC), and consideration (CU); and management with regard to trust (MT), two-way communication (MTC), consideration (CM) and sincerity (SM).

The second factor analysis involved ESOP-related perceptions of employees: participation in decision-making by management (PDM), participation in decision-making by union and members (PDU), believability (BEL), information sharing by management (ISM) and information sharing by union (ISU) with regard to the management of ESOPs. The third factor analysis involved perceptions of employees towards the working environment, namely, on-the-job training (JT) and empowerment (EMP). The last factor analysis involved the potential outcomes of employee share ownership scheme perceptions namely, employee motivation (EM), job involvement (JI) and organisational commitment (OC).

8.2.2.1 General perceptions of employees towards union and management

The first exploratory factor analysis results shown in Table 8.2 reveals that the items expected to measure 'trust', 'two-way communication', 'sincerity' and 'consideration' of management did not load on separate factors. It means that respondents did not regard 'trust', 'two-way communication', 'sincerity' and 'consideration' of management as separate dimensions. Instead, respondents view 'two-way communication', 'sincerity' and 'consideration' as two constructs, renamed 'trust of management' and 'sincerity of management'. Four of the six items (MT3 - MT6), which were expected to measure 'trust', and two of the five items (MTC3, MTC5) which were expected to measure 'two-way communication' as well as two of the five items (SM4, SM5) which were expected to measure 'sincerity' and two of the five items (CM3, CM4) which were expected to measure 'consideration' loaded in factor 1. This means that respondents view these items as

measures of a single construct termed 'trust of management'.

Five items, which were expected to measure the variables 'trust' (MT1), 'two-way communication' (MTC1), 'sincerity' (SM1, SM2) and 'consideration' (CM1) loaded on factor 2. This means that respondents view these items as a single construct termed 'sincerity of management'. Four items, which were expected to measure trust, two-way communication, sincerity and consideration of management (MT2, MTC2, MTC4, SM3, CM2, CM5), did not load to a significant extent ($p < 0.04$) and this led to the deletion of these items and were not used in subsequent analyses.

Respondents did not regard 'trust', 'two-way communication' and 'consideration' as separate dimensions either. This means that respondents also view 'trust', 'two-way communication' and 'consideration' as two rather than three variables. In other words, some of these items are viewed by respondents as a single construct termed 'responsiveness of union' and some were viewed by respondents as 'reliability of union'.

Table 8.2 reveals that two of the six items expected to measure trust (UT2, UT3), one of the five items expected to measure two-way communication (UTC2) and two of the five items expected to measure consideration of union (CU2, CU3) loaded on factor 3. This means that respondents view these items as a single construct termed 'responsiveness of union'. Five items, regarded as measures of trust (UT6), two-way communication (UTC4, UTC5), and consideration (CU4, CU5), loaded on factor 4. This means that the respondents view these items as measures of a single construct termed 'reliability of union'.

TABLE 8.2
ROTATED FACTOR LOADINGS: GENERAL PERCEPTIONS OF
EMPLOYEES TOWARDS UNION AND MANAGEMENT¹

	Factor 1	Factor 2	Factor 3	Factor 4
	Trust in management	Sincerity of management	Responsiveness of union	Reliability of union
MT3	0.526	0.158	0.240	-0.140
MT4	0.719	-0.059	0.081	-0.045
MT5	0.694	-0.031	-0.016	0.009
MT6	0.561	0.049	-0.07	-0.095
MTC3	0.505	0.126	0.042	0.218
MTC5	0.441	0.206	-0.072	0.155
SM4	0.482	0.136	-0.13	0.365
SM5	0.44	0.191	0.00	0.223
CM3	0.585	0.164	0.161	-0.140
CM4	0.531	0.006	-0.064	0.171
MT1	0.02	0.723	0.049	-0.048
MTC1	-0.05	0.768	0.016	-0.005
SM1	0.151	0.427	0.023	0.083
SM2	0.217	0.477	0.007	0.071
CM1	0.027	0.636	-0.041	0.037
UT2	-0.002	-0.036	0.624	0.040
UT3	0.057	-0.082	0.597	0.119
UTC2	-0.048	0.209	0.474	0.093
CU2	-0.064	0.065	0.750	-0.047
CU3	0.129	-0.005	0.520	0.110
UT6	-0.019	-0.030	0.284	0.413
UTC4	-0.106	0.114	0.076	0.700
UTC5	0.144	0.116	0.127	0.464
CU4	0.003	0.176	0.188	0.482
CU5	0.159	-0.116	0.215	0.443

	Factor 1	Factor 2	Factor 3	Factor 4
	Trust in management	Sincerity of management	Responsiveness of union	Reliability of union
Eigen values	7.851	2.841	1.35	1.193

1) Loadings greater than 0.4 were considered significant

Six items, which were regarded as measures of trust, two-way communication and consideration of union (UT1, UT4, UT5, UTC1, UTC3, CU1), did not load to a significant extent ($p < 0.04$), leading to the deletion of these items.

8.2.2.2 Perceptions of employees towards union and management with regard to Employee Ownership Schemes

Table 8.3 indicates that all items expected to measure 'information sharing by union' (ISU1 - ISU5) loaded on factor 1. These five items, as well as two items on 'information sharing by management' (ISM4, ISM5) which also loaded on factor 1, were regarded as a measurement of 'information sharing by union' (factor 1). Three of the items expected to measure 'information sharing by management' (ISM1, ISM2, ISM3) loaded on factor 2 as expected. All five items expected to measure 'believability' (BEL1 - BEL5) loaded on factor 3 as expected. Factor 4 consists of all items that were expected to measure 'participation in decision-making by management' (PDM1- PDM5). Four of the five items which are regarded as measures of 'participation in decision-making by union' (PDU) loaded on factor 5. Only one item (PDU1) did not demonstrate sufficient discriminant validity and was thus deleted.

TABLE 8.3
ROTATED FACTOR LOADINGS: PERCEPTIONS OF EMPLOYEES TOWARDS
THE UNION AND MANAGEMENT WITH REGARD TO EMPLOYEE
SHARE OWNERSHIP SCHEMES¹

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
	Information sharing by union	Information sharing by management	Believability	Participation in decision-making by management	Participation in decision-making by union
ISU1	0.896	-0.050	0.042	0.011	-0.003
ISU2	0.911	-0.052	-0.024	0.026	0.019
ISU3	0.811	0.023	0.016	-0.122	0.081
ISU4	0.885	-0.006	-0.032	-0.109	0.120
ISU5	0.645	0.252	0.008	-0.017	-0.000
ISM4	0.580	0.153	-0.040	0.123	0.057
ISM5	0.616	0.169	-0.055	0.125	-0.056
ISM1	0.025	0.851	-0.011	0.031	0.002
ISM2	0.188	0.727	0.000	0.132	-0.065
ISM3	0.171	0.730	0.070	0.091	-0.092
BEL1	0.043	-0.068	0.427	-0.015	0.001
BEL2	-0.012	0.004	0.598	-0.004	-0.046
BEL3	-0.082	0.150	0.660	-0.128	0.140
BEL4	-0.038	0.012	0.676	0.011	0.147
BEL5	0.108	-0.131	0.472	0.256	-0.211
PDM1	0.011	0.040	-0.027	0.544	0.095
PDM2	-0.005	-0.041	0.026	0.601	0.084
PDM3	-0.051	0.091	-0.138	0.481	0.101
PDM4	-0.069	0.117	-0.017	0.518	0.154
PDM5	0.152	0.092	0.154	0.443	-0.037
PDU2	0.110	-0.030	0.097	0.025	0.503
PDU3	0.071	-0.073	-0.004	0.195	0.560
PDU4	0.056	-0.065	0.117	0.089	0.505
PDU5	0.008	0.053	-0.061	0.086	0.555

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
	Information sharing by union	Information sharing by management	Believability	Participation in decision-making by management	Participation in decision-making by union
Eigen values	6.853	2.655	2.386	1.506	1.071

1) Loadings greater than 0.4 are considered significant

TABLE 8.4
ROTATED FACTOR LOADINGS: PERCEPTIONS OF EMPLOYEES TOWARDS
WORKING ENVIRONMENT¹

	Factor 1	Factor 2	Factor 3	Factor 4
	On-the-job training	Perceptions of ESOPs	Empowerment based on authority	Empowerment based on responsibility
JT1	0.687	0.134	0.001	-0.176
JT2	0.756	0.048	0.012	-0.021
JT3	0.740	-0.133	-0.031	0.224
JT4	0.446	0.000	0.221	0.139
JT5	0.478	0.008	0.301	0.073
PERC1	-0.002	0.555	0.075	-0.027
PERC2	0.000	0.562	0.084	0.006
PERC3	-0.016	0.631	-0.078	0.059
PERC4	0.056	0.613	-0.035	0.096
EMP1	-0.004	-0.052	0.691	-0.015
EMP2	0.112	0.101	0.562	-0.910
EMP5	-0.007	0.065	0.447	0.120
EMP3	0.052	0.122	-0.027	0.461
EMP4	-0.007	0.070	0.079	0.743
Eigen values	4.439	1.791	1.153	1.033

1) Loadings greater than 0.4 are considered significant

8.2.2.3 Perceptions of employees towards working environment

Table 8.4 indicates that all items expected to measure 'on-the-job training' of the employees (JT) loaded on factor 1 as expected. Factor 2 consists of the four items expected to measure 'perceptions of employee share ownership scheme' (PERC). Table 8.4 further indicates that respondents did not perceive 'empowerment of employees' as a single construct but as a two-dimensional construct. This means that respondents view 'empowerment' as consisting of a dimension related to 'authority' on the one hand and 'empowerment' of employees with regard to 'responsibility' on the other. Three of the five items expected to measure 'empowerment of employees' (EMP1, EMP2, EMP5) loaded on factor 3. Factor 4 is termed 'empowerment based on responsibility' and consists of the other two items expected to measure 'empowerment of employees' (EMP3, EMP4).

Table 8.4 further indicates that respondents did not perceive 'empowerment of employees' as a single construct but as a two-dimensional construct. This means that respondents view 'empowerment' as consisting of a dimension related to 'authority' on the one hand and 'empowerment' of employees with regard to 'responsibility' on the other. Three of the five items expected to measure 'empowerment of employees' (EMP1, EMP2, EMP5) loaded on factor 3. Factor 4 is termed 'empowerment based on responsibility' and consists of the other two items expected to measure 'empowerment of employees' (EMP3, EMP4).

8.2.2.4 Outcomes of Employee Share Ownership Schemes

The outcome variables and the individual items expected to measure each outcome are summarised in Table 8.5. All five items, expected to measure 'organisational commitment', loaded on factor 1. These five items, as well as one job involvement item (JI4), loaded on factor 1 and were regarded as a measure of 'organisational commitment'. Four of the five

items expected to measure 'job involvement' were deleted as they did not load to a significant extent on a separate factor (JI1, JI2, JI3, JI5). In other words, these items did not demonstrate sufficient discriminant validity. Two of the five items which were regarded as measures of 'employee motivation' loaded on factor 2 but three of them (EM1, EM3, EM4) did not load to a significant extent and were therefore deleted. Several factor solutions, ranging from two to three, were tried to improve the results with regard to the outcome variables of this study but no improvement was achieved. The most interpretable factor solution was the one shown on Table 8.5. It was therefore concluded that respondents perceive all items expected to measure outcomes of employee share ownership as two constructs, termed 'organisational commitment' and 'employee motivation'.

TABLE 8.5
 ROTATED FACTOR LOADINGS: OUTCOMES OF EMPLOYEE SHARE
 OWNERSHIP SCHEMES¹

	Factor 1	Factor 2
	Organisational commitment	Employee motivation
OC1	0.482	0.058
OC2	0.768	0.019
OC3	0.755	-0.001
OC4	0.545	0.133
OC5	0.510	-0.017
JI4	0.568	-0.076
EM2	-0.031	0.890
EM5	0.305	0.413
Eigen values	2.936	0.745

1) Loadings greater than 0.4 are considered significant

TABLE 8.6
CRONBACH ALPHA COEFFICIENTS OF THE LATENT VARIABLES BASED
ON THE COMPREHENSIVE EXPLORATORY FACTOR ANALYSIS

Latent variable	Items	α
Trust in management	MT3, MT4, MT5, MT6, MTC3, MTC5, SM4, SM5, CM3, CM4	0.875
sincerity of management	MT1, MTC1, SM1, SM2, CM1	0.799
Responsiveness of union	UT2, UT3, UTC2, CU2, CU3	0.772
Reliability of union	UT6, UTC4, UTC5, CU4, CU5	0.774
Information sharing by union	ISU1, ISU2, ISU3, ISU4, ISU5, ISM4, ISM5	0.927
Information sharing by management	ISM1, ISM2, ISM3	0.893
Believability	BEL1, BEL2, BEL3, BEL4, BEL5	0.701
Participation in decision-making by management	PDM1, PDM2, PDM3, PDM4, PDM5	0.708
Participation in decision-making by union	PDU2, PDU3, PDU4, PDU5	0.700
On-the-job training	JT1, JT2, JT3, JT4, JT5	0.826
Perception of ESOPs	PERC1, PERC2, PERC3, PERC4	0.705
Empowerment based on authority	EMP1, EMP2, EMP5	0.628
Empowerment based on responsibility	EMP3, EMP4	0.600
Organisational commitment	OC1, OC2, OC3, OC4, OC5, JI4	0.784
Employee motivation	EM2, EM5	0.682

8.2.2.5 Cronbach alpha values of latent variables based on the results of factor analysis: theoretical model

As some items were deleted and new were variables formed as a result of the discriminant validity assessment with the exploratory factor analysis, the original theoretical model had

to be adapted. The reliability of the new and adapted variables had to be reassessed.

Table 8.6 summarises the items which are regarded as measures of individual variables in the theoretical model following the exploratory factor analyses. Table 8.6 indicates that almost all Cronbach reliability coefficients are above 0.600 which is regarded as acceptable for the purpose of this study.

The next phase of the data analysis process was to conduct further exploratory factor analysis using the Comprehensive Exploratory Factor Analysis (CEFA) programme.

The primary benefit of CEFA is that it no longer requires the use of arbitrary cut-off values to establish 'significant' loadings. In other words, CEFA calculates probabilities without intervention of the researcher.

8.2.2.6 Review of the general perceptions of employees towards union and management

This section reports the results of the CEFA analysis.

Table 8.7 indicates that only two items were retained with regard to 'trust'. These items loaded on factor 1. In other words, respondents view only two (MT5, MT6) of the six items that are expected to measure 'trust in management' as measures of 'trust'.

All other items which are regarded as measures of trust, two-way communication, sincerity and consideration of management (MT3, MT4, MTC3, MTC5, SM4, SM5, CM3, CM4) did not demonstrate sufficient discriminant validity and are therefore deleted.

Respondents did not regard 'trust' and 'consideration' as separate dimensions either. This means that respondents view 'trust' and 'consideration' as a single construct termed

'responsiveness of union'. Table 8.7 indicates that one of the two remaining items expected to measure trust (UT2) and one of the two remaining items expected to measure consideration (CU2) loaded on factor 2.

Three items expected to measure trust, two-way communication and consideration of union were deleted. Three items (UT3, UTC2, CU3) did not load to a significant extent. In other words, such items did not demonstrate sufficient discriminant validity.

Three items, which were regarded as measures of 'trust' (MT1), 'two-way-communication' (MTC1) and 'consideration' (CM1), loaded on factor 3. This means that respondents view these items as a single construct termed 'reliability of management'.

Two items expected to measure 'sincerity' of management were deleted. These two items (SM1, SM2) did not load to a significant extent and were thus deleted.

It can be noted at this point that respondents could not differentiate between the items expected to measure 'trust', 'consideration' and 'two-way communication' of management. Respondents therefore interpreted such items as measures of the same construct.

The items expected to measure sincerity of management were all deleted due to lack of discriminant validity. Thus it can be concluded that such items do not measure what they are supposed to.

Following the CEFA, only three latent variables are retained for this portion of the model, namely, 'information sharing by union', 'information sharing by management' and 'believability'.

8.2.2.7 Review of the perceptions of employees towards the union and management with regard to employee share ownership schemes

Table 8.8 reveals that only two of the five items expected to measure 'information sharing by union' (ISU1, ISU2) loaded on factor 1. Three items (ISU3, ISU4, ISU5) were thus deleted due to insufficient discriminant validity.

Only one of the three remaining items (ISM1) expected to measure 'information sharing by management' loaded on factor 4. This item was therefore deleted together with the remaining two items (ISM2, ISM3) on the basis of lack of sufficient discriminant validity.

Two of the five items (BEL1, BEL2) expected to measure 'believability' loaded on factor 5. Three items regarded as measures of believability (BEL3, BEL4, BEL5) did not load to a significant extent, this led to the deletion of these items.

All items which were regarded as measures of 'participation in decision-making by management' (PDM1-PDM5) and 'participation in decision-making by union' (PDU2-PDU5) did not load to a significant extent and were therefore deleted.

It can be concluded that respondents did not interpret items expected to measure 'decision-making' as measures of such a variable. In other words, such items, based on the premise of insufficient discriminant validity, do not measure what they are supposed to. Additionally, all items that were expected to measure 'information sharing' by management were deleted. Respondents interpreted the items expected to measure 'information sharing' by union as the only items that measure 'information sharing'.

The latent variables retained in this portion of the model, following the CEFA analysis, were 'information sharing by the union' and 'believability'.

TABLE 8.7
ROTATED FACTOR LOADINGS: GENERAL PERCEPTIONS OF EMPLOYEES
TOWARDS UNION AND MANAGEMENT¹

	Factor 1	Factor 2	Factor 3	Factor 4
	Trust in management	Responsiveness of union	Reliability of management	N/S
MT5	0.624	-0.082	-0.105	-0.064
MT6	0.483	-0.141	-0.031	-0.172
UT2	-0.072	0.554	-0.108	-0.035
CU2	-0.131	0.684	-0.003	-0.117
MT1	-0.053	-0.013	0.650	-0.114
MTC1	-0.114	-0.044	0.698	-0.068
CM1	-0.047	-0.104	0.558	-0.032
MT3	0.443	0.166	0.076	-0.220
MT4	0.652	0.015	-0.129	-0.116
MTC3	0.422	-0.030	0.045	0.134
MTC5	0.351	-0.147	0.119	0.070
CM3	0.506	0.090	0.082	-0.219
CM4	0.445	-0.137	-0.750	0.084
SM1	0.059	-0.054	0.335	-0.001
SM2	0.128	-0.065	0.391	-0.009
SM4	0.389	-0.202	0.061	0.278
SM5	0.352	-0.074	0.107	0.138
UT3	-0.016	0.520	-0.157	0.031
UT6	-0.098	0.170	-0.111	0.301
UTC2	-0.125	0.391	0.123	0.006
UTC4	-0.172	-0.014	0.042	0.618
UTC5	0.030	0.033	0.033	0.367
CU3	0.049	0.439	-0.084	0.020
CU4	-0.075	0.091	0.094	0.385
CU5	0.075	0.110	-0.193	0.337

TABLE 8.8
ROTATED FACTOR LOADINGS: PERCEPTIONS OF EMPLOYEES TOWARDS
THE UNION AND MANAGEMENT WITH REGARD TO EMPLOYEE SHARE
OWNERSHIP SCHEMES¹

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
	Information sharing by union	N/S	N/S	Information sharing by management	Believability
ISU1	0.865	-0.049	-0.037	-0.092	-0.001
ISU2	0.880	-0.026	-0.020	-0.094	-0.065
ISU3	0.771	0.027	-0.176	-0.028	-0.029
ISU4	0.851	0.072	-0.156	-0.051	-0.072
ISU5	0.591	-0.075	-0.077	0.190	-0.042
ISM1	-0.039	-0.046	-0.027	0.799	-0.062
ISM2	0.121	-0.115	0.072	0.669	-0.044
ISM3	0.102	-0.145	0.030	0.672	0.025
ISM4	0.522	-0.009	0.054	0.088	-0.096
ISM5	0.559	-0.117	0.054	0.107	-0.109
BEL1	-0.027	-0.072	-0.092	-0.142	0.355
BEL2	-0.076	-0.116	-0.077	-0.061	0.534
BEL3	-0.137	0.068	-0.200	0.089	0.594
BEL4	-0.100	0.074	-0.063	-0.054	0.615
BEL5	0.045	-0.297	0.165	-0.204	0.384
PDM1	-0.054	0.016	0.463	-0.030	-0.091
PDM2	-0.067	0.010	0.524	-0.105	-0.038
PDM3	-0.116	0.020	0.392	0.018	-0.205
PDM4	-0.133	0.070	0.428	0.044	-0.080
PDM5	0.081	-0.113	0.356	0.017	0.080
PDU2	0.042	0.424	-0.049	-0.096	0.032
PDU3	0.006	0.475	0.102	-0.141	-0.066
PDU4	-0.009	0.422	0.007	-0.135	0.050
PDU5	-0.054	0.476	0.007	-0.012	-0.125

8.2.2.8 Reviewed perceptions of employees towards working environment

Table 8.9 indicates that two of five items (JT1, JT2) expected to measure 'on-the-job training' of employees loaded on factor 1. Three of these items (JT3, JT4, JT5) did not load to a significant extent and were thus deleted. Table 8.9 further indicates that respondents did not perceive 'empowerment of employees' as a single construct, but as a two-component dimension. This means that respondents view 'empowerment of employees with regard to authority' and 'empowerment of employees with regard to responsibility' as two separate constructs. Two of the five items expected to measure 'empowerment of employees' (EMP1, EMP2) loaded on factor 2. Factor 3 consists of two items expected to measure 'empowerment of employees' (EMP3, EMP5). Only one item expected to measure 'empowerment of employees' (EMP4) did not load to a significant extent. In other words, this item did not demonstrate sufficient discriminant validity.

TABLE 8.9
ROTATED FACTOR LOADINGS: PERCEPTIONS OF EMPLOYEES
TOWARDS WORKING ENVIRONMENT¹

	Factor 1	Factor 2	Factor 3
	On-the-job Training	Empowerment Based on Authority	Empowerment Based on Responsibility
JT1	0.634	-0.051	-0.174
JT2	0.708	-0.079	-0.065
JT3	0.651	-0.156	0.091
JT4	0.368	0.087	0.06
JT5	0.404	0.174	0.002
EMP1	-0.093	0.587	-0.103
EMP2	-0.001	0.478	-0.119
EMP3	-0.129	-0.041	0.669
EMP5	-0.015	-0.078	0.387
EMP4	0.091	0.363	0.064

The latent variables retained in this portion of the empirical model, following the CEFA analysis were, 'on-the-job training', 'empowerment based on authority' and 'empowerment based on responsibility'.

8.2.2.9 Reviewed outcomes of Employee Share Ownership Schemes

Table 8.10 reveals that all four items (PERC1-PERC4) expected to measure perceptions of employee share ownership loaded on factor 2. The outcome variables and the individual items expected to measure each outcome are summarised in Table 8.10. Three of the five items (OC2, OC3, OC4) expected to measure 'organisational commitment of employee', as well as one of the five 'job involvement' items (JI4) and one of the five 'employee motivation' items (EM5), all loaded on factor 1.

Respondents do not regard item JI4, expected to measure 'job involvement' and item EM5, expected to measure 'employee motivation' as separate items. In other words, respondents perceived all items expected to measure outcomes of employee share ownership as a single construct which is termed 'organisational commitment'.

Two of the items expected to measure organisational commitment (OC1, OC5), and one item expected to measure 'employee motivation' (EM2), did not load to a significant extent which led to the deletion of such items.

All other items expected to measure 'job involvement' (JI1, JI2, JI3, JI5) did not load to a significant extent and were deleted. It can therefore, be concluded that the items that were expected to measure 'motivation' and 'job involvement' are not valid enough for the respondents to interpret as expected, hence some of these items were interpreted by respondents as measures of 'organisational commitment'.

TABLE 8.10
ROTATED FACTOR LOADINGS: THE INFLUENCE AND OUTCOMES OF
EMPLOYEE SHARE OWNERSHIP SCHEMES¹

	Factor 1	Factor 2
	Organisational Commitment	Perceptions of ESOPS
PERC1	-0.091	0.509
PERC2	-0.001	0.437
PERC3	-0.090	0.551
PERC4	-0.022	0.537
OC1	0.363	0.001
OC2	0.830	-0.217
OC3	0.777	-0.173
OC4	0.519	-0.049
JI4	0.399	-0.053
EM5	0.478	-0.048
OC5	0.278	0.077
EM2	0.410	0.002

All the items expected to measure 'sincerity of management', 'information sharing by management', as well as 'decision-making' by union and management, were deleted from the empirical model due to lack of discriminant validity. These results are summarised in Table 8.11 by means of an empirical factor structure used for causal modeling.

As a result of the CEFA analysis, the only outcome variable that remained was organisational commitment.

The latent variables, and the individual items measuring them, are summarised in Table 8.11. 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, 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.

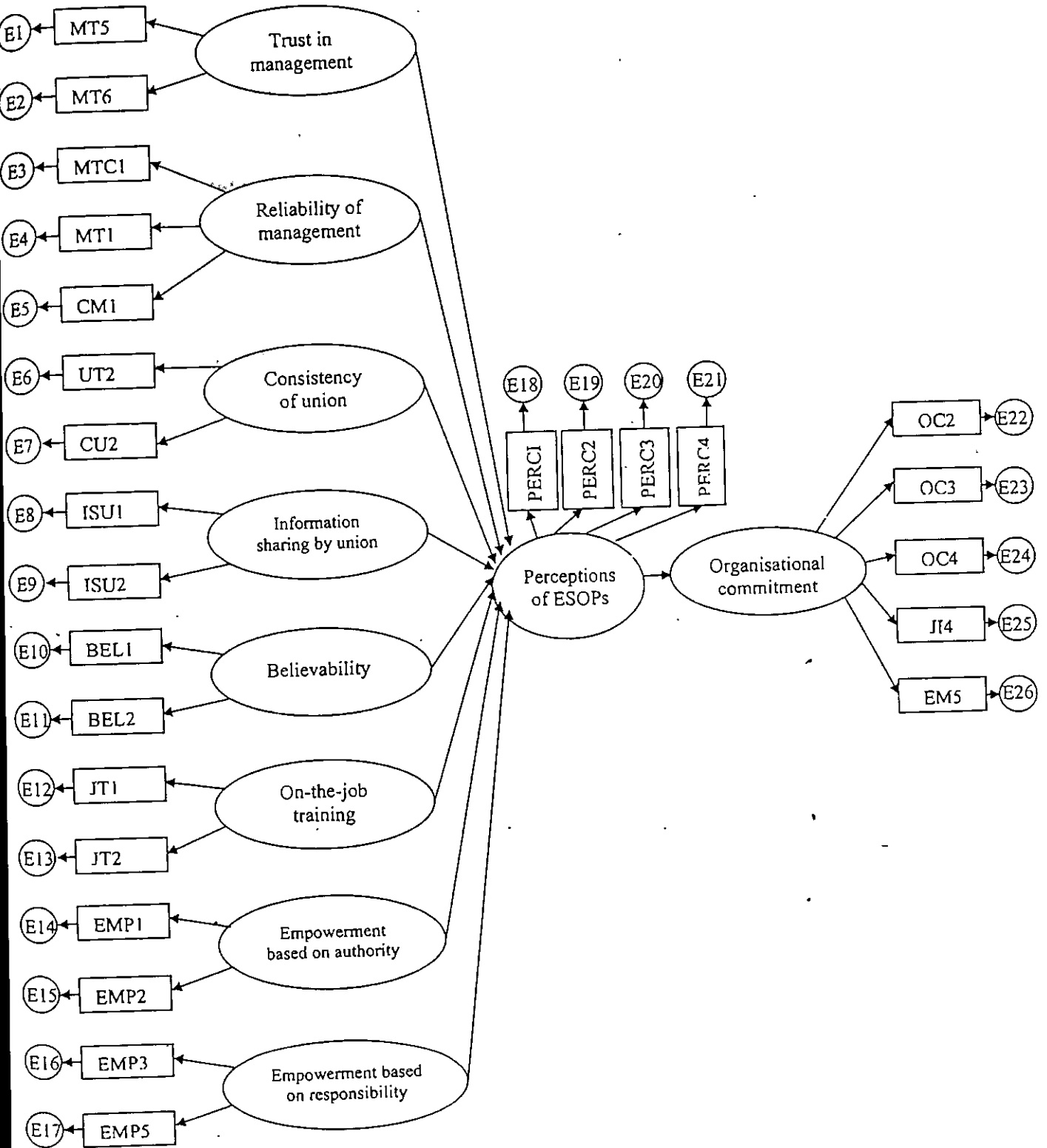
TABLE 8.11
EMPIRICAL FACTOR STRUCTURE FOR PATH ANALYSIS WITH
LATENT VARIABLES

Latent variables	Manifest variables
Trust in management	MT5, MT6
Reliability of management	MT1, MTC1, CM1
Responsiveness of union	UT2, CU2
Information sharing of union	ISU1, ISU2
Believability	BEL1, BEL2
On-the-job training	JT1, JT2
Empowerment based on authority	EMP1, EMP2
Empowerment based on responsibility	EMP3, EMP5
Perceptions of ESOPs	PERC1, PERC2, PERC3, PERC4
Organisational commitment	OC2, OC3, OC4, JI4, EM5

The empirical factor structure as summarised in Table 8.12 is therefore subjected to a Structural Equation analysis using the programme RAMONA.

As a result of the scale purification process the original model (Figure 1.1) had to be substantially modified. Figure 8.1 shows the adapted model.

FIGURE 8.1
 THE ADAPTED MODEL OF THE RELATIONSHIPS AMONG VARIABLES
 BASED ON PERCEPTIONS OF EMPLOYEES ON AND EFFECTS OF
 EMPLOYEE SHARE OWNERSHIP SCHEMES



As a result of the formulation of the adapted model the hypotheses tested had to be reformulated.

The hypotheses subjected to empirical verification were (Figure 8.2):

MANAGEMENT

H¹⁸: Employees' perceived lack of trust towards management, negatively influences perceptions of ESOPs.

H¹⁹: Perceived lack of reliability on the part of management with regard to management of ESOPs, negatively influences perceptions of ESOPs.

UNIONS

H²⁰: Perceived responsiveness on the part of unions towards their members with regard to management of ESOPs, positively influences perceptions of ESOPs.

ESOPs

H²¹: Insufficient information sharing on the part of the union with regard to the management of ESOPs, negatively influences the employees' perceptions of ESOPs.

H²²: The higher the believability of the existence of ESOPs the more positive the perceptions of ESOPs.

WORKING ENVIRONMENT

- H²³ : Insufficient on-the-job training on the part of employees negatively influences the perceptions of ESOPs.
- H²⁴ : The higher the perceived empowerment with regard to authority to initiate tasks and contribute to organisational performance the more positive the perceptions of ESOPs.
- H²⁵ : The higher the perceived empowerment with regard to responsibility to initiate tasks and contribute to organisational performance the more positive the perceptions of ESOPs.

OUTCOMES

- H²⁶ : Perceptions of ESOPs exert a positive influence on organisational commitment.

FIGURE 8.2
THE EMPIRICAL MODEL OF EMPLOYEES' PERCEPTIONS OF ESOPs

INDEPENDENT VARIABLES
MANAGEMENT

Trust

H⁻¹⁸

Reliability

H⁻¹⁹

UNION

Responsiveness

H⁺²⁰

ESOP

Information sharing by
union

H⁺²¹

Believability

H⁺²²

WORK ENVIRONMENT

On-the-job training

H⁻²³

Empowerment based
on authority

H⁺²⁴

Empowerment based
on responsibility

H⁺²⁵

DEPENDENT VARIABLES

Perceptions
of ESOPs

H⁺²⁶

Organisational
commitment

8.2.3 Path analysis with latent variables

The initial attempt to test the empirical model suggests that a high degree of multicollinearity occurred (Hair *et al.* 1995:93). In other words, two latent exogenous variables (in this case 'trust' and 'empowerment') are highly correlated, compromising the results of the Structural Equation Modeling (SEM). Multicollinearity is a problem in multiple regression and SEM because it reduces the predictive power of an independent or exogenous variable. It becomes difficult to separate the impact of individual independent or exogenous variables on the dependent or endogenous variable from each other. In multiple regression, high degrees of multicollinearity can lead to regression estimates being estimated incorrectly and even showing wrong signs (Hair *et al.* 1995:156 and 188 ; Mason and Perreault 1991).

It was therefore decided to execute the SEM analysis in two phases. In the first model, 'trust' was temporarily removed from the model, and in the second model, 'trust' was replaced and 'empowerment' was temporarily removed to overcome the problems associated with multi-collinearity. This necessitated splitting the model into two, that is, analysing data using only one of these latent variables at a time. Figure 8.3 is a model which consists of all latent variables (including 'empowerment based on authority' and 'empowerment based on responsibility') except for 'trust in management'. Figure 8.4 consists of all latent variables (including 'trust in management' and 'empowerment based on authority') except 'empowerment based on responsibility'.

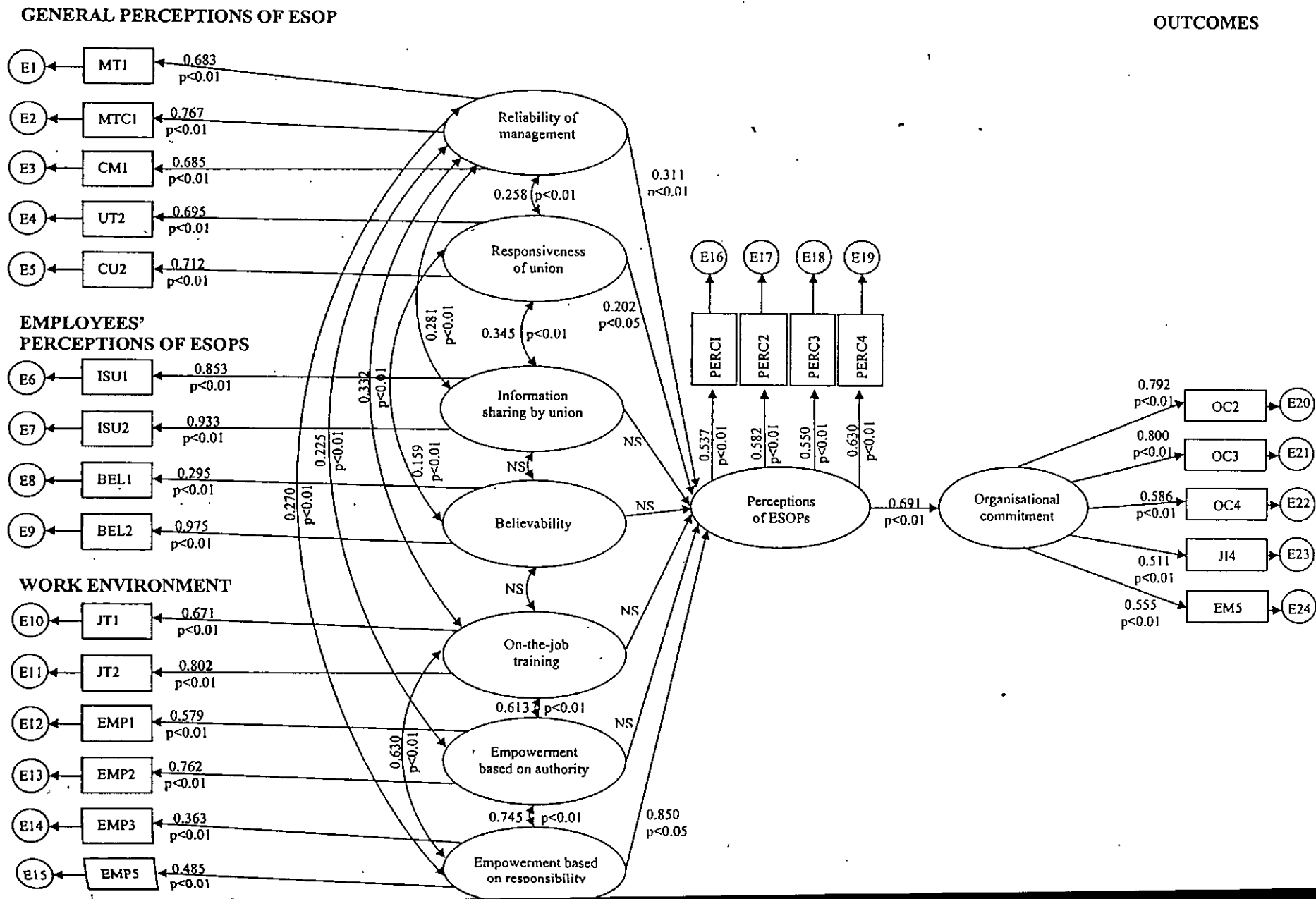
To address the objectives of this study, the empirical models depicted in Figures 8.3 and 8.4 are fitted to the observed data, using the computer programme RAMONA (Browne & Mels 1990), by specifying an analysis based on the sample correlation matrix with the maximum likelihood estimation. The resulting maximum likelihood estimates, with their associated significance information in terms of P values, are also shown in Figures 8.3 and 8.4.

8.2.3.1 The influence of employees' perceptions on ESOPs

Figure 8.3 shows that perceptions of ESOPs (as measured by value PERC) is significantly influenced by reliability of management (RELIABLE) (0.311; $p < 0.01$). In addition to reliability of management, responsiveness of union (RESPONSE) (0.202; $p < 0.05$) and empowerment based on responsibility exert a positive influence (EMPRESP) (0.850; $P < 0.05$) on perceptions of ESOPs. Information sharing (INFOUNI), believability (BELIEF), on-the-job training (TRAIN) or empowerment based on authority (EMPAUTH) do not therefore exert a significant influence on employee perceptions of share ownership schemes. ESOPs in turn causes organisational commitment (OC) (0.691 $p < 0.01$). In other words, Figure 8.3 shows that ESOPs strongly influences organisational commitment.

Figure 8.3 further reveals inter-correlations among constructs. There is a significant positive correlation between 'reliability of management' (RELIABLE) and 'information sharing by union' (INFOUNI) (0.281; $p < 0.01$), 'on-the-job training' (TRAIN) (0.332; $p < 0.01$), 'empowerment based on authority' (EMPAUTH) (0.255; $p < 0.01$) and 'empowerment based on responsibility' (EMPRESP) (0.270; $p < 0.01$). These constructs are considered with regard to their effect on (prediction of) perceptions of ESOPs. Figure 8.3 reveals a positive correlation between 'responsiveness of union' and 'believability' (0.159; $p < 0.01$) and a significant correlation between 'on-the-job training' and 'empowerment based on responsibility' (0.630; $p < 0.01$). These correlations are important from a managerial perspective although there is no direct effect on perceptions of ESOPs. It can therefore be concluded that most of the correlations between the exogenous latent variables are positive and significant.

FIGURE 8.3
THE INFLUENCE OF THE EMPLOYEES' PERCEPTIONS ON ESOPs



The measures of the fit of the model depicted in Figure 8.3 are provided in Table 8.12.

TABLE 8.12
MEASURES OF FIT OF THE CAUSAL MODEL IN FIGURE 8.3

Sample size	Test statistic	DF	Exceedance probability
586	616.12	246	0.000
Sample Discrepancy Function Value	=	1.053	
90% Confidence Interval	=	(0.514; 0.764)	
Root Mean square Error of Approximation	=	0.051	
90% Confidence Interval	=	(0.046; 0.056)	
LISREL GFI		0.923	
LISREL Adjusted GFI		0.900	
Browne-Cudeck Single Sample CVI		1.336	
Bentler Comparative Fit Index (CFI)		0.905	
Root Mean Squared Residual (RMR)		0.060	

All indices reported in Table 8.12 suggest that the theoretical model in Figure 8.3 represents a good approximation to the data. The RMSEA of 0.51 falls well within the parameters (> 0.05 and < 0.08) that could be described as a reasonable fit to the data. Both the goodness of fit and adjusted goodness of fit indices exceed the 0.9 level that is commonly accepted (Hair *et al.* 1995:651-664).

8.2.3.2 Influence of employees' perceptions on employee share ownership (ESOPs)

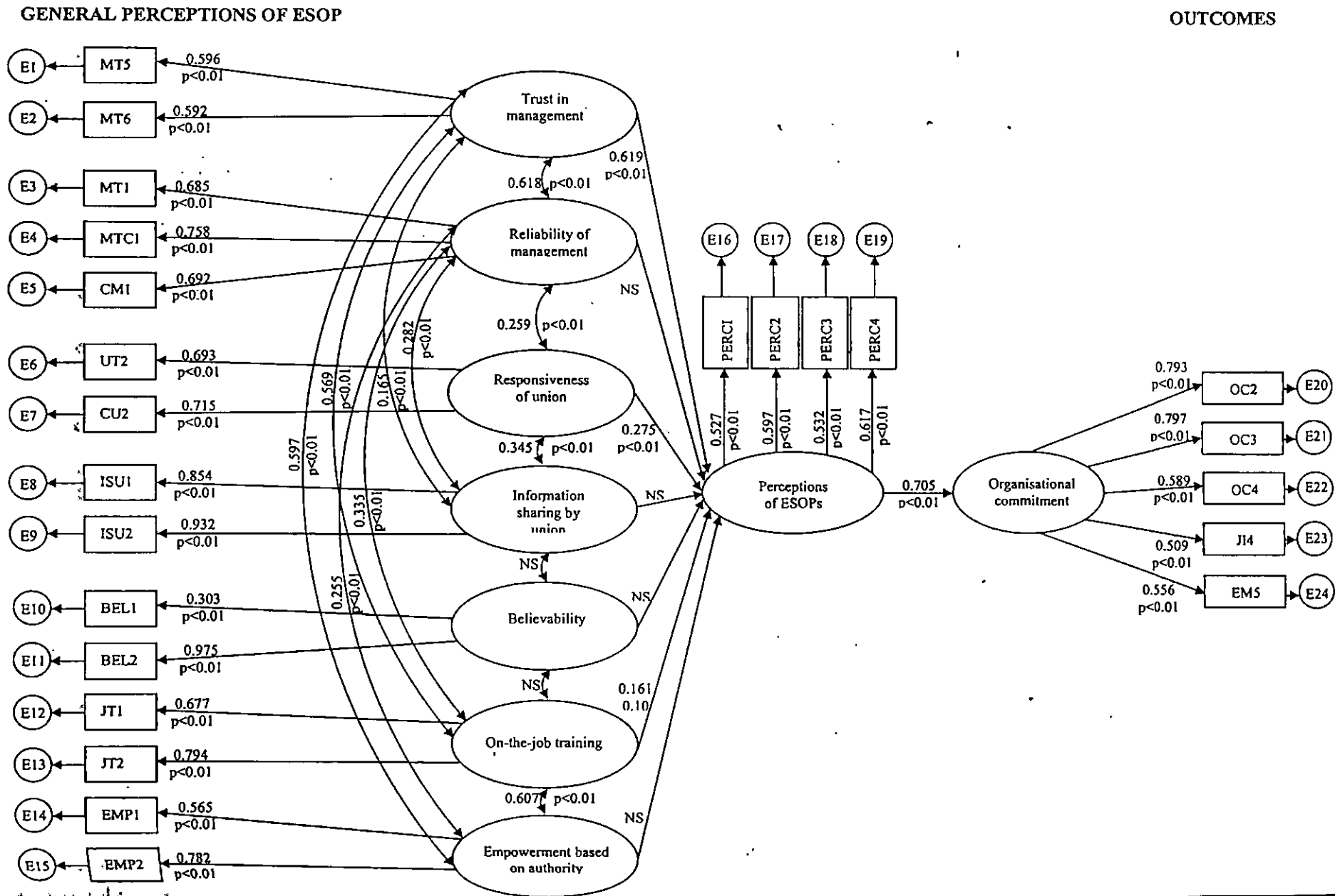
Figure 8.4 indicates that 'trust in management' (TRUST) significantly influences ESOPs (point estimate = 0.619; $p < 0.01$) and, to a greater extent, 'responsiveness of union' (RESPONSE) also exerts a positive influence (point estimate = 0.275; $p < 0.01$) on employee perceptions of ESOPs. In addition, the influence of 'on-the-job training' (TRAIN) on ESOPs occurred only at 10% significance level (0.161; $p < 0.10$). On the

other hand, Figure 8.4 shows that 'reliability of management', information sharing by union', 'believability', and 'empowerment based on authority' do not exert a significant influence on ESOPs.

The results in Figure 8.4 reveal that there is a significant correlation between 'trust in management' (TRUST) and other constructs, that is, 'empowerment based on authority' (EMPAUTH) (0.597; $p < 0.01$), 'on-the-job training' (TRAIN) (0.596; $P < 0.01$) and 'information sharing by union' (INFOUNI) (0.165; $p < 0.01$). Figure 8.4 furthermore indicates a significant correlation between 'reliability of management' and other constructs, that is, 'information sharing by union' (0.282; $p < 0.01$), 'on-the-job training' (0.335; $p < 0.01$) and 'empowerment based on authority' (0.255; $p < 0.05$).

It can therefore be stressed that all correlations between the exogenous latent variables are significant ($p < 0.01$) except for 'believability', which does not reveal any correlation with other exogenous latent variables or any significant influence on ESOPs.

FIGURE 8.4
THE INFLUENCE OF EMPLOYEES' PERCEPTIONS ON EMPLOYEE SHARE OWNERSHIP SCHEMES (ESOPs)



The measures of fit of the model depicted in Figure 8.4 are provided in Table 8.13

TABLE 8.13
MEASURES OF FIT OF THE CAUSAL MODEL IN FIGURE 8.4

Sample size	Test statistic	DF	Exceedance probability
586	640.98	246	0.000
Sample Discrepancy Function Value	= 1.096		
90% Confidence Interval	= (0.554; 0.810)		
Root Mean Square Error of Approximation	= 0.052		
90% Confidence Interval	= (0.047; 0.057)		
LISREL GFI	0.920		
LISREL Adjusted GFI	0.900		
Browne-Cudeck Single Sample CVI	1.378		
Bentler Comparative Fit Index (CFI)	0.902		
Root Mean Squared Residual (RMR)	0.062		

Table 8.13 reveals that both the RMSEA and GFI represent acceptable levels of fit. The RMSEA (0.052) falls within the acceptable fit range of >0.05 to <0.08 , while GFI (0.920) is relatively high in the range of zero to one. It can therefore be concluded that all the indices reported on Table 8.13 suggest that the theoretical model in Figure 8.4 represents a good approximation to the data. Both the goodness of fit and adjusted goodness of fit indices exceed the 0.9 level that is commonly accepted (Hair *et al.* 1995:651-664).

8.3 SUMMARY

In this chapter Conbach's alpha reliability coefficients were calculated for all the instruments used to measure the variable in the empirical model of the study. Four sets of exploratory factor analyses were carried out to assess the discriminant validity of the variables and the existing association between the constructs were revealed and

reported,

The first set of four factor analyses involved general perceptions of employees towards union and management with regard to trust, two-way communication and consideration.

The second set involved perceptions of employees with regard to participation in decision-making by management, participation in decision-making by union, believability, information sharing by management and union with regard to the management of ESOPs. The third set involved perceptions of employees towards working environment, namely, on-the-job training and empowerment. The last set involved the outcomes of perceptions of ESOPs namely, job involvement, employee motivation and organisational commitment. Cronbach's alpha reliability coefficients were calculated for all the extracted factors. A Structural Equation Modeling technique was used to investigate the causal relationships among the items used to measure latent variables in the proposed model of the study and the results were reported. The next chapter discusses the interpretation of the empirical findings of this chapter, the managerial implications of the study as well as the limitations of this study.

CHAPTER 9

MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

9.1 INTRODUCTION

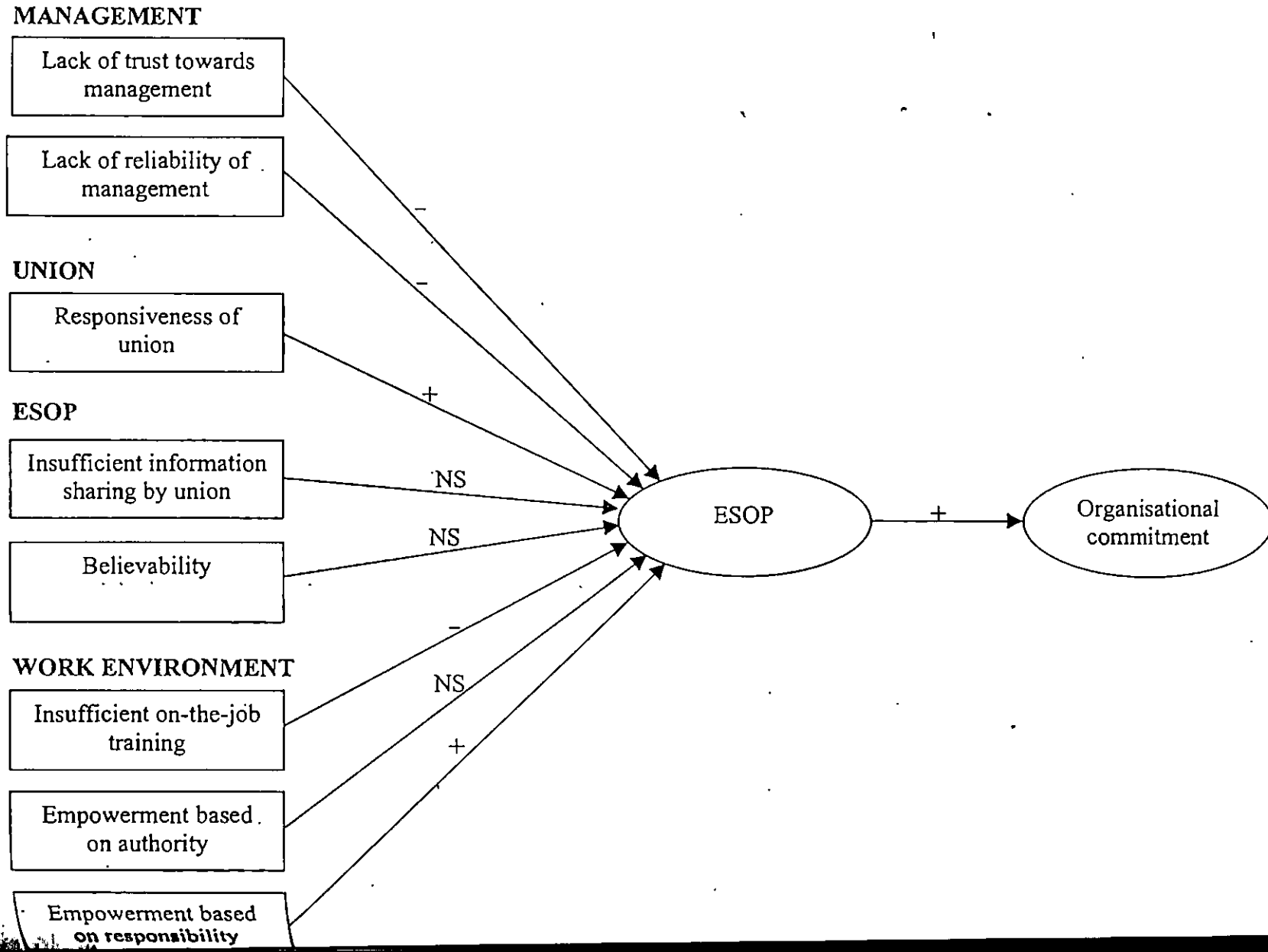
The purpose of this chapter is to summarise the empirical findings as reported in the previous chapter and to outline the managerial implications of these research findings. This chapter furthermore revisits and considers the views of previous researchers with the aim of providing appropriate recommendations. The limitations of the study are discussed. The empirical findings are presented in Figure 9.1 below.

9.2 SUMMARY OF EMPIRICAL RESULTS

Figure 9.1 summarises the empirical results reported in Chapter 8.

The variables that exerted a significant influence on perceptions of ESOPs were shown in both models, that is, Figure 8.3 and Figure 8.4. In both models, perceptions of ESOPs strongly influence organisational commitment. The reliability of management was a significant influencing variable in the first model (Figure 8.3) when trust was not included in the model but insignificant when trust was added to the model (Figure 8.4). This is not a contradiction. It merely emphasises the important role of management in employees' perceptions of ESOPs. It does confirm, however, that trust and reliability of management are strongly correlated and that, in the absence of the one, the other will come to the fore.

FIGURE 9.1
EMPIRICAL EVALUATION OF THE PROPOSED INFLUENCES AND
OUTCOMES OF EMPLOYEE SHARE OWNERSHIP SCHEMES



9.3 THE MANAGERIAL IMPLICATIONS AND EMPIRICAL FINDINGS OF THE STUDY

According to the model depicted in Figure 9.1, eight major influences on employee perceptions of ESOPs are considered. These influences are divided into four groups: the role of trade unions, the role of management, management of ESOP-related influences and the working environment.

9.3.1 The empirical findings and implications based on the perceptions of employees towards management with regard to ESOPs

9.3.1.1 Trust in management

Generally, it is believed that trust between individuals and groups within a company is a highly desirable ingredient in the long-term to ensure stability of a company and the well-being of its members (Cook and Wall 1980:39). Empirical support for this finding has been provided by Jones, James and Bruni (1975) who contend that there is a relationship between employees' confidence and trust in their leader. Although there is no empirical evidence regarding the direct relationship of trust between employees and management on ESOP-related matters, Kruse (1984) suggests that the introduction of an ESOP may raise employee expectations by labelling employees as owners and when experience failed to fit with employees' expectations of what ownership meant in practice. This proposition finds general empirical support in Maller's study (1989) which suggests that employees are encouraged to invest in their companies' shares which they (employees) interpret as capital gain.

In this study, it was hypothesised that employees' lack of trust towards management negatively influences the perceptions of ESOPs. Empirical results reported in Chapter 8 finds support for this contention. In other words, there is a causal relationship between lack of trust and employee perceptions of ESOPs. This means that a lack of trust in management leads to negative employee perceptions of share ownership

schemes. When employees strongly believe that management acts or will act in their (employees') best interests, their perceptions of the value of ESOPs become increasingly positive. It can therefore, be concluded that the more employees trust management, the more meaningful they perceive the ESOPs to be. Empirical results further showed that there is correlational relationship between trust and information-sharing by unions, on-the-job training and employee empowerment based on authority.

9.3.1.2 Reliability of management

Mc Allister (1995) maintain that reliability is a characteristic perceived as dependability, predictability, or favourable intent of the trusted person. Reliability is furthermore broad in scope and includes perceptions of honesty, sincerity, goodness, morality, kindness and patience. In other words, reliability is influenced by perceptions of trust and vice versa. This supports findings reported by Cook and Wall (1980) who suggest that among other forms of trust, interpersonal trust at work regarding mutually dependent work groups within a company may be placed along two dimensions. According to these authors such dimensions can, for example, be the employees' faith in the trustworthy intentions of management or employees' confidence in the ability of management; management is therefore seen as reliable and capable of performing to the best of their ability. It is further argued that top management in some companies work hard to build and maintain trust by carrying out its commitment. It can therefore be concluded that management is reliable. Unfortunately there are no reported research findings directly linking reliability of management to employee perceptions of ESOP.

It is believed that in some companies employees are usually represented on the ESOP trust by a board of trustees whom they have had no say in electing. In other companies employees automatically qualify to receive shares, meaning that there is no consultation procedure involved. This supports findings reported by Fine (1987), Maller (1989) and Baddon, Hunter, Hyman, Leopold and Ramsay (1989) which studies investigated the lack of communication between employees and management. Based on the above discussion, this study hypothesised that perceived lack of reliability on the part of

management with regard to management of ESOP negatively influences employee perceptions of ESOPs.

The empirical results reported in Figure 9.1 suggests not only a causal relationship between reliability of management and ESOPs but correlational relationships with information-sharing by union, on-the-job training and empowerment based on authority and responsibility. In other words, employee perceptions of ESOPs are positively influenced by reliability of management. This means that if management communicates with employees by passing on ESOP information that may be useful and encourages employees to participate in ESOP matters, employees perceive management's handling of ESOP matters as reliable. It can therefore be concluded that the more reliable management is with regard to ESOP matters, the more positive employees' perceptions of ESOPs will be.

9.3.2 The empirical findings and implications based on the perceptions of employees towards trade unions with regard to ESOPs

9.3.2.1 Responsiveness of trade unions

Estrin, Grout and Wadhvani (1987) investigated the relationship between trade unions and ESOPs and reported that trade unions have not always been enthusiastic about employee ownership of shares. According to these researchers, different employees purchase different numbers of shares and this finally creates divisions within the workforce, which is likely to weaken unions. Additionally, Maller (1989) suggests that, in the past unions were accused of being co-opted to the managerial way of thinking which may lead to a situation whereby the union compromises its strength.

This study finds that responsiveness on the part of a union towards its members with regard to management of ESOPs positively influences employee perceptions of ESOPs. Because there is a causal relationship between responsiveness of unions and ESOPs, it can be concluded that the more responsive unions are, the more likely ESOP

members are to have positive perceptions about the firm's ESOP. Therefore, it can be concluded that an effective relationship between employees and an ESOP is possible if employees believe that the union representing them is willing to consider changes in ESOP matters and will act in their (employees') best interests. The results also reveal a positive correlational relationship between responsiveness of unions and information-sharing by union and believability of ESOPs.

9.3.3 The empirical findings and implications based on management of ESOPs

9.3.3.1 Information sharing

Many researchers maintain that no groups exist without communication. In other words, group effectiveness often depends on the effectiveness of its communication which, among other things, is based on the exchange of information, feelings and attitudes among its members (Morris 1982:488). There seems to be a lack of research regarding the relationship between availability of information by unions and ESOPs. According to Maller (1989), in some companies unions had not consulted the employees before signing the ESOP agreement. Maller (1989) reports that unions were pressurised 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 the issue of ESOPs.

Based on the above discussion, it can be argued that insufficient information-sharing on the part of unions with regard to the management of ESOPs, negatively influences employee perceptions of ESOPs. This study finds that insufficient information by unions does not exert a direct influence on ESOPs, meaning that there is no causal relationship between information-sharing by unions and ESOPs, although correlational relationships do exist. Lack of information by the union with regard to the benefits and financial position of ESOPs has no direct significant influence on employee perceptions of ESOPs. The results reveal however, that information-sharing by unions and trust in management are positively correlated meaning that if employees believe that their union

always passes on and shares ESOP information that might be useful to them, employees' mistrust of management's handling of ESOP-related matters is reduced.

The empirical results furthermore reveal a positive correlational relationship between information-sharing by unions and reliability of management. This means that the more the unions share relevant information with ESOP members, the more reliable will management be perceived to be. Additionally, empirical results show a positive correlation between information-sharing and responsiveness of unions. From the management perspective, these findings are significant in the sense that if unions are willing to pass on and consider changes to ESOP information that may be useful to employees, it will enhance employees' perceptions of the unions as highly responsive on ESOP matters which exerts a positive influence on employees perceptions of ESOP. Information-sharing by unions also reduce the mistrust ESOP members may have towards unions.

9.3.3.2 Believability

Some employees who participated in the exploratory phase of this study expressed the view that they do not really believe that an ESOP exists in their company. They struggled to come to terms with the intangible nature of ESOPs. Researchers who report a positive relationship between believability and ESOPs argue that not only have employees gained financially, but there is a belief that ESOP companies grow much faster than they would without their relationship plans (Rosen and Quarrey 1987; Brickley and Hevert 1991 and Jensen and Murphy 1991). It is believed therefore that the higher the believability of the existence of ESOPs, the more positive employee perceptions of ESOPs. It was hypothesised that a lack of believability of the existence of and reality of ESOPs in a company negatively influences employee perceptions of ESOPs.

This study finds however, that believability does exert a significant influence on ESOPs. There is no causal relationship between believability and ESOP perceptions. The

empirical results of this study indicate though that there is a positive correlation between believability and responsiveness of union. If unions and management can make the existence of ESOPs more believable to employees it will enhance employees' perceptions of unions' responsiveness which, in turn, will positively influence employee perceptions of ESOPs. From a management perspective, once unions willingly allow their members to participate and consider changes to ESOP matters that can suit them, members are more likely to believe that the ESOP really exists. The more tangible the existence of ESOPs, the more responsive unions will be perceived and the more positive will perceptions of ESOPs be. If the existence of ESOPs is made more tangible, unions will be perceived as being more responsive.

9.3.4 Empirical findings and implications based on perceptions of employees towards working environment

9.3.4.1 On-the-job training

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 organisation because of poor or inadequate training. Although there seems to be lack of literature regarding the direct relationship between on-the-job training of employees and ESOPs, Peel, Pendlebury and Groves (1991) argue that very limited use is made of financial training and education of employees. It is therefore argued in this study that insufficient on-the-job training negatively influences employee perceptions of ESOPs.

The empirical results show that there is a causal relationship between on-the-job training of employees and their perceptions of ESOP. In other words, on-the-job training significantly influences employee perceptions of ESOPs. It implies that when employees are adequately equipped with the required and necessary skills to solve their daily problems, they feel more capable of meaningfully contributing to the well being of the company and this assists them to view ESOPs positively. It can therefore be concluded

that a lack of adequate on-the-job training affects employee contributions in a company, leading to negative employee perceptions with regard to the value of ESOPs. The empirical results also revealed that there is a positive correlation between on-the-job training and trust in management. This means that, once employees are equipped with the necessary skills which can enable them to carry out their daily tasks, they meaningfully contribute to the well-being of the company, gain a better understanding of the company's objectives and trust the ideas of management on ESOP matters. Employee perceptions of ESOPs are therefore significantly influenced by training. The empirical results showed a positive correlation between on-the-job training and reliability of management. This means that once employees receive adequate on-the-job training to cope with their daily work, management encourages employees to have a better understanding of how to participate in ESOP matters. On-the-job training therefore positively influences employee perceptions of ESOPs.

9.3.4.2 Empowerment based on authority

Although no literature could be traced regarding the relationship between ESOPs and empowerment of employees, it can be argued that a more sensible and realistic way of understanding power is by recognising that power can be passed by management to an individual, or a team, down the hierarchical chain or lines of authority.

Empowerment can therefore be seen as power which employees accept as a result of opportunity provided by the company, without those giving power having to lose anything. Based on this contention, it is argued in this study that the higher the perceived empowerment with regard to authority to initiate tasks and contribute to organisational performance, the more positive the perceptions of ESOPs.

This study finds that empowerment based on authority does not according to Figure 8.4 exert a significant influence on ESOPs. In other words, there is no significant influence between empowerment based on authority and ESOPs. Although there is no causal relationship between empowerment based on authority and ESOPs, the empirical results

revealed that empowerment based on authority positively correlates with trust in management. This finding suggests that once management shares information, and trust begins to develop, a manager can establish standards which employees can utilise as a basis in rescheduling their work to fit their needs and to make their own decisions. This also requires shifting the explanation of a mistake from something bad or wrong to an opportunity to learn. People are furthermore encouraged to think and monitor their own performance, which leads to a positive indirect influence on employee perceptions of ESOPs.

The empirical findings also show a positive correlation between empowerment based on authority and reliability of management. This means that once management gives employees permission to take risks, make mistakes, challenge management and develop their abilities to learn and use their talents, employee perceptions of ESOPs will be positively influenced. It can therefore be concluded that the more employees are empowered with authority, the more they are given an opportunity by management to learn from shared information and encouraged to participate in the management of the company and ESOP matters at a later stage. This will eventually positively influence the employees' perceptions of ESOPs.

Empowerment based on authority and on-the-job training are positively correlated. In other words, employees are empowered if they obtain information concerning organisational performance, rewarded for contributing to organisational performance and have power to make decisions that influence organisational direction and performance. Bowen and Lawler (1992) support this finding.

9.3.4.3 Empowerment based on responsibility

Based on the above discussion, there appears to be a lack of previous empirical findings regarding the relationship between empowerment and ESOPs. It is argued in this study that empowering employees in terms of information-sharing regarding the financial performance and growth rates of the company's market share, as well as the

importance of the contribution of each and every employee in the company, will positively influence the attitudes of employees. This contention is supported by the findings of Bowen and Lawler (1992) who reported that empowerment is the sharing of information with employees regarding the organisation's performance, the rewards based on employees company's performance, knowledge that enables employees to understand and contribute to the company's performance and power to make decisions that influence organisational direction and performance. Accordingly, it is argued in this study that the higher the perceived empowerment based on responsibility to initiate tasks and contribute to organisational performance, the more positive the perceptions of ESOPs.

This study finds that empowering employees with responsibility positively influences their perceptions of ESOPs. In other words, once management encourages and supports employee involvement initiatives with regard to ESOP matters, employees are held responsible for their performance and participation in ESOPs. It can therefore be concluded that the higher the perceived empowerment with regard to responsibility to initiate tasks and contribute to organisational performance, the more positive the perceptions of ESOPs. The empirical results did not only identify the causal relationship between empowerment based on responsibility and ESOPs, but, the positive correlational relationships as well. These findings suggest that there is a positive correlation between empowerment based on responsibility and reliability of management. This finding concurs with McLagan and Nel (1996) who reported that once management has access to information and uses information to assist employees to take charge of their duties in the company, employees will have a higher regard for their management and that they are empowered through that process because they have reliable leaders. This will eventually influence employee perceptions of ESOPs.

The empirical findings reveal that on-the-job training and empowerment based on responsibility correlates positively. From a management perspective, this finding suggests that once employees receive adequate training in the necessary and required skills to solve their daily problems in the work place they will feel that they are

empowered and are held responsible for their performance. In other words, adequately trained employees can perform to the best of their ability and they are held responsible for their performance. This will eventually positively influence employee perceptions of ESOPs.

9.3.5 The empirical findings based on outcomes of ESOPs

9.3.5.1 Organisational commitment

Buchno (1992) studied the relationship between organisational commitment and ESOPs. According to Buchno (1992), employees who believe that an ESOP enables them to have a greater say in company affairs are more committed to the company. Accordingly, it is argued in this study that employee perceptions of ESOPs exert a positive influence on organisational commitment.

This study finds that there is indeed a positive relationship between employee perceptions of ESOPs and organisational commitment. In other words, employee perceptions of ESOPs positively influences organisational commitment. This supports the empirical findings of Long (1978) who reports that creating a joint payoff relationship through employee share ownership appears to favourably influence aspects of organisational commitment. Organizational commitment among employees again leads to a host of beneficial outcomes for the firm, such as increased job satisfaction, improved job performance and employees who are less likely to resign or be absent from work (Hunt, Chonko and Wood 1985; Steers 1977 and DeCottis and Summers 1987).

9.4 RECOMMENDATIONS FOR IMPROVED ESOP MANAGEMENT

In this study it can be concluded that trustworthy management positively influences employee perceptions of ESOPs. In other words, the more employees trust management regarding the management of ESOPs, the more positive are their

perceptions of ESOP. Management can therefore enhance their trustworthiness 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. For example, acceptance of an ESOP does not come easily despite its obvious financial benefits. To ease transition and acceptance, the human resources department's first priority can be an intensive employee information programme. In other words, human resources directors and administrators from each branch and division of the company can convene for several days of orientation. They can thereafter return to their branches and divisions to train employees on ESOP matters, sharing what they have learned from the orientation with their subordinates. In order to keep the employees feeling involved and enthusiastic, the human resources department can distribute an internal publication every month or so, keeping employees enlightened and informed on company matters. The human resources department can further prepare several videos designed to keep employees informed and up-to-date on the ESOP matters. In other words, there must be no secrets. After all, the ESOP's success is based on employee participation and commitment. Employees expect and deserve more information than a company generally thinks they need. Trust must however be earned through a partnership built on a relationship where management demonstrates a sincere attempt at caring for employees in their place of employment, thereby providing security.

This study reveals that employees have confidence in reliable management. The lack of reliability on the part of management with regard to management of ESOPs, negatively affects the employee perceptions of ESOPs. Management can solve this problem by improving communication between employees and themselves. In other words, when an ESOP is introduced to the company, the human resources manager is expected to introduce and support the ESOP and promote acceptance of the plan.

The human resources department has three distinct functions related to the introduction of an ESOP. Firstly, management must communicate the potential financial benefits of the ESOP to the employees at the time of its establishment, with periodic updates as required. Secondly, management must facilitate the development and maintenance of

a new spirit of cooperation between management and employees, taking great care to put the nature of employees' increased involvement into proper perspective. Thirdly, management can use the concept of the ESOP to inspire higher levels of organisational commitment.

Companies can delegate these functions to worthy administrators who understand the complicated ESOP technicalities involved. Moreover, it can be fulfilling to watch as management and employees alike take on a new enthusiasm for their work and begin, gradually, at first, to view each other as partners rather than rivals. It is the human resources department's duty to remind everyone in the company that they have common goals which can only be achieved by working together.

This study reveals that responsiveness of unions facilitates a positive relationship between employees and an ESOP once the employees believe in and are confident that the union representing them is willing to act in its members' best interests.

Although the study reveals that the lack of information by unions with regard to the benefits and financial position of ESOPs has no significant direct influence on employee perceptions of ESOPs, this does not strain the relationship between unions and their members. This means that if employees believe that the union representing them always passes on and shares ESOP information that might be useful to them, employees will perceive the ideas of management with regard to ESOP matters as genuine.

Unions and management therefore need to commit to and engage in the activities of improving communication. In other words, if shares are part of the general reward package, it is important to have an annual general meeting of employees on each main site of a company where employees work. To avoid loss of working hours, this will usually be separate from the statutory annual general meeting. At this meeting a senior manager should talk to employees about the performance of the company and its audited figures and should be available to answer questions from those attending.

There needs to be a representative system perhaps involving quarterly meetings. In other words, management can use unions (for example, a group of shop stewards) to represent trade unions of that particular company at such meetings. An advantage of having a representative system is that a limited number of people are involved. The person who discusses the company's progress with the limited number of people can be very specific and say quite a lot in confidence about the performance of the business, what needs to be done to improve it and also how to obtain the required degree of co-operation.

Some companies have more frequent meetings of small units on a monthly basis as an alternative to a quarterly representative system where employees can see their local unit's results spread out and available for discussion as to what can be done to improve the results. Putting so much information out may seem like a breach of security but this need not be the case. On a board of ESOP trustees, employee representatives can be included on a supervisory board or committee, which is separate from the management board.

Company management can make all business information available at supervisory meetings. No written information is handed out. This is a secure process which works well. Moreover, it can be used at all levels in a company. It is however not necessary to use electronic apparatus if there are just a few performance ratios and other key figures which need to be presented. They can be put on a pre-designed whiteboard. After discussions the board can be wiped clean before anyone leaves the room. Workshops can also play a major role in this aspect rather than relying on material such as employee account updates and newspapers that are sometimes difficult for the employees to understand because there is no one to provide clarity and to answer their questions.

Lastly, it can be said that when employees own shares in the business and together own say 10% of the capital, their position is dominated by other shareholders and is therefore not very effective. Companies should obtain approval from or be in line with

the requirements of the Johannesburg Stock Exchange in setting up ESOPs to protect employees' reasonable rights of ownership. Based on this, the rights frequently associated with ownership are the right to the possession of some share of financial value (equity), the right to information regarding the status of that which is owned and the right to exercise influence over the owned object. Above all, the voting rights of employees must be considered.

The results of this study indicate that unions willingly allow their members to participate in ESOP matters once they have overcome their doubts about the reality and existence of ESOPs. It must be taken into consideration that when employees believe the reality and existence of ESOPs, this goes beyond the possession of a share in the equity of a company. Management must be deeply committed to the concept of employee ownership and this can only be possible if an employee-ownership system is implemented. In other words, management should design such a system, monitor its daily operations and how that system is seen and experienced by employee-owners.

Management should furthermore focus on implementing the best ESOP plans that provide constant reinforcement of the ownership idea. In other words, the layout of an ESOP can be arranged by the company in such a way that it consists of sizable, majority or total employee ownership and some or extensive employee involvement in the ownership or management of the company. The idea is that when employees own a large portion of the company, it makes sense for them to have many of the rights and responsibilities of ownership because that is the way a private property system operates. This is possible if it is based on the levels of income and management. For example, a company may offer equal amounts of shares to employees who earn or fall in the same category or level of income based on their lower, middle and top management positions. Middle and top management can preferably, be provided with more shares not only because they earn more or have higher income levels but because they are equipped with better skills and more qualifications to manage the company and provide guidance to their subordinates regarding ESOP matters.

Although, there are many ESOP methods that can be used by companies, they are largely governed by each company's specific objectives for ESOPs. Each ESOP needs to be tailored to fit the needs of the company and the workforce. Some of the methods recommended for companies are share allotments and special share offer schemes. Share allotment methods can be implemented in a company that wishes to offer its shares free-of-charge to employees. This scheme is not always based on merit. A company can offer an amount of free shares to an employee as recognition for hard work. This is a performance-based share-option scheme and usually is suitable for employees at higher levels of management. This scheme is sometimes recommended for all employees who have been with the company for a specified period (known as specified tenure). Additionally, a company may decide to offer a specific number of shares to employees at a special, preferential price or at a discount on the market price. A company can offer employees the option to acquire shares in the future but at today's price, so that if the shares go up in value in the future they are acquired at a discount equal to the amount of increase in the share price. The examples of ESOP methods discussed have been proved successful by many companies.

Employees should receive regular and substantial share contributions, have participation opportunities on the job, be treated as owners by managers and supervisors, understand how management's plan works and must be frequently and effectively reminded of their ownership stake in the company. This means that share ownership should be a constantly renewed process, rather than a deliberately and carefully planned event that occurs once a year when employees receive account updates. Management should therefore take steps to cultivate the belief within unions and employee-owners that it is appropriate for them to own a portion of the company, to have access to company information and to be actively involved in the joint exercise of influence over company activities. The reality and existence of ESOPs will be strengthened among employees and unions.

Based on the results of this study, it is believed that employees feel more capable to meaningfully contribute to the well-being of the company when they are adequately

equipped with the required and necessary skills to solve their daily problems and have a positive view of ESOPs. Participation in ESOPs requires unwavering vision from management. This means that companies which adopt this type of approach to participation must challenge all managers and employees to alter their traditional pre-conceived views and prejudices. These companies should reflect that ongoing education and training in socio-political issues, business awareness (including company financial and performance reports) and people management (leadership skills) are the major success factors in a company. Employees in companies with ESOPs do not therefore only require on-the-job training for the success of ESOPs, but furthermore need to be exposed to and be given the assurance of continuous learning which is the cornerstone in achieving improved levels of competence. Commitment is required from all ESOP participants (management, unions and employees) with regard to literacy training, adult education and competency-based training processes. Those processes are fundamental in exposing those who lack understanding and knowledge of the meaning of ESOPs and how ESOPs operate.

Having outlined some of the desirable end-results of participation and empowerment, it can be concluded that empowerment is a journey. There will always be setbacks and no quick results. Empowerment is a process requiring persistence from both management and employees. Management can empower employees by implementing steps in the empowerment process. Three steps to empowerment can be followed, namely, sharing information, creating autonomy through boundaries and replacing the hierarchy with self-directed work teams.

The first step is to share information pertaining to the whole business such as profits, budgets, market share, productivity and many other important activities taking place in the company that may give employees a better understanding of the running of the company and management of ESOPs. Those managers who are unwilling to share information with their employees will never have their employees as partners in successfully managing the company and will therefore never have an empowered company. Uninformed employees cannot act responsibly, whilst informed employees

are compelled to act responsibly. Because there is no privileged information in a company, sharing it is a matter of trust. In other words, there is no better way for management to show employees that they trust them than to share sensitive information. Once management shares information with employees, trust develops and management can begin to establish standards. Furthermore, employees feel safe when they are empowered and receive all the information. When employees feel safe, free to experiment and receive all the required information management has, they develop the same feelings as owners. When employees begin to feel like owners, they begin to act like owners. The end result is a competent labour force.

Secondly, management can create boundaries in a company by channelling employees towards a certain direction. In order to achieve empowerment, employees require a structure that can give them guidance in learning new ways of thinking and working together. At management level this is achieved by sharing a strategic vision and corporate values throughout the company, creating the assumption of competence and furthering trust in management with regard to ESOP management without which an empowered company cannot operate. It implies that employees need to be clear about the purpose of the company (its type of business), its values, image, goals, roles and its organisational structure (who carries out what activities and who supervises the duties and responsibilities of each employee). Management must ensure that autonomy begins with the need for boundaries and direction. Management must avoid telling people how to do their jobs but rather how to manage their jobs.

In the third step to empowering employees, management can form teams or organise employees into small groups to carry out duties and tasks previously carried out by management hierarchy. In other words, management can replace hierarchy with self-directed teams. Management describes a self-directed team as one that consists of a group of employees who take responsibility for an entire process. Employees in the team plan, perform and manage the work from start to finish. Everyone has an equal share of responsibility. Team leadership may be rotated, but the team decides how to handle it. Additionally, management must provide team skills in problem solving,

managing meetings, team management and conflict handling.

As the team's performance improves and confidence and success increases, the managers' role gradually changes from being directive to more of a coaching and facilitating approach. A team of empowered employees is therefore far more powerful than disconnected groups of individuals.

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, 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.

Management must furthermore assist employees to develop skills and competencies required to function effectively in an empowered company. The perceptions of ESOPs will be more positive. Empowerment can further be achieved by involving employees in developing their own solutions to specific issues for example, ESOP matters. Employees can be encouraged to actually solve the problem in their section of the company with the available resources, within the constraints in which they work or according to stipulated ESOP policies and procedures.

Lastly, empowerment is about engaging employees, trade unions and management in taking opportunities made available to them for increased responsibility.

The finding that share ownership does influence organisational commitment is based on further aspects such as organisational commitment which can be further enhanced by employee trust in management with regard to ESOP matters. This study has showed 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 pressurise unions to share information regarding ESOP matters. Management must ensure that employees obtain adequate on-the-job training and are exposed to information about the financial situation of the company. This will eventually lead to positive perceptions of ESOPs. Empowering employees with responsibility positively influences the perceptions of ESOP. Working environment aspects such as, on-the-job training and empowerment based on responsibility, create a favourable environment for organisational commitment to take place.

9.5 LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

One of the limitations of the study was the lack of indiscriminatory validity of some of the critical variables included in the study. Some of the items used as instruments to measure these 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.

The outcomes of the study were seen as one by the respondents. In other words, respondents could not differentiate between employee motivation, job involvement and organisational commitment. These were all interpreted by respondents as organisational commitment.

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.

Further research is also required with regard to other ESOP-related matters. Firstly, further investigation can be carried out regarding the impact of participation in decision-making processes by management and employees, by management and trade unions and between unions and their members with regard to ESOP matters.

Secondly, the impact of taxation and company acts in South Africa on ESOPs can be a point of focus for potential researchers because what is taking place in South Africa seems to differ from what is taking place in other countries.

Thirdly, the types of shares offered in an ESOP can largely contribute to how employees perceive ESOPs.

The study should be expanded to a variety of industries and possibly a comparison of governmental and public institutions.

Lastly, researchers can take the initiative in investigating the influence of demographic characteristics of employees within ESOP companies, with specific reference to the ratio between the number of shares offered and the income earned by an individual employee.

9.6 CONCLUSION

In conclusion, the empirical findings can be summarised as follows: employee share ownership does positively influence organisational commitment outcomes. Perceptions of ESOPs can be enhanced by improving trust between employees and management. Reliable management positively influences the employee perceptions of ESOPs. If employees appreciate and believe in the union that responds to their demands and

shares information that is of importance to the members with regard to ESOP matters, their perceptions of ESOPs will be enhanced. It can also be concluded that providing adequate training and empowering employees with more responsibility in their working environment positively influences employee perceptions of ESOPs. This leads to stronger organisational commitment which, as shown by a lot of studies, has beneficial outcomes for business firms, including enhanced profitability.

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APPENDIX A

COVERING LETTERS SENT TO COMPANIES



PORT ELIZABETH CAMPUS
PRIVATE BAG X813
PORT ELIZABETH 6000
SOUTH AFRICA
TEL: (041) 408-3111
FAX : (041) 464-2859

25 June 1998
The Managing Director

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Dear.....

RESEARCH PROJECT

Enclosed is a curriculum Vitae of Miss N.E. Mazibuko. She is an alumni Vista University who has based her M. Com dissertation on a study of employees' perceptions of employee share ownership.

She has since joined the staff of the Department of Business Management as a lecturer.

Miss Mazibuko would like to continue her investigation of employees' perceptions of employee share ownership schemes as part of her PhD studies.

Questions to be addressed include:

- . do share-owners trust unions with regard to the employee share ownership?;
- . do share-owners trust management with regard to the employee share ownership?;
- . do share-owners believe that unions allow them to participate in decision-making regarding employee share ownership?;
- . do share-owners believe that management allow them to participate in decision-making regarding employee share ownership?;
- . do share-owners believe that unions adequately communicate with them with regard to the employee share ownership?; and
- . do share-owners believe that management adequately communicates with them with regard to the employee share ownership?

As we are convinced that you would like to have answers to these questions as well, we have taken the liberty to request you to be of assistance to us. In return we will submit to you a comprehensive research report after the completion of the study. If you agree, the information gathered will be treated as strictly confidential and will be used for academic purposes only. The name of your company will not be divulged under any circumstances.

If you do agree to assist, we will need the names and addresses of 1000 employees (all organizational levels) who are shareholders and 1000 employees who are not share holders. We will then mail a short questionnaire to them, to be returned to us directly.

You will note that the study will not interfere with the daily work of employees, or consume any company resources.

Thank you for considering our proposal.

Yours faithfully

Prof. C. Boshoff
Supervisor



[A]

25 June 1998

The Managing Director
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Dear

RESEARCH PROJECT

Enclosed is a curriculum Vitae of Miss N.E. Mazibuko. She is an alumni Vista University who has based her M. Com dissertation on a study of employees' perceptions of employee share ownership.

She has since joined the staff of the Department of Business Management as a lecturer.

Miss Mazibuko would like to continue her investigation of employees' perceptions of employee share ownership schemes as part of her PhD studies.

Questions to be addressed include:

- . do share-owners trust unions with regard to the employee share ownership?;
- . do share-owners trust management with regard to the employee share ownership?;
- . do share-owners believe that unions allow them to participate in decision-making regarding employee share ownership?;
- . do share-owners believe that management allow them to participate in decision-making regarding employee share ownership?;
- . do share-owners believe that unions adequately communicate with them with regard to the employee share ownership?; and
- . do share-owners believe that management adequately communicates with them with regard to the employee share ownership?

As we are convinced that you would like to have answers to these questions as well, we have taken the liberty to request you to be of assistance to us. In return we will submit to you a comprehensive research report after the completion of the study. If you agree, the information gathered will be treated as strictly confidential and will be used for academic purposes only. The name of your company will not be divulged under any circumstances.

If you do agree to assist, we will need the names and addresses of 1000 employees (all organizational levels) who are shareholders and 1000 employees who are not share holders. We will then mail a short questionnaire to them, to be returned to us directly.

You will note that the study will not interfere with the daily work of employees, or consume any company resources.

Thank you for considering our proposal.

Yours faithfully

Prof. C. Boshoff
Supervisor



[B]

23 September 1998

The Human Resource Director
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.....
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Dear

RESEARCH PROJECT: EMPLOYEE SHARE OWNERSHIP SCHEMES

Enclosed is a Curriculum Vitae of Miss N.E. Mazibuko. She is an alumni of Vista University who has based her M.Com dissertation on a study of employees' perceptions of employee share ownership.

She has joined the staff of the Department of Business Management as a lecturer.

Miss Mazibuko would like to continue her investigation of employees' perceptions of employee share ownership schemes as part of her PhD studies.

Questions to be addressed include:

- . do share-owners trust unions with regard to the employee share ownership?;
- . do share-owners trust management with regard to the employees share ownership?;
- . do share-owners believe that unions allow them to participate in decision-making regarding employee share ownership?;
- . do share-owners believe that management allow them to participate in decision-making regarding employee share ownership?;
- . do share-owners believe that unions adequately communicate with them with regard to the employee share ownership?; and
- . do share-owners believe that management adequately communicates with them with regard to the employee share ownership?

As we are convinced that you would like to have answers to these questions as well, we have taken the liberty to request you to be of assistance to us. In return we will submit to you a comprehensive research report after the completion of the study. If you agree, the information gathered will be treated as strictly confidential and will be used for academic purposes only. The name of your company will not be divulged under any circumstances.

If you do agree to assist, we will need the names and addresses of 500 employees (all organizational levels) who are shareholders and 500 employees who are not shareholders. Also, it is important to emphasize that all employees can participate whether they are union members or not, this study involves all employees in all management levels in the company. We will then mail a short questionnaire to them, to be returned to us directly.

You will note that the study will not interfere with the daily work of employees, or consume any company resources.

Thank you for considering our proposal.

Yours faithfully

Prof. C. Boshoff
Supervisor

APPENDIX B

COVERING LETTER TO THE TRADE UNION



PORT ELIZABETH CAMPUS
PRIVATE BAG X813
PORT ELIZABETH 6000
SOUTH AFRICA
TEL: (041) 408-3111
FAX : (041) 484-2859

5 June 1998

Mr B. Sikhulu
General Secretary
ACCAWU
P.O. Box 10730
JOHANNESBURG

Dear Mr Sikhulu

I am a Phd degree student at Vista University. My field of interest is Business Management. In 1992 I conducted a survey on causes and outcomes of commitment of employees within the Pick n' Pay group nationally as a part of my studies towards my Masters degree. I completed this study in 1993 with the tremendous support of your union and its members and the company as a whole. I wrote a comprehensive report about the results of that study and I posted it to your office, addressed to the then general secretary of SACCAWU, Mr Papi Kganare. I really appreciated that, and still today I am grateful to you.

As part of my studies this year towards my Phd degree, I am conducting a survey on perceptions of employees towards share ownership schemes and the results of share ownership.

The results of the survey will enable me to determine the influences that can lead to and obstacles that can hamper share ownership schemes. Also, the results can assist me in determining the attitudes of employees towards their work. A questionnaire will be distributed to employees and the results will be available if needed by either the union and/or the employees.

I have been referred to you by the following companies Pick 'n Pay and Metro Cash and Carry. As the general Secretary of SACCAWU you are in the best position to sanction my research in terms of collecting information from the employees.

It is appropriate for me to notify the union about the survey, and to obtain their permission to continue with the survey. It would be appreciated if I could have your permission in writing.

Please find the attached copy of a written article of my past study on organizational commitment.

Your assistance in this matter will be greatly appreciated.

Yours sincerely

Thobekiso E. Mazibuko(Miss)
Lecturer : Business Management

APPENDIX C
COVERING LETTER SENT TO RESPONDENTS



PORT ELIZABETH CAMPUS
PRIVATE BAG X813
PORT ELIZABETH 6000
SOUTH AFRICA
TEL: (041) 408-3111
FAX : (041) 484-2859

1998-07-13

Dear Employee / Respondent

I am a Phd student at Vista University. My field of study is Business Management. To complete my thesis I need to gather information on your views of Employee share ownership scheme (ESOP) matters and your feelings towards your job in your work environment .

I would appreciate your completing the enclosed questionnaire and returning it in the self-addressed envelope at your earliest convenience but before 25 August 1998. It will only take a few minutes of your time to answer the questions and you might find it an interesting experience.

Ensure that you answer every question. Since only a relatively small number of people are being surveyed, your response is very important to me. Your answers will be treated as strictly confidential. Thank you in advance for your time and effort.

Yours sincerely

Noxolo E. Mazibuko

APPENDIX D
QUESTIONNAIRE



Dear Respondent

This questionnaire concerns how you feel about aspects of your job and your views towards your company's employee share ownership scheme (ESOP). It is completed anonymously and you will not be identified in any way. The reference number on the top of the first page of the questionnaire is for administrative purposes only as questionnaires are sent to employees of other companies as well. Some questions concern the union's involvement in ESOP matters. Even though you may not be a union member you are kindly requested to respond to ALL the questions. In other words, the focus is on how you think unions deal with ESOP matters, even though you may not be directly involved.

If you are not a member of a union answer the questions referring to "the union" in terms of the union you most closely identify with (i.e. the one that you would join if you have to join a union). If there is more than one union in your company answer the question referring to "the union" in terms of the union you most closely identify with.

Kindly ensure that you answer ALL the questions. Mark your response to each statement by means of a circle e.g. ③.

(1) Strongly Disagree (2) Disagree (3) Indifferent (4) Agree (5) Strongly Agree

	Strongly Disagree			Strongly Agree
I generally go along with the ideas of the union on ESOP matters	1	2	3	4 5
I am inspired to do my job as well as I can	1	2	3	4 5
The union does not act on ESOP matters without consulting its members	1	2	3	4 5
I do not believe that there really is an ESOP scheme in this company	1	2	3	4 5
Employees are allowed to disagree with the union on ESOP matters	1	2	3	4 5
I do believe that ESOP shares will benefit me in the future	1	2	3	4 5
Management usually passes on ESOP information that might be useful to employees	1	2	3	4 5
In my job I receive adequate training to solve my day-to-day problems	1	2	3	4 5
I trust management's handling of ESOP matters	1	2	3	4 5
No matter what type of work I'm expected to do I would stay on with this company	1	2	3	4 5

	Strongly Disagree			Strongly Agree	
The union asks for my suggestions on ESOP- related matters	1	2	3	4	5
I'll stay overtime to finish a job even if I'm not paid for it	1	2	3	4	5
Management encourages employees to participate in the ESOP scheme	1	2	3	4	5
I have the authority to reschedule my work to fit my needs	1	2	3	4	5
Management genuinely listens to my ideas and suggestions on ESOP matters	1	2	3	4	5
Management accepts that employees have a right to express their views with regard to ESOP matters	1	2	3	4	5
I feel confident that the union will treat my ideas on ESOP matters fairly	1	2	3	4	5
My work environment stimulates me to do as good a job as I can	1	2	3	4	5
The union is always willing to consider changes to ESOP matters that suite members	1	2	3	4	5
I doubt the existence of an ESOP in this company	1	2	3	4	5
Employees are encouraged to share their views on ESOP matters with the union	1	2	3	4	5
ESOP membership is very valuable to me	1	2	3	4	5
Management frequently interacts with employees on ESOP matters	1	2	3	4	5
In my job I receive adequate training to equip me with the skills I need	1	2	3	4	5
If I shared my ESOP problems with management, I know they will respond constructively	1	2	3	4	5
I tell my friends that this is a great company to work for	1	2	3	4	5
If I have any idea about improving the way the ESOP is managed, I am confident that I will be listened to by the union	1	2	3	4	5
I am really a perfectionist about my job	1	2	3	4	5
Management implements suggestions on ESOP matters made by its employees	1	2	3	4	5
I have the authority to make on-the-spot decisions	1	2	3	4	5
Management is honest on ESOP matters	1	2	3	4	5

	Strongly Disagree			Strongly Agree	
Management accepts that an employee's ideas about ESOP matters should be considered before decisions are made	1	2	3	4	5
I can talk freely to the union about difficulties I am having with the ESOP	1	2	3	4	5
I try my best at work at all times	1	2	3	4	5
When considering ESOP matters, the union regards all members as equals	1	2	3	4	5
I doubt if there is any written information in the documents of this company that one can read on the ESOP scheme	1	2	3	4	5
The union frequently initiates ESOP- related interaction with its members	1	2	3	4	5
It is important for me to own shares now so that I can benefit on retirement	1	2	3	4	5
At my job I receive adequate training to understand all aspects of my job	1	2	3	4	5
I can talk freely to management about difficulties I am having with the ESOP	1	2	3	4	5
I am proud to tell others that I work for this company	1	2	3	4	5
When considering ESOP matters, management regards all employees as equals	1	2	3	4	5
The union allows me to contribute on ESOP matters	1	2	3	4	5
I feel depressed when I fail at something connected to my job	1	2	3	4	5
Management holds me responsible for my own performance	1	2	3	4	5
Management tries its best to provide correct information on ESOP matters to employees	1	2	3	4	5
If I shared my ESOP problems with the union, they will respond constructively	1	2	3	4	5
I am motivated to do the best job I can	1	2	3	4	5
The union implements suggestions on ESOP matters made by its members	1	2	3	4	5
I do not believe any effort was made to set up an ESOP scheme in this company	1	2	3	4	5

	Strongly Disagree			Strongly Agree	
	1	2	3	4	5
The union frequently interacts with its members on ESOP matters	1	2	3	4	5
My involvement in the ESOP matters now will have benefits for me in the future	1	2	3	4	5
Employees are encouraged to share their views on ESOP matters with management	1	2	3	4	5
In my job I receive adequate training to cope with heavy load	1	2	3	4	5
I feel confident that management will treat my ideas on ESOP matters fairly	1	2	3	4	5
Management allows me to contribute on ESOP matters	1	2	3	4	5
The union accepts that a member's ideas about ESOP matters should be considered before decisions are made	1	2	3	4	5
I live, eat, and breathe my job	1	2	3	4	5
Management is always willing to consider changes to ESOP that suite employees	1	2	3	4	5
I am given responsibility for my work actions	1	2	3	4	5
Management is sincere in its attempts to incorporate employees' views about ESOP matters	1	2	3	4	5
If I have any idea about improving the way the ESOP is managed, I am confident that I will be listened to by management	1	2	3	4	5
The union has my best interest on ESOP matters at heart	1	2	3	4	5
My work environment inspires me to perform well in my job	1	2	3	4	5

	Strongly Disagree			Strongly Agree	
	1	2	3	4	5
do not believe that there is anyone who have knowledge of the existence of ESOP scheme in this company	1	2	3	4	5
the union encourages members to participate in the ESOP scheme	1	2	3	4	5
on my job I receive adequate training to cope with difficult assignments	1	2	3	4	5
employees are allowed to disagree with management on ESOP matters	1	2	3	4	5
the union usually passes on ESOP information that might be useful to employees	1	2	3	4	5
for me this company is the best possible company to work for	1	2	3	4	5
I generally go along with the ideas of management on ESOP matters	1	2	3	4	5
if I want something done, I am entitled to do it myself	1	2	3	4	5
I trust the union's handling of ESOP matters	1	2	3	4	5
sometimes I lie awake at night thinking ahead to the next day's work	1	2	3	4	5
management does not act on ESOP matters without consulting the employees	1	2	3	4	5
the union accepts that members have a right to express their views with regard to ESOP matters	1	2	3	4	5
management is sincere in dealing with employees on ESOP matters	1	2	3	4	5
management asks for my suggestions on ESOP-related matters	1	2	3	4	5
management really care about the fate of this company	1	2	3	4	5
management has my best interest at heart	1	2	3	4	5
management frequently initiates ESOP-related interaction with employees	1	2	3	4	5

HOW OFTEN IN THE LAST YEAR DO YOU RECALL EXPERIENCING THE FOLLOWING:

1 Never (2 Seldom (3) Occasionally (4 Frequently (5 Very frequently)))))

	Never					Very frequently				
How often in the last year do you recall experiencing the following										
Receiving information from management on the ESOP's financial position -	1	2	3	4	5					
Receiving information from management explaining the benefits of ESOP to members	1	2	3	4	5					
Receiving information from management on changes to prices of shares	1	2	3	4	5					
Receiving information from management on meetings held between management and the union on ESOP matters	1	2	3	4	5					
Receiving full details of what is expected of you on retirement or resignation with regard to ESOP matters	1	2	3	4	5					
Receiving information from the union on the ESOP's financial position	1	2	3	4	5					
Receiving information from the union explaining the benefits of ESOP to members	1	2	3	4	5					
Receiving information from the union on the prices of shares	1	2	3	4	5					
Receiving information from the union on meetings held between management and the union on ESOP matters	1	2	3	4	5					
Receiving full details of what is expected of members on retirement or resignation with regard to ESOP matters	1	2	3	4	5					

PLEASE INDICATE YOUR AGE GROUP (years):

20 - 29

30 - 39

40 - 49

50 - 59

60 +

WHAT IS YOUR HIGHEST EDUCATIONAL QUALIFICATIONS?

Std 9 or equivalent qualification or lower

Std 10 or equivalent qualification

Matric plus diploma (s)

Matric plus degree (s)

FOR HOW LONG HAVE YOU BEEN EMPLOYED BY YOUR COMPANY (YEARS)?

0 - 5
6 - 10
11-15
16-20
21+

PLEASE INDICATE YOUR INCOME LEVEL (per month)

± R499	R500 - R2 499	R2 500-R4 999	R5 000-R7 499	R7 500-R9 999	± R10 000
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ARE YOU PAID: Monthly Weekly Hourly

ARE YOU THE MEMBER OF A LABOUR UNION? Yes No

KINDLY ENSURE THAT YOU HAVE ANSWERED ALL THE QUESTIONS.

THANK YOU FOR YOUR CO-OPERATION