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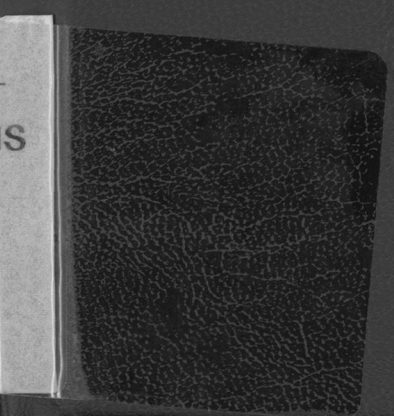
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Employee-owned companies: A potential solution to minimising industrial action in South Africa

Bonga Sebesho

This research report is submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2016

ABSTRACT

The purpose of this research was to assess the employee-owned company model as a potential solution to minimise industrial action in South Africa. Employee ownership, positioned as a key pillar of broad-based black economic empowerment (BBBEE) (Mosai & Reynolds, 2003), is linked to increased employee participation and ultimately to improved industrial relations as a result of increased engagement between employers and employees.

Research was undertaken through a study of the multiple methods in which employee ownership is implemented across various industries in South Africa taking into account the reasons for the implementation of employee ownership. This research attempted to cover a wide spectrum of employee ownership models ranging from once-off employee share ownership schemes (ESOPs) to closed employee ownership schemes. Qualitative data was collected through in-depth interviews, utilising the Delphi technique, with a sample of 11 respondents who have been involved in the implementation of employee ownership schemes. The data was content-analysed and the findings suggested that employee ownership has the ability to engender increased participation.

The findings of the study suggest that the successful implementation of employee ownership in South Africa has been severely impacted by historical issues relating to financial preparedness from employees and the deep entrenchment of the shareholder value as well as the compliance burden from a business perspective. The study concludes that employee ownership can play a role in engendering meaningful economic participation and consequently reduce the incidence of industrial action. However, in order to achieve its desired objective the government will need to put in place effective incentives as well as powerful disincentives to encourage implementation of long term ownership schemes.

This study may provide guidance to South African companies, government and other stakeholders seeking to find broad-based and inclusive models in order to increase employee representation and participation in corporate decision-making. The research findings may assist these organisations to find new ways to create a more inclusive economic environment through leveraging the benefits of employee ownership to decrease the incidence of industrial action and ultimately improve output

DECLARATION

I, Bonga Sebesho, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Bonga Sebesho

Signed at Parktown, Johannesburg

On the 30 day of March 2016

DEDICATION

I'd like to dedicate this research report to my late mother who always pushed me to and achieve better.

ACKNOWLEDGEMENTS

My sincere appreciation goes to the following:

- Dr Renee Horne, my supervisor for her encouragement and assistance
- My company Octagon for allowing me the time to complete my studies
- To the respondents in this research for sharing their experiences and opinions
- Finally, to my family for enduring with me

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CHAPTER 1. INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to assess the employee-owned company model as a potential solution to minimise industrial action in South Africa. Employee ownership is stated as being a key pillar the South African government's attempt to increase economic participation of previously disenfranchised people through its policy of broad-based black economic empowerment (BBBEE) (Mosai & Reynolds, 2003).

Research was undertaken through a study of the various multiple methods in which employee ownership is applied across various industries in South Africa taking into account the reasons for the implementation of employee ownership. This research attempted to cover a wide spectrum of employee ownership models ranging from once-off employee share ownership schemes (ESOP) to closed employee ownership schemes.

The findings of the research were assessed against the desired outcomes as laid out in the BBBEE Act of 2003 to determine to what extent, if any, employee ownership can achieve meaningful economic participation. Finally, this research attempted to establish a link between meaningful economic participation and the incidence of strikes to determine.

1.2 Context of the study

The South African economic system is in distress highlighted by the increase in workdays lost due to strike from 1,8 million in 2013 to 10,2 million in 2014 (Semono, 2014), growing income inequality and stagnant economic growth of approximately 1,6% forecast for 2016 (Bank, 2015). However, our approach to finding effective solutions to the above challenges has seemingly been inadequate.

The success of the modern company is traditionally framed by its "profitability as the resultant return on equity and shareholder value" (Friedman, 1962). This traditional Friedman view of the company holds that "it's only real stakeholders are its owners or shareholders" (Friedman, 1962). According to this view, corporate managers should focus exclusively on profit maximization. Employees, like other assets such as capital and machinery, are viewed only as factors of production. Many firms, in South Africa and elsewhere, subscribe to this view and only consider other external factors only when pressured to do so. According to Matthews (2013), as long as businesses are set up to focus exclusively on maximizing financial returns for the few, the South African economy will be trapped into an endless quest for growth and widening inequality according to Matthews (Matthews, 2013).

South Africa's economic system has been deeply impacted by apartheid and as such has been characterised as what Wolpe describes as being exclusivist and extractive by design (1972). Poswa (1994) argues that South African corporates have been characterised by some of the most unbalanced objectives, with shareholders enjoying an inordinate degree of power over other stakeholders not even comparable to those of their counterparts elsewhere in the world. A clear indicator that the South African economic system is facing profound challenges is highlighted by growing income inequality, flat growth and increasing industrial action.

The need for socially relevant business can be traced as far back as Adam Smith. In "The Theory of Moral Sentiments" (Smith, 1759), Smith posits that no economy can function effectively unless it is underpinned by a community in which most citizens place significant emphasis on the maintenance of social capital including trust, faith, loyalty and dignity amongst others. According to Arrighi et al (Arrighi, 1994; Parkinson, Gamble, & Kelly, 2000) the emergence of the corporation as the dominant form of human organization has led many to ask what role corporates should play in transforming our society (Letza, Sun, & Kirkbride, 2004)? An underlying question to the debate is who is responsible for

value creation and who should benefit from the value created (Letza, Sun, & Kirkbride, 2004)?

In order to overcome the economic legacy of apartheid since 1994 successive governments have enacted legislative measures and implemented a policy of broad-based black economic empowerment (BBBEE) (dti 2007a). The Department of Trade and Industry (DTI) defines BBBEE as specific government policy to advance economic transformation and enhance the economic participation of black people in the South African economy (dti 2007b). The ameliorative strategy of BBBEE includes a focus on broadening participation, equity and access to redress for all economic citizens, particularly those previously marginalised (dti 2007b) as well as distributing wealth across as broad a spectrum of previously disadvantaged South African society as possible according to Ponte et al (2007).

Employee ownership is accepted as being a key pillar of BBBEE and indeed it is increasingly accepted as one of the best ways of creating a broad-based and more equitable economic participation. However, there are various models of employee ownership in existence. In SA many corporates have chosen to focus on employee share ownership schemes (ESOPs). ESOPSs are frequently characterized by a once-off benefit to current employees often resulting in employees disposing their share as soon as they vest. So while many South African corporates have been compliant in implementing some form of employee ownership, they have not been implementing it in the spirit of trying to achieve meaningful economic participation. Rather it seems as though this has been done a box ticking exercise to comply with the reporting requirement of B-BBEE without regard for the long-term impact or benefits of the employee ownership.

It is in this context that we assess whether, given South Africa's unique circumstances, employee ownership can be effective as a means of achieving meaningful economic participation and consequently reducing the incidence of strike

1.3 Problem statement

1.3.1 *Main problem*

Industrial action has a considerable impact on South Africa's economy (Semono, 2014). Is the employee-owned company model an appropriate alternative business model to mitigate against increased industrial action? This problem required an understanding of the employee ownership model and its implementation in South Africa, the extent to which employee ownership can achieve meaningful economic participations and whether the implementation of employee ownership has been effective in reducing the incidence of industrial action.

1.3.2 *Sub-problems One*

Assess the implementation of employee ownership in South African. This required an understanding of the various model of employee ownership that have been applied in South Africa as well as the effects of employee ownership on employees and employers in South Africa.

1.3.3 *Sub-problems Two*

Ascertain the extent to which employee ownership has been able to achieve meaningful economic participation. This was done by assessing the outcomes of employee ownership against the desired objectives of BBBEE.

1.4 Significance of the study

- While the objectives of BBBEE are clearly articulated, the implementation thereof has not fully realized its desired outcomes
- It is critical that SA successfully transforms into a more equitable society
- Employee ownership, as a pillar of BBBEE, is one of the most appropriate interventions in achieving a more equitable society and in achieving BBBEE goals?

- If we accept that employee ownership is the appropriate intervention and given that there are various ways in which the employee ownership can be implemented we need to find the most appropriate and effective model for SA
- This study can provide a guide on how this model can be applied for maximum efficacy

Substantial literature exists relating to alternative business models (Borzaga & Defourny, 2001; Brinckerhoff, 2000; Defourny, 2001; Emerson & Twersky, 1996) as well as relating to industrial democracy (Buhlungu, 1994; Du Toit, 1997; Poswa, 1994). However, employee ownership as a possible mediator has not been fully studied. This applies equally in countries where there is a legacy of the model's successful implementation, as well as in South Africa where the employee-owned company model is in its nascent stage of adoption. This study intended to add to the body of literature exploring alternative models that can be applied appropriately within the South African context.

Prior studies on industrial democracy conducted in South Africa have focused largely on labour relations, worker's representation and worker's forums. In contrast, the concept of alternative business models attempts to radically redefine the relationship between employers and employees rather than to incrementally improve this.

This study may provide guidance to South African companies, government and other stakeholders seeking to find alternative broad-based and inclusive models in order to increase employee representation and participation in corporate decision-making. The research findings may assist these organisations to find new ways to create a more inclusive economic environment through leveraging the benefits of employee ownership to decrease the incidence of industrial action and ultimately improve economic output for the benefit of both employers and employees.

1.5 Delimitations of the study

- The sample involved in the current study was drawn from those involved in employee-owned companies within South Africa.

- Due to the small sample of employee-owned companies available for the study, results may not be generalizable beyond the specific population from which the sample was drawn.

- This study was conducted using secondary resources on employee-owned companies as well as through in-depth interviews with companies that have implemented some form of employee ownership model.

1.6 Definition of terms

- **Broad-Based Black Economic Empowerment** – as defined by Broad-Based Black Economic Empowerment Act No. 53 of 2003 programme to provide a legislative framework for the transformation of South Africa's economy (B. B. B. E. E. Act, 2004).

- **Business model** – describes the manner in which an organization creates, delivers, and captures value (Osterwalder & Pigneur, 2013).

- **Corporate governance** - the system by which companies are directed and controlled (Cadbury, 1992).

- **Employee-owned company** - a model in which employees have a significant ownership in a business (EOA, 2013).

- **Industrial action** - Industrial action is used where employees want new or better conditions at the workplace and wish to use strike action in a 'dispute of interest' which involves creating new terms and conditions of their employment. Stayaways, strikes, work stoppages, go-slows, work-

to-rule, and union bans on overtime, and lock-outs, are all forms of industrial action. Industrial action can be protected (legal) or unprotected (Deakin & Morris, 2012).

- **Industrial democracy** - is an arrangement which involves workers making decisions, sharing responsibility and authority in the workplace (Müller-Jentsch, 2008).

- **Shareholder value theory** - idea proposed by economic theorist Milton Friedman, which states that a company's only responsibility is to increase its profits (Friedman, 1962).

- **Stakeholder theory** – suggests that the responsibility of a company, beyond shareholders, is to create as much value as possible for stakeholders. In order to succeed and be sustainable over time, managers must keep interests of stakeholders such as customers, suppliers, employees as well the community aligned (Freeman, 1983).

1.7 Assumptions

- The representatives of the companies interviewed were able to freely share their views on employee-owned companies

- The representatives of the companies interviewed had sufficient experience and knowledge to discuss the business models in their respective companies.

- The information collected from the interviews was an accurate reflection of the actual model utilised by the respective companies.

- The essence of South African BBBEE legislation remains unchanged.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

This section of the report provides a review of the literature study and theory review that span the concepts and constructs applicable to BBBEE and employee owned companies.

Firstly, the report provides an overview of the structure of the South African economy and how it is directed. This is followed by analysis of the forces that attempt to transform the economic structure through alternative business models with a focus on the employee-owned company model. Finally, the report defines the research objectives as well as the related hypotheses.

2.2 Background discussion.

Starting from colonial times and stretching through to the apartheid period political and economic issues have impacted employee relations in South Africa. The Apartheid government, in particular, had attempted to manage the growing black worker militancy with repressive laws and brute force. This began to lose its effectiveness in the 1970 due to growing pressure from domestic as well as international business. This pressure led to the government-appointed Wiehahn Commission in the 1980s which proposed radical changes in employee and labour relations (Bendix, 2010). The Wiehann Commission's findings included that trade unionism, employers' organisations and collective bargaining were making a valuable contribution to economic growth and stability as well as that race should no longer be used as a criterion for the statutory recognition of trade unions (Commission, 1979) and this then further encouraged the organisation and mobilisation of black workers (Ferreira, 2004).

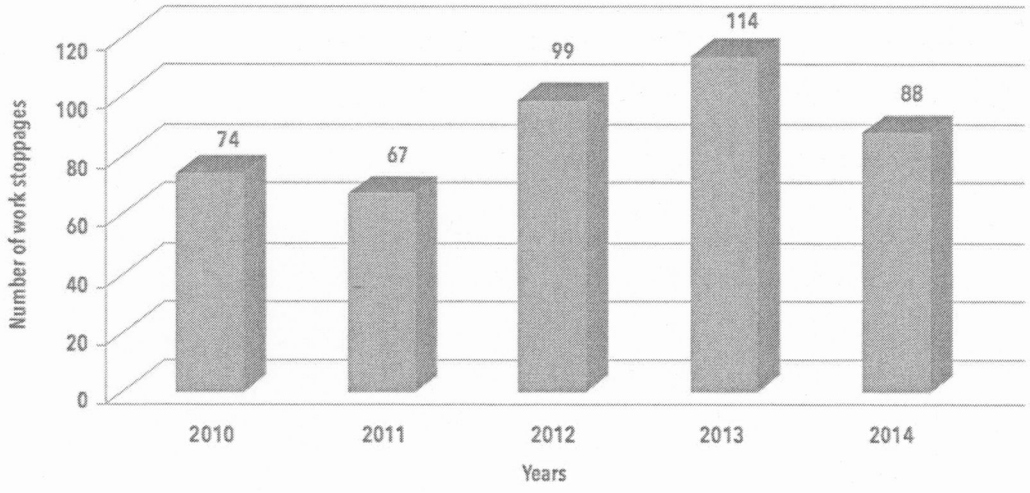
The mid-1980s seemingly promised an end of apartheid but also highlighted the immense social issue that South Africa's institutions would need to address. For business, this primarily meant having to integrate black people into a formal economy from which they had previously been marginalised. According to

Ferreira (Ferreira, 2004), the new post-apartheid government introduced the Labour Relations Act 66 of 1995 with the stated aim "of creating a comprehensive statutory framework to ensure constitutionally entrenched labour rights" (Ferreira, 2004). The new Labour Relations Act sought to advance the democratization of the workplace by involving employees in decision-making through workplace forums according to Steadman (2004). Amongst others, the Act sought to advance economic development and workplace harmony by providing for statutory workplace forums in order to promote consultations between employers and employees in the workplace. Other significant changes brought about by the Act according to Ferreira (Ferreira, 2004) included the provision for legislated organisational rights, the granting of the right to strike without fear of dismissal once prescribed procedures have been followed as well as the right to collective bargaining (L. R. Act, 1995).

According to Ferreira (2004) there appeared to be genuine desire on the part of the new dispensation to balance power, create more certainty and promote cooperation between employers and employees. However, most of the interventions focused on the role of unions in intermediating the relationship between employers and employees (Bendix, 2010). According to Bendix (2010), while bargaining and the choice of bargaining structure remained mostly voluntary, the Act promoted centralised bargaining in effect tipping the balance of power in favour of larger unions (Bendix, 2010).

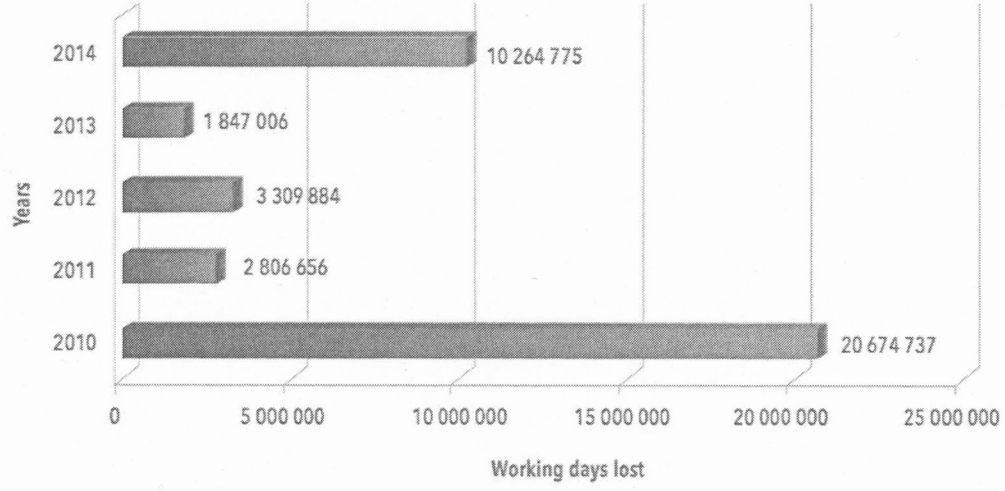
However, according to Semono (2014) despite the interventions, in the past number of years the relationship between organised labour, employees and employers has increasingly become adversarial. Labour unrest has increased significantly since 1994 along with the increasingly violent nature thereof (Semono, 2014). In 2014, South Africa experienced a number of industrial action incidents in the mining sector, the steel and engineering and the clothing sector causing a huge impact on the economy because most of them were due to wage hike demands. Although the 88 strikes were fewer than the preceding year, they lasted for long periods involving 118 566 employees involved and a total of 10 264 775 working days lost.

Figure 2.1. Trends in the number of work stoppages in South Africa, 2010 - 2014



Source: Department of Labour, Strikes Statistics

Figure 2.2. Trends in working days lost in South Africa, 2010-2014



Source: Department of Labour, Strikes Statistics

The aftermath of apartheid has stimulated far-reaching debate about society and the economy we seek to create in South Africa and how all citizens can participate in it. In 1998 debate on 'Reconciliation and Nation Building' (1998) at the opening of the National Assembly, Thabo Mbeki argued that national

unity and reconciliation between black and white South Africans is an impossible dream if socio-economic disparities, which prevented black South Africans from exercising their citizenship rights to the same extent as white South Africans, were not rapidly overcome (Mbeki, 1998). An underlying question to the debate is in whose interest is the economy run? Who should control the economy? How should they control it? Who is responsible for value creation? (Letza, Sun, & Kirkbride, 2004).

Since 1994 the African National Congress (ANC) government has sought to implement measures designed to address the historic imbalance of power within South Africa's economy. This strategy of Black Economic Empowerment (BEE), enshrined in the Broad Based Black Empowerment Act of 2003, is a mixture of government policy and legislation brought about by the political pressure to redress the effects of apartheid and has been designed to promote black participation in the economy (Southall, 2007).

A key pillar of the current BBBEE framework is employee ownership. This is measured by means of a balanced scorecard that includes measures for direct empowerment, human resource development and indirect empowerment (B. B. B. E. E. Act, 2004) with the stated objectives of Article 2 of the BBBEE Act of 2003 being:

a) Promoting economic transformation in order to enable participation of black people in the economy;
b) Achieving a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises;
c) Increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training;
d) Increasing the extent to which black women own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training;

e) Promoting investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity;
f) Empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills; and
g) Promoting access to finance for black economic empowerment. (B. B. B. E. E. Act, 2004)

According to Mparadzi (2014) many South Africans have a jaundiced view of BEE as empowerment is perceived to have failed in making a difference in the lives of the majority of people in South Africa. In 2010 the Congress of South African Trade Unions (COSATU) called for a review of BEE as, according to Leon (2012), the BEE policy at the time lacked broad-based impact. The nature of many transactions at the time narrowly complied with BEE through the allocation of shares in companies to a small group of politically connected individuals who seemed to be the primary beneficiaries. Rather, COSATU's desired position was for BEE to benefit workers directly as well a broad class of previously disenfranchised black South Africans.

A commonly held view of BBBEE is that is nothing more than a tool for the politically connected and already affluent to access further wealth and has limited potential to address the economic exclusion of the most marginalised according to Patel and Graham (2012). This was as a result of an initial narrow, focus on the ownership of shares in corporate South Africa by black hands that resulted in the empowerment of a limited number of individuals.

This narrow approach to empowerment has best been illustrated by the BEE transactions in the mining industry. With the introduction of the Mining Charter in 2002, all BEE transactions were required to engender meaningful economic participation by including workers and communities as beneficiaries (Hamann, 2003). Further, the Charter required that beneficiaries be vested with effective ownership including holding direct ownership, voting rights, economic interest and management control of the empowered entities (Tapula, 2012). This raised

a contradictory and confusing requirement as it seemingly excluded broad-based share schemes as direct beneficiaries. As such, most empowerment transaction in the mining sector tended to be in the form of a trust resulting in no direct empowerment to workers or communities. Resultantly, according to Antin (2013), only 7% of the BEE transactions in the mining sector during the period 2004 to 2008 involved employee share schemes and only 10% involved community schemes directly thus, in effect almost completely excluding them.

The definition of ownership has since been broadened to include amongst others, management representation, employment equity, skills development, preferential procurement, enterprise development and corporate social investment (B. B. B. E. E. Act, 2004). These criteria can be said to represent a 'second phase' of BEE (Ponte et al., 2007). As a consequence, the measure of empowerment compliance has evolved from the first iteration to the current framework.

2.3 Governance of the South African Economy

Beyond BEE, South African corporates are guided by a corporate governance framework that is accepted as an important pillar in management and control of companies (OECD, 1999). Further, a corporate governance framework is a more accurate indicator of how an economy is structured and its companies are runs.

According to Banhegyi (2007), South Africa corporate governance typically focuses on the firm's shareholders and as a result employees and other stakeholders often have a confrontational relationship with business owners and managers. South Africa's corporate governance code, the King Report on Corporate Governance III, described as the most effective summary of the best international practices in corporate governance (Banhegyi, 2007) is a voluntary code rather a legislated code and is influenced by the British Cadbury Committee and the American Sarbanes-Oxley Act. The key difference however, is that the economic life stage of South Africa is vastly different to that in the UK and US resulting in different context for the application of the governance.

Maximizing shareholder wealth as the purpose of the firm is deeply established in economic and financial theory (Banhegyi, 2007), particularly in countries such as South Africa with an Anglo-Saxon tradition. At its most aggressive this shareholder view holds that business acting beyond its economic concerns is at best misguided and at worst misallocating resources according to Easterbrook and Fischel (1985). Given the history and socio-political circumstances of South Africa, this is entirely insufficient and is beginning to be seen as an anachronistic and out-of-touch way of managing the economy.

The shareholder theory's supremacy is being challenged due to growing income inequality and wealth disparities (Economist, 2010). The quest for short-term profits over long-term and sustainable value generation has also precipitated several financial and banking crises leading many to charge the system as flawed (Lampel, Bhalla, & Jha, 2010). The traditional shareholder view is increasingly viewed as inadequate and inappropriate in today's modern environment (Rajan & Zingales, 2000).

The Anglo-Saxon philosophy to corporate governance stands in sharp contrast with many countries in continental Europe and elsewhere that have adopted a more inclusive form of governance that aims include other stakeholders in decision making such as communities, creditors and employees (García Castro, Ariño Martín, Rodríguez Badal, & Ayuso, 2008). The predominant approach in countries such as Germany is through a two-tier governance structure with one representing the executive and another representing all stakeholders including shareholders as well as external stakeholder. This governance structure aims to balance the interests of all stakeholders without prioritising the interests of one over the others thereby creating an inclusive framework (Saint & Tripathi, 2006). This view of business and the economy being in service to society provides what Donaldson and Preston (1995) suggest is a more appropriate alternative approach to economic participation.

In South Africa, Esser and Dekker (2008) have argued that the mere adherence to the BBBEE Act 53 of 2003 fits with the normative stakeholder theory as

company managers will by implication consider the interests of the community and give effect to the triple-bottom line approach (Esser & Dekker, 2008). However, many South African companies merely tick boxes in compliance with BBBEE requirements and thus to do not implement the policy in its desired spirit (Pityana, 2015). So while some progress has been made to date, according to Pityana if one looks at BEE, the legislation on which it is based and at its implementation, "it becomes clear that, with a few honourable exceptions they have become bureaucratic and legalistic exercises in box-ticking"(Pityana, 2015). For those seeking to comply with the obligations of BBBEE, little thought is given to anything other than meeting the technical numerical targets at best or "malicious compliance" at worst according to Mashatile (Mashatile, 2015).

Incremental improvements vs. radical alternatives

While a number of economic models have emerged in response to multiple economic ructions, many are yet to find acceptance as credible alternative by business. The models that have gained some acceptance and been embraced are those that do not seek to upend the status quo completely but rather represent incremental improvements on the traditional model (Saint & Tripathi, 2006).

The inclusion of corporate social responsibility (CSR) in mainstream business thinking has been a major driving force in the acceptance of the stakeholder theory. CSR has introduced imperatives such as sustainability and long--term social and environmental well-being (Williams & Conley, 2005) into business decision making. Similarly, the enlightened shareholder value model is increasingly beginning to occupy what Keay (2010) describes as an accepted third position between the shareholder wealth-maximizing position and the stakeholder model, its acceptance highlighted its inclusion in the UK Companies Act (Williams & Conley, 2005). According to the enlightened shareholder theory corporations should pursue shareholder wealth with a long-run orientation that seeks sustainable growth and profits based on responsible attention to the full range of relevant stakeholder interests (Gamble & Kelly, 2001).

Similarly, a concept of transient caretakers has emerged in South Africa. Coined by Mervyn King, the transient caretaker theory suggests that corporates need to take into account their responsibilities to people and to the planet (King & Lessidrenska, 2009). King adds that "governments, companies and individuals - as homeowners, consumers, citizens, voters, investors and shareholders - all need to contribute to ensure that the Earth's assets of land, air and water are passed on to future generations in a sustainable state" (King & Lessidrenska, 2009).

Other alternative models have emerged that call for more radical and fundamental changes suggesting that none of the accepted theories are adequate to foster an economy that is socially relevant and responsive. Elkington (1999) in his book "Cannibals with Forks" introduced the concept of the triple bottom line. This theory suggests that to be truly sustainable a business enterprise needs to simultaneously take into account and integrate three, often conflicting consideration, namely: the economy, society and the environment (Elkington, 1999). Elkington's thinking has popularised the oft-used three Ps model of people, profits and planet. Elkington expands on this model by defining people to equal social sustainability, profits to equal economic sustainability, and planet to stand for environmental sustainability (Elkington, 1999).

Sen in "Development as Freedom" (1999) posits that real development cannot be reduced to income and wealth as these are inadequate indicators of wellbeing. According to Sen, effective solutions in pursuit of sustainable development need to integrated economic, social and political issues, with the well-being of humans placed at centre stage (Sen, 1999). The United Nations Global Compact (UNGC), in an attempt to provide a framework for sustainable development, sums this up by stating that a community based on compassion and sympathy is a necessary precondition for business itself (Annan, 1999). The above thinking suggests that economic sustainability needs to be multifaceted, delivering not only economic benefits but also social benefits to a broad and inclusive range of stakeholders. Ultimately, business cannot survive if it is not perceived as benefit the majority.

2.4 Employee ownership as an alternative solution

In order to create a more balanced economy, employee ownership holds the promise of broadening economic participation to employees as stakeholders involved in the value creation of a business (EOA, 2013). Defined by BenefitCapital (2014) as the significant or total ownership of a company by its employees through share awards, share purchase plans, and/or share-based benefit plans offered in such a way that most or all employees meeting non-discriminatory criteria are able to participate in the plan (BenefitCapital, 2014). A key benefit of employee ownership is said to be the increased actively engagement between employers and employees (EOA, 2013). According to Porter and Kramer (2011), the employee-owned company model seemingly maintains the values of capitalism while at the same time radically redefining the relationship between shareholders and employees. This is due to the model maintaining the commonly accepted management and shareholding structure but at the same time encouraging shareholding in the hands of employees (Porter & Kramer, 2011).

The focus on employee ownership in the BBBEE Act can be said to be aligned to what Kelly (2012a) has termed as broad-based capitalism. Kelly elaborate that broad-based capitalism seeks to promote inclusiveness through employee ownership or profit sharing programs and seeks to enhance not only the quality of working life but also the productivity of employees (Kelly, 2012a).

2.4.1 *Potential benefits of employee ownership*

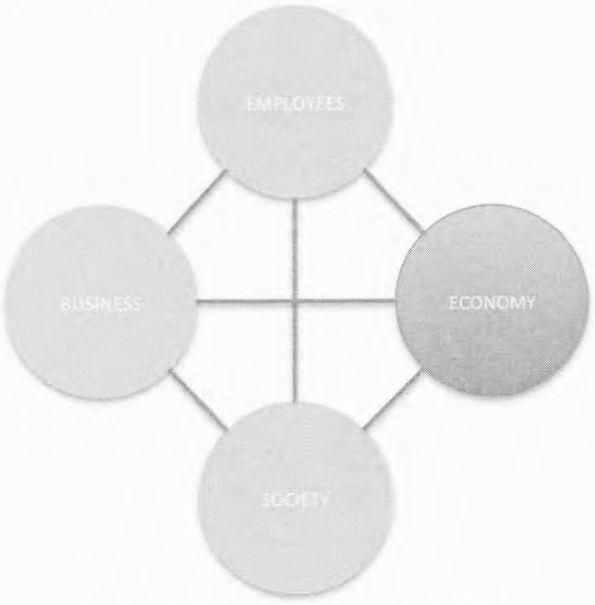
In "Owning Our Future: The Emerging Ownership Revolution", Kelly (2012b) suggests that employee ownership is part of a paradigm shift from extractive ownership which puts short-term financial gain above all else to generative ownership which returns economies to their original purpose, which is to advance human well-being (Kelly, 2012b).

While employee ownership is gaining in popularity worldwide, it has received particular prominence in Anglophone countries. That employee ownership is

increasing and is supported by major policy initiatives (Nuttall, 2012) in these countries may be in response to the previously supremacy of the shareholder view. According to the Nuttal Commission (2012) the employee-owned sector in the United Kingdom is estimated to be worth £25 billion annually and equivalent to 2% of GDP (Nuttall, 2012). In the United States, employees working in privately owned companies own up to 12% of those companies with the growth rate in excess of 6 % per year, and (Brodwin, 2013). Between 1974 and 2004, employee ownership in the United States enabled more than 11 million employees to become part owners of more than 10 000 (Brodwin, 2013) mid to large corporates. In the above years, the US Congress has passed more than 20 Acts (Brodwin, 2013) to enable and encourage employee ownership. However, according to the American Sustainable Business Council (ASBC) despite the above, the employee-owned company model is frequently disparaged as not quite capitalism (Brodwin, 2013).

The benefits of employee ownership are increasingly being highlighted due to its broader stakeholder view (Lampel et al., 2010). According to the Employee Ownership Impact Report (2013), the role of employee ownership in adding value to the United Kingdom economy is recognised across the political spectrum (EOA, 2013) and enjoys bipartisan support. Employee ownership schemes are being implemented not only in business but also have found root in the public sector where employee-owned organisations in health and community care are given ownership of their own budgets and of the services they deliver (Nuttall, 2012).

Figure 2.3. Employee Ownership Stakeholders Relationship



Source: Author's own model

Research conducted by Cass Business School titled "Do employee-owned businesses deliver sustainable performance" (2010) to assess the financial performance of employee-owned businesses compared with conventionally structured companies found that employee-owned companies (Lampel et al., 2010):

- create new jobs faster than competitors who have conventionally structured businesses;
- are as profitable as conventional businesses;
- their performance is more resilient and stable over business cycles;
- are also more robust with a lower risk of business failure (Lampel et al., 2010).

Similarly, research conducted by Capital Strategies found that shares in employee owned businesses have considerably outperformed those in the FTSE All-Share Index (CapitalStrategies, 2013) over the past 15 years. According to the findings of the Nuttal Commission (2012) the strong performance is not merely a consequence of employees' financial stake in the business, but also a reflection of a different workplace dynamic and high level of

employee engagement. The master/servant relationship is replaced by a more co-operative model of working (Nuttall, 2012).

The concepts of employee ownership and employee engagement are defined by Kelly as interlinked and mutually reinforcing (Kelly, 2012b).. According to Kelly, employee owners are more likely to be engaged with their company, whilst employee ownership can entrench employee engagement into a company's ethos (Kelly, 2012b). Workers with vested financial and personal interests in a company will likely have greater alignment with the business itself. Evidence suggests that employee owners are likely to be more flexible in their conditions of employment under trying business conditions (MatrixEvidence, 2010). Additionally it has been Davies suggests that employees who have a stake in their company are more committed to delivering quality (Davies, 2009).

2.4.2 *Research Question 1:*

Given that employee ownership is accepted at a key pillar of BBBEE and is increasingly being accepted as the most appropriate model to create a more equitable economy, has it been effective in delivering benefits for both employees and employers?

2.5 Adoption and implementation of employee ownership

Employee ownership faces some challenges primarily relating to the multiple ways in which it can be implemented and the corresponding outcomes, intentionally or otherwise.

One of the most prominent examples of the success of employee ownership is the John Lewis Partnerships (Cathcart, 2013). The John Lewis Partnership runs a number of successful UK retail operations including the eponymous John Lewis department stores and Waitrose supermarket chain. The John Lewis Partnership is a closed employee owned trust in which all the staff of John Lewis participate and receive a share of annual profits. The John Lewis Partnership succeeded in delivering results that consistently outperform its

peers over the past one hundred years and according to Capital Strategies has shown greater resilience in recessions (CapitalStrategies, 2013). The John Lewis model has been successfully replicated in other instances such as US food retailer Publix. The seventh largest private firm in America with $27.5 billion in sales, Publix is 80% controlled by an employee-owned fund (Matthews, 2013).

The model's success requires the active participation of all stakeholders and is premised on continued employee engagement in all facets of the business and requires involvement in governance and participation structures. Employee ownership can be onerous as it requires all employees to play an active role in the above decision-making structures in addition to performing their day-to-day duties.

The closed John Lewis model can be juxtaposed against more flexible employee share ownership programmes (ESOPs). Although ESOPs have been in existence for some time, it is relatively recently that they have gained momentum. In South Africa ESOPs are seen as a promising mechanism to catalyse BBBEE (Ramplin, 2016). While many broad-based ownership plans can be complex and costly to finance (Roux, 2005), ESOPs mostly only require once-off share issues to employees. The flexibility and relative ease of implementation of ESOPs makes them a very attractive form of equity ownership for South African companies. Through ESOPs many employees at some of South Africa's most prominent companies have acquired shares without any initial investment on their part.

The implementation of ESOPs in South Africa was greatly enabled by the enactment of the Revenue Laws Amendment Act in 2004 (Presidency, 2004). The Act amended the taxation of benefits derived from broad-based ESOPs was in favour of employees and employers and this encouraged the transfer of free or discounted shares within ESOPs meaning that particularly low income employee could enjoy the benefits of share ownership without the associated tax burden that in the past had necessitated them selling their stake. The intended outcome of this effort was to promote long-term broad-based

employee empowerment. Additionally, the Act also determined other conditions to encourage the implementation of broad-based ESOPs such as the requirement to offer shares to employees for no consideration as well as that shares in the scheme must be offered at least 90% of full-time, permanently employed employees (Roux, 2005).

To encourage long-term participation by employees, special punitive measures were put in place to dissuade the early disposal of shares gained via ESOPs. Employees seeking to dispose of shares gained from an ESOP within a period shorter than a stipulated time frame had the proceeds of such share disposals treated as ordinary revenue. This effectively amounted to treating the share disposal as a salary-substitute rather than capital in nature and resulted in increased taxation. Further, in order to incentivise companies to implement ESOPs the Act allowed for the deduction of the ESOP shares at market value from the company's tax assessment thereby creating a tax credit.

2.5.1 *Research Question 2:*

Given the sometime competing government objectives and business imperatives, to what extent can employee ownership engender meaningful economic participation in South Africa and reduce the incidence of industrial action.

2.6 In conclusion

Banhegyi (2007) suggest that if South Africa is to evolve from an exclusive and extractive economy to an inclusive and broad based one there is a need to amend the corporate governance status quo and redefine the role of corporates. Emergent business and social thinking seemingly present an alternative approach to ensuring that the economy delivers sustainable benefits to the majority. However, more radical alternative business models suggest that, given the social issues that South Africa faces, none of the accepted theories are been adequate in creating an economy that will benefit the majority.

Employee ownership has the potential of transforming the way employees participate in the economy. This has the potential to foster a fairer form of capitalism while at the same time radically redefining the relationship between shareholders, business managers and employees. As a pillar of BBBEE, employee ownership certainly has the potential to engender greater and more meaningful economic participation. The transformation of South Africa's economy will not only be the building blocks of a fairer society and a thriving economy but may also create the conditions necessary for a more cooperative relationship between all stakeholder in the South African economy.

CHAPTER 3. RESEARCH METHODOLOGY

3.1 Research Paradigm

The purpose of the research undertaken in this study was to establish a link between employee ownership, how it is applied in companies and to explore the impact thereof in achieving meaningful economic participation. In order to achieve the above, the author examined various models of employee ownership that have been applied in South Africa, these models were then assessed against the objectives of the company for implementing the chosen employee ownership schemes. Finally, the author attempted to indicate the extent, if any, that employee ownership can achieve the objectives of meaningful economic participation.

3.2 Research Design

The research undertaken in this research report was interpretive in nature (Gephart, 2004), using in-depth interviews guided by a questionnaire with managers of businesses to explore their interpretations and perceptions of the employee ownership-meaningful economic participation link. This research report sought to explore and interpret increased employee participation through ownership and determine how managers can understand and enact the employee ownership model (Mazibuko & Boshoff, 2003) the South African context.

The author chose to employ a qualitative research methodology designed to explore understanding of the relationship. Through the use of data collection and analysis as a primary instrument, the author applied an inductive analysis process that yielded common patterns and themes providing a rich description of the issues at hand (S. B. Merriam, 2002; Patton, 2005). The author's approach was informed by McMillan and Schumacher (2014) who distinguish qualitative methodology as sensitive to the context by providing data through

rich descriptions. Further, the opinions of participants, in qualitative research, are prominent in the analysis.

It was important to describe the observations from the point of view of the respondents as suggested by Leedy and Ormrod (2005) through a process of in-depth studies as advised by Abercrombie et al. (1984) due to their distinguishing characteristic of attempting to examine a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin, 1981). In this instance the use of in-depth studies was aimed to highlight similarities or dissimilarities in the views of the respondents. This is supported Flyvbjerg (2006) and Ruddin (2006) who posit that a case study may provide reliable information about the broader class (Ruddin, 2006).

3.3 Research Method

The author deemed it necessary to seek the input of key role players in the implementation of employee ownership. The impact of employee ownership on employee participation and ultimately on industrial relations fits the mould of what Helmer & Rescher (1959) describe as an inexact fields of knowledge that by its very nature requires the opinions of experts as absolute answers are either not available or possible (Helmer & Rescher, 1959).

3.3.1 *Data Gathering Using the Delphi Technique*

The data for research was collected through a series of interviews employing the Delphi technique that has been identified as particularly appropriate for complex, socially sensitive topics (Rowe, Wright, & Bolger, 1991; Story, Hurdley, Smith, & Saker, 2000) where judgmental information is indispensable (Rowe et al., 1991). According to Linstone and Turoff (1975), the Delphi technique may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem.

The interviews in this study were semi-structured around a set of open-ended questions. Further questions emerged from the interview with the respondents arising from the initial set of questions. The use of semi-structured interviews allowed the conversation to unfold in such a manner that "encouraged the respondents to express and explore issues they feel are most important" (Rowe et al., 1991).

The use of semi-structured Delphi interviews avoided the what Tersine and Riggs term the hindering side effects (Tersine & Riggs, 1976) that may occur when experts are grouped together and removed the pressure to conform to majority agreement (Gutierrez, 1989; Woudenberg, 1991). Additionally, the technique removed the influence of a single dominant personality (Tersine & Riggs, 1976) or "halo effect" where the opinion of a highly respected individual prevails over the opinion of others (Tersine & Riggs, 1976). Dalkey and Helmer (1963) observed that the controlled interaction appears to be more conducive to independent thought on the part of the experts and to aid them in the gradual formation of a considered opinion. Direct confrontation, on the other hand, all too often induces the hasty formulation of preconceived notions, an inclination to close one's mind to novel ideas, a tendency to defend a stand once taken or a predisposition to be swayed by persuasively stated opinions of others.

3.4 Population and Sample

A diverse sample was important to capture and explore differences in views. This was achieved by the inclusion of the opinions of a wide range of stakeholder involved in the subject matter as suggested by Fusfeld and Foster (1971). The respondents included those people involved in the development and implementation of employee ownership schemes in their companies with the sample drawn from a wide range of industries and company sizes.

3.4.1 *Sample Size*

The ideal sample size for this research was pegged at 10 to 12 participants as informed by Fusfield & Foster (1971) who consider this sample range as

sufficient to yield adequate qualitative findings. According to Fusfield & Foster (1971) and supported by Story, Hurdley, Smith and Saker (2000) posit that while group error decreases sharply as the size of the group increases from eight to ten participants, each additional member above thirteen results in marginal decreases in error thus providing no improvement in the findings.

3.4.2 *Sampling Methodology*

A purposive sampling methodology was employed where the author purposefully selected participants from a wide range of industries with knowledge, experience and insight on the subject matter (Creswell, 2012). The use of purposive sampling ensured that as many the views as possible were covered as suggested by Ritchie, Lewis, Nicholls, and Ormston (2013). Additionally, the use of purposive sampling ensured that, within each view, some diversity was included to fully explore the topic as suggested by LeCompte, Preissle and Tesch (1993).

Although the use of purposive sampling potentially could have resulted in biased views as warned by Ritchie et al (2013), Tongco (2007) suggests that the inherent bias of the method contributes to its efficiency, and the method stays robust even when tested against random probability sampling.

3.4.3 *Profile of Sample*

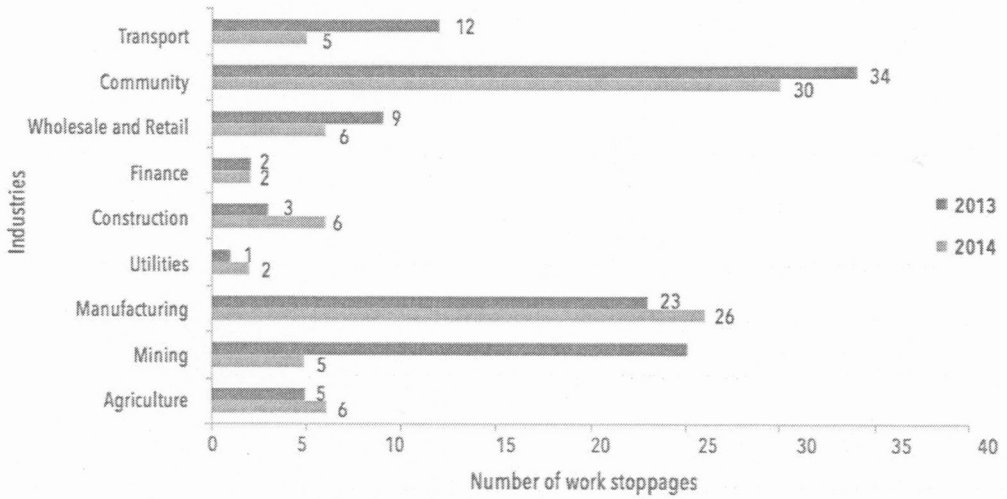
Table 3.1: Profile of Respondents

1	Chief Executive Officer	Construction
2	Owner, Managing Director	Transport & Logistics
3	Senior Manager	Finance

4	Managing Director	Automotive Manufacturing
5	Group Executive Director	Conglomerate
6	Executive Director: Empowerment & Transformation	Conglomerate
7	General Manager	Retail
8	Director	Manufacturing
9	Director: Employee Scheme	Pharmaceutical
10	General Manager	Farming
11	General Manager: Strategy	Finance

The above sample was informed by the incidence of strikes as reported by the Department of Labour in its Annual Industrial Action Report below.

Figure 3.1. Distribution of work stoppages by industry, 2013 and 2014



Source: Department of Labour, Strikes Statistics

3.4.4 *Data Collection Process*

The prospective respondents to this report were initially contacted via telephone to request their participation, inform them of the purpose of the study and the key topics to be covered as well as the research process, including the expected duration of the interview. As an incentive to participate in the study, each participant was offered a copy of the research proposal. Importantly, participants were guaranteed that their responses would be held confidential and that their participation would remain anonymous.

Data was collected through semi-structured interviews with identified respondents guided by a questionnaire comprised of ten key question. The interview questions were split into two broad areas in line with the research questions.

The semi-structured interviews consisted of a number of initial questions that helped to define the key areas of this report. While the initial list of questions submitted by the author were chosen to provide participants with some guidance and focus, they also allowed for elaboration and the unpacking of information important to each participant but that may not have previously been thought of as pertinent by the author.

3.5 Data Analysis

Content analysis was used to analyse the views obtained (Yin, 2014). This method enabled the author to determine the occurrence of specific themes from the interviews and allowed for the meaning of such themes to be inferred (Rowley, 2002). The inclusion of open-ended questions assisted in drawing out and identifying patterns amongst the respondents (Weber, 1990). The analysis method provided a descriptive tool to investigate the experiences of the sample group. The analysis was then followed by assessing relevant evidence and making a judgement on whether the positions had been substantiated.

Categories for content analysis

The questions and corresponding views were classified under the following categories for content analysis:

Category A: Importance of employee ownership to employees and perceived benefits. To assess the importance attached to ownership by workers themselves.

Category B: Objectives of employee ownership programme and model implemented. To assess the objectives of implement an ownership programme from a company's perspective.

Category C: Link between models implemented and levels of participation. Explore the relationship between model implemented and outcome.

Category D: Key attributes of employee ownership required to meet objectives. Explore the positive aspects of implementing employee ownership.

Category E: Effect of employee ownership on meaningful economic participation and industrial action. Focus on the challenges of aligning employee ownership with policy objectives and impact on industrial relations.

3.6 Validity and Reliability

3.6.1 *Internal and External Validity*

Campbell, Stanley and Gage (1963) have defined two major forms of validity referred to as internal and external validity. According to Merriam (1995) internal validity explores the congruency of the study's findings are with reality. Merriam (1995) defines the extent to which the findings of the study can be applied to other situations as external validity or generalisability. Internal validity is imperative as it attempts to minimize alternative explanations for the results obtained (Leedy & Ormrod, 2005). However, since this study employed purposive sampling it may not be representative of the general population.

A potential threat to validity is what is referred to as researcher bias. According to Johnson (1997) researcher bias tends to result from selective observation and selective recording of information as well as from subjective data interpretation. In order to minimize this bias, the author attempted to subjectively examine each explanation as a plausible reason for the relationship. Additionally the author attempted to be responsive to the various views presented by the respondents in what is described as holistic and processional immediacy by Guba et al (Guba & Lincoln, 1981).

3.6.2 *Reliability*

Ritchie et al. (2013) describe reliability as being concerned with the replicability of research findings. While the idea of seeking reliability in qualitative research is often avoided (Ritchie et al., 2013) A number of writers (LoBiondo-Wood & Haber, 2013) (Polit & Hungler, 1994), discuss reliability using terms that better explain the goals and values of the research such as trustworthiness (Glaser B, 1967), consistency (Hammersley, 1992; Robson, 2002) or the dependability (Lincoln & Guba, 2001) of the evidence.

In order to improve the reliability of the study, the sample of respondents was chosen from those with a practical understanding of employee ownership and governance.

CHAPTER 4. PRESENTATION OF RESULTS

4.1 Introduction

The approach of the author in conducting the study began with developing an understanding of employee ownership models and their implementation in South Africa, the extent to which employee ownership can achieve meaningful economic participations and finally whether the implementation of employee ownership has been effective in achieving BBBEE objectives. The results of the research were obtained through semi-structured interviews and are presented below in a table format. The main themes explored in the interviews with the participant are:

a) Importance of employee ownership to employees and perceived benefits
b) Objectives of employee ownership programme and model implemented
c) Link between model implemented and levels of participation
d) Key attributes of employee ownership required to meet objectives
e) Effect of employee ownership on meaningful economic participation and impact on industrial relations

4.2 Results pertaining to Research Question 1

Research Question One aimed to assess the implementation of employee ownership in South African. Starting with an understanding of the various model of employee ownership and the objectives that informed their implementation, we were able to highlight the benefits and effects of ownership schemes on employees and employers.

4.2.1 *Importance of employee ownership to employees*

The overall benefits of employee ownership were quite clear to the participants. All eleven of the participants recognised that the South African economy requires deep interventions and restructuring in order to position it for long-term growth. All participants acknowledged that the gap between rich and poor was

of concern and that this was primarily a factor of South Africa's history. All participants agreed that the nature of the employer-employee relationship requires a recalibration.

While all the participants were well informed on the potential benefits of employee ownership, there was some disagreement as to its importance to employees. Eight of the eleven participants expressed the view that the implementation of an employee ownership programme on its own is not enough to be of importance to employees. The common theme from the eight respondents was that a successful employee ownership programme requires the buy-in of employees and further requires engagement and some form of education particularly amongst low-income employees. This suggests that if employees are not engaged, the importance of an ownership programme and the perceived benefits thereof will be minimal.

When asked of the benefits of ownership as perceived by the workers themselves, seven of the eleven respondents indicated that most employee were not fully aware of all the benefits of ownership. By not fully understanding the benefits due to them, it was suggested that the ownership programmes, in and of themselves, are not sufficiently important to employees.

4.2.2 *Objectives of implementing employee ownership*

Overwhelmingly, for ten of the eleven participants to the study the objective for the implementation of employee ownership schemes was to comply with BBBEE. The one respondent who expressed an alternate objective stated that employee ownership is a shared value, firmly rooted in the companies guiding principles stating that: *"when [company X's] founder had an opportunity to start her own company she wanted to replicate the model she had seen growing up in UK. Both of her parents had worked for John Lewis and through their participation in the company was inspired to replicate the model here in South Africa".* The founder's vision for starting the company was to create a company modelled on the John Lewis model.

Of the ten respondents who indicated that the primary motivation was initially due to compliance, all indicated that other objectives have since emerged that have encouraged the further roll out of and support for employee ownership. One respondent in particular has indicated that his company had begun to view employee ownership as an effective incentive tool and that some form of employee ownership would be implemented in all their operations including outside of South Africa where no compliance imperatives exist. The respondent stated that: *"it's very important that companies have an inclusive for ownership, embracing local conditions and for this reason we will be taking a form of our South African scheme to our operations in other countries, even when the laws there do not require us to do so"*

Another from the finance industry indicated that employee ownership has become a key transformation and redistributive tool and that a vast majority of the deals that they finance include some level of employee ownership. According to the respondents: *"in every deal we finance we've insisted on some form of internal ownership by the people doing the work, it makes sense for us and for the business"*

4.2.3 *Models of ownership implemented*

Amongst the participant to this study, nine have implemented once-off share issue ESOPs as a model of employee ownership. The participants of the once-off ESOPs implemented all to employees employed at the time of the issue. The ESOPs included lock-in periods ranging from three to six years where employees were not permitted to sell their shares. Of the ten respondents, six of the schemes have fully vested with employees and four are in the late stage of maturation. None of the ten scheme have made allowance was made for new entrants.

Two of the participants have implemented a model other the once-off ESOP. The two respondents have implemented variations of a closed employee ownership programme similar to the John Lewis Model. One of the respondents has implemented a scheme whereby employees enjoy the benefits of share

ownership without the shares fully vesting. The second respondent's scheme allows shares to fully vest in employees after a year of service by the employee. However, exiting employees are obliged to sell their vested shares back to the scheme at market rates. The respondent added that: *"the benefits are for current employees so that they perform at their peak, we want them to share in the success of the business. It does not make sense for the shares to be for outside parties including past employees who do not sweat as we do in the business*".

While a few of the participants expressed that they were willing to explore other models, many felt that once-off ESOPs to employee was the preferred route from an administrative and tax perspective. One of the respondents representing a multinational conglomerate with diversified business units has conducted several rounds of employee ownership schemes amongst its various business units. Initially focused on once-off ESOP schemes, the company has since evolved their model to make provision for implementing various hybrid employee ownership schemes targeted at engendering specific outcomes in their business units as well as individually targeted to each level of employees.

4.2.4 *Impact of ownership on participation*

Linked to the narrow BEE objectives and the preference for the once-off ESOP model many of the participants reported limited impact on participation. Six of the eleven respondents of the participants to the study acknowledge that their objectives have limited their ability or desire to drive participation as an outcome.

The preference of once-off ESOP schemes as a mechanism has also meant that participation from employee has had limited success with many employees disposing their shares as soon as they vest. Two of the respondents reported substantial disposals by employees in shares. One respondent reported that eight out of ten of the employees who participated in their ownership scheme have since disposed of their investment. Interestingly, for this respondent they

reported that the incidence of disposal was particularly prevalent in the category of low-income employees as well as younger employee.

The two participants who have implemented closed employee ownership schemes report some increased participation. For these respondents, increased participation was observed through increase levels of engagement between employees and management, increased interest and knowledge of company performance as well as improved interaction amongst employees.

4.2.5 *Link between model implemented and participation*

All eleven of the participants in the study acknowledge a direct link between the model of employee ownership implemented and the levels of employee participation. Further, all the participants involved in the once-off ESOP schemes acknowledge the minimal levels of participation and directly attribute this to their objectives and the model implemented. The two respondents who implemented the closed John Lewis schemes also attach the higher perceived levels of participation to the model.

One of the respondents raised a point of whether the increased administrative burden of a John Lewis type model offered a sufficient advantage to a once-off ESOP schemes, commenting: "*It's far easier and manageable to issue shares in one round. Our company is not geared to managing the demands and participation of many workers. Maybe in some companies they may have dedicated people but for us we think this will be easier*".

Eight of the eleven respondents indicated that while they acknowledge a link between the model and levels of participation their companies were not geared to implementing new programmes which may require additional administration and engagement. For these respondents, more evidence is required to justify the increased expense and to provide a clear relationship between engagement and the increased productivity.

4.3 Results pertaining to Research Question 2

Question 2 sought to ascertain the extent that employee ownership has been able to achieve meaningful economic participation as defined by BBBEE. This will be done by assessing the outcomes of employee ownership against the objectives of meaningful participation and improved industrial relations.

4.3.1 *Does ownership have to be substantive?*

Ten of the eleven respondents rejected the notion that ownership by employees needs to be substantive for an employee ownership scheme to be effective. One respondent presented a divergent position due to the fact that it was founded on the principle of being an exclusively employee owned company and as such the principle of substantive ownership is embedded in its values.

The other participants in the study suggested that complete or substantive ownership by workers is not a requirement to achieve the objective of meaningful economic participation. Three of the respondents further added that while substantive ownership by employees can work successfully at small companies is not viable at large companies. The reasons offered included the limited ability to raise finance for expansion through listing as well as the ability of founders and entrepreneurs to benefit from risk. One of the respondents added: *"It will be extremely difficult to raise money to scale our business if we are entirely employee owned. Ultimately our aim is to raise capital through a listing on the JSE and if the company is closed to outside investment this will be impossible. We would be limited to debt and this would slow our growth strategy tremendously".*

The issue of risk and reward was mentioned by two of the eleven respondents. These respondents were of the opinion that employee ownership schemes do not adequately apportion finance risk, as employees seldom have to raise the funds to participate. Thus it was felt that employees in these schemes enjoy the benefits or rewards of ownership without assuming any individual risk. One respondent offered the following: *"Employees receive these shares without*

having to pay unlike other investors who have to assess the opportunity, raise the funding and share in the risk. The employees have not had to do any of this, they have simply been handed the shares by virtue of the fact that they are employed here at this time. It's fantastic for them but it remains that they have not had to share in the risk of potentially losing money".

One respondent suggested that substantive or complete ownership of companies by employees would represent a fundamental challenge to free-market capitalism. The respondent was of the opinion that while employee ownership has a role to play, its role needs to be limited so as not to encourage a form of "collectivism" similar to socialism. The respondent further suggested that South Africa, given its economic life stage, needs to send a clear message to potential investors that it is committed to the principles of a free and open market. The respondent commented: *"There's always this fear with South Africa having such strong unions and even the communist party as part of the ruling bloc that we can be perceived as having anti-business sentiments. We need to send out a message that by investing in South Africa, investors can be safe in the knowledge that this country is open for business".*

While they recognise the potential benefits of employee ownership, the overwhelming position by ten of the eleven is that it need not be substantive to be effective.

4.3.2 *Does ownership have to be long-term?*

Nine of the eleven respondents in this study have implemented once-off ESOP schemes that in effect are short-term interventions. However, all eleven of the participants agree that in order for employees, employers and the economy to enjoy all the purported benefits of employee ownership needs to be long term. It was generally accepted that the benefits of employee ownership such as increased productivity, increased employee wellness, increased participation and improved employer-employee relationship can only be fully realised in the long-term.

The majority of participants also responded that employee ownership schemes do not all necessarily need to be long-term in nature. Nine of the eleven respondents indicated that beyond an initial lock-in term to allow shares to fully vest in employees, they have not imposed any obligations on employees to own share for the long term. While ownership of the shares acquired by employees has no time frame attached to it, most of the schemes that have matured and shares vested in employees have reported large share disposal by employees.

For the respondents the notion of long-term share ownership is a factor of education and increased engagement. Two respondents felt that financial education, including education on the benefits of share ownership, is a deep-rooted problem in South Africa and as such is beyond the domain of companies. Another respondent indicated that by merely giving employees an opportunity to participate in such schemes is a sufficient contribution by companies.

One respondent indicated that long-term share ownership amongst low-income employees, particularly black employees, is a challenging to manage. The respondent suggested that often these employees' economic conditions necessitate that they dispose their shares as soon as they vest. So while share ownership may not be long term, the economic benefits derived from disposing of the shares may have profound and sometime life-changing long-term benefits.

4.3.3 *What elements of employee ownership are critical to creating a more inclusive economy*

All eleven respondents in this study agreed that employee ownership is relevant and can play a significant role is reshaping South Africa's economy. The challenge stated by nine of the respondents is that policy objectives, informed by BBBEE, and business imperatives are sometimes at odds with each other particularly in the measures for meaningful economic participation.

For nine of the eleven respondents the elements employee ownership required to transform South Africa's economy into a more inclusive one include:

- Engaged employees
- Improved relationship between employees and management
- Increased education, particularly financial education
- Broadened participation the economy

Of particular interest to five respondents is the potential of employee ownership to create a more inclusive work environment where employers and employees can engage in a more constructive manner.

While the respondents assess the above elements to be of importance, ten of the eleven respondents are of the opinion that undue emphasis has been placed on share ownership by government. The respondents felt that with the current emphasis, other elements of employee ownership model are not being promoted as enthusiastically as they need to be.

4.4 Summary of the results

The findings of the study suggest that while there are several models of employee ownership in existence, South African companies tend to favour once-off ESOP schemes. While a number of factors influence this tendency, it is primarily the ease of implementing and administering once-off ESOP schemes that makes them the favoured model. The respondents feel that the current framework places too much focus on ownership of shares at the expense of positive traits of employee ownership.

The employee ownership model is accepted as a relevant intervention and a legitimate mechanism to improve the employer-employee dynamic as well as to create a more inclusive economy. However, the majority of respondents felt that there are other interventions that may be appropriate in addressing existing social and economic challenges.

In implementing employee ownership schemes, the majority of the respondents have mostly adhered to the need to comply with legislation. This has been at the expense of exploring the full spectrum of the models on offer and applying the most appropriate for the company's intentions. While the participants are unanimous in their acknowledgement of the benefits of employee ownership, they do not necessarily feel the obligation to fully explore the benefits as they do not link employee schemes to company growth or improved performance, but rather view these schemes as a an burden.

The most prominent finding to emerge is that while respondents recognise the benefits of employee ownership and can link this to the desire of engendering meaningful economic participation they do not believe that the policy objectives are aligned to business imperative.

CHAPTER 5. DISCUSSION OF THE RESULTS

5.1 Introduction

In order to determine the impact of employee ownership in achieving meaningful economic participation it is important to analyse our research findings again the framework built in the literature review. In so doing, the author hopes to establish a direct link between employee ownership and meaningful economic participation as defined by broad-based economic empowerment.

The first part of the analysis, relating to Research Question One, will seek to determine the effectiveness of employee ownership in creating a more equitable economy. The analysis will highlight the effectiveness of employee ownership as a relevant intervention mechanism.

The second part of the analysis, relating to Research Question Two, will seek to assess to the extent to which employee ownership can impact meaningful economic participation in South Africa. This will seek assess if the outcomes of the implementation of employee ownership schemes are congruent with the desired outcomes of meaningful economic participation and reduced incidence of industrial action

5.2 Discussion pertaining to research question 1

The findings of this study suggest that the importance attached to employee ownership by employees is low. This is consistent with the view articulated by Letza et al's (2004) that the "debate about the way the economy is run, the way that companies are owned and run as well as the kind of society we desire South Africa to become" is still relevant over twenty years after the advent of democracy. To echo Thabo Mbeki's sentiment, national unity and reconciliation is an impossible dream if socio-economic disparities [are] not rapidly overcome (Mbeki, 1998).

The importance of employee ownership to employees needs to be assessed against the backdrop of the current situation confronting the majority of South African employees. The respondents in this study were all in agreement that South Africa is confronted with the challenges of poverty, inequality and unemployment and that the country is experiencing a shrinking core of the full-time workers putting downward pressure on the wages of full-time workers. While workers are faced with this downward pressure, there continues to be focus on the other hand to increase earnings and increase executive remuneration thus widening the income inequality.

By all accounts the Labour Relations Act has not succeeded in creating what Ferreira referred to as a comprehensive statutory framework to ensure constitutionally entrenched labour rights (Ferreira, 2004) or advancing "the democratization of the workplace" as defined by Steadman (2004) by involving employees in decision-making. Despite the perceived genuine desire on the part of the post-1994 dispensation to balance power, create more certainty and promote cooperation between employers and employees, increased industrial action has come to reflect the desperation of situation becoming a method of resistance by workers. Labour unrest has increased significantly since 1994 along with the increasingly violent nature thereof (Semono, 2014).

The importance of employee ownership to employees also needs to be viewed in light of the historic role of unions in intermediating the relationship between employers and employees. According to Bendix (2010) the centralisation of bargaining has placed undue power at the hands of large unions and needs to be rebalanced in favour of employers and employees. In the past the employee-employer relationship was mediated almost entirely by labour unions. With the introduction of BEE there has been a shift in this dynamic. Increasingly, there has been a refocus on employees, their wellbeing and their productivity through employee ownership. As a consequence, the concept of employee ownership has previously not found favour with labour unions, as it had the potential to diminish their power and relevance. However, in 2004 the largest trade union in

the mining sector, the National Union of Mineworkers (NUM), accepted employee ownership in principle representing a radical departure from its previous position (Roux, 2005). In a 2004 interview with Mining Weekly NUM president Senzeni Zokwana indicated that the union had accepted the idea of its members owning shares in companies (Roux, 2004). However, to avoid any potential conflict of interest, the NUM stated that it "planned to separate collective bargaining of wages and conditions of employment and the administration of shares on behalf of its members" (Roux, 2004). Effectively this has paved the road for the increased acceptance of employee ownership.

The awareness of employee ownership and the benefits the model can confer on workers has also been affected by the lack of education, particularly financial education amongst low-income employee. This education extends to share ownership and its benefits in the long term. Thus for many employees, the benefits of share ownership only extend to the benefits realised from the disposal of the shares. In order to increase the importance of share ownership, it is equally important to provide some form of education.

The strategy of BEE is accepted for its potential to address the economic exclusion of black people (Patel & Graham, 2012) and is seen to advance black ownership of and control over the economy (Southall, 2007). All the participants in this study were well informed on role of employee ownership in the BBBEE framework and its emergence as leading mechanism for the realising of meaningful economic participation. However, the generally negative view of BEE as articulated by Mparadzi (2014) has meant that most employees do not perceived it to have made a difference in the lives of the majority of people in South Africa or to have benefited workers directly. A commonly held view of BEE as a tool for the politically connected and already affluent to access further wealth and has limited potential to address the economic exclusion of the most marginalised (Patel & Graham, 2012). So while BEE is accepted, it has generally been viewed as benefiting external parties at the expense of employees. As such most employee ownership schemes attached to BEE deals were viewed with distrust and consequently as being of little direct importance to employee.

The findings of the study additionally suggest that the overall importance of ownership is lowest particularly amongst low-income employees. This is consistent with the view espoused by the respondents suggested that of more importance to this level of employee is improved compensation through salary or wage income. This is relevant in South Africa given the historic disparity in income between white and black people (Mbeki, 1998). The above is supported by the large number of employees who dispose of their shares as soon as they vest. This reinforces the suggestion that it is the immediately realisable benefits of share ownership that are important to workers rather than the long-term benefits. So while share ownership may be important for employees at higher levels, there is limited evidence to suggest that employee ownership is of significant importance to all employees.

The findings of this research highlight that the implementation of employee ownership has largely been driven by BEE compliance considerations. While BEE can be said to be aligned with emergent alternative model of "broad-based capitalism" (Kelly, 2012a) which seeks to promote inclusiveness through employee ownership and seeks to enhance not only the quality of working life but also the productivity of employees. The implementation of employee ownership can be seen to have a direct relationship to the benefits derived by both employees and employers. However, the current construct has resulted in many South African companies merely "ticking boxes" in compliance with BEE requirements and thus to do not implement the policy of employee ownership in its desired spirit (Pityana, 2015). While some progress has been made to date, according to Pityana if one looks at BEE, the legislation on which it is based and at its implementation, "it becomes clear that, with a few honourable exceptions they have become bureaucratic and legalistic exercises in box-ticking"(Pityana, 2015) with little thought given to anything other than meeting the technical numerical targets at best or "malicious compliance" at worst according to Mashatile (2015).

The findings of the study indicate that many of the respondents adhere to the Esser and Dekker (2008) theory that mere adherence to the BBBEE Act is by

implication meeting the interests of the broader stakeholders and give effect to meaningful economic participation. The challenge in implementing employee ownership schemes for most of the participants is that current policy and legislation does not necessarily encourage long-term ownership amongst employee. Additionally, the current framework, despite the provisions of Revenue Laws Amendment Act in 2004 (Presidency, 2004) does not offer sufficient punitive measure to act a deterrent of short-term ownership.

While employee ownership is on the rise throughout the world and a growing body of literature is highlighting the benefits of employee ownership (Lampel et al., 2010), according to Brodwin (2013) the employee-owned company model is still frequently disparaged as "not quite capitalism". In South Africa it can be surmised that the approach is yet to be fully understood and embraced by business. This is illustrated in South Africa by the preference of once-off share issue ESOPs.

The deep establishment of the maximizing of shareholder wealth in economic and financial theory is thus at the centre of the governance of the South African economy. According to this shareholder value theory, business acting beyond its economic concerns, such the pursuit of efforts such as employee ownership, is at best misguided and at worst misallocating resources (Easterbrook & Fischel, 1985). The prevalence of the implementation and administration of once-off ESOPs suggest the entrenchment of the belief by South African companies that they need only do the minimum required to meet compliance obligations (Easterbrook & Fischel, 1985).

However, the findings of the study suggest that companies are beginning to realise that they cannot act exclusively for the benefit of their shareholders. Increasingly, amongst the respondents it emerged that South Africa companies are taking the view articulated by Gamble and Kelly (2001) that "corporations should pursue shareholder wealth with a long-run orientation that seeks sustainable growth and profits based on responsible attention to the full range of relevant stakeholder interests".

Encouragingly more and more companies are beginning to evolve in their objectives. The vast majority of respondents have begun to view employee ownership as a means for greater levels of flexibility in the face of business challenges (Davies, 2009).. By recognising what Porter and Kramer (2011) describe as the employee-owned company model's approach to both maintaining the values of capitalism as well as radically redefining the relationship between shareholders and employees, many companies are beginning to embrace the spirit of the policy. This evolution has been driven by the fact that employee ownership and employee engagement are mutually reinforcing (Kelly, 2012b) and recognition that employee ownership can be a powerful way of aligning the interests of employees with those of the business. It is important to highlight that this realisation has been by default rather than design

The efficacy of employee ownership in engendering greater economic participation needs to also be viewed against other potential interventions. In South Africa the socio-economic circumstance of many people, particularly low-income employees, means that some have more basic and immediate needs that cannot be addressed by long-term share ownership. In such instance other interventions such as salary increased, educational grants or improved access to home loans or other loans may be more appropriate.

5.3 Discussion pertaining to research question 2

Employee ownership is not without its challenges. These challenges primarily relate to various ways in which employee ownership is implemented and the corresponding outcomes, intentionally or otherwise. Despite their growing popularity, employee ownership schemes have had inconsistent outcomes as inferred from the experience of the respondents. While Hansmann (1990) argues that they tend to work better at a more senior level in an organisation, Mazibuko et al (2003) research findings indicate that they have an impact at all levels. In South Africa ESOPs have been the preferred instrument to effect

BBBEE (Mazibuko & Boshoff, 2003). While many broad-based ownership plans can be complex, costly to finance and require multiple forms of accounting targeted at the various levels of employees (Roux, 2005), ESOPs mostly only require distributing company ownership to employees through share options. The flexibility and relative ease of implementation of ESOPs makes them a very attractive form of equity ownership for South African companies. Through innovative financing techniques many employees at some of South Africa's most prominent companies have acquired shares without any investment on their part.

Increasingly it is becoming apparent from both the number of collapses of schemes (Leon, 2012) and the large number of participants who dispose of their shares at the first opportunity, is that the schemes themselves seldom engender much long-term benefits for companies or employees (Mazibuko & Boshoff, 2003). A clear example is illustrated by Kumba Iron Ore where employees who participated in an ESOP received nearly R600 000 each in share option pay-outs but given the opportunity to reinvest, less than 20 of the more than 6 200 did so (Antin, 2013).

According to Hansmann (Hansmann, 1990) "unless an employee ownership scheme is designed for employee control of or a significant say in the company, the merits of the scheme will be minimal in the long term". The model's success requires active participation by all stakeholders and is premised on continued employee engagement in governance and participation structures and requires staff to play an active role in addition to performing their duties. This may be a highly onerous task depending on the size of the organisation. The challenge of deriving positive effects from ESOPS in South Africa is further compounded by the bureaucratic need to comply with BEE as a box-ticking exercise.

The results of the research suggest that a clear link exists between model of employee ownership implemented and the outcome of meaningful economic participation. Further, the results of the study suggest that an increase in employee participation is critical to the minimisation of industrial action. However, given the prevalence once-off ESOPs, the current BEE framework

seemingly encourages their implementation over other forms employee ownership. This would suggest disconnection between the desired outcome of employee ownership from a policy perspective and the objectives or motivation for companies to implement such schemes. The findings suggest the need to close the gap between objective and outcome and the need to create alignment so that companies are encouraged to move in the right direction. BEE policy needs to be refined in its objective and legislation and guideline put in place to encourage the further implementation of employee ownership.

5.4 Conclusion

A study conducted by the National Productivity Institute (NPI) in 2003 indicated that progressive, inclusive and participatory management resulting from broad-based employee ownership could enhance company performance as well as enhance broad-based ownership (Mosai & Reynolds, 2003). According to Mosai and Reynolds (2003) employee ownership has the potential to contribute towards building the economy and reducing tensions between employers and employees.

The NPI's 2003 study on employee ownership investigated, firstly, how workers, without access to capital, could access shares and the effects of ownership on productivity as well as how employee ownership could potentially normalise industrial relations and create a more constructive relationships between employers and employees.

The study proved overwhelmingly in favour of employee ownership as an appropriate intervention (Roux, 2005). In the study, the NPI found that there were various successful models of employee ownership that can be implemented. Further, the research showed that companies with significant employee ownership were more sustainable than those without and reported higher productivity, increased earnings and improved industrial relations (Mosai & Reynolds, 2003).

Literature has illustrated that if South Africa is to evolve from an exclusive and extractive economy to an inclusive and broad based one there is a need to amend the corporate governance status quo and redefine the role of corporates. While the employee ownership model seemingly presents an alternative approach to ensuring that the economy delivers sustainable benefits to the majority. There is a strong suggestion that more radical business models are required to address the social issues that South Africa faces.

The transformation of South Africa's economy will not only be the building blocks of a fairer society and a thriving economy but may also create the conditions that foster a more cooperative relationship between all stakeholder in the South African economy. The employee ownership has the potential of transforming the way employees participate in the business and this can foster a fairer form of capitalism at the same time as radically redefining the relationship between shareholders, business managers and employees. As a pillar of BBBEE, employee ownership certainly has the potential to engender greater and more meaningful economic participation.

Drawing on Sen's (1999) construct that income and wealth are inadequate indicators of wellbeing, similarly share ownership alone cannot be an adequate indicator of participation. "Effective solutions in pursuit of sustainable development need to integrated economic, social and political issues. The well-being of humans is placed at centre stage" (Sen, 1999). This suggests that corporates need to deliver social as well as economic benefits to the majority in communities in which the corporate operates order to be sustainable.

CHAPTER 6. CONCLUSIONS & RECOMMENDATIONS

6.1 Introduction

This chapter sets out the final conclusion of the study by summarising the key themes that have emerged. The conclusion will also attempt to offer recommendations linked to the significance of the study.

6.2 Conclusions of the study

The implementation of employee ownership schemes needs to start with an understanding the objectives. In order to achieve meaningful economic participation there needs to be an alignment of objectives in policy and in the motivation for companies.

For government, the policies intended to foster the implementation of employee ownership need to be clearly aligned to business. By highlighting the link to productivity and improved industrial relations, governments will begin to position employee ownership not a compliance burden but rather a genuine effort to improve business performance and ultimately the bottom line.

For companies the implementation of employee ownership needs to begin with understanding if the employee needs and whether the employee ownership is a practical and suitable as an intervention – while a company comprised of white males may not benefit on the BEE scorecard employee ownership may still be appropriate as a tool for aligning employee and shareholder interests.

An understanding of the various models of ownership in existence is essential in guiding the preferred structure to be implemented and how best to implement it. An important consideration in implementing employee ownership schemes is how employees benefit. However well-intentioned an employee ownership scheme may be, it is a reality that some employees in South Africa face significant financial issues and as such may simply dispose of any shares thus rendering the scheme meaningless in its impact on participation. Companies

need to consider the long-term impact of the scheme that they implement. If the intention is to empower employees over the long term, a closed scheme may be preferable as it allows for benefits of employee ownership to accrue over a period of time while at the same time limiting the flexibility that employees have over disposal of the shares. By implementing schemes with longer horizons, the interests of the employees are between aligned to those of the shareholders.

An important element for the successful implementation of an employee ownership scheme is active engagement between employers, employees and other key stakeholders. On-going engagement is critical to improving education on share ownership as well as all aspects of the scheme and importantly in managing undue expectations that may arise from the prospect of ownership.

The adoption of the employee-owned company model has some significant barriers as identified by the Nuttall review of Employee Ownership (2012). Although reported in the UK, these findings can be inferred to exist in South Africa and are broadly categorise as:

- "A lack of awareness of the concept of employee ownership
- Policy development that is incompatible of employee ownership
- A lack of available resources to support employee ownership particularly legal, tax, accountancy and general business advisers
- Financing challenges
- Regulatory complexities of employee ownership" (Nuttall, 2012)

6.3 Recommendations

While the concept of employee ownership as an instrument to affect BEE and to improve industrial relations is relevant its implementation raises a number of practical challenges. Employee ownership schemes must realise more than a material benefit for the majority to be classified as true meaningful participation. Ultimately, there can be no meaningful participation without employees also gaining a say in the strategic and operational management of companies.

Developing an ownership culture in South Africa will be a challenge in the foreseeable future, but will most likely become more important in the struggle to engender meaningful economic participation given that other attempts at broadening the economic base seemingly have limited impact.

Increased acceptance will require a mutual search for increased profitability. Companies are likely to support employee ownership initiatives if they are good for the company itself, good for business in general, good for employees and good for shareholders. This will require business shareholders and managers, unions, government and employees to work together to achieve the desired results.

6.4 Suggestions for further research

Drawing from the findings of this study it is suggested that further research is conducted in the areas of:

- Alignment of BEE objectives and company imperatives
- The development of a broad range of policies that support alternative models to address the economic imbalances of the past taking into account education, economic life stage and political considerations.
- Wage share versus employee share ownership

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APPENDIX A

Interview Guide

Research Question 1:

- *How important is employee ownership to the employees?*
- *What benefits have employees enjoyed from employee ownership?*
- *What were the objectives for the company in implementing employee ownership?*
- *What model of employee ownership has been implementation in your company?*
- *What impact has employee ownership had on employee participation?*
- *How does the model of employee ownership impact on participation?*

Research Question 2:

- *What level of employee ownership is required for it to be substantive?*
- *What length of time does employee ownership need to be in place for it to be meaningful?*
- *Given BBBEE objectives and business imperatives, what elements of employee ownership are critical to increase meaningful economic participation?*
- *What role can increased participation have on industrial action?*