The Influence of Employee Share Ownership Schemes on Firm Performance: the Case of Zimbabwean Firms

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Abstract: The purpose of this study was to examine the influence of employee share ownership schemes on firm performance in the case of Zimbabwean companies. The study sought to provide valuable insights on the influence of this initiative on employee productivity and organisational performance in Zimbabwe. A cross sectional design was employed to collect data from Confederation of Zimbabwe Industry listed companies using simple random sampling. The study revealed that financial benefits from EOSs, employee participation, ECOS communication and percentage of shareholding have a significant positive relationship with firm performance. The study has important implications for the implementation and management of ESOs in the context of a development country such as Zimbabwe.

Keywords: Employee share ownership schemes; economic empowerment; firm performance; employee commitment; job satisfaction

Jel Classification: M10

1. Introduction

The period of colonialism relegated black Zimbabweans to economic marginalisation with the resultant being gaping income inequalities (Chaumba, Scoones & Wolmer, 2003; Nherera, 2000). In an attempt to address the skewed ownership of economic resources, a deliberate policy of empowerment was implemented under the auspices of the Indigenisation and Economic Empowerment Act of 2007 (Kurebwa, Ngwerume & Massimo, 2014). In Zimbabwe, the Indigenisation and economic empowerment legislation encourages that Employee Share Ownership Schemes (ESOSs) be set up as part of 51% indigenous shareholding to ensure broad based employee participation (Kurebwa, *et al.*, 2014).

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Since the inception of the economic empowerment policy, ESOSs are growing in popularity as a form of employee financial participation, giving employees the right to own shares and involved in controlling the affairs of the company (Landau, Mitchell, O'Connell & Ramsay, 2007). The ESOSs are administered through an employee fund and are leveraged by bank loans with collateral in the company or by future dividends in the company.

2. Research Problem

Employee share ownership schemes (ESOSs) have been subjected to scholarly scrutiny around the globe and recently in Zimbabwe. The debates on ESOSs revolve on their rationale, transparency and efficacy as a strategic tool in enhancing firm performance (Crisis in Zimbabwe Collation, 2015; Matsa & Masibiti, 2014). Multinational companies operating in Zimbabwe perceive the roll-out of ESOSs as a government ploy to seize foreign companies (Confederations of Zimbabwe Industries, 2014). Prior studies yielded contrasting views on the influence of ESOSs on firm performance (Pendleton & Andrew, 2010; Ngambi & Oloume, 2013). The result is also mirrored in Zimbabwe as there is no conclusive data on the influence of ESOSs on firm performance (Confederations of Zimbabwe Industries, 2014). For instance, 250 companies that implementing ESOSs reported mixed financial results. Against this background, the objective of the study was to investigate the influence of employee ESOSs on firm performance in the case of Zimbabwean firms.

3. Empirical Objectives

In order to achieve the objective of the study, the following empirical objectives were formulated:

- To examine how the ESOS percentage shareholding influence firm performance;
- To determine how ESOS financial benefits influence firm performance;
- To determine whether employee participation in an organization influences firm performance;
- To examine the influence of ESOS communication on firm performance.

4. Literature Review and Hypotheses Development

Employee Share Ownership Schemes are a form of employee financial participation that gives them the right to have a stake in the wealth of a company and a right to apply some degree of control over the affairs of the company (Landau *et al.*, 2007).

Extant literature on ESOSs contends that there is a positive relationship between ESOSs, firm performance and employee performance (Ngambi & Oloume, 2013; Kruse, Blasi & Freeman, 2011, Kaarsemaker, 2006). According to Sengupta, Whitfield and McNabb (2007), ESOSs results in low labour turnover which translates in reduced costs of recruitment. However, a study conducted by Sengupta et al. (2007) showed that embracing ESOSs does not lead to better levels of employee commitment even though the performance of the firm increases as a result of lower labour turnover.

Apart from employee performance, ESOSs positively influence performance metrics such as labour productivity, return on assets, profit margin and shareholder return (Sesil & Maya, 2005). In terms of labour productivity, Kim and Ouimet (2014) opine that, increase in productivity depends on the percentage shareholding of the ESOS and employment size of the organization. The productivity gains are attributed to enhanced employee morale as a result of financial gains (Kim & Ouimet, 2014). This view is also echoed by Kozlowski (2014) who acknowledged the role played by ESOSs in shaping favourable attitudes of employees towards the organization. In particular, ESOSs provides intrinsic motivation to employees to work better and more so, as a unifying factor of employees and management (Trebucq & D'Arcimoles, 2002). In addition, employees benefiting from ESOSs tend to be more willing to share information with management resulting organisational harmony and improved organizational efficiency (Perotin & Robinson, 2002; Kramer, 2008). ESOSs also create a sense of organisational identity among employees, reduces the "them-and- us" attitude that translate into organisational commitment (Pendleton & Robinson, 2011). The implementation of ESOSs is considered to promote the advancement of a long-term association between the firm and its employees as employees hold shares, receive dividends, and the expectation to see the value of their holding increase in value (Freeman, Kruse & Blasi 2004; Gittell, Von Nordenflycht & Kochan, 2004); Kruse, Freeman, Blasi, Buchele, Scharf, Rogers & Mackin, 2004).

Although a number of firms reported a positive impact of ESOSs on firm performance, some reveal a negative correlation. A study on British firms by Pendleton and Andrew (2010) found that, share options have independent effects on productivity. It was noted that in some instances employee involvement in decision making has undesirable impact on productivity. On the other hand, Sengupta et al. (2007) found that ESOSs does not lead to better levels of employee commitment even though the financial performance of the firm increases through lesser labour turnover.

In a longitudinal study conducted in Malaysian firms for a period of more than 12 years, Obiyathulla, Sharifah-Raihan, Mohd-Eskandar and Azhar (2009) noted that a firm's operating performance deteriorates for firms that embraced ESOSs. For instance, performance measures such as return on assets, return on equity and profit margins all declined and the biggest drop was reported in the immediate year after the implementation of ESOSs. Their study also revealed that the size of the firm also plays a role in the performance of a firm after adoption of ESOSs. In a related study conducted by Ikaheimo, Kjellman, Holmberg and Jussila (2004), Employee Share Ownership granted to top management and those granted to employees were distinguished. Their results show a negative impact of Employee Share Ownership Schemes grated to employees on firm performance, while the results reveal a weakly positive impact of ESOSs granted to managers on firm performance.

In terms of employee attitudes, Selvarajan, Ramamoorthy, Flood and Rowley (2006) noted that, when employees are offered stock options they enjoy the psychological ownership of the organisation. However, in instances of the decreasing stock earnings, ESOS seem not to have a positive effect on the perceptions of equity and employee attitudes (Pierce, Kostova & Dirks, 2001). This is because employees feel obligated to contribute to the firm when they perceive that the ESOS is beneficial to their wellbeing (Westwood, Sparrow & Leung, 2001).

In a comparative study, Meng, Zhou and Zhu (2010) noted that firms with ESOSs did not perform any better than firms without ESOSs for all the performance measures. Similarly, a study of 2002 Indian firms listed on Bombay Stock Exchange, over a period of 1 and 3 years, using asset turnover ratio and net assets at book value, Dhiman (2009) concludes that ESOSs does not lead to better productivity performance in the corporate sector of India in the short run. In another study of France firms listed on the Paris Stock Exchange, Triki and Ureche-Rangau (2012) studies the long-term impact of Employee Share Ownership Schemes on the firm's accounting performance and the effect of ESOSs announcements on firm performance. The study reveals that there is no significant impact of ESOSs on firm performance, as indicated by the industry adjusted return on assets and return on equity.

Based on the foregoing discussion, the following hypotheses were formulated:

H1: There is a positive relationship between ESOS percentage shareholding and firm performance.

H2: There is a positive relationship between ESOS financial benefits and firm performance.

H3: There is a positive relationship between employee participation and firm performance.

H4: There is a positive relationship between ESOS communication and firm performance.

5. Research Methodology

5.1. Target Population and Sampling Method

The study employed a cross-sectional survey design to investigate the influence of ESOSs on firm performance. The quantitative research design was used as it is regarded as an excellent way of determining conclusive results (Sahu, 2013). The population for this study was drawn from CZI listed companies as at 30 April 2015, which had ESOS in place. At the time of the study, a total of 21 companies were having EOSs and constituted the target population for the study.

The sample for this study was 210 employees from the 21 firms with EOSs. Simple random sampling was used to select respondents. For each participating firm, the company register was split into low level staff, middle management and senior management, and the researcher then randomly selected the respondents. This gave each employee at each level an equal chance of being selected to participate in the study. A large number of employees from each firm were considered so as eliminate any bias towards the actual results being obtained in an organization.

5.2 Data Collection Procedures

A structured questionnaire, which included closed ended and multiple choice questions, was used. Multiple choice questions were used in the questionnaire as they permit the respondent an option to choose a statement that almost closely describes their response to a statement (Mohan & Elangovan, 2006). The total number of questionnaires distributed to respondents was 210. Approximately 80% of the questionnaires were emailed and about 20% were hand delivered to mainly the shop floor employees who had no access to email, in endeavor to stimulate a better response rate. The questionnaires were accompanied by a cover letter which detailed the purpose of the study as well as the instructions on how to respond to the questions. The overall response rate was 68% (n=143), and 32% (n=67) were not responded to.

5.3 Instrumentation

The components of the dependent variable, firm performance, were job satisfaction, ROA, ROE, and employee commitment. According to Mowday, Porter and Steers (2006), job satisfaction is defined as feelings of an employee about their job. Employee performance was connected to salient measures of performance like absenteeism, productivity, and employee turnover (Friedman, 2012). On another hand, job commitment was defined as the psychological attachment by an individual to an organization (Becker, 2005), and it was measured using features like empowerment, job performance, role stress and job security. The responses to the questions were recorded on a 5-level Likert Scale, and in some instances 1 meaning not satisfied at all and 5 meaning fully satisfied. The scale developed by Pendleton, Wilson and Wright (1998) informed the development of the scale for this study.

5.4. Data Analysis

The data analysis for this study consisted of inspecting the questionnaires for completeness and correctness of information captured. Data was then captured into SSPS and an examination of descriptive responses according to frequency distributions and descriptive statistics was performed. Correlation analyses where performed to assess the degree of association between variables under study. Multiple regression analysis was also conducted so as to identify the extent to which the variables under study influence firm performance.

5.5. Reliability and Validity Measures

To test for reliability the Cronbach's Alpha (α), which is a measure of internal consistency between measurement items, was computed. As shown in Table 4.3, the Cronbach’s alpha values ranged from 0.734 to 0.934, thereby surpassing the minimum threshold of 0.6 recommended by Saunders (2009). The spearman’s correlations coefficients were computed to assess convergent validity. The study reported significant positive correlations ranging from $r = 0.336$ to $r = 0.492$ (at $p < 0.01$) signifying the attainment of convergent validity. The construct correlation matrix is reported in Table 4.5. Regression analysis was used to assess predictive validity. Causality was shown by all independent variables, that is, financial benefits, employee participation, ESOS communication and percentage of shares with the dependent variable, firm performance, as shown in Table 1, thus demonstrating the attainment of predictive validity.

Table 1. Statistical Results for Reliability Analysis

Variable	Number of items	Cronbach’s Alpha Value
Financial benefits	6	0.744
Employee participation	6	0.749
ESOS communication	6	0.934
Percentage shareholding	5	0.734

6. Results of the Study

6.1. Sample composition

In terms of gender of respondents 40% were females and 60% were males. A majority of respondents (66%) were younger than 35 years, 24% were between 35 and 45 years, and 13% were 45 years and older. The employee category constituted approximately 33% of the total responses whereas the management category constituted approximately 68%. More management was selected more than the general employee as they are assumed to be more open-minded when it comes to researches that are to do with the firm, compared to general employees.

6.2. Correlation Analysis

In order to ascertain the degree of association between constructs under investigation, the Pearson correlation was computed. The results are shown in Table 2.

Table 2. Correlations between constructs

	FIN BEN	EMP PART	ESOS COM	PER SHARES	FIRM PERF
FIN BEN	1.000				
EMP PART	.472**	1.00			
ESOS COM	.230**	.410**	1.00		
PER SHARES	.653**	.435**	.237**	1.00	
FIRM PERF	.467**	.483**	.492**	-.336**	1.00

** Correlation is significant at the 0.01 level (2-tailed). *FIN BEN = Financial benefits, EMP PART = Employee participation, ECOS COM = ECOS communication, PER SHARES = Percentage shareholding, FIRM PERF = Firm performance.*

6.3 Regression Analysis

To examine the relationship between the independent and dependent variables, regression analysis was conducted. Regression analysis was deemed to be an appropriate statistical approach due to the existence of significant associations amongst the variables. Prior to conducting regression analysis, key assumptions were verified. The adequacy of the sample size was assessed since regression analysis is susceptible to sample size. Tabachnnik and Fiddel (2007) proposed a sample size of $N > 50 + 8m$ (where m = number of independent variables) as adequate to perform multiple regression analysis. The sample size considered in the study is 161 respondents, which is above the minimum of 82 respondents when four independent variables are involved.

Multi-collinearity was assessed by inspecting the inter-correlation matrix, tolerance value and the variance inflation factor for each independent variable. Multi-collinearity refers to a high degree of inter-correlation between constructs (Shen & Gao, 2008). As shown in Table 4, all reported correlations are below 1 or -1, signifying the absence of perfect multi-collinearity within the data set. To check the presence of outliers, the scatter plot, standardised residual plot and Cook's Distance were utilised. The scatterplot showed scores that were clustered in the middle, tangential to the zero-point with no curvilinearity. The maximum value for Cook's Distance was 0.212 indicating that the existence of outliers did not affect the model results (Tabachnick & Fidell, 2007). The inspection of the standardised residual plot showed that no values were exceeding 3.3 or less than -3.3 as recommended by Tabachnick and Fidell (2007). Table 4 shows the results of regression analysis.

Table 3. Results of regression analysis

Dependent variable: Firm performance	Beta	T	Sig	Collinearity Statistics	
Independent variables				Tolerance	VIF
Financial benefits	1.481	6.165	.000	.615	1.487
Employee performance	.200	3.018	.000	.627	1.520
ESOS communication	.356	5.826	.000	.568	1.769
Percentage shareholding	-1.155	-4.925	.000	.630	1.487
R = 0.779 R^2 = 0.607 Adjusted R^2 = 0.595					

As shown from the Table 4.5, the Model produced R^2 of 0.607 implying that about 61 percent of firm performance could be explained by independent variables.

7. Discussion of Results

The **first hypothesis** (**H1)** predicted a positive relationship between financial benefits from ESOSs and firm performance. This hypothesis was confirmed (β = 1.481, t-value = 6.165, $p < 0.000$). This result was supported by positive correlation ($r = 0.467$, $p < 0.01$). From the result, it can be inferred that as employees receive more financial benefits from the ESOS, they are likely to get motivated to be productive so that the firm makes huge profits and they benefit financially from the profit shares and dividends. The findings of this study are consistent with a number of findings by different scholars. Convincing evidence was found from the results that financial benefits positively impact firm performance. This finding is in line with the findings of Lin, Yao and Zhao (2014) which investigated the relationship between employee financial benefits and firm performance in China, and concluded that an employee financial benefit system does produce significant relations with overall firm performance. Lin et al. (2014) study also added that the strength of the associations is mediated by behavioral and attitudinal outcomes, which are produced from a psychological consequence of employees.

The second hypothesis (H2) predicted a positive relationship between employee participation and firm performance. The effect of Employee Participation ($\beta = .200$, t-value = 3.018, $p < 0.000$). This result was supported by positive correlation ($r = 0.483$, $p < 0.01$). The outcome reveals that as employees are engaged in making the decisions that affect the firm, they would feel as they are part of the firm and they will productively work so as to produce better results for their firm. This outcome is supported by the results obtained by Kuye and Sulaimon (2011), who examined the relationship between employee participation in decision making and firm performance in the Nigerian manufacturing sector. The obtained results show a statistically significant association between employee participation in decision making and the performance of the firm. It was also concluded that firms with employee participation performed better than firms without employee participation. All the same, Bryson (2007) concluded that an inappropriate configuration of employee participation in a firm can have a negative impact on firm performance, as decision take longer to be made and some decisions will be made not because they are good for the firm but to avoid conflicts with employees.

The third hypothesis (H3) predicted a positive relationship between ESOS communication and firm performance. This hypothesis was supported ($\beta = .356$, t-value = 5.826, $p < 0.000$). This result was corroborated by a positive correlation ($r = 0.492$, $p < 0.01$). This result may be attributed to better understanding of the benefits of ESOS form the ESOS communication, which then drives employees to put more effort in producing results which lead to better firm performance. The finding obtained by the researcher in this study resonates with the findings of the European Commission. This study found out that there is a statistically significant positive relationship between ESOS communication and firm performance. However, low quality communications from management with regards to ESOS can lead to gaps between intended and actual firm performance from the introduction of ESOS (Hartog, Boon, Verburg and Croon, 2013). To drive better firm performance and to avoid misalignments and misunderstandings from employees, management needs to communicate highly informative, clear, and useful information about the ESOS.

The fourth hypothesis (H4) predicted a positive relationship between percentage shareholding and firm performance. This hypothesis was confirmed ($\beta = -1.155$, t-value = -4.925, $p < 0.000$). This result was supported by positive correlation ($r = -0.336$, $p < 0.01$). This result implies that the larger the percentage shareholding, above a certain threshold, the lower the firm performance. The outcome predicts that as employees get a higher percentage shareholding of the firm, above a certain level, they would not productively produce results (maybe they would start to feel that since they are the major shareholders, they should not work but be managers). The finding is in line with Abbas, Naqvi and Mirza (2013) who found that large shareholders significantly and positively affect firm performance, especially when performance is measured by ROA and ROE, but direction of the association reverses when shareholding by one group goes beyond 50%.

8. Managerial and Policy Implications

One of the strongest conclusions that come out of ESOS and firm performance is that there is solid evidence that ESOS has a positive effect on firm performance. As a result of this effect, it is also regarded reasonable to believe that ESOS increase both economic and financial factors of a firm. All economic sectors in a nation play an important role in the growth and development of the economy. From the findings of this study, it is alleged that the effectiveness and proficiency in performing these roles may depend mainly on the introduction of Employee Share Ownership Schemes, which would embrace variables like financial benefits, employee participation and increased ESOS communication to employees. This study has some vital implications for management and policy in the nations' economic sectors. It signifies the need for economic sectors to exhibit high level of commitment to the introduction of ESOSs in order to enhance their performance. In other words, an intensive introduction of ESOS is a possible approach for increasing firm performance in competitive markets engulfed with volatility, uncertainty and complexity.

If the economic sectors of Zimbabwe are to grow and be competitive, its managers should encourage increased employee share ownership schemes in firms, for reasons that ESOS does positively affect firm performance (but keeping in mind that there are other ways of improving firm performance). When employees start to think like owners, this may lead to improved firm performance through increased profitability, job satisfaction and employee commitment to the firm. Therefore, the researcher recommends that management fully embrace the idea of ESOS in firms as its benefits outperform the costs and disadvantages of implementing it.

9. Limitations of the Study

The major obstacle encountered in this study was the challenge in persuading invited participants to actually participate in the research. A number of theories may be advanced as to the absence of interest in research participation. The amount of time involved, misperception or suspicion as to the nature of the study, or simply commitment levels that participants had during the time of the study. All or any of these outlined reasons may have contributed to the lack of participation, which resulted in only 68% response rate. Even though participants were suspicious of the purpose of the study, the researcher took time to explain the purpose of the study and guaranteed confidentiality to the respondents, and this resulted in some respondents agreeing to participate in the study.

10. Direction for Future Research

The following proposals for future studies may deserve some remarks. Future study should take into consideration the analysis of firm size and the age of the firm, and their impact on ESOS variables (not only limited to financial benefits, employee participation, ESOS communication and percentage shareholding). These might be appropriate and imperative in making policy decisions for the firm. Second, future research should investigate the impact of firm performance on Employee Share Ownership Schemes, thus to say if the firm is performing better or otherwise, does it involve its employees more in decision making, does it keep on effectively communicating with its employees and does the firm keep on advancing financial benefits to its employees. The future study will be of interest as it will reveal how the firm will react to its performance after implementing an ESOS. Lastly, in the future study, the research design and the tools used to conduct this study might be modified to better develop insights into the impact of ESOS on firm performance. The amendments might include ways to conduct the same or similar research more effectively and might also contain ways to explore additional aspects of Employee Share Ownership Schemes.

11. Conclusion

The study showed that ESOS has a positive impact on firm performance. Public policy may therefore legitimately promote the introduction of ESOS in firms to enhance performance. Through ESOS, financial participation may be encouraged to further economic democracy or wealth redistribution. ESOSs should be structured in a way that provide tax advantages to the firm and even subsidize some certain forms of participation like worker co-operatives that set aside a certain percentage of profits to build employee owned firms for future generations. Participation schemes, like the ESOS, should be linked with sufficient information and communication provisions, and they may be effective and safeguard employees' financial interest when joined together with participation in corporate governance at various levels. Particularly, ESOS should as a policy is accompanied with the standard exercise of shareholders' voting rights, individually or through the ESOS trust.

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