THE ADOPTION OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs) IN NIGERIA

VB AKPONAH

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THE ADOPTION OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs) IN NIGERIA

by

Voke Blessing Akponah

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Promoter: Prof NE Mazibuko

Co-promoter: Dr J Krüger

DEPARTMENT OF ACADEMIC ADMINISTRATION
EXAMINATION SECTION
SUMMERSTARND NORTH CAMPUS
PO Box 77000
Nelson Mandela Metropolitan University
Port Elizabeth
6031

Nelson Mandela Metropolitan University

for tomorrow

Enquiries: Postgraduate Examination Officer

DECLARATION BY CANDIDATE

NAME: **AKPONAH VOKE BLESSING**

STUDENT NUMBER: **212385240**

QUALIFICATION: **DOCTOR OF PHILOSOPHY**

TITLE OF PROJECT: **THE ADOPTION OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs) IN NIGERIA**

DECLARATION:

In accordance with Rule G5.6.3, I hereby declare that the above-mentioned treatise/ dissertation/ thesis is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

SIGNATURE: ____

DATE: ____

DEDICATION

I dedicate this work to the Almighty God without whom I would not have accomplished anything. ……. But the Helper, the Holy spirit, whom the father will send in my name, He will teach you all things, and bring to your remembrance all things that I said to you (John14:21).

I also dedicate this work to my late father and beloved mum, for their constant prayers and encouragement in my pursuit of knowledge. They always said…. “I can do all things through Christ that strengthens me” (Philippians 4:13).

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ABSTRACT

This study investigated the factors that influence the adoption of ESOPs in Nigeria. Furthermore, the study investigated the influence of the adoption of ESOPs on organisational performance, employee retention and employee commitment. The study results reveal that trade union responsiveness, reforms, awareness of employee benefits and taxation implication positively influence the adoption of ESOPs based on transparency. The results in this study further reveal that trade union responsiveness, takeovers, reforms, awareness of employee benefits and taxation implication effectively influence the adoption of ESOPs based on two-way communication. In addition, the study results reveal that trade union responsiveness, takeovers, reforms, awareness of employee benefits and trust positively influence the adoption of ESOPs based on empowerment.

The study further reveals that adoption of ESOPs based on transparency, two-way communication and empowerment leads to organisational performance, employee retention and employee commitment. This study, being the first of its kind in Nigeria, filled the gap that existed in the Nigerian literature in respect of the awareness and adoption of ESOPs. This study provides literature and theoretical model that can be used as a foundation by organisations and the government to start up the adoption of ESOPs. This study showed that ESOPs is beneficial to boost the economy, enhance desired organisational outcomes (organisational performance, employee retention and employee commitment) and meet the financial and retirement needs of employees.

However, for organisations and employees to enjoy the full benefits of ESOPs, underlying forces such as, trade union responsiveness, takeovers, reforms, awareness of employee benefits, trusts and taxation implication must be taken into account. Furthermore, the adoption, implementation and operations of ESOPs will be successful management, trade union leaders and employees utilise strategies such as, transparency, two-way communication and empowerment.

CHAPTER ONE
THE FRAMEWORK AND SCOPE OF THE STUDY

1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

Employees are crucial for running the day-to-day activities of an organisation and they are significant for ensuring the survival, growth and profitability of an organisation. The increased participation of employees, towards achieving organisational goals and objectives, helps to boost productivity; this, in turn, increases managerial success (Doyle, 2005:1). However, according to Ukaejiofo (2013:199), the loss of employees (employee turnover) represents a loss of skill, innovation and knowledge in an organisation. Employee turnover can create a negative cost to an organisation as it decreases employee performance and productivity.

Pratheepkanth (2011:85) states that organisations that succeed in meeting the obligations of stakeholders ensure that top management develops a working relationship with their employees. Management expects employees to perform their duties reliably, learn new skills and be responsive to organisational needs whilst employees expect management to provide them with a good working environment, as well as fair pay and fair treatment. Furthermore, Pratheepkanth (2011:85) asserts that motivation is required to address the mutual expectations of both management and employees. Organisations can therefore use motivation to achieve their stated goals and objectives as well as employees' expectations.

Mukherjee (2009:148) defines motivation as a process that management employs in initiating and sustaining goal-directed behaviour on the part of the employees. According to Mukherjee (2009:148), management can motivate or influence the behaviour of employees by using certain reward systems or incentive schemes, such as bonuses, merit pay, job security, better working environment, increment in salary, recognition, praises and profit sharing. Ramani (1995:169) postulates that incentive schemes are measures or motivational tools that can help stimulate behaviour or encourage employee commitment towards achieving organisational goals and objectives. These incentive schemes are used by employers to reward the significant contributions made by employees and to motivate employees to be more productive. Incentive schemes used by organisations also boost employees’ morale, so as to achieve greater participation in and contribution towards increased organisational profit (Peterson & Luthans, 2006:156).

A plethora of research has focused on the different types of incentive schemes that are effective in managing organisational performances, recognising and rewarding exceptional performances, attracting, retaining and motivating employees (Peterson & Luthans, 2006:156). Previous studies indicate that management employs the use of strategic motivational tools, such as financial, semi-financial and non-financial incentive schemes. These motivational tools are significant for managerial success, job satisfaction, motivating, enhancing and rewarding employees’ performance at the workplace as well as maintaining cordial relationships between employers and employees (Erbasi & Arat, 2012:136; Ramani, 1995:169; Saka & Ajayi, 2010:584). Armstrong (2012a:81-102) reports that organisations need to focus on using incentive schemes because:

- it enhances employee commitment towards achieving organisational goals;
- it increases job satisfaction and employee loyalty;
- it enables employees to feel valuable;
- it improves organisational performance;
- it creates a cordial relationship between management and employees;
- it enables employees to work together (team work) to achieve specific targets;
- it creates a stimulating working environment; and
- it enhances employee effectiveness and productivity as a result of the reward placed on achievement.

On the contrary, ownership schemes (Employee share ownership plans) are associated with greater levels of employment stability, increased employee participation in decision-making, job satisfaction, organisational commitment, identification and motivation (Freeman, 2007:1), while Reuland (2015) postulates that ESOPs can assist in enhancing employee morale, attracting and retaining talented employees as well as receiving taxation benefits. The legitimacy of this debate is the focus of this study.

1.2 PROBLEM STATEMENT

Numerous organisations highlighted that financial, semi-financial and non-financial incentive schemes are important to motivate, recognise and compensate employees in the workplace. Nevertheless, organisations encounter problems associated with the choice of incentive schemes that are effective to attract, retain and motivate employees as well as enhance organisational performance (Silverman, 2004:1). There has been an extensive controversial debate regarding which incentive scheme is effective in increasing employee retention, commitment and organisational performance.

In Nigeria, most organisations have focused on using financial incentive schemes such as profit sharing, premium bonus, measured day work, simple piece work, geared incentive schemes, performance-related and group-incentive schemes (Olugbenga, 2011:41; Saka & Ajayi, 2010:585). Ude and Coker (2012:35) state that other financial incentive schemes that are relevant and used in Nigerian organisations include piece rate, commissions, gain sharing, golden handcuffs and stock options. Armstrong (2010:150) and Ude and Coker (2012:36) highlight that these financial incentive schemes are beneficial to motivate employees, reduce idle time, job dissatisfaction and absenteeism, as well as to increase employee effort and organisational performance.

Despite the benefits associated with the use of the aforementioned financial incentive schemes, numerous Nigerian organisations have failed to achieve their desired goals of retaining talented employees and enhancing employee commitment. The type of financial incentive schemes adopted by organisations in Nigeria have not done much to influence the kind of employee behaviour and organisational outcomes required by management (Armstrong, 2010:152; Saka & Ajayi, 2010:585).

Irrespective of the challenges and imbalances created by financial incentive schemes (i.e. monetary reward), organisations are still expected to compensate employees for their efforts in working towards high efficiency and productivity. Therefore, numerous organisations seek to adopt the right financial incentive scheme that will produce the best outcome for both management and employees (Amos, Ristow, Ristow & Pearse, 2009:311). Westendorf (2006:195-196) advises organisations to adopt ESOPs as part of their ownership schemes as these can assist in creating a win-win situation for both management and employees. In addition, Matrix Evidence (2010:11-16) asserts that evidence from empirical results reveal a relationship between ESOPs and job satisfaction, job security, employee retention, commitment and organisational performance.

The use of ESOPs is not a common feature in Nigerian organisations. This problem is attributed to the absence of financial structures (Trusts) available to hold and acquire equity on behalf of employees as well as the lack of legislation supporting wider employee ownership (UK Essays, 2013:5). Moreover, there is little if any literature exist relating to the adoption and corporate governance of ESOPs in Nigeria. In addition, it is not clear whether or not organisations and management, trade unions and employees understand the term “ESOPs”. In summary, this study investigated the following problems:

- The gap that exists in Nigerian literature in respect of the awareness and adoption of ESOPs.
- The need for improving existing incentive schemes in Nigeria.
- The need for managing the implications of the adoption of ESOPs within the Nigerian setting.

1.3 OBJECTIVES OF THE STUDY

This section provides a description of the primary and secondary objectives of the study.

1.3.1 Primary objective

The main objective of this study is to investigate the factors influencing the adoption of employee share ownership plans (ESOPs) in Nigeria.

1.3.2 Secondary objectives

The secondary objectives, outlined below, were focused on in order to achieve the primary objectives of this study:

- to provide a literature review on the factors (stakeholder consultation, government intervention, components of ESOPs and the typology of corporate governance systems) that are highlighted to influence the adoption of ESOPs;
- to provide a literature review on ESOPs in general and in countries where they are practiced;
- to provide a literature review on the outcomes of the adoption of ESOPs, namely, organisational performance, employee retention and employee commitment;
- to develop and empirically test the theoretical model of the study;
- to statistically analyse and present results on the primary data gathered; and
- to provide conclusions to the research problems, managerial implications and recommendations regarding the adoption of ESOPs.

1.4 RESEARCH QUESTIONS AND RESEARCH HYPOTHESES

The research questions and hypotheses outlined in this section have been formulated to identify and provide insight into the study.

1.4.1 Research questions

- Does stakeholder consultation (trade union responsiveness and management reliability) influence the adoption of ESOPs?
- Does government intervention (takeovers and reforms) influence the adoption of ESOPs?
- Does the component (transparency, two-way communication, decision-making, empowerment and awareness of ownership) of ESOPs influence stakeholder consultation, government intervention, corporate governance of ESOPs, organisational performance, employee retention and employee commitment?
- Does the typology of corporate governance regarding compensation, trusts, and taxation implication influence the adoption of ESOPs?
- Does the adoption of ESOPs yield to organisational performance?
- Does the adoption of ESOPs yield to talent retention?
- How does the adoption of ESOPs yield to employee commitment?

1.4.2 Research hypotheses

The following are the research hypotheses based on the modified theoretical model of the influence and outcome of the adoption of ESOPs depicted in Figure 1.1:

H^1: There is a relationship between trade union responsiveness and the adoption of ESOPs.

H^2: There is a relationship between management reliability and the adoption of ESOPs.

H^3: There is a relationship between takeovers and the adoption of ESOPs.

H^4: There is a relationship between reforms and the adoption of ESOPs.

H^5: There is a relationship between compensation and the adoption of ESOPs.

H^6: There is a relationship between the role of the trust as perceived as a governing body and the adoption of ESOPs.

H^7: There is a relationship between taxation implication and the adoption of ESOPs.

H^8: There is a relationship between the adoption of ESOPs and organisational performance.

H^9: There is a relationship between the adoption of ESOPs and employee retention.

H^{10}: There is a relationship between the adoption of ESOPs and employee commitment.

The following section provides a discussion of the modified theoretical model developed on the basis of the various theoretical models provided in this section.

1.5 OVERVIEW OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

The global financial or economic crisis that arose in 2007 had a negative impact on the survival of organisations around the world. However, in a bid for organisations to recover from the crisis, strategies were devised. Basically, governments and numerous organisations resorted to using ESOPs as a strategy for sustaining their businesses (UK Essays, 2013:1).

The Employee Ownership Association (2015b:9) states that the recovery of the economy was achieved through a combination of several strategies. The ESOP was one strategy that offered a more diverse ownership model, which organisations employed for improving productivity and profitability. Lin (2012:190) supports this notion by stating that organisations can adopt ESOPs as an important strategy to compete globally. In other words, the adoption of ESOPs is capable of enhancing the productivity of organisations and employees. Numerous findings reveal a positive association between ESOPs and concepts such as employee commitment, productivity, behaviour/attitudes, participation and involvement, as well as retention and organisational performance (Zhu, Hoffmire, Hoffmire & Wang, 2013:18).

The Employee Ownership Association (2015c:4) further identifies three forms of employee ownership, namely, direct (individual) ownership, indirect ownership and hybrid ownership. The three forms of employee ownership are clarified as follows:

- **Direct (individual) share ownership**: This form of employee ownership enables employees to become shareholders, personally, as they hold a specified number of shares.
- **Indirect ownership**: This is a form of employee ownership in which the total stocks of employees are managed and held in a trust. Stocks held in the trust are managed on behalf of employees, by the trustee, in accordance with the terms of the trust deed and the law.
- **Hybrid ownership**: This is a combination of both the direct and indirect forms of employee ownership. In other words, it is a combination of the employees' total shares in a trust with individual ownership.

Thompson (2005:2) asserts that the notion behind the adoption of ESOPs is a result of the beneficial outcome it produces. This implies that when employees are offered a stake in the organisation for which they work, the psychological effect of ownership makes them stay committed to the organisation. Employees are motivated to work harder and smarter as a result of them having a psychological sense of ownership. In addition, the Employee Ownership Association (2015b:2) states that employee ownership of business is the fastest growing form of business ownership in the UK; its popularity is on the basis of its outcome and benefits. Thompson (2011:1) states that the benefits of ESOPs to organisations include the following:

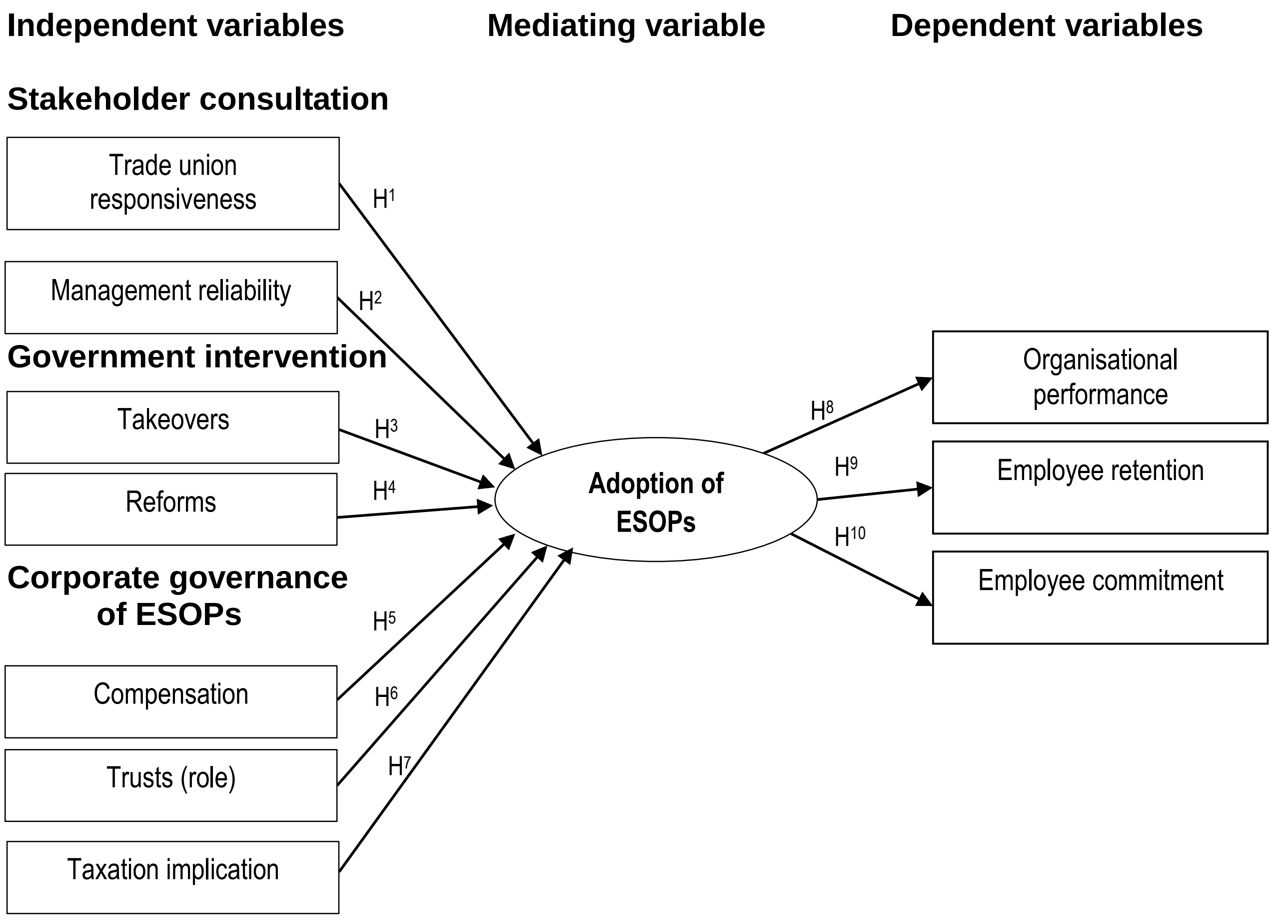
- ESOPs enhance financial and employee performance;
- ESOPs increase employee loyalty and commitment;
- ESOPs encourage idea generation and employee innovativeness;
- ESOPs reduce conflicts associated with salary and benefit demands; and
- ESOPs increase the share value of shareholders over time.

1.6 DEVELOPMENT OF THE THEORETICAL MODEL OF THE STUDY

The models proposed by Mazibuko and Boshoff (2003:34) as well as the Employee Ownership Association (2015c:18) are used as the foundation of the theoretical model in this study. The modified theoretical model presented in Figure 1.1, below, illustrates the influence and outcomes of the adoption of ESOPs. According to Figure 1.1, the independent variables exert a significant influence on the mediating variable (adoption of ESOPs). The modified theoretical model indicates that the attributes of stakeholder consultation (trade union responsiveness and reliability of management) and government intervention (takeovers and reforms) will influence the adoption of ESOPs. In addition, typology of corporate governance systems (compensation, trusts and taxation implication) will further influence the adoption of ESOPs. The components of ESOPs (transparency, two-way communication, decision-making, empowerment and awareness of ownership) will influence the dependent variables. Based on Figure 1.1, the adoption of ESOPs may lead to the outcomes of improved organisational performance, talent retention and employee commitment.

Figure 1.1 illustrates the modified theoretical model of the influence and outcomes of the adoption of ESOPs for the current study.

Figure 1.1: Modified theoretical model of the influence and outcomes of the adoption of ESOPs



Source: Researcher’s own construct.

The next section discusses the independent variables and their attributes, as shown in Figure 1.1.

1.6.1 Stakeholder consultation

Stakeholder consultation is an independent variable with two attributes, namely, trade union responsiveness and management reliability. Based on Figure 1.1, the attributes of stakeholder consultation will influence the adoption of ESOPs.

1.6.1.1 Trade union responsiveness

Trade unions are referred to as representatives of employees; they fight against discrimination and promote equality, in addition to which they bargain and protect the rights and interests of employees (Ethical Trading Initiative, 2010:2). For the purpose of this study, trade union responsiveness refers to the extent to which trade unions respond quickly to the suggestions, requests, complaints and questions from trade union members and management regarding the adoption of ESOPs. In addition, trade union responsiveness is the ability of trade unions to have an effective relationship, and share accurate information regarding ESOPs with members and management (Peetz, 1998:45).

According to Poole and Jenkins (2013:11-12), trade unions perceive ESOPs to be a potential threat that weakens their bargaining power as well as their ability to represent employees. McHugh, Cutcher-Gershenfeld and Polzin (1999:536) and Mazibuko and Boshoff (2003:33) further indicate that trade unions are sceptical of the reasons why management adopts ESOPs and, as a result, they have a fairly neutral attitude towards it. Irrespective of the negative attitude that trade unions have regarding the adoption and implementation of ESOPs, Soos (2011:75) states that trade unions are beginning to understand, support and view ESOPs differently. In addition, McHugh *et al*. (1999:536) state that trade unions have understood that ESOPs can be valuable when they help members gain secured employment, prevent unfavourable takeovers and restrict management control that impedes on the rights of their members. Due to this advantage, trade unions are willing to carefully embrace the adoption and implementation of ESOPs.

1.6.1.2 Management reliability

Reliability is an attribute that refers to the extent to which an individual can be relied upon or depended upon to do what is expected. In addition, it refers to consistency in good quality or character, ability to be trusted, credibility, sincerity, honesty and truthfulness (Mazibuko & Boshoff, 2003:40). Thus, for the purpose of this study, the reliability of management refers to the behavioural characteristics (reliable relationship and sharing of useful and reliable information to trade unions and employees) of management that are needed for the successful adoption of ESOPs.

A reliable relationship in the organisation enhances the relationship shared between management and employees. Moreover, employees are more likely to believe in management's communication, thus, their ideas and opinions are likely to be generated and shared (Pasmore, Shani & Woodman, 2010:266). The successful adoption of ESOPs is influenced by the extent to which management reliably and openly communicates the plan, and shares truthful information with employees regarding the adoption of ESOPs (Logue & Yates, 2008:17). Contrary to this, employees who perceive management as being reliable are likely to see the adoption of ESOPs as an employee benefit plan used by management to reward their hard work (Mazibuko & Boshoff, 2003:35). Whilst Denning's (2000:104-105) research findings show that employees, to some extent, show disdain towards management for offering ESOPs because they perceive it as management's ploy for them to do more at work.

1.6.2 Government intervention

Government intervention is an independent variable with two attributes (takeovers and reforms) that are considered to influence the adoption of ESOPs.

1.6.2.1 Takeovers

Takeovers refer to an act of assuming, acquiring or taking control of an organisation. Numerous organisations adopt ESOPs as a means to prevent or discourage takeovers from other organisations (Rauh, 2006:380). According to Rauh (2006:383), takeover defence is a possible motivation that propels management to adopt ESOPs. According to Rauh (2006:380), organisations can defend against a change in corporate control if management grants employees stocks in their organisation. Furthermore, with a stronger incentive to defend against takeovers, management will make its organisation employee-owned while a non-ESOP organisation is separated from takeovers by state laws. Therefore, ESOPs and state laws are a substitute mechanism that averts or lowers the likelihood of the successful takeover of an organisation by another organisation (Rauh, 2006:380). Furthermore, corporate takeovers require the intervention of the government through the issuance of laws and regulations (Company Act). The government can positively influence the adoption of ESOPs by regulating and enacting laws that require the organisation to adopt ESOPs so as to defend against and prevent takeovers of domestic organisations from foreign based acquirers (Ogura, Tachibanaki & Wise, 2007:48). According to Ogura *et al*. (2007:48), the Japanese government implemented initiatives that positively influenced the adoption of ESOPs and the setting up of ESOPs trust. The reason for this initiative was to encourage organisations to accommodate employee financial participation and to prevent foreign takeovers from domestic organisations. Furthermore, the diffusion of ESOPs continued until it became a universal phenomenon for organisations in Japan (Ogura *et al*., 2007:48).

1.6.2.2 Reforms

Reforms refer to the ability of the government to enforce change in order to improve a condition. For the purpose of this study, reforms refer to government intervention in creating an adjustment or improvement in legislative policies or bills regarding the adoption of ESOPs and the wider financial participation of employees.

Government intervention through the creation of reforms is crucial for the successful adoption of ESOPs. The legislative bills and policies that the government enacts can positively or negatively influence the adoption of ESOPs. The reforms created by the government can encourage the wider financial participation of employees and it can encourage organisations to become employee-owned organisations (Ripperger, 2013:1). Furthermore, Ripperger (2013:1) states that reforms concerning ESOPs are a strategy that assists owners of organisations to exist without shutting down or selling out.

1.6.3 Corporate governance of ESOPs

The corporate governance of ESOPs is an independent variable with three attributes that are considered to influence the adoption of ESOPs. Corporate governance reflects the behaviour of those entrusted with the responsibility of setting up ESOPs. Furthermore, corporate governance addresses how decisions are made within the organisation prior to and after the adoption of ESOPs (Employee Ownership Association, 2015a:15). The three attributes that are considered to influence the adoption of ESOPs are briefly defined, below, for clarity purposes.

1.6.3.1 Compensation

ESOPs as compensation (financial incentive scheme) is an employee benefit plan that the organisation uses to reward and recognise the performance of employees. In addition, ESOPs allow employees to become owners of shares in the organisation for which they work (Kratz & Craig, 2007:5). ESOPs can be used by management to accomplish numerous goals such as rewarding and compensating employees, incentives used to borrow money for the acquisition of new assets in pre-tax dollars and to increase organisational performance as well as to gain a tax advantage (NCEO, 2015a:1). In addition, employees can become share owners if management compensates them with ESOPs. Furthermore, when ESOPs are used as compensation, it enhances and aligns the interest of employee-owners and management and increases employee commitment, organisational performance, talent retention, profitability, productivity and innovation (Employee Ownership Association, 2015a:15).

Compensation can positively influence the adoption of ESOPs if employees and trade unions perceive it as a meaningful compensation plan in the organisation. In addition, if trade unions and employees perceive it as compensation, which will give them a greater sense of ownership and job security as well as access to organisational information and decision-making, they are likely to adopt ESOPs (McConville, Smith & Arnold, 2012:5). Furthermore, to adopt ESOPs, the Employee Ownership Association (2015a:15) advises management to have an effective form of governance that makes effective decisions on how the compensation plan can deliver benefits to employees, trade unions and management. In addition, crafting an effective model and structure of ESOPs will enable trade unions and employees to perceive ESOPs as having a meaningful stake in the organisation (Employee Ownership Association, 2015a:15).

The model and structure of ESOPs formulated by management should be clear on how ESOPs can be adopted as compensation and which employees qualify to be compensated by it. In addition, trade unions and employees qualified to be compensated by it should understand how the plan works and how they will be compensated when they participate. Furthermore, the organisation must understand how the trusts can be established and how they will be compensated by the trust (Menke, 2014:2-8a).

1.6.3.2 Role of Trusts in the adoption of ESOPs

Trusts are separate entities that are hired by organisations to hold, acquire and distribute shares for their employees. In order to adopt ESOPs, a trust needs to be established by the organisation. The employee share ownership trust refers to a plan or an account set up by an organisation to acquire, hold and allocate shares from the organisation to its employees (Law & Smullen, 2008:140). The organisation sets up a trust fund and it makes contributions of new shares of its own stock or it gives cash to the trust to purchase existing shares. Alternatively, the ESOP can borrow cash to purchase new or existing shares (National Center for Employee Ownership (NCEO), 2015c:1).

The NCEO (2015c:1) states that shares in the trust account are allocated to the individual account of full-time employees (employees who seek to participate) who are over 21 years of age. Furthermore, the government intervenes in the affairs of the adoption of ESOPs and the setting up of a trust. Legislative policies and laws are enacted by the government to regulate, encourage and promote the adoption of ESOPs and trusts. The governments in the USA and UK understand that ESOP organisations perform better, and wealth through ESOP organisations is beneficial for economic prosperity. The government implements legislative policies that support the adoption of ESOPs, setting up of trusts and tax advantages (Postlethwaite, 2012:1). Therefore, the government can positively influence the adoption of ESOPs by enacting laws and policies that support the setting up of trusts.

1.6.3.3 Taxation implication

ESOPs are perceived to have numerous benefits and one of these includes tax advantages for ESOP organisations. Management is likely to adopt ESOPs as a result of the advantages of tax incentives from which they can benefit. In addition, government may intervene and encourage the adoption of ESOPs so as to also benefit from tax, within certain limits (NCEO, 2015b:1; Rauh, 2006:383).

Sylvain (2011:5) states that governments promote the adoption of ESOPs through advantageous tax provisions that they grant to organisations. In addition, Kruse (1996:530) states that the special tax incentives on ESOPs provided by the government may be the reason why numerous organisations adopt ESOPs. Furthermore, organisations facing high tax burdens or recent increases in taxed income may increase the probability of ESOP adoption by organisations. The government enjoys a certain limit in tax payment from ESOP organisations, which is why it encourages and supports the adoption of ESOPs by providing tax incentives. Organisations adopt ESOPs so as to benefit from the tax incentives provided by the government. Therefore, the adoption of ESOPs is influenced by taxation (NCEO, 2015a:1).

The next section discusses the mediating variable and its components as well as the dependent variables, as shown in Figure 1.1.

1.6.4 Components of adoption of ESOPs in an organisation

For the purpose of this study, transparency, two-way communication, empowerment, decision making and awareness of ownership are envisaged as mechanisms to promote and enhance the adoption of ESOPs in organisations.

1.6.4.1 Transparency

Henriques (2007:5,30) defines transparency as conveying the truth, the absence of corruption and the presence of ethical practices in an organisation. For the purpose of this study, transparency refers to a situation in which all stakeholders involved in the adoption of ESOPs are open, honest and trustworthy in transferring information. This indicates that management and trade unions should be willing to be transparent in disclosing credible information to themselves and employees regarding ESOP issues (Bennis, Goleman, O'Toole & Biederman, 2011:3).

Transparency is a critical component for the successful adoption of ESOPs. In order for management to successfully adopt ESOPs, timely, clear and open information must be given to employees and trade unions. Transparency enhances trust and it creates an environment for the effective decision-making, collaboration and co-operation of all parties involved in the adoption of ESOPs (L'Etang & Pieczka, 2012:83). Logue and Yates (2008:17) support that the successful adoption of ESOPs is an advantage that management can achieve from communicating and sharing timely and full information. Sverke, Hellgren, Naswall, Chirumbolo, De Witte and Goslinga (2004:125) state that full and clear information sharing by trade unions is also important in keeping members enlightened regarding the adoption of ESOPs.

1.6.4.2 Two-way communication

Two-way communication, in this study, refers to management efforts in educating and providing trade unions and employees with comprehensive information concerning their intent and the process of adoption of ESOPs. In addition, trade unions and employees acknowledge the message by communicating their fears, ideas, expectations and suggestions to management (Dianne, 2006:12). Brown, Landau, Mitchell, O'Connell and Ramsay (2008:16) suggest that communication is a major criterion that determines the success of the adoption of ESOPs. Thus, effective two-way communication regarding ESOPs, from management to employees and trade union to members (employees), is crucial to explain how the plan works, increase employee interest and trust, manage employee expectations, reduce doubt, increase idea generation and improve relationships between various stakeholders (Guery, 2015:300).

Furthermore, Brown *et al*. (2008:10) support this notion by stating that the nature and frequency with which management communicates to employees on ESOP issues can impact on the employees' choice to take interest in ESOPs. In addition, Denning

(2000:104) finds that when management failed to effectively communicate the pros and cons of participating in ESOPs, numerous employees formed unrealistic expectations that management could not satisfy. Two-way communication ensures that management educates and transmits comprehensive information to trade unions about the benefits, processes and risks regarding the adoption of ESOPs (Logue, 1996:3). Effective two-way communication is therefore fundamental to positive ESOP recognition among employees.

1.6.4.3 Decision-making

For the purpose of this study, decision-making refers to management's willingness to involve, and share decision-making authority with, trade unions and employees regarding ESOP issues. In addition, the participation of trade unions and employees in ESOP decision-making regarding enhances communication and provides all stakeholders with the opportunity to understand, negotiate and influence the direction of ESOPs (Bartkus, 1997:336). Mazibuko and Boshoff (2003:36) point out that participation in decision-making between management and employees regarding ESOPs enables employees to have a greater sense of job satisfaction and feeling of ownership.

The empirical findings of Pendleton, Wilson and Mike (1998:117) show that employees who felt like owners are those who participated in decision-making with management. McHugh *et al*. (1999:539) suggest that it is crucial that management involve employees in decision-making and information sharing prior to and after the adoption of ESOPs. Regardless of employee and trade union involvement in decision-making, management needs to define the level (full, partial or non-decision-making) of participation in voting, information sharing and decision-making prior to and after the adoption of ESOPs.

1.6.4.4 Employee empowerment

Empowerment refers to the ability of employees to use skills and knowledge to perform a task in order to achieve its goals and objectives, authority for decision-making and an opportunity for idea generation as well as ownership and commitment to take responsibility for accomplishments (Besterfield, Besterfield-Michna, Besterfield, Besterfield-Sacre, Urdhwareshe & Urdhwareshe, 2011:80). Baird and Wang (2010:575) point out that evidence from research findings reveals a positive association between employee empowerment and employee commitment, improvement in individual and organisational performance, employee job satisfaction, organisational innovativeness and effectiveness.

The findings of Huq (2010:vi) show that employees are eager to be empowered, due to the fact that it gives them the possibility to learn and develop, it enhances their ability to make decisions and be creative, it gives them the ability to take responsibility and it enhances their self-esteem and confidence. According to Koontz and Weihrich (2006:180), empowerment also relates to responsibility. For example, employees who are empowered are likely to seek further participation in the operations of their organisation. In other words, empowered employees are more likely to participate in the adoption of ESOPs because giving them ownership stakes will further encourage them to work harder in order to accomplish organisational goals and objectives (Boone & Kurtz, 2009:338).

In addition, the adoption of ESOPs also empowers employees as it gives them the opportunity for more participation in decision-making and information sharing. Therefore, employees who seek to be empowered are more likely to participate in the adoption of ESOPs (Mazibuko & Boshoff, 2003:37). This implies that empowerment plays a crucial role in influencing the adoption of ESOPs.

1.6.4.5 Awareness of ownership

Awareness refers to being knowledgeable and well-informed about a particular situation of interest (Mishra, 2007:73). In addition, awareness of ownership refers to having an in-depth understanding of employee ownership. Awareness of ownership in this study refers to the employees' level of understanding and knowledge of ESOPs. In addition, awareness of ownership stretches to management's ability to enlighten trade unions and employees with full information (how to participate, benefits, process, percentage of ownership, risks and drawbacks) regarding ESOPs

(Employee Ownership Association, 2015b:16; Landau, Mitchell, O'Connell & Ramsay, 2007a:4).

The awareness of ESOPs is crucial for the successful adoption of ESOPs. This implies that when employees, management and trade unions understand and are familiar with the concept, process, benefits and risks of ESOPs they are likely to show considerable interest in the adoption of ESOPs (Employee Ownership Association, 2015b:16). The increased awareness of ESOPs will have a positive influence on their adoption while the lack of awareness of the relevance and benefits of ESOPs is likely to negatively influence the adoption of ESOPs (Employee Ownership Association, 2015b:16). Lowitzsch, Hashi, Hashani, Schneider, Salathe and Lemmens (2014:48) support the notion that the lack of adoption of ESOPs in numerous countries is as a result of limited awareness and the lack of information regarding its scope and benefits. Furthermore, sharing information and raising awareness are crucial measures that can promote and trigger the adoption of ESOPs. The rationale behind creating a higher level of awareness is to enlighten trade unions and employees of their position in the plan and to avoid interference (labour strikes) during trivial issues (issues with the trust or the law), stakeholders' suspicions and distrust of ESOP adoption (Logue, 1996:4-5).

This section provides discussions on the dependent variables of the adoption of ESOPs investigated in this study.

1.6.5 Organisational performance

Organisational performance refers to management's success in achieving its stated goals, objectives and targets that relate to financial, market, shareholder value and production outcomes (Thomas, Deshmukh & Kumar, 2008:27). Organisational performance is the basic responsibility of top management and it enables top management to evaluate results and actions as well as benchmark or compare their performance with their competitors (Richard, Devinney, Yip & Johnson, 2008:718). Therefore, management seeks strategies that can help them enhance the performance of the organisation. According to HallockRonald and Venneman (2003:58), an ESOP can be utilised by management as an effective strategy to improve the performance of both employees and the organisation. Caramelli’s (2015:203) research findings reveal that there is a significant and positive relationship between ESOPs and organisational performance.

Furthermore, March and Sutton (1997:698) point out that organisational performance can either be poor or good. The common feature of poor organisational performance is the failure to achieve set goals, high level of imitation of other competitors’ goods and services, no or little pressure from competitors, no or little threat to potential entrants and no existence of position in market. In contrast, the common feature of good organisational performance is a high level of admiration and competition from rival organisations, threat to potential entrants and competitors, production output is highly imitated by competitors and they hold a favourable position in the market. In order for top management to achieve high organisational performance, they need to be involved in planning, organising, monitoring and controlling managerial activities as well as providing the leadership needed to achieve organisational goals and objectives. In other words, management must ensure that they utilise ESOPs as an effective managerial strategy in achieving both employee and organisational goals and objectives. In addition, the utilisation of ESOPs will enable management to achieve high performance that will satisfy the needs of both stockholders and stakeholders (Armstrong, 2012b:328).

1.6.6 Employee retention

Employee retention refers to the process by which management implements strategies that are designed to increase the retention of talented employees with the skills and knowledge needed for the achievement of success (Giri, 2008:2-28). Thus, in this study, employee retention refers to the effort or the means by which management adopts and implements ESOPs to maximise the retention of talented employees.

Employee retention is vital to ensure the long-term survival and success of any organisation because it assists in avoiding the high cost associated with high employee turnover (employee that leaves an organisation). Costs associated with employee turnover include low productivity, high expense in recruiting and training new employees and low employee morale (Phillips & Connell, 2004:1-2). In addition, retaining employees with outstanding skills, talent and knowledge is crucial for organisational success and competitiveness. Numerous organisations understand the advantage of having highly talented employees and, as a result, they devise strategies to attract, recruit, reward and retain talents.

The research findings of Landau, Mitchell, O'Connell, Ramsay and Marshall (2009:31) reveal that ESOPs are used as a strategy by organisations to attract, recruit and retain skilled employees. The NCEO (2015a:1) supports that ESOPs can be used as an important strategy for attracting and retaining talented employees. Thus, management can adopt ESOPs as a means to attract and recruit employees who will add value to the organisation. In addition, Zhu *et al*. (2013:18) emphasise that an important retention strategy that management can employ in reducing employee turnover and retaining valuable and talented employees is the use of ESOPs. When adopted, this strategy transforms employees to share and organisation owners, thereby increasing their interest and long-term commitment to the organisation.

1.6.7 Employee commitment

Employee commitment in the modified theoretical model refers to the extent to which employees are willing to persist in meeting organisational goals, without reluctance to changing plans but having a sense of obligation to achieving organisational success. In other words, employee commitment refers to employees' dedication to work, striving to increase performance, and obligation to meet targets and goals (Dixit & Bhati, 2012:40; Vance, 2006:4).

The focus of this study is the commitment of employees to their organisation. Cooper (2012:70) describes employee commitment as employees' willingness in accepting organisational values and their persistence in meeting goals. Thus, employee commitment refers to employees' unwavering dedication and loyalty to their organisation's mission and values as well as their persistence in achieving the stated goals and objectives. Robinson (2003:6-10) explains that employees will stay committed to an organisation if there is an exchange or balance between what the employee can do for the organisation and what management can offer the employee for doing the job. Employees are likely to require something of value in return for their commitment to the organisation.

Furthermore, Vance (2006:4) adds that in exchange for employee commitment, numerous organisations provide some form of value, such as job security, compensation or incentives (ESOPs, profit sharing or performance bonuses). Landau, Mitchell, O'Connell and Ramsay (2007b:11) assert that a plethora of research in human resource management focusses on the investigation of the influence of the capacity of ESOPs on employee commitment. These researchers state that organisations adopt and implement ESOPs as a means to increase the commitment of employees. This indicates that organisations provide employees with stock ownership to increase employee commitment. The findings of Avey, Avolio, Crossley and Luthans (2009:186) reveal that employees who are provided with ESOPs in an organisation have a feeling of psychological ownership. The psychological ownership felt by employees positively influences their commitment towards the organisation.

1.7 RESEARCH DESIGN AND METHODLOGY

This section discusses the direction, structure and procedure by which the entire study will be conducted. A brief discussion of the research design and methodology is provided in this section, for the purpose of clarity.

1.7.1 Research design

The research design describes the structure of a research investigation. Furthermore, it reflects the aim of the study and the nature of the phenomenon under investigation. The research design defines the type of study that the research undertakes in providing solutions to the research problems. Specifically, it provides a detailed plan of the research objectives and outline of what, how and when data will be collected. Furthermore, it describes what instrument will be used and the means of analysing the data collected (Blaikie, 2009:12).

1.7.2 Paradigm of the study

McBurney and White (2009:24) refer to a paradigm as the framework, set of practices, belief system and methods that guide researchers in carrying out a specific course of action in a scientific inquiry. Therefore, paradigm refers to the thought pattern and methods by which a study can be structured and conducted. In conducting research, Graham and Thomas (2008:170) postulate that it is important for researchers to critically consider the paradigm that is to be used at the beginning of a research inquiry.

Basford and Slevin (2003:303) state that there are different ways in which research can be conducted and the most common way of classifying the methods used in the research inquiry is through a given paradigm. Graham and Thomas (2008:170) point out that when defining paradigm, one needs to consider and include ontology, epistemology and methodology. Ontology is a belief system that concerns the philosophy of existence or it is the assumptions that one holds about the nature of being or reality, the theory of what exists and how it exists. Epistemology concerns the set of beliefs and assumptions held about the nature of knowledge. Epistemology further considers the relationship between the inquirer and what can be known. Methodology is an assumption that concerns how knowledge can be derived about the world whilst using a theoretical approach to generate data and find answers (Graham & Thomas, 2008:170). Research methods, such as, qualitative, quantitative and mixed methods research are considered when conducting a research inquiry (Argyrous, 2005:20; Basford & Slevin, 2003:303).

The **qualitative research method** is an approach of research methods that is designed to investigate, explore and understand the behaviour of humans. This approach is aimed at generating an in-depth understanding of human behaviour by gathering data through observation, interviews, group discussions, field notes, text and pictures (Denzin & Lincoln, 2011:3). Furthermore, the qualitative research method focuses on generating data from a smaller sample size; the data obtained are based only on the participant’s point of view and data, such as, words and pictures, which are analysed by theme coding. The qualitative research method is advantageous as it enables the researcher to gather data within a short period of time; it is less expensive to carry out the research and it provides rich and in-depth information from participants' responses (McGivern, 2009:46-47).

The **quantitative research method** focuses on employing a scientific and statistical approach in conducting a research investigation. Quantitative research methods allow the researcher to gather numerical data from a larger sample size using questionnaires; the data gathered are then statistically analysed (Rubin & Babbie, 2009:34). Furthermore, the quantitative research method allows hypotheses to be formulated and tested and it enables the relationship between the independent and dependent variables to be determined. Moreover, the results generated are generalised across a given population and are used to explain a given phenomenon (Rubin & Babbie, 2009:36). According to Rubin and Babbie (2009:36), the quantitative research method will be employed to conduct this study because it allows theories and hypotheses to be tested; it is useful in studying a large number of people; sample size is representative of the population; findings can be generalised to the population on the basis of the selected sample size; the relationship between independent and dependent variables are determined; quantitative and numerical data are precise; and the collection and analysis of data is less time consuming. The quantitative research method was used to gather primary (questionnaire) and secondary data. In order to achieve the aim of the quantitative research method in this study, secondary and primary research was conducted.

Secondary research involves the collection of existing information that is based on the analysis and findings of other studies (Jugenheimer, Kelley, Hudson & Bradley, 2014:29). Secondary research, in this study, was conducted by consulting journal articles, books, credible websites and newspapers via the Nelson Mandela Metropolitan University library.

Primary research involves the collection of new data for the purpose of providing answers to a current research problem (Mooi & Sarstedt, 2011:29). The advantage of primary research is that it is gathered to address and provide answers to specific research problems. The data collected is new, original, reliable and accurate, and researchers have greater control during the data collection process and the collected data is owned by the researcher (Mooi & Sarstedt, 2011:29). Primary research was conducted in this study by administering a questionnaire in order to gather new data. Specifically, a self-administered questionnaire was used to gather data from the trade unions and management of organisations in Nigeria.

1.7.3 Population

The population is a specific group of people or objects to be statistically investigated (Collis & Hussey, 2014:62). Nigeria is divided into six geopolitical zones (North-Central, North-East, North-West, South-East, South-South and South-West) of which the four largest zones in terms of size will be included in this study. Therefore, the population of this study included all employees located in Lagos (South-West), Abuja (North-Central), Port-Harcourt (South-South) and Kano (North-West).

1.7.4 Sampling

Sampling, in research, refers to the selection of a specific and smaller part of a population of interest, from which data can be gathered (Blankenship, 2009:82). Probability and non-probability sampling techniques can be used in the selection of the sample size from the sample frame. Zikmund and Babin (2006:411) state that the non-probability sampling technique involves the selection of units of the sample on the basis of convenience, purposive, quota and snowballing, where the probability of any member of the population being selected is unknown.

Convenience sampling involves obtaining data from respondents who are conveniently available while snowballing involves locating and obtaining data from respondents on the basis of referrals or assistance from other respondents (Zikmund & Babin, 2006:411). According to Zikmund and Babin (2006:420), the cost of using convenience and snowball sampling is low, and it can be used extensively and in special situations (useful to locate respondents from rare populations). This study employed the use of the non-probability sampling technique in determining its sample. Convenience and snowball sampling are techniques of the non-probability sampling variety that will be used in selecting the sample size in this study.

The sample frame consists of a list of organisations within the financial services, consumer goods, oil and gas, and service sectors located in Abuja, Kano, Port Harcourt and Lagos (representation of the North-Central, North-West, South-South and South-West). The largest four sectors were selected based on market capitalisation (The Nigerian Stock Exchange (NSE), 2015). In order to save time and cost, the sample size of 375 employees was considered. The sample size was calculated as follows: 15 constructs (7 independent, 5 mediating and 3 dependent)* 5 * 5 = sample size of 375 employees. In order to obtain the required sample size, a maximum of 1,000 questionnaires were distributed.

1.7.5 Data collection

The collection of accurate data in a study is crucial to the provision of reliable results and valid conclusions. Secondary and primary data was gathered to achieve the objectives of this study. Secondary data involves the collection of existing information or historical data to gain more insights about the topic of the research inquiry. The secondary data for this study was be gathered from credible websites, journal articles, newspapers and books from the Nelson Mandela Metropolitan University library. The primary data are first hand data that have not previously been collected. Primary data are new data collected to provide answers to current research problems. The primary data for this study was gathered using interviews and a structured questionnaire (Wiid & Diggines, 2010:34).

1.7.6 The research instrument

Research instruments are measurement tools designed to gather primary data in order to solve current research problems. The research instrument that was used for the purpose of collecting primary data in this study is a questionnaire. A questionnaire is a document that contains items or questions about a research inquiry. Further, the items contained in the questionnaire are designed to seek answers to certain questions or gather information from respondents. The use of a questionnaire as a research instrument was employed in this study because it is cost-effective, quick and effective for primary data collection (Catane, 2003:60-61).

The questionnaire was designed in the following three sections:

- The cover letter introduced the research topic and researcher.
- Section A employed the use of an interval scale and it contained items that measured influential factors and outcomes of the adoption of ESOPs in Nigeria. Furthermore, items in Section A were linked to a 7-point Likert scale ranging from strongly disagree to strongly agree.
- Section B employed the use of a nominal scale and it contained questions regarding the biographical information of the respondents.

1.7.7 Pilot study

A pilot study refers to a small scale or preliminary study that is performed in order to pre-test and evaluate the correctness of a measuring instrument before it is deployed on a larger sample size of research interest (McBurney & White, 2009:236). Furthermore, common errors associated with the development of the measuring instrument were corrected as a result of the pilot study (Fulcher & Davidson, 2013:303; Trochim, Donnelly & Arora, 2015:60). This study conducted a pilot study by distributing 25 structured and closed-ended questionnaires to respondents of the researcher’s interest. This process helped to educate respondents about the topic of the discourse and it addressed issues relating to unclear questions, improper design and the structure of the questionnaire.

1.7.8 Data analysis

The primary data gathered was coded with a Microsoft Excel package and it was statistically analysed using the Statistica software package (version 12). The analysis of data was conducted in five stages, namely, exploratory factor analysis (EFA), reliability, descriptive statistics, regression analysis and correlation analysis.

The first stage was the exploratory factor analysis (EFA). This stage evaluated the construct and discriminant validity of the measuring instrument (questionnaire). The second stage of analysis assessed the reliability (Cronbach’s alpha) of the measuring instrument. In the third stage, descriptive statistics was performed on the primary data. Descriptive statistics reduced the large number of primary data gathered into a summarised and comprehensive form. The results from the descriptive analysis were presented in percentages, frequency tables, mean and standard deviations.

The fourth stage of the data analysis is regression analysis. The regression analysis investigated and estimated the relationship amongst variables (independent and dependent variables). The fifth stage of data analysis was correlation analysis. Correlation analysis enabled the study to determine and describe the association and strength of association between the variables in the study.

1.7.9 Reliability and validity of the research instrument

The reliability and validity of a measuring instrument determines the quality of the research instrument and the study (Tappen, 2010:123). Tavakol and Dennick (2011:53) support that in order for researchers to enhance the accuracy of their results or assessments, reliability and validity must be ensured. Reliability refers to the consistency of the results provided by a measuring instrument when repeated continuously, while internal consistency reliability refers to a measure that reveals the extent to which items are interrelated (Tavakol & Dennick, 2011:53).

Cronbach's alpha refers to a coefficient or an indicator of the internal consistency of a test or scale. Cronbach's alpha tests and describes the extent to which the items on a scale are similar or inter-correlated. The internal consistency reliability was used to assess the reliability of the measuring instrument and the cut-off point of 0.7 and above was considered a reliable measure (Zeanah, 2009:243). Tavakol and Dennick (2011:54) stress the importance of using internal consistency but reveal that it is not sufficient enough in measuring the unidimensionality (when items are reported to measure a single construct) in a sample of test items. These researchers advise that factor analysis be employed by researchers in identifying the dimensions of a test. Due to this, factor analysis was employed in this study.

Ary, Jacobs, Sorensen and Razavieh (2009:224) state that validity is the extent to which the measuring instrument provides scores that will enable the researcher to make meaningful and appropriate interpretations. This study evaluated the research instrument by means of content and construct validity. Krishnaswamy, Sivakumar and Mathirajan (2009:265-266) state that content validity is the extent to which the items in the measuring instrument are appropriate, relevant, meaningful and representative of a given construct that is to be measured. Construct validity refers to the degree to which the measuring instrument measures the intended characteristics or the construct investigated in the study. In addition, Krishnaswamy *et al*. (2009:266) assert that construct validity is assessed by means of convergent and discriminant validity. Convergent validity is established if there is a high correlation of scores obtained from two different instruments measuring the same concepts while discriminant validity is established when two variables predicted to be uncorrelated provide scores from measurements that are indeed unrelated. Discriminant and convergent validity are subcategories of construct validity and they were assessed by reviewing the *t*-test of the factor loadings (correlation coefficients) (O'Rourke & Hatcher, 2013:245).

1.8 DELIMITATION OF THE STUDY

This research was confined to utilising the quantitative research method to conduct the entire study. The qualitative and mixed methods research approaches were not considered in this study. Furthermore, the population considered for this study included all employees in Nigeria located in the cities of Lagos, Abuja, Kano and Port-Harcourt. Furthermore, this study was limited to gathering primary and secondary data that is only relevant in achieving the objectives of this study. This study gathered primary data by utilising a questionnaire as its measuring instrument. In addition, this study focused in analysing its primary data gathered in five stages, namely, exploratory factor analysis (EFA), reliability, descriptive statistics, regression analysis and correlation analysis.

1.9 PRIOR RESEARCH

Academics and scholars (journals and articles) have performed numerous studies on ESOPs. Academics, globally, have investigated the influence and outcomes of ESOPs as an incentive scheme. The effects of ESOPs in organisations, prior to and after adoption, have also been investigated. In South Africa, Mazibuko and Boshoff (2003:31) performed an empirical study that investigated employee perceptions of share ownership schemes. These researchers further assessed the problems associated with introducing and successfully managing ESOPs. The National Center for Employee Ownership (NCEO) is a non-profit organisation located in the USA. The NCEO has provided reliable information and published numerous books and journals/articles on all matters relating to ESOPs.

In the United Kingdom (UK), research on ESOPs has been conducted by the Employee Ownership Association (EOA). The EOA are a non-profit organisation that largely focusses on promoting ESOPs in the UK through numerous ESOP publications. Extant literature on the overview of ESOPs, types of ESOPs, implementation process and benefits of ESOPs have been provided by this organisation. Furthermore, Freeman (2007) conducted a study on the effects of ESOP adoption and employee ownership. In China, Zhu *et al*. (2013:17) assessed the effect of ESOPs on productivity. McHugh *et al*. (1999:535) investigated how trade unions and stockholder interests influence ESOPs. Numerous prior studies on ESOPs were extensively consulted in this study. Prior research assisted this study to gather the secondary data needed to gain and understanding of ESOPs.

1.10 SCOPE OF THE STUDY

This section provides an outline of the structure and brief description of each chapter included in this study.

Chapter One: Introduction and background to the study

This chapter presented a brief overview of the entire study. Further, this chapter provided discussions on the introduction and background to the study, its problem statement, primary and secondary objectives, hypotheses and hypothetical model, literature review and research design and methodology.

Chapter Two: Incentive schemes in the organisation

The various types of incentive schemes will be discussed, as well the advantages and disadvantages of each, in this chapter.

Chapter Three: Overview of Employee Share Ownership Plans (ESOPs)

This chapter presents a broad and comprehensive literature review concerning ESOPs. The definition, history, importance, benefits, advantages and disadvantages of ESOPs will be highlighted and discussed herein.

Chapter Four: Implementation of ESOPs

This chapter provides a detailed discussion of the implementation of ESOPs. The requirements of implementing ESOPs and the challenges of implementing ESOPs will be addressed.

Chapter Five: Success stories of implementing ESOPs

This chapter will provide a discussion of the implementation of ESOPs in several countries. This section will also address the cross cultural differences on the implementation and management of ESOPs in several countries. The lessons of implementation will be highlighted herein.

Chapter Six: Modelled influence and outcomes of the adoption of ESOPs

Discussions on the theoretical model and the modified theoretical model developed for this study will be provided in this chapter. Further, this chapter will present a comprehensive literature review that supports each hypothesis formulated for this study.

Chapter Seven: Research design and methodology

The research design and methodology chapter will provide a detailed discussion of the designs and methods that will be used to conduct the entire study. Detailed discussions relating to paradigm, research methodology, sampling, research instrument, data collection and data analysis will be presented.

Chapter Eight: Data analysis and presentation of empirical results

This chapter of the study will analyse, interpret and present the primary data gathered. A detailed report relating to the various stages of analysis highlighted in this study will be presented in this chapter.

Chapter Nine: Summary, conclusion, managerial implications and recommendations

The summary, conclusion, managerial implications and recommendations chapter represents the final chapter of this study. This chapter will present a summary of all the chapters included in the study and the answers to the research problems and questions. Furthermore, this chapter will provide a discussion of the empirical results and managerial implications of the study. In addition, recommendations will be provided on the basis of the analysed results. The contribution of the study, together with its limitations and conclusions will also be presented in this chapter.

1.11 SUMMARY

This chapter provided the framework and scope of the entire study. A brief introduction and background of the study was discussed so as to enlighten readers on the topic of the discourse. Furthermore, the problem statements of the study were highlighted and discussed. According to the problem statements presented, there was a need to conduct the study. In order to achieve the overall purpose of the study, the primary and secondary objectives were presented. The research questions and hypotheses were formulated and presented to provide insights into the study.

Furthermore, an overview of ESOPs was presented herein. This discussion led to the development of the theoretical model of the study. This chapter provided brief discussions on all the variables considered in the study. The research design and methodology were discussed in this chapter in order to show how the entire study was conducted. Furthermore, discussions of the quantitative research method, population, sampling, data collection, research instrument, pilot study and reliability and validity of the research instrument were presented in this chapter. The delimitations of the study, prior research and scope of the study were also presented in this chapter. The ensuing chapter provides comprehensive discussions on incentive schemes in the organisation.

CHAPTER TWO
INCENTIVE SCHEMES IN THE ORGANISATION

2.1 INTRODUCTION

The core objective of every organisation is to generate profit and to survive in the long run. Organisations can only achieve their goal of making a profit and survival through the performance and effort put in by their employees. In other words, the enhanced performance and effort of employees in the production of goods and services creates wealth and sustainability for the organisation (Fisher, 2008:1). Furthermore, organisations can achieve their focal goals and objectives by increasing employee productivity and performance through the adoption and utilisation of strategic incentive schemes (Fisher, 2008:1). Ude and Coker (2012:32) specify that, as a result of the strategic roles played by employees in the organisation, management should effectively and adequately compensate employees for their labour by utilising appropriate incentives.

Furthermore, Armstrong and Murlis (2007:421) report that an organisation's principal purpose of utilising incentive schemes is to enhance the level of performance and productivity in the organisation. More so, incentive schemes can be used by management to motivate preferred behaviour and reward performance. Wignaraja and Balassanian (2006:5) believe that incentive schemes are external measures designed by management to develop employee capacities and to translate developed capacities into improved performance. Amah, Nwuche and Chukuigwe (2013:73) postulate that the effective utilisation of incentive schemes is a tool for organisational effectiveness in the 21st century and that the implementation of effective incentive schemes can assist organisations in responding to global changes.

The previous chapter provided the introduction and background to the study. The chapter further discussed the problem statement, objectives, research questions and hypotheses, brief literature review, research design and methodology, delimitations and contribution of the study. This chapter present a detailed discussion of incentive schemes in the organisation. The definitions, incentive theory of motivation, purpose and classification of incentives is presented and discussed to clarify the purpose of the study. Furthermore, the nature, categories, benefits, challenges of non-financial and financial incentives will also be discussed. The contemporary issues of incentive schemes in Nigeria are also discussed in this chapter.

2.2 DEFINITIONS OF INCENTIVE SCHEMES

Managers are continuously searching for strategic means to achieve the goals and objectives of their organisations, as well as to enhance the productivity and performance of employees. Ehimen and Ojeifo (2014:89) postulate that in order for management to achieve organisational success, employees are required to have a positive attitude towards the stated organisational goals and objectives. Furthermore, organisations can achieve numerous strategic goals and objectives by utilising incentive schemes. The primary objectives of utilising incentive schemes are attracting and retaining key and talented employees required for a sustainable competitive advantage and strategy, aligning the interest and energy of employees with the organisational mission, goals and objectives, as well as enhancing productivity and motivating employees to contribute and exert effort in quality production (Schuler & Jackson, 2006:362; Shields, 2007:35).

A plethora of research has focused on and provided various definitions of the interrelated concepts: rewards, recognition and incentives. These concepts are similar and have been used interchangeably by numerous researchers to refer to the methods or procedures utilised by management to motivate and appreciate the exceptional performance and effort of employees in goal achievement (Yavuz, 2004:9). According to Rose (2011:19), rewards, recognition and incentives are phrases commonly used in Human Resource Management (HRM) and the relationships between these phrases are complex. Rose (2011:19) differentiates the meaning of these concepts as follows:

- **Rewards** are pay (salary increase, bonuses), compensation and promotions keyed to high performance. Management usually confers rewards to employees privately. Rewards are awarded by evaluating the performance appraisal or merit rating of employees' past and present performance on the job. Rewards are awarded for exceptional performance and they provide financial or physical benefits for employees.

- **Recognition** basically relates to utilising non-financial tools and ceremonial actions to publicise the exceptional performance and effort of employees. Furthermore, recognition is a way of sending a positive message or showing appreciation (thank you, pat on the back, gifts, awards) for a job well done. Recognition is awarded for good performance and it has a psychological impact on employees.
- **Incentives** relates to utilising punishment, non-financial and financial tools to induce employees to act towards the achievement of targets, goals and objectives. Incentives encourage enhanced productivity and performance.

The difference between rewards, recognition and incentives is that rewards and recognition influence the behaviour of employees and reinforces positive actions while incentives influence and induce behaviour to act towards meeting a set target. In other words, rewards and recognition refers to the payment or prize given by management to employees for their exceptional effort in production and performance. Incentives refer to a promise of payment or prize made by management to employees in order to stimulate the greater effort in productivity and performance (Rose, 2011:19). This indicates that rewards and recognition are appreciation for a job well done whilst incentives induce or prompt employees to work. However, these concepts are similar and used interchangeably. This study focuses on utilising the concept of an incentive to refer to a technique utilised by management to motivate and induce employees to act and it further covers concepts related to rewards and recognition (Yavuz, 2004:9).

The term incentives refers to a technique utilised by management to induce, entice, stimulate or motivate its employees in achieving higher performance, productivity and profitability in the organisation (Deb, 2009a:359-360). According to Ude and Coker (2012:33), incentive schemes refer to programmes designed and implemented by management to motivate and enhance the performance and productivity of employees. Furthermore, incentive schemes are techniques utilised by management to compensate or reward the exceptional performance and efforts of employees. Balachandran and Chandrasekaran (2009:251) refer to incentive schemes as reward programmes used by management to motivate and reward employees for any significant contribution in the workplace. In addition, Aswathappa (2005:299) and Durai (2010:349) refer to incentive schemes as employee programmes that involve payment by results. Furthermore, Aswathappa (2005:299) clarifies that incentive schemes are monetary benefits utilised by management to motivate, recognise and reward employees on the basis of performance and the achievement of specific goals and objectives.

Yavuz (2004:9) describes incentives as tools utilised by management to induce employees to perform better and work harder as well as to expend more energy on their work. Similarly, Gupta (2008:107) defines incentives as a means of motivation utilised by management to inspire and encourage employees to act towards goal achievement. Furthermore, incentives are tools used by management to induce employees to respond in a desired manner. Lin and Huang (2011:238) state that incentives have two meanings. Firstly, an incentive is described as a tool utilised by management to motivate, encourage and reward employees and, secondly, it is a tool utilised by management to reprimand and discipline employees. Moreover, Lin and Huang (2011:238) define an incentive scheme as an influential factor (monetary or non-monetary) designed and offered by management to motivate, stimulate and enhance employees' efforts as necessary for organisational growth and prosperity. Therefore, this study defines an incentive scheme as anything positive (price) or negative (punishment), non-financial or financial, utilised by management to induce and stimulate the effort and effectiveness of employees in the organisation. Furthermore, incentives are presented by management to induce employees to work, however, incentives become rewards to employees in the case of exceptional performance and effectiveness.

2.2.1 Incentive theory of motivation

The incentive theory of motivation proposes that human behaviour is not motivated by a need but it is rather pulled by a desire. This indicates that incentives, compensation and external rewards are a stimuli or major influence of the choices and behaviour of people (Wong, 2014:115). Employees have a variety of reasons why they make a decision to work harder and smarter within the organisation. Incentive theory explains that employees are motivated to act and perform their duties efficiently and effectively because of the presence of external rewards and incentives (Kendra, 2015:1). Wong (2014:115) supports this notion by stating that the motivation behind employee behaviour is as a result of a desired outcome or positive consequence that they seek to obtain. In addition, incentive theory describes how an employee may be motivated to behave in a certain manner in order to avoid punishment or negative consequences.

Furthermore, Bernstein (2010:301) explains that instinct, drive reduction and arousal theories of motivation place emphasis on the internal processes that force employees to act and behave in certain ways. However, the incentive theory of motivation places emphasis on how external stimuli motivates employee behaviour. According to Bernstein (2010:301), employees act and behave in positive ways in order to receive positive incentives, and they are pushed away from behaviour to avoid negative incentives. In addition, employees act, behave and respond differently to the incentive types (non-financial and financial) and the value of incentives. This implies that employees respond positively to the incentives they prefer and the value that they place on their preferred incentive is capable of influencing their actions and behaviours. According to Wong (2014:115), the theory of motivation can be explained as follows:

- Incentives motivate employees to act and behave in positive ways. Employees, for example, behave and act in ways required by management in order to receive external rewards and compensation such as praises, acknowledgement or bonuses.
- Incentives motivate employees to refrain from negative behaviours that might have negative consequences on their job. Employees, for example, refrain from bad behaviour such as cheating, tardiness, laziness or low performance in order to avoid query, demotion or letter of dismissal.
- Incentives become effective and a stronger motivator when employees recognise its value and are willing to take action to obtain it. Employees who place less value on non-financial rewards (praises and acknowledgement) will

not be motivated to work to obtain it. This indicates that effective incentives energise and motivate employees.

- Incentives must be realistic, obtainable and achievable in order for them to act as motivators. Management should ensure that performance measurement and goals set to receive rewards should be simple and minimal so that incentives can obtainable.

2.2.2 Purpose of incentives

Armstrong and Murlis (2007:421) reveal that some of the objectives of introducing incentive schemes are to obtain and improve consistency in the performance of employees; expand the skill base of employees; minimise pay disputes and levels of inventory and to increase quality in the production of goods and delivery of services. According to Ude and Coker (2012:36), management utilises incentive schemes in order to reward, motivate and recognise employee performance; increase productivity; urge employees to give their best; attract and retain efficient employees; reduce and control costs; reduce employees' idle time and absenteeism; direct employee efforts towards goal achievement and increase employee competition.

Ukaejiofo (2013:199) states that an important function of managers is to effectively utilise incentive schemes to achieve the desired organisational outcomes. In addition, management that implements and utilises effective incentive schemes assists their organisation in retaining and attracting employees, thus reinforcing positive behaviour in the workplace and achieving high organisational success. Lauby (2005:1) states that in order for incentive schemes to be effective, managers need to understand and identify the specific needs and wants of every employee as well as provide them with the opportunity for goal achievement. Furthermore, Deb (2009a:359) supports this notion by stating that the effectiveness and success of any incentive scheme is dependent upon a number of characteristics. These characteristics are that management and employees must easily understand the incentive schemes; employees must fully understand why and what they will be rewarded for; the incentive must be of value; management should keep the number of performance measures simple and at minimal level and management should ensure that employees' efforts are linked to the reward. In addition, the incentive scheme must be accepted by all employees; it must be beneficial to both the organisation and its employees; it must not be expensive to operate and it must be able to stimulate the interests of all employees (Deb, 2009a:359).

Gerard (2006:50) states that incentive schemes should be '*transparent*' to organisations and their employees. This implies that organisations and their employees must be able to understand the incentive schemes implemented as this increases the schemes' effectiveness. In addition, the objectives of incentive schemes will be achieved if organisations and employees can see and understand how they are operated (Gerard, 2006:50). Furthermore, Durai (2010:343) reports that an incentive scheme implemented by management should not be considered an incentive scheme if it fails to meet the exact needs of employees. Therefore, designing and understanding an effective incentive scheme, as well as ensuring that it meets employees' needs, is crucial for organisational success. Jalilian and Sen (2011:331) support this notion by stating that understanding incentive schemes valued by all employees in the organisation can improve awareness of organisational objectives. In addition, incentives valued by all employees can improve motivation, morale, performance, teamwork and co-operation. This implies that, for the objectives of incentives to be achieved, management should ensure that employees are incentivised and rewarded with incentives that they prefer and value.

2.3 CLASSIFICATION OF INCENTIVES

Incentives are classified according to the forms by which they induce employees to take a particular course of action in the organisation. Lin and Huang (2011:238) and Mishra (2009:285) classify incentives into three categories: remunerative, moral and coercive. Schipper, Ayers, Reid, Huq and Rahman (2014:71-72) argue that incentives come in many forms, however, incentives are broadly classified into remunerative, moral, coercive, personal and natural incentives.

Remunerative incentives are referred to as financial incentives. This is a form of financial reward used by management to motivate employees to act in the manner desired by them. Furthermore, it can be described as a financial exchange for goal achievement (Lin & Huang, 2011:238). Nair and Garrity (2012:500) describe a remunerative incentive as financial or material reward that is presented to an individual for acting in a desired manner. Actions motivated by material rewards, such as financial or non-financial, are regarded as remunerative incentives (Schipper *et al*., 2014:71). Therefore, a remunerative incentive is in place when employees expect some form of exchange (financial or material reward) for acting in ways desired by the organisation.

Moral incentives refer to the recognition or admiration given to an individual for performing what is widely regarded as acceptable or the right thing to do in the society (Lin & Huang, 2011:238). An individual who acts on moral incentives receives praise, admiration and approval from the society. Contrarily, an individual who acts against a moral incentive is likely to be condemned, reprimanded or ostracised by the society (Lin & Huang, 2011:238). Mishra (2009:285) supports this notion by stating that moral incentives exist when a singular choice is regarded by the society as acceptable and the right thing to do. In other words, individuals within the society are motivated to act towards certain actions because it is the moral thing to do. The failure to act in a way that is regarded as acceptable and right attracts condemnation, criticism and disapproval. Therefore, individuals within the society are motivated to act towards choices or ways deemed right by the society in order to gain positive incentives such as praise, admiration and approval.

Coercive incentives exist when an employee or individual fears the actions (physical force, dismissal, letter of termination, demotion, abuse, punishment or imprisonment) that follow the failure of not performing or acting in a particular manner desired by management. In other words, tough actions represent the incentives given to an employee who fails to act in the manner specified by its organisation (Lin & Huang, 2011:238). Schipper *et al*. (2014:71) state that coercive incentives exist when employees are motivated to get into action because of the fear of punishment from management. Therefore, dismissal, imprisonment and demotion are regarded as coercive incentives that may induce employees to act in ways desired by management.

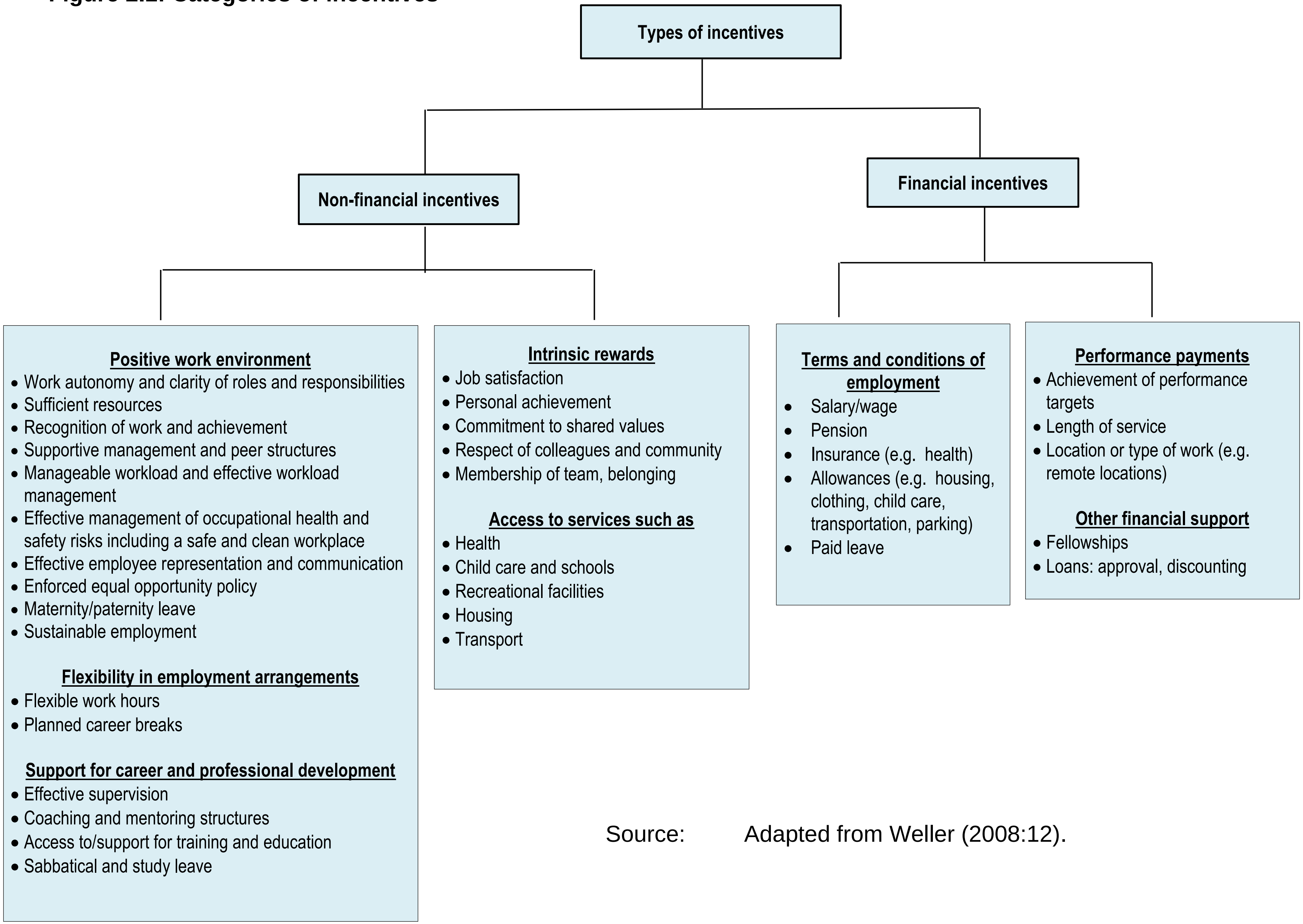
Natural incentives occur where actions are motivated by subjective human interests. This implies that employees or individuals are motivated to get into action as a result of their curiosity, fear, anger, pain, joy, mental or physical exercise, pursuit of the truth or control over people, oneself and things in the world (Schipper *et al*., 2014:71).

Furthermore, Mishra (2009:286) mentions that the incentives classified above are not an exhaustive list of all incentive types. The personal incentive is another type of incentive that is essential in understanding why and how employees or individuals will choose a particular course of action, taking into consideration the situation faced by the individual in a given position within a given society.

Personal incentives occur when individuals or employees are motivated to act as a result of their personal drives, preferences or objectives. Raj (2015:83) explains that personal incentives occur when individuals are motivated to get into action as a result of their tastes, personal desires and drives, sense of duty, pride, desire for artistic creation and desire for remarkable achievements.

With greater focus on the incentives used by management in an organisation, Ehimen and Ojeifo (2014:90) state that employees are motivated by two types of incentive schemes, namely, non-monetary and monetary. Deb (2009a:359) clarifies that incentive schemes are usually rewards that can be financial (bonuses, wages and salary increases), non-financial, psychological or social (promotions, recognitions and paid holidays). Kandula (2006:43) argues that there are three types of incentive schemes: non-monetary, indirect monetary and monetary reward. Gupta (2008:107) states that incentives have motivational power and organisations utilise them to motivate their employees. Furthermore, Gupta (2008:107) classifies incentive schemes into two broad categories, namely, non-financial and financial incentives. Weller (2008:12) affirms that incentives can be categorised into two major types, namely, non-financial and financial. Figure 2.1, below, summarises the two categories of incentives (non-financial and financial).

Figure 2.1: Categories of incentives



Source: Adapted from Weller (2008:12).

2.4 NON-FINANCIAL INCENTIVES

Non-financial incentives are a significant part of the reward programme that organisations use to motivate and enhance the personal well-being of their employees. Non-financial incentives satisfy the basic psychological needs of employees and are capable of unlocking employee talents as well as enhancing their effort and commitment to the organisation (Wilton, 2010:237). Similarly, Singh (2007:8) affirms that financial incentives address the material needs of employees while non-financial incentive schemes address the psychological needs of employees. In other words, non-financial incentive schemes address, contribute to and improve the personal growth and fulfilment of employees.

2.4.1 Nature of non-financial incentives

Lameck (2011:57) clarifies that non-financial incentives are tangible or intangible rewards that are not associated with cash and are not included in the salary payment of employees. Similarly, Peterson and Luthans (2006:157) affirm that non-financial incentive schemes are rewards that are not associated with finance or do form part of the salary payment of employees. Kandula (2006:43), Silverman (2004:3) and Wilton (2010:237), however, suggest that non-financial incentive refers to a method of motivating and rewarding individual employees or team members with praise, acknowledgement and recognition of contribution, flexible working hours, psychological support, communication, involvement and participation, conducive working environment, job security, opportunity for career development and ability to work independently. Armstrong (2010:161) states that non-financial incentives are relational and intangible rewards that address employee needs for recognition, achievement, responsibility, autonomy, influence and personal growth. In addition, non-financial incentives address employee needs concerned with the work environment. Furthermore, non-financial incentives play a distinct and significant role in infusing the enthusiasm of employees who is geared towards greater participation and productivity in the workplace.

In addition, non-financial incentive schemes are highly valuable gifts provided by the organisation, which do not have a specific monetary value for employees. These types of incentives include attention and recognition, promotion, mentorship and talent management programmes, holidays and good cordial relationships (Armstrong, 2010:161). This study describes non-financial incentives as any non-cash benefits provided by management for the purpose of encouraging employees to act in ways that will result in organisational success. Furthermore, Heneman and Werner (2005:89) advise that organisations that intend to use non-financial incentives should consider the following:

- The incentive should be used by management for the maintenance and improvement of performance and the incentive used must be contingent on performance.
- Management should ensure that they back up the use of non-financial incentive schemes with a financial incentive scheme. For example, management should reward employees with additional time off work that is fully paid.

Silverman (2004:3) explains that financial incentives are important to motivate employees but their impact on intrinsic motivation is limited. Therefore, non-financial incentive schemes are important to intrinsically motivate employees. Similarly, Balachandran and Chandrasekaran (2009:252) point out that the use of financial incentives is not sufficient enough to provide solutions associated with the challenges of productivity and performance in the organisation. Reasonably, the use of non-financial incentives backed up by financial incentives forms a total reward system that creates solutions for productivity and performance problems in the organisation.

2.4.2 Categories of non-financial incentives

Non-financial incentives are a significant part of the total reward system that utilised in enhancing employee effectiveness which, in turn, leads to organisational success. Non-financial incentives intrinsically motivate employees to work hard. However, some forms of non-financial incentives provide an extrinsic motivation to employees within the organisation. In other words, intrinsic non-financial incentives are internal and driven by the employees' personal interests and enjoyment of the job (Bogardus, 2009:275). This implies that intrinsic non-financial incentives exist within the employee. Further, extrinsic non-financial incentives are external to employees and these extrinsic non-financial incentives (praise, recognition) are basically provided by managers to boost and enhance employee effectiveness (Bogardus, 2009:275). Armstrong (2010:161) classifies non-financial incentives into four categories: individual extrinsic, individual intrinsic, collective extrinsic and collective intrinsic rewards. The various forms of non-financial incentives relating to each classification of rewards are identified and explained below.

2.4.2.1 Individual extrinsic reward

Non-financial recognition, praises and positive feedback are examples of individual extrinsic reward. Recognition is the ability of top management to provide the individual employee with positive feedback or acknowledgement on the display of positive behaviour, unique contribution and high level of accomplishment in the organisation (Van der Merwe, Basson & Coetze, 2009:77). This implies that the individual extrinsic reward places greater focus on utilising extrinsic non-financial incentives to acknowledge and reward the efforts and accomplishments of individual employees.

According to Armstrong (2010:162), recognition is one of the most powerful non-financial methods of recognising the efforts of employees. Recognising the efforts and contributions of employees not only tells employees how well they have performed in achieving set goals and objectives, it also tells them that they are much appreciated for their efforts. Furthermore, Silverman (2004:5) states that praise and feedback are individual extrinsic rewards that form part of recognising the efforts and unique contributions of employees. Furthermore, genuine praises are rewarding to the organisation when given to employees privately for some occasions or reasons, or publicly for real achievements. Providing constructive feedback gives employees insight into the progress of their performance and it enhances self-belief, improvement and growth. Khan, Zarif and Khan (2011:2) state that there will be reinforcement and repetition of positive actions when employees are recognised, praised and given feedback on their performance.

Khan *et al*. (2011:2) indicate that numerous employers fail to recognise employee effort because they believe that employees are doing the job they are paid to do. Furthermore, employees will feel undermined and demotivated when they are not appreciated for their efforts. According to Khan *et al*. (2011:2), an atmosphere of tension, frustration and high expectation is created when management fails to recognise the efforts of their employees. More so, this situation leads to low performance and motivation in the organisation.

Khan *et al*. (2011:2) and Silverman (2004:4) point out that top management can acknowledge the efforts of employees by utilising the following non-financial recognition tools:

- Acknowledging the efforts of employees by offering a face-to-face, on the spot or formally written thank you, well done or a pat on the back.
- Providing positive and immediate feedback that acknowledges individual employee contributions.
- Recognising and appreciating employees' contributions publicly (public applause in a meeting, special dinner or organisational newsletter or announcing and displaying the individual as the employee of the month).
- Recognising the contribution of employees by offering long service awards or achievement certificate, reserved parking space, travel vouchers and trip abroad, health care vouchers and use of recreational facilities, dinner voucher in a fancy restaurant, and gifts (mugs, branded t-shirts, etc.).

There are several challenges associated with the utilisation of the individual extrinsic reward. According to Cochran (2010) and Lewis (2016), the disadvantages of individual extrinsic reward include that:

- management is likely to be biased when recognising the efforts of employees;
- employees are likely to lay allegations of favouritism against management's selection;
- resentment and conflict may arise amongst employees in situations where employees are allowed to nominate;

- limiting recognition, praise and feedback on selected employees may discourage other employees' willingness to work;
- employees who are used to receiving constant praise are likely to exhibit destructive behaviour in the workplace;
- silent war and friction may arise between employees receiving praises and employees who do not receive; and
- excessive praise and recognition erodes an employee's ability to perform work correctly.

Danish and Usman (2010:159-160) state that individual extrinsic reward is advantageous in that it serves as the most contingent factor in keeping and increasing the self-esteem and passion of employees for their jobs. Furthermore, individual extrinsic reward is capable of enhancing employee commitment and morale. Organisations also have the advantage of making significant progress by complying with their business strategy through a well-balanced recognition programme for employees. According to Danish and Usman (2010:159-160), individual extrinsic reward (recognition and acknowledgement) will help to keep employees' spirits high, thus resulting in an increase in work capacity and performance. Therefore, individual extrinsic reward, through an effective employee recognition programme, boosts the ego of employees and reinforces a positive attitude amongst employees at all levels.

2.4.2.2 Individual intrinsic reward

Individual intrinsic rewards are non-financial incentives concerned with employees' desire to develop and grow within the organisation. In addition, individual intrinsic rewards exist when management rewards employees with fulfilling work and an opportunity to grow in the organisation (Armstrong, 2010:163). Employees will have a sense of fulfilment at work if they perceive that what they do adds value to the organisation and they are given the opportunity to use the abilities they value to work independently. This indicates that employees will be motivated by incentives, such as the sense of fulfilment, if they perceive that their skills and performance are worthwhile and add value to the organisation (Armstrong, 2010:163). Therefore, employees with personal interest and enjoyment in its job will find the following individual intrinsic incentives attractive: responsibility at work, challenging task that may result in achievement, opportunity to use and develop abilities, freedom to plan and work independently, ability to influence policy and operational decisions as well as the ability to make decisions without interference from supervisors.

Furthermore, providing employees with an opportunity to find fulfilment at work gives them an opportunity to grow at work. Personal growth is likely to occur if management puts in place the opportunity for learning and development (coaching, mentoring and personal development support) within the organisation. In addition, an opportunity to grow will occur if management instils a growth mind-set in their employees (Kinley & Ben-Hur, 2015:124). Although the individual intrinsic reward (autonomy, responsibility, influence) is critical in creating and maintaining intrinsic motivation as well as improving the skills and abilities of employees, it has some drawbacks. Elnaga and Imran (2014:17-18) and Saremi (2015:8) outline that the disadvantages of individual intrinsic rewards are as follows:

- higher tasks involve higher skills and experience that employees may lack;
- lack of skills and experience increase poor performance that may impact on quality productions;
- employees may experience difficulty adjusting to new work settings;
- there will be an increase in conflict between employees given higher responsibility and employees not given these;
- employees who are given freedom to plan and work independently or on a challenging task are likely to be demotivated and embarrassed when they perform poorly;
- employees may work towards self-chosen goals rather than organisational goals;
- employees are likely to resent extra responsibilities and feel more equal to managers; and
- managers are likely to feel weak and disregarded as a result of an increase in employee autonomy, responsibility and influence.

Numerous organisations that seek to unleash the hidden potential and abilities of employees utilise individual intrinsic rewards. Elnaga and Imran (2014:17), Madhavan (2014:4-5) and Saremi (2015:8) state that the individual intrinsic reward can be advantageous for the organisation as it can increase job satisfaction and employee participation, morale and commitment; increase the level of creative thinking and competence amongst employees; increase employee trust in the organisation and increase productivity and profitability. Furthermore, the presence of individual intrinsic rewards in an organisation can reduce absenteeism and turnover rates; reduce conflict between employees and management as a result of employee involvement in decision-making and reduce constant and direct supervision from management. In addition, the individual intrinsic reward provided by management can help to enhance the working environment and create a better working relationship between management and employees (Elnaga & Imran, 2014:17; Madhavan, 2014:4-5; Saremi, 2015:8).

2.4.2.3 Collective extrinsic reward

Collective extrinsic rewards are forms of non-financial incentives that are awarded by management to help all employees within the organisation create a balanced life in and outside the job (Armstrong, 2010:164). In other words, it is a form of non-cash incentive (external awards) that management utilises in creating and enhancing the satisfaction of employees off their job. The creation of policies, procedures, services and programmes that support employees off their job are collective extrinsic rewards that management can utilise as non-financial incentives and rewards for employees (Armstrong, 2010:164). Therefore, collective extrinsic reward focuses on management’s utilisation of non-financial incentives that help and support employees to balance the changing demands and to manage multiple responsibilities arising from their personal life, work and society.

Management can create a work-life balance policy as incentives for its employees. Work-life balance policies assist employees to create a balance between the demands and management of their job and life outside the job (Higgins, Duxbury & Lyons, 2008:9). Flexible working arrangements (leave of absence or employee autonomy over their hours), employee assistance programmes, family oriented policies (emergency child care parental assistance, parental leave) and family-friendly organisational culture are examples of work-life balance policies that recognise the needs of employees outside work (Higgins *et al.*, 2008:31).

Furthermore, Armstrong (2015:113) highlights that management can utilise non-financial incentives (collective extrinsic rewards) by providing employees with family-friendly policies, wellbeing services (counselling and personal case work), concierge services (car services, receiving home deliveries and home repairs) and voluntary benefit services (employee ability to purchase goods and services at discount prices). In addition, learning and development programmes that allow employees to develop their skills and careers can be utilised by management as non-financial incentives for employees.

Smeaton, Ray and Knight (2014:66) specify that collective extrinsic reward can be very challenging and costly to organisations. According to Smeaton *et al*. (2014:66), the costs of collective extrinsic rewards can be broken down into the following:

- Implementation cost is a one-off time and monetary cost that includes how management will devote resources to help employees gain familiarisation with the new regulations, updating payroll systems and printing bureaucratic materials (staff handbooks) that will reflect the new administration and entitlement change.
- Procedural administrative cost is a time cost associated with the dissemination of information to employees on how the reward will work (informing employees about the rights and benefits of the reward programme, how to claim reward, making decisions on who is eligible for benefits and dealing with the requests and appeals of employees).
- Accommodation cost is a time and monetary cost associated with creating a more complex roster or schedules and the employment of more temporary or part-time employees to replace permanent employees on maternity, paternity, parental, career breaks or sabbatical leave. In addition, this has a direct cost, such as payments made to employees on parental leave, provision of children’s nurseries, equipment for telecommuters or to facilitate work at

home. There are also costs associated with training part-time employees and retraining or refresher courses for employees upon re-entry into the organisation.

- Unanticipated costs include reduction in productivity due to the absence of skilled/talented employees and reduction in work hours. Costs are also associated with diverting time and resources towards the new administration and regulations, and away from other key organisational objectives.

Irrespective of the costly nature of the collective extrinsic reward (flexible working environment and work-life balance policies), Higgins *et al.* (2008:14-35) and Smeaton *et al*. (2014:23) state that its advantages include that it increases the level of productivity and profitability in the organisation; improves job satisfaction, employee morale, commitment and participation; attracts and retains high skilled employees who have increasing family responsibilities and helps to reduce the physical, mental and emotional fatigue experienced by employees. Furthermore, the presence of collective extrinsic rewards can reduce the level of burnout and enhance the well-being of employees as well as minimise absence from work and labour turnover, especially from the female gender.

2.4.2.4 Collective intrinsic reward

Collective intrinsic rewards mainly relate to management’s ability to enhance the work environment through the quality of working life and the organisation’s core values (Armstrong, 2015:113). Work environment enhancement (conducive working environment) and work system designs are examples of collective intrinsic rewards that management can utilise as non-financial incentives for employees. Specifically, the collective intrinsic reward provides intrinsic motivation for employees. This implies that management makes available non-financial incentives that enhance the quality of working life for all employees within the organisation. Therefore, the collective intrinsic reward is focused on management’s ability in provide a better ambiance for employees who have personal interest and enjoyment in their job. In other words, the aim of the collective intrinsic reward is to enhance employees’ productivity and performance through the enhancement of a congenial work environment.

Gaurav (2013:6) defines quality of working life as the treatment, wellbeing and degree of satisfaction that employees derive from work itself. In addition, it refers to the degree at which an organisation can ensure satisfaction related to the general wellbeing of an employee and not just work-related aspects. Furthermore, Gaurav (2013:6) and Srivastava and Kanpur (2014:54) describe the quality of working life in terms of the provision of safe and healthy working conditions, job enrichment and security, and interpersonal relations between management and employees (leadership qualities). Gaurav (2013:3) reports that quality of working life, as an incentive, encourages the improvement of employees' skills and it enhances employee motivation.

Srivastava and Kanpur (2014:56-57) state that the collective intrinsic reward is advantageous and beneficial because it boosts employee productivity as a result of a conducive environment; improves team work and communication; it increases the morale and commitment of employees; strengthens workplace learning; enhances the brand image of the organisation; improves productivity and performance and provides safe working conditions. Furthermore, collective intrinsic reward through the quality of work life helps the organisation to maintain a competitive advantage and it helps reduce employee stress (Srivastava & Kanpur, 2014:56-57).

2.4.3 Benefits of non-financial incentives

The trend and utilisation of non-financial incentives is growing popular amongst organisations globally. Organisations are beginning to recognise that the utilisation of non-financial incentives provides motivation and solutions to organisational problems as well as a strategy to minimise financial costs and expenses (Wiese & Coetzee, 2013:23). This implies that organisations are utilising non-financial incentives as an inexpensive and cost effective way to induce employees to work hard towards organisational goals and objectives. Rose (2011:19) explains that numerous organisations often assume that money plays a major and exclusive role in motivating and rewarding employees' performance in the organisation. Disputing this assumption, Armstrong (2010:161) states that money (financial incentive) is obviously a primary incentive but it is not always a basic necessity for every employee in the organisation. This implies that financial incentives are important when attracting and retaining employees. However, it becomes an unproductive motivator if retained employees desire incentives that are needed for personal achievement, self-esteem and opportunity for learning and growth in the organisation.

Furthermore, Dransfield, Fox, Guy, Needham and Wilde (2004:161) emphasise that non-financial incentive schemes represent an effective way to motivate and reward employees in non-profit organisations where employees are not financially paid for work done. Chelladurai (2006:234) states that financial incentives increase the pay-off of employees, thus making the lives of employees better off the job; however, non-financial incentive schemes are capable of making life on the job more attractive for employees. According to Chelladurai (2006:234), non-financial incentives such as office fittings and parking space enhance task performance and instil a sense of status and prestige in employees. Furthermore, Armstrong and Baron (2005:103) support that non-financial incentives create a long-lasting and powerful impact in encouraging job engagement and the promotion of commitment in the organisation.

Furthermore, Wilton (2010:237) states that non-financial incentives form part of the total incentive schemes that play a crucial role in motivating and addressing the well-being of employees in the organisation. Dransfield *et al*. (2004:162) indicate that non-financial incentives have a lasting effect rather than financial incentives and it addresses employees' internal needs (personal fulfilment, self-esteem and recognition). In other words, financial incentives cease to be a motivator when employees' psychological and security needs are met. Non-financial incentives become a lasting motivator for the satisfaction of the employee's need for status and recognition in the work environment. Dransfield *et al*. (2004:162) and Rose (2011:20) purport that non-financial incentives are more beneficial than financial incentive schemes in five ways:

- Memory value: Non-financial incentives such as awards or certificates, career development and growth, as well as public recognition have a longer memory value. Financial incentive schemes, such as cash bonuses, are spent and forgotten by employees. The effect of financial incentives is short term and not long lasting. Contrarily, non-financial incentives provide a lasting memory in the mind of employees.

- Trophy value: Non-financial incentives can be shown off to family and friends as an achievement for exceptional performance and effort. An employee can, for example, show off awards, certificates, big screen television, vouchers or inform family and friends on their opportunity to work independently on a project. Contrarily, employees rarely speak of or find it difficult to show off their cash bonuses to friends.
- Flexibility: Non-financial incentives can be tailored to fit the needs of the individual employee. Without cost, management can easily and quickly appreciate its employees privately or publicly depending on the non-financial incentive they value. The effectiveness of non-financial incentives is enhanced if management understands the needs, interests and preferences of its employees.
- Cash awards cost money: Motivating employees with financial incentives can be very challenging and costly to the organisation. Non-financial incentives are free and cheap to adopt and implement. Evidently, it costs nothing for a manager to give praise and recognition (a pat on a back or thank you) to an employee who has done exceedingly well in their job.
- Perceived value: The perceived value of non-financial incentives can be much higher than the actual cost. Organisations have the capability to purchase the awards or incentives cheaper than the employees could. Organisations can utilise their own products and services as non-financial incentives to employees. Similarly, management can purchase the incentives in bulk or negotiate a better deal with a supplier or a third party organisation with which they are affiliated. A hotel, for example, without engaging in so much cost can reward its employee and spouse by providing them with paid and pleasurable weekend stay in their hotel.

Furthermore, non-financial incentives are valued more highly than financial incentives of the same value. Employees tend to perceive a pleasurable non-financial award as a positive sign. In addition, employees will place high value on non-financial reward items that they feel are too expensive to purchase. Employees from low income groups are likely to place high value on non-financial luxury items or activities.

According to Armstrong and Baron (2005:103), Dransfield *et al*. (2004:161), Khan *et al*. (2011:2), Watkins and Beschel (2010:2), Wiese and Coetzee (2013:32) and Wilton (2010:237), other benefits of non-financial incentives include that they raise the self-esteem of employees; reinforce good performance and positive behaviour; make room for opportunity for growth and career advancement; and increase job engagement and participation in the organisation. Furthermore, the benefits of non-financial incentives include that they unlock latent effort, promote creativity and innovation in the organisation; enhance morale, commitment, job satisfaction and employee productivity; promote team work and minimise the occurrence of workplace competition; save the organisation money for the operations and growth of the business; allow employees to concentrate on getting the job done correctly rather than completing the task for cash award; and it has a lasting effect compared to cash, when it relates to motivation.

2.4.4 Challenges related to non-financial incentives

Organisations utilise non-financial incentives as a strategy to maximise productivity and performance in a cost effective way. Non-financial incentives place emphasis on rewarding employees with incentives that are not inclusive in the salary payment but incentives that meet the needs (competence, autonomy, self-esteem, career development and growth) of employees within the work environment. Non-financial incentives are effective and inexpensive and they are seen as powerful motivators in organisations where financial incentives work well (Feser, 2011:124). Despite the benefits that non-financial incentive schemes offer the organisation and its employees, it has numerous issues and drawbacks (Jeffrey, 2004:4).

Jeffrey (2004:21) reports that a major challenge associated with the utilisation of non-financial incentives is the uncertain value and unrealistic expectations of employees. Employees are likely to form unrealistic expectations when they are uncertain of the value of the non-financial incentives they are likely to receive upon the achievement of set goals and objectives. Employees are disappointed and demotivated if the non-financial incentive that is received lacks the expected perceived value. Jeffrey (2004:21) reports that uncertainty of the value of non-financial incentives forces employees to be less effective if they do not trust the management in their organisation.

A challenge unique to the non-financial incentive scheme is the varying preference of the type of non-financial incentives needed by all employees within the organisation. In other words, the value that an employee places on one non-financial incentive differs from the value that another employee might place on that specific non-financial incentive. For example, an employee may have a preference for public recognition while another will detest public recognition and prefer private recognition. In addition, a high performing employee, for example, who places high value on power and responsibility but was rewarded with health vouchers may be disappointed (Tripathi & Reddy, 2008:248). Therefore, with non-financial incentives, it is easy to reward an inappropriate gift to an employee. Management needs to understand, utilise and tailor its non-financial incentives to suit the different personalities of its employees.

Furthermore, Tripathi and Reddy (2008:248) mention that there exists a preference of incentives between the upper and lower level employees. Upper level employees have preference for non-financial incentives and lower level employees have preference for financial incentives. Due to the varying preferences, it becomes tedious for management to learn the individual employees' preferences in terms of non-financial incentives, especially in a large organisation (Tripathi & Reddy, 2008:248). Challenges with the utilisation of non-financial incentives will basically arise if management lacks an understanding of individual employees' needs and preferences. In other words, non-financial incentives are likely to lack motivational power if management has little or no knowledge regarding what motivates individual employees. The non-financial incentive will lack its ability to motivate employees if it is not properly managed and tailored to meet the needs of the employee. Furthermore, management's utilisation of the wrong non-financial incentives is likely to create a negative impact on the behaviour and future performance of employees (Tripathi & Reddy, 2008:248).

Watkins and Beschel (2010:2) point out that the main weakness associated with the utilisation of non-financial incentives is the issue of favouritism. Managers, for example, may be unfair and impartial when rewarding employees with non-financial incentives. An individual in management is, for example, more likely to reward an employee with a holiday on the basis of friendship and not performance. According to Watkins and Beschel (2010:2), the perceived value of non-financial incentives is critical because no monetary price is attached to it. Therefore, to preserve the intrinsic and psychological value of the non-financial incentive scheme, Watkins and Beschel (2010:2) postulate that HRM must be fair and impartial when giving out rewards.

Furthermore, Watkins and Beschel (2010:2) identify another major challenge of the non-financial incentive as the inability of management to commit themselves to keeping the number of awards scarce and valuable. The perception of the uniqueness and value of the award is likely to diminish when it is given out too frequently (Watkins & Beschel, 2010:2).

Furthermore, Comeskey (2010:1) highlights that the drawback associated with non-financial incentives is that it breeds jealousy and disharmony when the reward is given to an employee or business group singled out over others. More so, the utilisation of non-financial incentives is likely to create tension and conflict between employees within the organisation. Employees who feel that they deserved the reward but did not receive it are likely to feel jealous and harbour resentment towards employees who received the reward. In addition, jealousy and resentment cause tensions in the work environment, thus creating a negative impact on productivity and performance (Comeskey, 2010:1).

Another major disadvantage with non-financial incentives is that skilled, high performing and valuable employees who find non-financial incentives attractive are likely to be attracted to rival organisations, thus offering better non-financial incentives. High performing employees might not find a written note or pat on a back appealing but they will be motivated by career advancement, responsibility and autonomy (Khan, Ghouri, Khan, Malik, Saleem & Fahim, 2011:15). Therefore, organisations that fail to provide the same value of non-financial incentives offered by a rival organisation risk losing their employees to rival organisations that offer better non-financial incentives for similar performance. Furthermore, the research findings of Khan *et al*. (2011:15) reveal that non-financial incentives lack the ability to motivate employees in countries with difficult economic conditions. This implies that the benefits of the implementation of non-financial incentives will not be realised as a result of the large preference for financial incentives.

2.5 FINANCIAL INCENTIVES

Financial incentives are important levers that can be utilised by management to attract, retain, motivate and enhance the effectiveness of employees in the organisation (Weller, 2008:11). Globally, organisations in all industries utilise financial incentives to induce and motivate individual employees, groups of employees or team-members to work better and smarter.

2.5.1 Nature of financial incentives

Financial incentives refer to monetary rewards with value that are added to the total remuneration of an employee. In addition, it is an extra cash payment included in the salary payment of an employee serving as a reward for significant contribution in the workplace (Armstrong & Taylor, 2014:364). Ballentine, McKenzie, Wysocki and Kepner (2009:1) assert that financial incentives are monetary rewards utilised by management to reward excellent job performance in the workplace. Furthermore, financial incentives, such as salary, pay increase, healthcare premiums, commissions, fringe benefits, profit sharing, stock options, pension plans and cash bonuses have helped management in maintaining a positive motivational environment in the workplace (Ballentine *et al*., 2009:1; Hurd, Barcelona & Meldrum, 2008:270; Wiese & Coetzee, 2013:31).

Hurd *et al*. (2008:270) state that financial incentives are monetary rewards provided by management to better the finances of employees. In other words, financial incentives are monetary rewards that have a direct financial price. Furthermore, Aguinis, Joo and Gottfredson (2013:242) and Nujjoo and Meyer (2012:2) define financial incentives as tangible monetary rewards earned by an employee for enhanced performance and the achievement of stated goals and objectives. In addition, financial incentives are basically extrinsic motivation and are focused on the utilisation of monetary rewards such as a pay raise or bonus. Therefore, financial incentives refer to monetary benefits offered by an employer to employees in order to motivate and reward positive behaviour, improved performance and efforts.

Balachandran and Chandrasekaran (2009:251) assert that the use of financial incentives plays a significant role in satisfying the basic needs (food, security, social, shelter and clothing) of employees in the organisation. Chelladurai (2006:234) supports this notion by stating that financial incentives are benefits that enhance the financial well-being of an employee. This study defines financial incentives as any cash or monetary reward provided by management to induce employees to work better and smarter. In other words, financial incentives reward employees for enhanced performance through the utilisation of money. In addition, employees strive to earn the cash or monetary reward by improving their effectiveness, productivity and performance. The reason for an organisation to provide employees with financial incentives is to enable management to achieve organisational goals and objectives.

2.5.2 Categories of financial incentives

Financial incentives refer to the monetary rewards that employees get for their exceptional work performance at the workplace (Van Aswedgen, Botha, Kleynhans, Lotz, Markham, Meyer, O'Neill & Schlechter, 2009:192). In addition, the utilisation of financial incentives is to enable management to achieve the desired behaviour from employees. Management, for example, may utilise financial incentives such as overtime to entice employees to work in excess of their ordinary working hours. Hurd *et al*. (2008:270) and Van Aswedgen *et al*. (2009:192) suggest that financial incentives can be classified into two categories: direct and indirect financial incentives.

2.5.2.1 Direct financial incentives

Direct financial incentives are monetary benefits or rewards that employers give employees directly in return for their labour for a specific period of time (hourly, weekly, monthly or yearly). Furthermore, direct financial incentives are straightforward monetary benefits that include increases in wages, hourly or variable pay, increases in basic annual salaries, bonuses, commissions and merit pay based on performance (Hurd *et al*., 2008:270-271). Van Aswedgen *et al*. (2009:192) affirm this notion by stating that the direct financial incentives are monies (wages, salaries, commissions and bonuses) that employees receive as wages at the end of the week or as salaries paid at the end of the month.

2.5.2.2 Indirect financial incentives

Indirect financial incentives are benefits or rewards that have some certain degree of financial value. Indirect financial incentives, also referred to as non-cash benefits, are not included in or associated with direct financial incentives (not a direct payment) but they form part of the social contract between the employer and employees (Bogardus, 2009:276; Hurd *et al*., 2008:270-271). Daft and Samson (2014:427) stipulate that management realises that employees require financial incentive packages that are not only focused on money but also on other monetary related benefits. In addition, monetary related benefits that are indirect financial incentives are also referred to as fringe benefits (Bogardus, 2009:276).

According to Yousaf, Latif, Aslam and Saddiqui (2014:1776), fringe benefits are indirect financial incentives provided by employers in addition to the direct wages and salaries of employees. Furthermore, fringe benefits create a motivational environment that allows employees to maximise productivity, sales and profitability. Yousaf *et al*. (2014:1778) describe fringe benefits as monetary benefits not included in the salary payment of the employee.

Fringe benefits such as holiday/vacation with pay, leave of absence, sick leave, educational leave, jury leave, pension plans, insurance plans (accident/disability, life, health, dental and vision) and worker compensation are required by law to be offered to employees. Moreover, fringe benefits that include a retirement plan, defined contribution plan (401(k), profit-sharing, employee stock options plan and ESOPs), educational assistance, employee services, transportation allowances, housing allowances and paid days off are not required by law but are provided by organisations to enhance the effectiveness of their employees (Bogardus, 2009:276; Daft & Samson, 2014:427). Yousaf *et al*. (2014:1778) advise that the effectiveness of fringe benefits will be enhanced if employees are given the opportunity to contribute ideas towards the improvement of the plan. In addition, consistent reviews and feedback from employees can also enhance the motivational ability of fringe benefits.

2.6 FORMS OF INDIRECT FINANCIAL INCENTIVES: DEFINED CONTRIBUTION PLANS

Milkovich and Newman (2005:269-270) indicate that there are categories of financial incentives that are aimed at motivating and rewarding individual and group performance. The forms of financial incentives highlighted and discussed in this section are indirect financial incentives (defined contribution plan). The defined contribution plan has several unique and inherent features. The features of these financial incentives include the capability to motivate in the long-term, tax advantages, ability to retain and attract talented and skilled employees and its ability to encourage positive behaviour/actions as well as to enhance productivity and performance (Milkovich & Newman, 2005:269-270).

A defined contribution plan is basically a financial incentive (indirect compensation). In addition, it is a type of retirement plan in which the employer or employee (participant) allocates annual or periodic contributions of certain amounts or percentages to individual accounts set up for employees. Specifically, the contributions made under the plan are invested on behalf of the employee. Furthermore, employees (participants) involved in the plan ultimately receive the balance in its account, which is based on contributions plus or minus investment earning and gains or losses (Mezzullo, 2007:8). Four defined contribution plans (indirect financial incentives) will be briefly discussed in this section for the purpose of clarity.

2.6.1 401(K) plan

The 401(k) plan is a retirement savings plan or defined contribution plan sponsored by the employer. This plan allows participating employees to contribute a specific amount of money from their pay cheque each period before the pay cheque is taxed. Employees (participants) in the 401(k) plan make a decision of how high a contribution they can invest in the plan. In addition, employees make a decision of which funds, as provided in the plan, their contributions will be invested in (Mezzullo, 2007:9; Mulonas, 2004:226-232).

Furthermore, Schwanbeck (2004:28) refers to the 401(k) as a pension or retirement savings plan that is set up by an organisation for its employees to enable them to prepare and save for their retirement years. In addition, it is referred to as a defined contribution plan because employees contribute a fixed or specific amount from each pay cheque that is received. The 401(k) corresponds to the section of the Internal Revenue Service (IRS) that allows employees to contribute to the plan before taxes are calculated. Therefore, an organisation utilises 401(k) as a form of financial incentive in promoting the financial security of employees before retirement. Employees (participants) make periodic contributions to their retirement account from their pay cheque before taxes are withdrawn and their balance is determined by the contributions made and the performance of plan investment.

According to Schwanbeck (2004:28), the employee is the sole contributor of the plan. In other words, employees take sole responsibility for the management of savings of the 401(k) plan. In addition, employees have the power to decide how much funds are to be invested, how much to save to the plan, when to increase or decrease the amount withdrawn from its pay cheque, what investment options to use and how much risk it can tolerate in order to achieve its retirement and financial goals (Schwanbeck, 2004:28). Furthermore, the contributions and earnings of employees are likely to grow in a portfolio of mutual funds consisting of investment in stocks, money market, savings account, bonds or other investment vehicles. In addition, the investment or contributions in the participant 401(k) account are not taxed by the government until they are distributed or withdrawn (Klingler, 2007:47-48; Mulonas, 2004:226-232). Furthermore, eligibility for employee participation in the

401(k) plan is dependent on the waiting period stipulated by the organisation, which is usually one month to one year. However, some organisations allow employees to begin participation and contributions immediately. Employees follow the plan participant rules set out by IRS in order to make contributions to their 401(k) plan. The plan stipulates that employees contribute a maximum of about 20% to 25% of their total salary in a given year (IRS, 2015a:1).

The 401(k) plan has numerous restrictions and requirements, however, the IRS (2015b:1) specifies that the advantages of the plan include that it gives employees greater flexibility when it comes to making contributions and it helps employees save funds for their retirement. In addition, the 401(k) plan is advantageous because it allows employees to make more contributions to the plan, and it gives participating employees the opportunity to collect emergency loans and hardship withdrawals.

2.6.2 Profit sharing plans

A profit sharing plan is a form of monetary reward utilised by management as a form of financial incentives for its employees. Mathis, Jackson and Valentine (2015:167) and Upadhyay (2009:158) define a profit sharing plan as an incentive plan or a discretionary defined contribution plan that allows an employer to grant plan participants (employees) some percentage of annual or net profits on the basis of their earnings over a given period. Furthermore, Cordes, Ebel and Gravelle (2005:303) state that a profit sharing plan is a defined contribution plan in which the employer's sole responsibility and financial obligation is to its contribution made. Therefore, a profit sharing plan is described as a defined contribution plan and a form of financial incentive that allows an organisation to make financial contributions to an individual employee's (participant's) account on the basis of their level of salary.

In addition, a profit sharing plan is flexible in that it allows the organisation to design its key features. In other words, the amount contributed or allocated to the individual employee's account is not fixed (no set amount), the organisation determines when and how much to contribute (out of profit or otherwise) and the organisation does not need to make profits before contributing to the plan. In addition, the organisation is not obligated to make contributions to the plan on a regular basis. The allocations of profit sharing contributions are distributed to participating employees on the basis of their salary or a combination of salary and position level (Upadhyay, 2009:158; U.S. Department of Labour, 2014:1).

A profit sharing plan includes all employees over the age of 21, who have completed at least two years of service for the organisation for which they work. The three basic types of profit sharing plans include cash, deferred and combination plans. Under a cash plan, the organisation pays out contributions (in the form of cash, cheques or stock) directly to employees at the time at which profit is determined. Under a deferred plan, organisations do not pay out contributions immediately when profit is determined, but contributions are deferred to accounts set up for individual employees (participants). Under a combination plan, participating employees have the option of deciding whether to defer all or part of their contributions or profit sharing allocation (Cordes *et al*., 2005:303; U.S. Department of Labour, 2014:1).

Furthermore, Coates (1991:20-21), Fang (2016:1-7) and Mackenzie (2015:31) state that profit sharing plans are disadvantageous because:

- inequality in profit sharing can create disputes between management and employees;
- employees are likely to focus more on profit rather than on innovation and quality productivity;
- lack of uncertainty of profit makes employee retirement planning difficult;
- management has too much control over how profit is shared due to the flexibility of the plan;
- employees who do not perform more work duties earn profits from the effort expended by other employees;
- continuous distribution of profit may reduce operating cash flow and disposable cash utilised for expansion, reinvestment and growth opportunities; and
- depreciation in the value of shares in a cash plan can reduce employee morale and satisfaction.

Notwithstanding the disadvantage of profit sharing plans, it is an add-on to an employee's basic salary. This plan enables employees to share in the financial success or profitability of the organisation. A profit sharing plan enhances employee morale, as well as interest and participation in the organisation that is geared towards success (Mathis *et al*., 2015:167; Sison, 1991:304). In addition, Mackenzie (2015:29-30) and the U.S. Department of Labour (2014:1) assert that a profit sharing plan is an advantage to both the employer and employee because it helps to attract and retain talented and skilled employees; motivate lower-paid employees and enable employees to work together to achieve a common goal. Furthermore, a profit sharing plan helps the employee to save up for employee retirement; instils an ownership culture in employees; and enhances employee commitment, participation and focus on profitability.

2.6.3 Employee stock option plans

An employee stock option plan is a defined contribution plan utilised by management as a financial incentive for specified employees in the organisation. In addition, employee stock option plans are similar to Employee Share Ownership Plans (ESOPs) in terms of the utilisation of the employer's shares (Olagues & Summa, 2010:5). Employee stock option plans refer to a contract issued by an employer to specific employees as a right to purchase a stipulated amount of shares from the organisational stock at a fixed price, within a specified period of time (Olagues & Summa, 2010:5). Wolff (2012:15) describes the employee stock option plans as a right given to specific employees, but not the obligation, to purchase a certain amount of shares in the organisation at a specific time and at a predetermined price. Therefore, employee stock option plan refers to the right given by an employer to certain employees to buy certain number of shares at a certain time and price.

The rationale behind the utilisation of this stock option plan is to align the interests of employees and shareholders. In other words, management grants employees the right to buy shares as a source of financial incentive in order to enhance employee and organisational performance and maximise the shareholder's value (Olagues & Summa, 2010:2; Wolff, 2012:15-17). Furthermore, employee stock option plans are divided into two broad categories: non-qualified stock options (NSO) and incentive stock options (ISO) (Bickley, 2012:4). A NSO is basically offered by employers to all full-time employees (with at least two years of service) not belonging to the executive structure of the organisation and who do not receive special federal tax treatment. Contrarily, ISO is specifically provided to employees belonging in the executive structure of the organisation and they are given favourable tax treatment (Bickley, 2012:4). More so, shareholders and management desire to see that shares in the organisation appreciate. Therefore, an employee stock option plan is beneficial as it allows employees to strive towards increasing the value of the employer's shares. Stock option plans can attract and retain talented employees as well as enhance the level of employee loyalty and commitment in the long-term (Hall & Murphy, 2003:49).

Regardless of the advantages of the employee stock option plan, Hall and Murphy (2003:55-59) state that its disadvantage include that it is an incentive that allows top management (officer and directors) to manipulate and inflate stock prices; it reduces employee morale, productivity and job satisfaction when the value of shares decline sharply; and it leads to substantial short-term capital gains when there is an immediate sale of a large number of shares purchased with stock options. Furthermore, an employee stock option plan can be disadvantageous because it reduces the organisation's ability to attract lower level employees; retention can be a problem, especially when employees exercise their options early or when the value of stocks depreciates; and the cost to an employer of granting a stock option is greater than the value of the stock option to the employee receiving it (Hall & Murphy, 2003:55-59).

2.6.4 Employee Share Ownership Plans (ESOPs)

ESOPs are defined contribution plans or employee-owner programmes that allow management to provide its employees with ownership interest in the organisation (Groll, Maxfield & Nedrow, 2010:17). In addition, ESOPs can also be described as retirement or compensation plans that allow employees to become owners of equity or stock (shareholders) in the organisation for which they work. Organisations utilise ESOPs as a financial incentive to motivate and reward the performance of their employees. An ESOP is a tax-qualified employee benefit plan that allows employers to allocate or distribute shares of the organisation's stock to participating employees

(Mulonas, 2004:233). Therefore, ESOPs are employee retirement or benefit plans that focus on allowing the employer to invest primarily in their own stock, whilst distributing these stocks to employees' accounts (participants), thus allowing them to have full or partial ownership interest in the organisation.

ESOPs invest primarily in employers' stock and are permitted to borrow money on a tax-deductible basis to purchase stock. ESOPs allow participating employees to have full or partial ownership interest in the organisation and they offer the organisation numerous tax advantages. The employer sets up a trust and allocates or distributes some of its new or existing shares freely to individual employee accounts over time. This implies that employees never purchase or directly hold their stock while still employed in the organisation. All full-time employees over the age of 21 are allowed to participate in the plan. In addition, the organisation is required to buy back its shares, at fair market value, from employees retiring or leaving the organisation (NCEO, 2015:1).

ESOPs have several features that make it more unique compared to every other financial incentive, including financial incentives in the defined contribution plans. The first benefit of an ESOP is that it is the only financial incentive in the defined contribution plan that is required by law to invest primarily in the securities of the sponsoring organisation. Secondly, ESOPs are unique amongst other defined contribution plans in that they have the ability to borrow funds to purchase employer stock (Groll *et al*., 2010:17). Furthermore, ESOPs are beneficial to employees because they create an additional retirement fund for their future years (NCEO, 2015:1). According to Mulonas (2004:233), ESOPs promote stability in the organisation as a result of the pride and ownership instilled in employees.

Hua (2006:43) and Groll *et al*. (2010:17) state that, while ESOPs have some disadvantage of diversification and control, high start-up capital, delay in share distributions longer than in 401(k), their need for future liquidity in funding retirement benefits should not be underestimated. Furthermore, McConville *et al*. (2012:4) state that ESOPs have the advantage of attracting and retaining skilled employees; increasing organisational cash flow, aligning the interests of employees and management; reducing employee wage demands; improving employee morale, commitment, participation and partnership with management.

2.7 BENEFITS OF FINANCIAL INCENTIVES

Financial incentives related to direct and indirect financial compensation have been utilised by numerous organisations across the spectrum of industries in order to maximise employee productivity and performance as well as to motivate and reward employees. Employers benefit from financial incentives because, through these, the overall performance of the organisation is enhanced. Similarly, the availability of financial incentives benefits employees because, through these, their psychological needs are satisfied. Numerous organisations utilise financial incentives because they appeal to all demographics and levels of employees (lower level and upper level employees).

Wiese and Coetzee (2013:24) and DelVecchio and Wagner (2011:2) indicate that financial incentives such as commissions, bonuses, performance-based pay appeal more to lower level employees and employees in charge of sales. The receipt of financial incentives is an actual confirmation of employees' abilities and level of competence and autonomy in the organisation. This indicates that financial incentives help to enhance the efforts and level of competence and autonomy of employees in the organisation.

Furthermore, DelVecchio and Wagner (2011:2) point out that performance-based financial rewards have the ability to communicate competence and control. The ability to perform quality services is dependent on the level of employees' competence and rewarding the employee confirms and informs the employee of their competence and control. DelVecchio and Wagner's (2011:2) findings reveal that incentive pay leads to a higher level of intrinsic motivation amongst sales persons within the organisation.

Daft and Samson (2014:427) state that pay for performance plans is one of the most popular financial incentives that employers utilise to enhance the productivity and performance of employees in the organisation. This plan focuses on allowing an employer to establish targets, goals and objectives that employees must attain for them to be compensated accordingly. Furthermore, pay-for-performance, also referred to as variable pay, is a type of financial incentive pay that is tied to the performance and efforts of employees. In other words, it is a system of compensation that is reliant on how well an employee has performed in achieving the stated goals and objectives. Table 2.1, below, summarises the benefits of selected financial incentives.

Table 2.1: Benefits of selected financial incentives

Classification	Forms of financial incentives	Benefits
Individual reward	Pay Overtime Performance standard Commission Bonuses Merit Paid leave Benefits	**Time:** Employees maintain work attendance **Outputs**: Employees perform assigned tasks **Competence**: Employees complete tasks without error
Team rewards	Team bonuses	**Cooperation**: Employees tend to cooperate with co-workers by sharing information and knowledge
Organisational rewards	Profit sharing Share ownership	**Commitment**: Employees stay committed to culture and goals

Source: Adapted from Bratton, Sawchuk, Forshaw, Callinan and Corbett (2010:212).

Table 2.1 shows the various forms of financial incentives that can be granted to an individual, a team or all employees within the organisation. The forms of financial incentives summarised in Table 2.1 help management to achieve their desired behaviour from employees. Profit sharing and share ownership, for example, have the advantage of aligning the interests of employees with that of management and enhancing employee commitment to organisational culture, goals and objectives. Daft and Samson (2014:427) state that the goals and objectives of the organisations are realised as a result of the pay for performance plans. In addition, this financial incentive enhances employee performance and productivity. More so, Aguinis *et al*. (2013:242-243) and Miller (2015) state that financial incentives are beneficial because they help to attract and retain high performing employees; boost employee productivity and performance; help management to influence specific behaviour from employees; and help management to achieve short term goals and targets.

Furthermore, the provision of financial incentives by management is advantageous because it helps to align employee interests with that of the organisation; helps to increase employee satisfaction with their job; enables organisations to enjoy high levels of return on assets; and helps meet the needs and enhance the status and well-being of employees. In addition, financial incentives have the advantage of improving employee trust in the organisation, as a result of the fairer system of financial pay-out; improving employee attitudes and working atmosphere; and providing employees with some degree of financial security (Aguinis *et al*., 2013:242-243; Miller, 2015).

2.8 CHALLENGES WITH FINANCIAL INCENTIVES

Financial incentives are important to help employees satisfy their psychological, social and security needs. Financial incentives are beneficial in attracting, retaining and motivating employees as well as enhancing the productivity and performance of employees. However, financial incentives are likely not to lead to the desirable outcomes of management if not managed effectively (Aguinis *et al*., 2013:242). Erbasi and Arat (2012:136) affirm that, although financial incentives produce the best results for management, they are regarded as temporal motivators. This implies that they temporarily stimulate employees and produce shot-term changes in employee behaviours and attitudes. A salary bonus, for example, which is an extra cash payment on a monthly salary, may motivate employees to work but its motivational effect ends when employees receive the reward (Erbasi & Arat, 2012:136).

Herzberg’s theory affirms that money will cease to be a motivator immediately after the psychological and security needs of employees are satisfied. Afterwards, money will be regarded by employees as a hygiene and maintenance factor. The theory further posits that, when money lacks its ability to motivate as an incentive, the organisation is required to motivate employees with non-financial incentives that will satisfy their self-actualisation, ego, status and developmental needs (Borkowski, 2009:112).

Furthermore, Markova and Ford (2011:814) state that money appeals to all demographics and levels of employees within the organisation. However, it lacks equal motivational effects across different levels of employees within the organisation. According to Markova and Ford (2011:814), lower level employees are likely to be stimulated to exert more effort at work for a cash bonus reward to satisfy their needs while higher level employees are likely to be stimulated to work when offered non-financial incentives. In addition, high performing employees are likely to enhance their performance and effort if the type of financial incentive offered is sufficient to raise their standard of living or assure future financial security.

A major challenge associated with the use of financial incentives is that it may encourage unethical behaviour from management in the workplace. Management that focuses more on achieving short-term targets (maximisation of shareholder value) is likely to make use of financial incentives to enhance employee productivity in order to achieve managerial success within a short period of time (Giles, 2012:307). In order for management to meet short-term targets, financial incentives are adopted and implemented by management to bribe employees into putting extra hours into their work. Furthermore, management utilises financial incentives, such as a minimal cash bonus or rise in salary, as compensation against low wages and to motivate employees to work in a hazardous environment that is detrimental to their health (Hansen, Mowen & Guan, 2007:348).

Pratheepkanth (2011:86) states that management can encounter irrational behaviour from employees as a result of the utilisation of financial incentives. Employees are likely to express disappointment, anger and jealousy when they perceive that financial incentives are not rightly rewarded by management. In addition, the differences in the value of financial incentives (reward inequality) between top and lower level employees can create tension in the workplace. In performance-based financial rewards, lower level employees are likely to be demotivated and disappointment when they perceive that managers and supervisors perform less or equally but are rewarded more (Pratheepkanth, 2011:86).

Kvaloy, Nieken and Schottner (2013:2) state that a plethora of findings reveals that financial incentives are not always beneficial and that financial incentives, such as bonuses, induce worse performance in the organisation. Kvaloy *et al*. (2013:2) affirm that this scenario is the hidden cost of financial incentives. Daft and Marcic

(2012:500) state that employees may resort to cheating when they know that they will be financially rewarded for improved productivity and performance. According to Daft and Marcic (2012:500), employees who resort to cheating focus more on achieving the stated reward than on the stated organisational goals and objectives. In other words, an employee who desires a cash bonus but falls short of goal achievement or targets is likely to rely on cheating to achieve their stated goals and objectives (Aguinis *et al*., 2013:242-243).

One of the major drawbacks associated with the use of financial incentives is that they are costly and expensive for the organisation. The organisation is obligated to utilise retained profits to offer cash bonuses or salary raises for an exchange of employee performance and productivity. The organisation can end up being bankrupt as a result of this financial strain. According to Aguinis *et al*. (2013:242-243), other challenges with financial incentives include that they lack the ability to enhance the relevant job knowledge, skills and abilities of employees; lack the ability to improve the quality of employee jobs, which is often known as job enrichment; and do not promote creativity and innovation, participation in decision-making, career development and growth.

Furthermore, financial incentives encourage employees to develop a sense of entitlement to certain amounts of payment if financial incentives are continuously provided; encourages unethical behaviour (cheating, lying) and counterproductive behaviours from employees; allows employees to concentrate on the reward rather than the job, thus encouraging quantity rather than quality productions; and it allows employees to have an intention to quit if the organisation falls short of the expectation and ability to pay out (Aguinis *et al*., 2013:242-243).

2.9 CONTEMPORARY ISSUES OF INCENTIVE SCHEMES IN NIGERIA

Organisations in Nigeria understand the importance of the utilisation of incentive schemes. Evidently, numerous public and private organisations in Nigeria have massively implemented and utilised both non-financial and financial incentives to enhance employee productivity and performance. In addition, the implementation and utilisation of both categories of incentive schemes have assisted management to achieve organisational goals and objectives (Abdulsalam, Faki & Dardau, 2012:1196; Achie & Kurah, 2016:1; Ehimen & Ojeifo, 2014:90; Olugbenga, 2011:40).

Abdulsalam *et al*. (2012:1196) state that non-financial incentives are the preferred method of motivating employees in large, medium and small scale organisations in Nigeria. In other words, some forms of non-financial incentives (praise and recognition) are cheap and easily utilised, rather than financial incentives in Nigeria. However, financial incentives are being implemented and utilised by these organisations. The types of financial incentives implemented and utilised are relatively low cost and do not require huge initial start-up capital (Abdulsalam *et al*., 2012:1198-1200). This indicates that management utilises financial incentives (commission, bonuses and overtime) that are cheap and does not place financial constraints or burdens on the organisation’s cash flow. The utilisation of non-financial incentives is as important as that of financial incentives in any organisation. However, it becomes less motivating when the majority of the employees in Nigeria desire to be extrinsically motivated by financial incentives.

Ehimen and Ojeifo (2014:90) and Osa (2014:62) state that, in developing countries, financial incentives appeal to all employees but more so to employees who earn a minimal salary and employees who are not part of the managerial level in the organisation. In Nigeria, specifically, the high cost of living, low quality of life, high family demands and expectations compel employees to desire more of financial incentives. This is so because financial incentives act as supplementary cash that raises the income level of employees. Therefore, to meet the financial demands and expectations of employees, numerous employers in Nigeria have focused on utilising financial incentives such as pay, overtime, performance standards, commissions, bonuses, merit, paid leave, benefits, team bonuses and profit sharing (Ehimen & Ojeifo, 2014:90; Olugbenga, 2011:40). These financial incentives have the advantage of maintaining the work attendance of employees; they allow employees to perform their assigned tasks; they enhance employee competence (complete task without error), and encourage employees to cooperate with and share information and knowledge with co-employees (Bratton *et al*., 2010:212).

Although the financial incentives utilised by Nigerian organisations enhance the effectiveness of employees, they lack the ability to do more for the employees and the organisation. This implies that the financial incentives utilised by Nigerian organisations are necessary but not sufficient to retain and attract employees, plan and save for employees' retirement years, align employees' goals and interests with that of employers, enhance employees' morale and commitment to organisational culture, goals and objectives (Freeman, 2007:1). Milkovich and Newman (2005:269-270) assert that selecting the appropriate financial incentive is crucial for the effectiveness of employees in achieving the stated goals and objectives. Furthermore, the appropriate financial incentive that appeals to employees will create an immediate interest and impulse towards goal achievement.

Conveniently, ESOPs stand out from every other financial incentive utilised in Nigeria. According to Freeman (2007:1), ESOPs are unique and they stand as the number one financial incentive amongst other financial compensation options. In addition, Freeman (2007:1) confirms that a plethora of research findings have shown that the adoption and utilisation of ESOPs provide numerous benefits for both organisations and their employees. Due to the absence of the utilisation of ESOPs in Nigeria, this study will forge ahead by introducing the adoption and implementation of ESOPs.

2.10 SUMMARY

This chapter provided comprehensive literature on the incentive schemes in organisations. In order to gain clarity on the topic of discourse, numerous definitions on incentive schemes were provided herein. Furthermore, this chapter provided discussions on the incentive theory of motivation. In addition, the purpose of incentives was discussed. This chapter indicates that management effectively utilises non-financial and financial incentive schemes to achieve the desired organisational outcomes.

This chapter provided a discussion of various classifications of incentives that include remunerative, moral, coercive, personal and natural incentives. Furthermore, the categories of incentives were presented. This chapter shows that incentives can be categorised into two major types: non-financial and financial. This chapter focused on providing comprehensive literature on each category of incentives. The definitions and nature of non-financial incentives were presented for the purpose of clarity. In addition, the categories individual extrinsic, individual intrinsic, collective extrinsic and collective intrinsic benefits and challenges of non-financial were broadly discussed in this chapter.

Furthermore, this chapter provided definitions and an outline of the nature of the financial incentives. This chapter offered a discussion of the two categories of financial incentives, namely, direct and indirect financial compensation. More so, this chapter showed that defined contribution plans are under indirect financial compensation. Defined contribution plans such as the 401(k) plan, profit sharing plan, employee stock option plan and ESOPs were discussed for the purpose of clarity. In addition, the benefits and challenges related to financial incentives and contemporary issues regarding incentive schemes in Nigeria were discussed in this chapter.

Chapter Three provides an overview of Employee Share Ownership Plans (ESOPs). Detailed discussions on the nature and scope of ESOPs is provided therein. The next chapter provides literature on the history and development of ESOPs, the clarification of ESOP terminologies and reasons for adopting ESOPs. Furthermore, chapter three discussed the types of ESOPs, their advantages, disadvantages, together with the roles and responsibilities of participants and the management of ESOPs.

CHAPTER THREE
OVERVIEW OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

3.1 INTRODUCTION

Chapter Two provided an extensive discussion on incentive schemes in the organisation. The definitions, objectives and theory of incentive schemes were presented and discussed. Chapter Two provided an overview of extant literature on the classification, nature, advantages and disadvantages, challenges and benefits of incentive schemes. More so, contemporary issues of incentive schemes in Nigeria were discussed.

The objective of this chapter is to provide an overview, definition, nature and scope of ESOPs. This chapter provides an outline of the history and development of ESOPs. Moreover, this chapter provides a review of extensive literature on useful terminologies that will provide a better understanding of the nature of ESOPs. Furthermore, the reasons for the adoption of ESOPs, types of ESOPs, advantages and disadvantages, roles and responsibilities of participants and management will be highlighted and discussed herein.

3.2 THE NATURE OF ESOPs

An employee share ownership plan (ESOP) is a type of financial incentive that is designed by management to align with the interests and increase the participation of employees in the organisation. This form of financial incentive allows management to provide employees with an ownership interest in the organisation through share investment. Management designs ESOPs to primarily invest in its own shares. In addition, an organisation becomes partly or entirely owned by its employees as soon as management provides shares or transfers ownership rights to its employees (Freeman, 2007:1; Groll, *et al*., 2010:17). There has been considerable growth regarding the adoption of ESOPs in numerous countries. This is the result of the benefits that employees, organisations and government derive from it (Martes, 2012:5; McHugh, Cutcher-Gershenfeld & Bridge, 2005:277-278).

3.2.1 ESOPs as a concept

ESOPs have been defined and described differently by numerous researchers across the globe. Employee share ownership plans are also referred to as employee stock ownership plans; it is a plan that is designed by management to invest primarily in the shares of the organisation (Flood, 2014:540). Similarly, Kratz and Craig (2007:5) define ESOPs as a defined contribution employee benefit plan that invests primarily in the shares of the organisation. Poulain-Rehm and Lepers (2013:325) describe ESOPs as an employee-owner programme in which employees own some portion of the shares in the organisation for which they work.

Kaarsemaker, Pendleton and Poutsma (2009:3) support this notion by stating that an ESOP is a financial incentive scheme in which employees are allowed, by management, to acquire equity shares of the organisation so that they become shareholders. Rodrick (2015:2) describes ESOPs as a retirement benefit plan that allows management to invest only in a singular asset (employers' shares). Furthermore, Garman and Forgue (2011:527) postulate that ESOP is a tax-deductible benefit plan that management uses as a gift from the organisation's shares to reward their employees.

Mazibuko and Boshoff (2003:33) define ESOPs as employee benefit plans in which employees in an organisation are provided with the rights to ownership interest (share ownership), information and influence. In addition, Thompson (2005:1) asserts that an ESOP is a means by which organisations, which aim to create a better society, broaden ownership to employees in order to address the disparities of wealth. Furthermore, Ozbilgin and Syed (2010:57) define ESOP as plans in which employees own some shares in their organisation. Furthermore, the ownership of shares may or may not grant employees the right to vote and they have a choice to sell their shares or leave it until retirement. Similarly, the Employee Ownership Association (2015c:1) views ESOPs as a model in which the share capital of an organisation is partly or entirely owned by its employees. In this study, an ESOP is defined as a form of financial incentive that allows management to provide its employees with ownership interest in the organisation through the distribution of the employer's shares. In other words, an ESOP is an employee benefit plan that allows the sponsoring organisation to broaden ownership through the provision of its own shares at no cost to employees who are willing to join the plan.

3.2.2 Scope of ESOPs

Jex and Britt (2008:278) state that an ESOP is an incentive scheme that organisations use to attract and retain talented employees as well as to tie rewards to organisational performance. Furthermore, an ESOP is a representative of an attractive incentive scheme that employers can utilise to compensate or reward the efforts of employees in the organisation. McCarthy, Reeves and Turner (2010:382) state that ESOPs are increasingly employed by various organisations in numerous countries to strengthen the relationship between management and employees, to improve the performance of employees and to reduce opposition to organisational reforms as well as to prevent hostile takeovers.

Furthermore, Zhu *et al*. (2013:22) support that the presence of an ESOP (financial incentive scheme) gives an organisation a significant advantage over its rival. Freeman (2007:12) further reports that organisations that have adopted ESOPs do not only improve profitability and productivity, they also have the advantage of organisational survival. This implies that ESOP organisations are less likely to be declared bankrupt than non-ESOP organisation.

3.3 HISTORY AND THEORY OF ESOPs

The concept ESOPs first appeared in history between 1921 and 1956. During this time, Louis Kelso and other American organisations such as Sears Roebuck, J.C Penney, Proctor & Gamble, Lowe’s and Pillsbury designed and adopted ESOPs. Furthermore, in mid-1927, an approximate number of 800,000 employees in the USA became shareholders with an aggregate holding of employer shares equal to approximately 1% (Menke, 2014:1; Murphy, 2005:656). This section provides information on the history of ESOPs and the theorists involved in the invention of ESOPs.

The proliferation and legislation of ESOPs in 1974 was influenced by the eccentric economic theory put forward by Louis Kelso and the conservative populism of Chairman of Senate Finance Committee (1966-1981) and Senator Russell Long. Louis Kelso, a lawyer in a prominent law firm in San Francisco and investment banker, developed an elaborate body of economic theory (Murphy, 2005:656). According to Murphy (2005:656), the theory was seen as the key to the survival of capitalism. Kelso quotes that the "*Capitalist system would be stronger if all workers, not just a few stockholders, could share in capital-production assets*" (Knyght, Kouzmin, Kakabadse & Kakabadse, 2010:1306).

Retooling Capitalism (2015:8) indicates that Kelso's capitalist view came as a result of the disparities of wealth between the rich and poor. In other words, there was a wide difference between the wealth owned by the rich and the poor. The rich got richer and enjoyed more capital ownership while the poor struggled to make a living and were disposed to losing the income they had. According to Retooling Capitalism (2015:8), Kelso suggests that broadening the base of capital ownership will be a solution to the disparities of wealth between the rich and the poor. Furthermore, Stumpff (2009:419) points out that Kelso was of the opinion that the economic value of any given employee's labour is inadequate to sustain and support the living wage of the employee. Therefore, it is crucial to encourage and broaden capital ownership amongst employees as a means of providing them with additional income.

During the mid-1950s, the owner of Peninsula Newspapers Inc. (PNI), which published several small papers, wanted to sell his organisation to its employees. Specifically, in 1956, Louis Kelso invented the first ESOPs (leveraged ESOPs) which allowed the employees of PNI to buy out the retiring owners without mortgages or pay cheques. Kelso set up a profit-sharing trust that enabled him to borrow money in order to purchase the organisation from the retiring owners. Shares were distributed to the individual accounts of employees as the trust paid off the loan (Retooling Capitalism, 2015:11).

In a bid to start a capitalist revolution, Kelso sought the conservative Chairman of the Senate Finance Committee, Senator Russell Long of Louisiana. According to Stumpff (2009:419), Kelso perceives that legislative backing through the help of

Senator Long will be a means to accomplish his capitalist theory. Furthermore, on 27 November 1973, Senator Long granted Louis Kelso an opportunity to speak on his economic theory. Kelso explained the economic theory of enhancing capital equality and expanding the capital ownership of employees to Senator Long (Stumpff, 2009:425). Senator Long was convinced that Kelso's capitalist view will help the poor to accumulate capital through share ownership without interfering with the wealth of the rich (Murphy, 2005:657; Retooling Capitalism, 2015:8-22; Stumpff, 2009:425).

During the introduction of a bill ten years later, Senator Long states that his future goal is to allow financial incentives to be structured in a method that will increase the chances of allowing more employees to accumulate more capital. In addition, Murphy (2005:657-658) reports that, during the time when the U.S. senate was developing a comprehensive revision of the employee benefit law that would soon become the ERISA, Kelso argued that the proposed legislation is an opportunity for his financing scheme to be established onto the statutory authorisation for the stock bonus plan.

Freeman (2007:2) reports that the proponents of employee ownership suggest that it could be used as a tool to build employee commitment, which may lead to productivity and profit. Furthermore, they argued that if legislation enacts law that promotes and facilitates broadbased ownership, corporate performance will be enhanced, workplace tension and disparities of wealth will be reduced, and a better society will be built. Murphy (2005:657) reports that, in 1974, Senator Long secured the passage of some twenty-five bills. The bills secured by Senator Long elaborated upon and promoted the ESOP legislation. Senator Long helped develop the tax policy for ESOPs within the Employee Retirement Income Security Act of 1974. Furthermore, ESOP legislation began to gain popularity amongst other forms of employee share ownership and, as a result, twelve states in the USA passed legislation that promoted and encouraged ESOPs, independent of Senator Long's influence (Retooling Capitalism, 2015:21-22).

Despite the early appearance of ESOPs, they only gained recognition as a form of stock bonus plan under the reform made by the USA government in the 1974 Pension Reform Act signed into law on Labor Day, 2nd of September 1974. The pension reform act was titled Employee Retirement Income Security Act of 1974, popularly referred to as ERISA (Menke, 2014:1; Murphy, 2005:656). Prior to the passage of the ERISA, employee ownership was generally limited to the stock bonus plans of publicly held organisations. Specifically, the ERISA recognised the qualified retired plan that will invest primarily in the shares of the organisation and it allowed organisations to utilise related party financing to acquire shares (AICPA, 2013:1). The 1974 ERISA legislative act led to the proliferation of ESOPs, stock options, stock purchase plans, profit sharing and the 401(k). Furthermore, the ERISA was enacted by the government to protect employees' interests in relation to retirement plans (defined benefit pension plan and defined contribution pension plan) such as ESOPs, stock options, stock purchase plans, profit sharing and the 401(k) (Menke, 2014:1; Murphy, 2005:656).

3.4 CLARIFICATION OF ESOP TERMINOLOGIES

There are certain terms that are associated with and used in describing ESOPs. These terms are useful and important in understanding what an ESOP is and how it works. Therefore, to have a general understanding and overview of ESOPs, this section will list and clarify some terms associated with ESOPs.

ESOPs: This is an acronym for Employee Share Ownership Plans that meet the requirements of section 407(d) (6) of the Employee Retirement Income Security Act of 1974 (ERISA). An Employee Share Ownership Plan is a defined contribution plan or qualified retirement plan that is designed to allow organisations to invest primarily in their own shares. This plan allows employees (participants) to have full or partial ownership interest in the organisation. Shares are distributed to employees at no up-front cost. Furthermore, ESOPs are utilised by organisations as employee benefit plans or financial incentives to motivate employees to work (Cordes, *et al*., 2005:106).

Trusts: An ESOP is operated through a Trust. The organisation establishes or sets up a trust fund to which it makes an annual contribution of new shares from its own shares or cash to buy existing shares. The trust allocates or distributes contributions to individual employee accounts based on a formula. In addition, contributions are held in the Trust until employees retire or resign from the organisation. More so, an ESOP Trust is obligated to buy back shares from departing employees. The trust is administered by ESOP trustees appointed by the organisation’s board of directors (AICPA, 2013:2; Klinger, Bachrach & Haley, 2008:44).

Shares: This is basically having a unit of ownership that represents an equal proportion of the organisation’s capital. In other words, it refers to the entitlement or claim that an individual has on the assets and earnings of an organisation. Shares are sometimes used interchangeably with terms such as equity and stocks. The acquisition of more shares implies that an individual has more stake and ownership interest in the organisation. Specifically, ESOPs legally allow the employer to invest primarily in its shares. The organisation grants employees an ownership interest through the distribution of its own shares (Saharay, 2008:105).

Allocated and unallocated shares: When ESOPs purchase shares with an exempt loan, these purchased shares are held in a suspense account and therefore are not allocated to ESOP participants. However, shares held in the suspense account are released annually and allocated by the ESOP trust to individual participants’ accounts as the exempt loan is being repaid (London & Brozen, 2014:1).

ERISA: Employee Retirement Income Security Act of 1974 is a federal law that sets the minimum standards, imposes sanctions and provides regulation and protection for employees’ retirement benefits, pensions and health plans. The body of regulatory laws is found in the Internal Revenue Code and the ERISA. The Code (Internal Revenue Code of 1986 as amended) and the ERISA govern the Qualified Retirement Plans. In addition, the Department of Labour (DOL), Department of Treasury (Internal Revenue Service, IRS) and the Pension Benefit Guaranty Corporation are given the power and responsibility by the ERISA to enforce and supervise the retirement benefit plans adopted by employers (Todd, 2011:163).

Stock bonus plan: The ERISA describes a stock bonus plan as a defined contribution plan or qualified retirement plan to which the employers of an organisation contribute their own shares to employees’ individual accounts. In other words, employers deliver benefits to employees in the form of shares instead of cash (Schlesinger, 2007:521).

Money purchase pension plan: This is a defined contribution or qualified retirement plan in which the employer contributes a specified amount of cash annually into the individual employee's retirement account. This type of plan allows the employer to contribute cash rather than shares or profits for retirement income for its employees (McGill, Brown, Haley & Schieber, 2005:282).

Distributions: ESOP participants are entitled to receive a distribution of their vested benefits during the plan year following the year they retire, die or become incapacitated. However, ESOP participants whose employment has been terminated or who voluntarily quit prior to reaching retirement, death and disability are required to wait up to five years in order to receive a distribution of the vested portion of their ESOP account. In addition, distributions are made quickly if amounts within the ESOP trust are invested in cash while amounts attributable to the organisation's shares are often distributed in instalments over a period of five years (London & Brozen, 2014:3).

Diversification: When ESOP participants reach the age of 55 and have participated actively in ESOPs for ten years they become eligible to partially diversify their shares. ESOP participants have the right to diversify up to 25% of the organisation's shares allocated to their account during the period of five years and, in the sixth year, they may diversify up to a total of 50% of their allocated shares. Furthermore, to satisfy the diversification requirements, an ESOP is required to offer employees at least three alternative investments under the ESOPs, rollover into participants' 401(k) or distribute the cash to participants (McIntyre, 2012:23; NCEO, 2016a:1).

Eligibility: This refers to the stated requirements and entitlement that grants employees participation in ESOPs. Similar to other qualified plans, ESOPs include all employees above the age of 21 who have completed one year of service during which they worked at least 1,000 hours in the organisation (Frisch, 2002:55; McIntyre, 2012:19).

Repurchase liability: This refers to the obligation made by the employer or organisation to buy back shares from ESOP participants when they terminate, retire, die or become disabled, according to the ESOP's plan document and distribution policy. Organisations are obligated to convert the shares of departing employees into cash. In other words, the organisation must buy back shares from departing employees at a fair market value unless there is a public market where shares can be traded (Frisch, 2002:47). According to Chase Commercial Bank (2015:4), the repurchase liability is determined by a number of factors including the size of the annual contribution to ESOPs, the vesting schedule, participant's age, number of participants, changes in the value of employers' shares, and turnover rates. Furthermore, the amount of shares and cash in the annual ESOP contribution, participant's diversification option and method of distribution and repurchase of the ESOP shares are factors that can determine the repurchase liability. The repurchase liability of an employer can grow, however, it can be managed if the organisation manages it cautiously.

Year of Service: In order for management to grant employees or participants the right to participate in ESOPs, employees or participants are required to perform 1,000 hours of service for the organisation. In other words, the plan of service refers to a plan year in which an employee or ESOP participant performs one year of service and at least 1,000 hours of service for the organisation (McIntyre, 2012:19).

Exempt loan: This a loan made to the ESOP by a bank or any other qualified lender. The exempt loan allows ESOPs to purchase shares from the employer or ESOP participants. Furthermore, an exempt loan made to the ESOP is basically for the benefits of the participating employee and their beneficiaries. The amount contributed by the organisation as an annual contribution is used by the trustee to repay the exempt loan (London & Brozen, 2014:4).

The ERISA fiduciary: This refers to anyone who has control or makes decisions regarding the management of an ESOP, or the management or disposition of its assets. In addition, the ERISA Fiduciaries are responsible for the operation and safety of ESOPs (Mathews, 2000:1). More so, a person in a plan fiduciary can be anyone who is responsible for the administration of the plan or someone authorised to offer investment advice for a fee. The four main duties of an the ERISA fiduciary are to act exclusively for the purpose and benefit of participants and their beneficiaries; to act skilfully, prudently, diligently and carefully in the interests of plan participants; to minimise risk of the plan by ensuring that the investment is diversified and to act consistently and in accordance with the plan, trust documents and laws of ERISA (Arsenault, 2000:89; Mathews, 2000:1).

ESOP trustees: **The** ERISA requires ESOPs to have a trustee. ESOP trustees are individuals responsible for managing the ESOP trust and holding the ESOP shares. The ESOP trustee acts prudently and in the best interests of employee participants and their beneficiaries. The trustees, in compliance with the requirement of Code and the ERISA, have the fiduciary responsibility to manage the fund's assets effectively for the benefit of ESOP participants (Brozen 2008:4). Alam, Reser and Sanchez (2011:2) specify that an ESOP trustee can be individual and internal (officers or management), independent (banks or trust organisations) or directed trustees (trustees who receive direction from internal or independent trustees).

Plan administrator: This refers to the person or entity responsible for the administration of ESOPs. The employer is usually the administrator responsible for hiring a third party administrator. The responsibility of the third party administrator is to maintain and keep records, calculate vesting and track account values according to the plan document. Third party administrators ensure that accurate information and forms are given to and obtained from participants (London & Brozen, 2014:1).

Plan document: A formal plan document sets forth the rules, terms and conditions of ESOPs that must be adhered to by management, the board of directors, the ESOP committee, trustees and the administrator of the plan. Specifically, the plan document must specify that the plan is an ESOP designed to invest primarily in employer shares. The ESOP plan document contains distribution rules and describes how the plan operates, who is eligible to participate in it, and who performs administrative and trustee functions (Frisch, 2002:98; Lassila & Kilpatrick, 2008:804). According to DOL (2012:1), key elements of the plan documents include a written description of the benefit structure and plans that guide the daily operations of ESOPs and trust funds which hold the plan's assets. Furthermore, the plan document contains information of a recordkeeping system that tracks the inflow and outflow of money from the plan. The distribution of documents containing plan information to employee participants and government is also included in the plan document.

Suspense account: This refers to an account where ESOP shares bought with an exempt loan are placed and maintained. In other words, when ESOPs (leverage ESOPs) borrow money to purchase an organisation's shares, the organisation's shares must be added to, held and maintained in a suspense account. Furthermore, the organisation's shares in the suspense account are released and allocated to the individual participant's account in future years as the loan is being repaid by the ESOP (Office of the Federal Register, 2012:293).

Vesting: This refers to the period of time that ESOP participants must work before acquiring a non-forfeitable entitlement to their benefit. In other words, vesting refers to the period of time ESOP participants must wait in order to benefit from ESOPs. ESOP participants who resign before being fully vested are likely to forfeit their benefits to the extent that they are not vested in them. Cliff and graded vesting are the two types of vesting schedules with which ESOPs must comply. Cliff vesting allows ESOP participants to be 100% vested after three years of service. Graded vesting occurs when the ESOP participant's vesting percentage increases by 20% more each year until 100% vesting occurs after the sixth year of service (McIntyre, 2012:20; NCEO, 2016a:1).

Put option: Organisations that are not publicly traded must provide a stock market that allows ESOP participants to sell back their shares. In other words, if the organisation is privately or closely held, ESOP participants must be given a put option. A put option grants ESOP participants the right, but not the obligation, to sell back their distributed shares to the organisation at its current fair market value. The ESOP put option is available during two periods. One of the periods is to be exercised by the employee against the sponsoring organisation within 60 days of distribution and the other within 60 days during the following plan year (Chase Commercial Bank, 2015:4; Frisch, 2002:47).

Voting requirements: The IRS Code requires that employee participants have certain voting privileges as a result of the shares allocated to their individual accounts. In a publicly held organisation, employee participants have full voting rights and are permitted to vote their shares in any situation involving a shareholder vote. In a privately held organisation, employee participants are allowed to vote their shares on major corporate issues including liquidation, mergers, recapitalisation, dissolution or the sale of the organisation's assets (AICPA, 2013:8).

Fair market value (FMV): This refers to the highest determined price at which an asset would sell in an unrestricted and open market where both parties are not forced to trade, as established in arm's-length negotiations between knowledgeable independent parties (London & Brozen, 2014:4). According to IRS, (2014:1), the Department of Labour (DOL) defines FMV as the determined price at which an asset would change hands between a willing buyer and a willing seller when either party involved is not compelled to enter into the transaction.

Valuation: The IRS and the ERISA provide guidelines that ensure the cautious and proper valuation of an organisation's shares annually. The valuation of shares is to be performed by a qualified independent appraiser in organisations (private or closely held organisation) whose shares are not readily tradable on an established security market. The appraiser is responsible for offering advice to ESOP trustees on the FMV of an organisation's shares (IRS, 2014:1).

Closely held organisation: This refers to an organisation with a small group of controlling shareholders (family business or group of investors) who share in the management of the organisation. The small group of shareholders holds and controls the majority of the organisation's shares, which are unavailable to the outside public. However, the minority of their shares are traded, which leads to a light volume of shares being traded. The shares of closely held organisations are not publicly traded. In addition, there is no ready market for trading shares of the organisation (Miller & Cross, 2012:698; Yegge, 2002:13). The share prices of closely held organisations are not determined by investment decisions (decision made by an investor and investment advisors on where, when and how much capital to spend and acquire in order to make a profit). Rather, it is determined by the value of the organisation itself. Closely held organisations have the advantage of using ESOPs for business continuity or to protect themselves from hostile takeover and proxy wars (Miller & Cross, 2012:698; NCEO, 2016b:1).

Privately held organisation: This refers to an organisation with a smaller number of controlling shareholders, investors or owners. A privately held organisation can be a partnership, sole proprietorship or business trust. Shares issued by the privately held organisation cannot be traded to the general public on the stock exchange market. However, shares of the privately held organisation can be traded, offered, owned and exchanged more privately. A privately held organisation can also be referred to as an unquoted or unlisted organisation (Baker & Baker, 2013:231; Lasher, 2016:191). DePamphilis (2015:360), Lasher (2016:191) and Miller and Cross (2012:698) state that privately held organisations are sometimes referred to as closely held organisations because their managerial policies and operations are controlled by a smaller number of shareholders.

Leveraged and unleveraged ESOPs: Leveraged ESOPs refer to a situation in which the ESOPs borrow money from a bank or other qualified lenders as an exempt loan in order to purchase the employer's shares. However, in unleveraged ESOPs, the organisation does not borrow money; rather, it makes an annual contribution of cash or its shares to the ESOPs (Gaughan 2010:369; Jansen, 2009:305).

3.5 REASONS FOR THE ADOPTION OF ESOPs

Organisations adopt and use ESOPs for a variety of purposes. The New Brunswick Innovation Foundation (NBIF) (2006:5) postulates that ESOPs can be used by organisations to address issues relating to employee recruitment and retention, employee productivity, organisational competiveness and profitability, low cost business financing and succession planning. Furthermore, Rodrick (2015:13) affirms that, aside from using ESOPs as a tax-advantaged way of providing employee benefits, ESOPs can be used for business continuity and as a tool for corporate financing.

Furthermore, the NCEO (2015c:1) states that ESOPs can be used as a ready market to buy shares from ESOP participants who are retiring or leaving the organisation, to borrow money at a lower-tax cost and to create a supplementary employee benefit. Tiley (2004:153) supports this notion by stating that organisations can achieve several corporate finance objectives by using leveraged ESOPs. Organisations can use ESOPs to achieve an employee buy-out of an organisation that is in financial difficulty, and ESOPs can be used by an organisation as an anti-takeover tool or poison-pill. ESOPs can be used to provide a ready market for the shares of unlisted or privately held organisations. ESOPs can be used to transfer ownership in a family owned business while the family still retains control (Tiley, 2004:153).

Brigham and Ehrhardt (2013:541-542) and Thompson (2011:1) state that numerous organisations adopt and use ESOPs to raise money for a new or struggling organisation, to attract and retain employees, to reduce wage demands and to use as a retirement strategy in compensating and rewarding committed employees. In addition, ESOPs can be used to align the interests, attitudes and behaviours of employees in building shareholder value. According to Tiley (2004:1523), Naegele (2010:2), NBIF (2006:5) and Rodrick (2015:13), ESOPs can be used for a number of reasons.

Business continuity: ESOPs can be used for business continuity in a closely or privately held organisation. Rodrick (2015:13) explains that, in order to use ESOPs for business continuity, the employer sells a part, the majority or all of its interest to its employees. Kerr and Rosen (2015:3) explain that an employer may develop a sense of identity and loyalty for its employees and organisation after so many years in business operations. Employers make a decision for their employees to have a continuity role in the organisation, in the absence of an heir, to avoid closing down the organisation or selling it to a rival organisation. This strategy enables an employer with a succession need to ease out or retire from its organisation.

Employee incentive: An ESOP can be used by an employer as a financial incentive for its employees. Naegele (2010:2) and NBIF (2006:5) report that organisations use ESOPs as financial incentive schemes to motivate, retain and attract skilled and talented employees. Furthermore, enhanced productivity, competiveness and profitability are the results of the incentive effect of talented and skilled employees being retained. However, the effectiveness of ESOPs as employee incentives depends on how well management communicates the plan to employees (Naegele, 2010:2; NBIF, 2006:5).

Gain tax advantage: Closely and privately held organisations adopt and use ESOPs to benefit from their unique tax advantage (Bauer, 2014:12). Furthermore, the tax incentives offered by ESOPs help to decrease or avoid the payment of tax and, as a result, numerous organisations adopt and use ESOPs to gain a tax advantage. In addition, the significant tax advantages of ESOPs create an availability of funds (increases cash flow) that can be used by an organisation for all aspects of business growth and operations (Bauer, 2014:12).

Corporate anti-takeover defence: Organisations can use ESOPs as a defensive tool to avoid, reduce or defend against corporate takeovers (Gaughan, 2010:381). Furthermore, Gaughan (2010:38) states that the popularity of ESOPs is a result of their use by organisations as anti-takeover defence rather than as a tax advantage. According to Tiley (2004:153), organisations can use ESOPs to defend against corporate takeovers by sharing capital ownership with their employees. In other words, an organisation places a large block of shares in the hands of employees through ESOPs; this situation blocks a hostile takeover from an organisation. Polaroid Corporations became the first organisation to use ESOPs as an anti-takeover tool against Shamrock Holdings Inc. (Tiley, 2004:153).

Corporate financing: Leveraged ESOPs can be used as a tool to borrow money. The money borrowed can further be utilised to buy another organisation or refinance a debt (Rodrick, 2015:17). Louis Kelso, the pioneer of ESOPs, first put the idea of using ESOPs as a tool for corporate financing into practice. Kelso used ESOPs as a corporate finance tool to help employees buy-out; an example of this is Peninsula Newspapers of Palo Alto, California (Gaughan, 2010:383). According to Gaughan (2010:383) and Tiley (2004:151), Kelso established an ESOP trust that was responsible for purchasing the shares of Peninsula Newspapers using loan finance. ESOPs, as a corporate financing tool, enabled Kelso to assist the employees to buy-out the organisation from the retiring owner of Peninsula Newspapers. In addition, using this plan lowered the cost of purchase as a result of the tax advantage benefits of ESOPs (Gaughan, 2010:383).

3.6 TYPES OF ESOPs

Kruse (2015:1) states that ESOPs take a variety of forms. An ESOP is not a one-dimensional concept that allows easy classification of an organisation as employee-owned or its employees as employee-owners. Rather, an ESOP is a four-dimensional concept that defines the percentage of employee participation within the organisation, the percentage of ownership held by employees within the organisation, the inequality of ownership stakes amongst employee-owners and the rights and privileges that ownership confers upon employees within the organisation. In addition, the rights and privileges that are conferred upon employees are determined by whether the ownership is direct (employees exercise the free will to purchase and sell shares) or indirect (shares are held in a trust on behalf of employees) and partly by the voting rights and other forms of employee participation accompanied by the ownership (Kruse, 2015:1).

Kaarsemaker *et al*. (2009:3) affirm that ESOPs take a variety of forms that may allow employees to acquire small or large portions of share, or the entire share capital. Shares can be held in the trust individually or collectively. In addition, participation in ESOPs may be open to a few (top level management or talented employees) or the majority of the employees (Kaarsemaker *et al*., 2009:3). Furthermore, participation in decision-making and rights to information vary depending on the form of ESOPs adopted by the organisation. Furthermore, Kaarsemaker (2008:325) clarifies that, in ESOPs, not all employees are eligible to participate in the benefit plan and not all eligible employees are willing to participate in the plan. Thus, in ESOPs, an organisation acquires or provides shares to its eligible employees who are willing to participate in the benefit plan.

McGill *et al*. (2005:299) and Rodrick (2015:2) state that ESOPs must be qualified to be either a qualified stock bonus plan, or a combination of a qualified stock bonus plan and a qualified money purchase pension plan. A stock bonus plan requires the employer to make beneficial contributions from its own shares to employees.

Furthermore, a money purchase pension plan requires the employer to invest in or make fixed contributions annually to the accounts of participating employees (Lassila & Kilpatrick, 2008:347; McGill *et al*., 2005:282).

The Employee Ownership Association (2015c:4) indicates that there are three main forms of ESOPs: direct (individual) share ownership, indirect ownership and hybrid ownership. According to the Employee Ownership Association (2015c:4), direct (individual) share ownership refers to a form of ESOPs by which the individual employee becomes a shareholder through holding a certain amount of shares in the organisation. Indirect ownership is a form of ESOPs in which shares are held on behalf of an employee in a trust. The trust acquires, distributes and manages shares held in the interests of participating employees. The Employee Ownership Association (2015c:4) describes hybrid ownership as a combination of direct (individual) share ownership and indirect ownership.

Furthermore, Jansen (2009:305), Kratz and Craig (2007:5) and Rodrick (2015:7) specify that ESOPs can be distinguished according to two methods of financing. In other words, organisations can choose between two main types of ESOPs: leveraged and unleveraged ESOPs. Leveraged and unleveraged ESOPs differ in the methods by which they can obtain shares from the organisation. Leveraged and unleveraged ESOPs will be discussed for clarity, below.

3.6.1 Leveraged ESOPs

Leveraged ESOPs refer to ESOPs that allow the ESOPs to borrow money directly from the employer, the bank or any other qualified lender (Jansen, 2009:305). The loan collected is referred to as an exempt loan and it is utilised by the ESOP or sponsoring organisation to purchase new shares from the organisation (if the leveraging is to be utilised to provide new capital expansion or improvement). In addition, the loan can be utilised by ESOPs to buy out existing shares from participants who are retiring or leaving the organisation (ESOP Association, 2015a:1).

The ESOP Association (2015a:1) emphasises that the organisation guarantees payment to the bank or qualified lender and that contributions will made be to the trust to enable it to repay the loan on schedule or, if the lender prefers, the organisation may borrow directly and pay a loan back to the ESOP. In order to retire the principal and pay interest on the loan, the organisation makes sufficient annual cash contributions to the trust (Garner, Owen & Conway, 1994:237). According to the AICPA (2013:3), the employer guarantees payment of the loan to the lender and the employer securities being purchased are the only assets required to be legally utilised as collateral. Furthermore, shares purchased with the loan are placed in a suspense account and are thereafter released and distributed to the individual employee's account as the debt is amortised (CCH, 2007:8003).

3.6.2 Unleveraged ESOPs

The unleveraged ESOP is the direct opposite of the leveraged ESOP in terms of how shares are obtained. In unleveraged ESOPs, the employer does not borrow money to acquire new or existing shares of the organisation. Garner *et al*. (1994:236) refer to unleveraged ESOPs as the simplest form of ESOPs in which the organisation makes a direct and annual contribution of cash and shares to the ESOPs. In addition, the cash contributed by the employer is utilised by ESOPs to purchase the organisation's shares. Shares contributed to the unleveraged ESOPs are allocated to individual employee accounts immediately (Spinelli, Rosenberg & Birley, 2004:220).

3.7 THE DISADVANTAGES AND ADVANTAGES OF ESOPs

The increasing growth of ESOPs during the past thirty years has brought with it the development of experts and consultants responsible for advice and technical assistance in setting up ESOPs. Furthermore, the advent of ESOPs has also brought with it groups of advocates of the adoption of ESOPs, as well as critics who claim that the disadvantages of ESOP adoption outweigh its advantages (Alperovitz & Speth, 2011:85). In contrast, Linnoinen (2013:66) argues that the advantages of ESOPs outweigh their drawbacks and that most drawbacks of ESOPs can be alleviated by careful preparation and action on the part of the organisation.

Alperovitz and Speth (2011:85) state that the critics of ESOPs argue that ESOPs do not involve the real participation of employees; its adoption is only prompted as a result of the anti-takeover and tax advantages that employees and organisations stand to benefit. In addition, ESOPs do not do much to improve the overall compensation ratios since they award shares in proportions related to the wages and salaries of employees. Furthermore, Becker and Posner (2007:1) criticise ESOPs by stating that management that focuses on achieving short-term goals (maximisation of shareholder value) adopt ESOPs as a strategy to induce employees to work harder. Furthermore, poorly performing management adopt ESOPs as a strategy to keep them in appointment, gain a tax advantage and avoid unfriendly takeover.

Furthermore, D'Art and Turner (2006:547-549) maintain that critics of the adoption of ESOPs contend that sharing ownership with employees, through the issuance of shares, is a risky investment that places the capital of employees at risk. Besides this, ESOPs allow employee-owners to have little control over corporate decision-making, they do not grant employees greater property rights, increased involvement and improved corporation with management. In addition, Freeman (2007:17) reports that mainstream economists, theorists and investigators are sceptical about the advantages of ESOPs. In addition, these opponents predict that the adoption of ESOPs in an organisation will result in underinvestment, inefficient decision-making and inadequate supervision.

Charles-Henri and Stephane (2002:7) suggest that the adoption of an ESOP is expected to increase performance, align the interests of employees and shareholders, and reduce conflict and agency costs. An ESOP organisation is likely not to actualise the stated advantages because employee attitudes are strongly dependent on the number and value of the shares that they own. Therefore, employees with a small number of shares are likely not to exhibit the expected positive attitude evident in employees with a large number of shares. Furthermore, Fried, DeSchriver and Mondello (2013:175) and Hua (2006:43) suggest that adopting an ESOP is a disadvantage to organisations and employees because it:

- places the retirement savings of employees at risk;
- undermines managements' level of authority within the organisation;
- places the organisation at financial risk if it is not implemented carefully;
- involves a high cost during the setting up process;
- creates an additional debt to the balance sheet of the organisation as a result of its ability to borrow with leveraged ESOPs;
- is difficult for ESOP organisations to raise capital;
- creates a high cost of repurchase liability if the organisation has not planned for it; and
- is difficult to engage in efficient and collective decision-making as a result of the heterogeneity of employee-owners' preferences.

Regardless of the argument put forward by critics of ESOPs, the advocates of ESOPs claim that sharing ownership with their employees will instil an ownership culture that will align their interests and those of employees towards the maximisation of shareholders' value and success achievement. Furthermore, through the sharing of ownership, employees will become emotionally attached to the organisation and have a sense of pride and identity in their organisation (Zhu *et al*., 2013:18). Furthermore, organisations recognise that employees who are made owners through share ownership will have the opportunity to gain substantial wealth in the long-term while it makes them work better and smarter, thus improving the success of the organisation (Freeman, 2007:6).

Furthermore, Fried, *et al*. (2013:175), Gilbert (2005:1) and McConville *et al*. (2012:4) suggest that the adoption of an ESOP is advantageous to an organisation and its employees because it helps to attract and retain key, skilled and talented employees; helps to reduce wage demands; increases resilience and the likelihood of organisational survival; helps to increase the long-term focus of employees; and helps to align the interests of employees and management towards increasing shareholder value. Furthermore, the adoption of ESOPs can help to increase the cash flow of the organisation; increase the level of satisfaction that employees have with their job; improve the working partnership and communication between employees and management; promote greater job stability; and reduce the level at which management supervises employees. Furthermore, Fried *et al*. (2013:175), Gilbert (2005:1) and McConville *et al*. (2012:4) state that the adoption of ESOPs can create room for increased employee innovation and ideas needed for organisational growth; allow employees to gain wealth or retirement savings in the long run; grant employees involvement in decision-making and rights to information; and give employees a sense of pride and identity in their organisation.

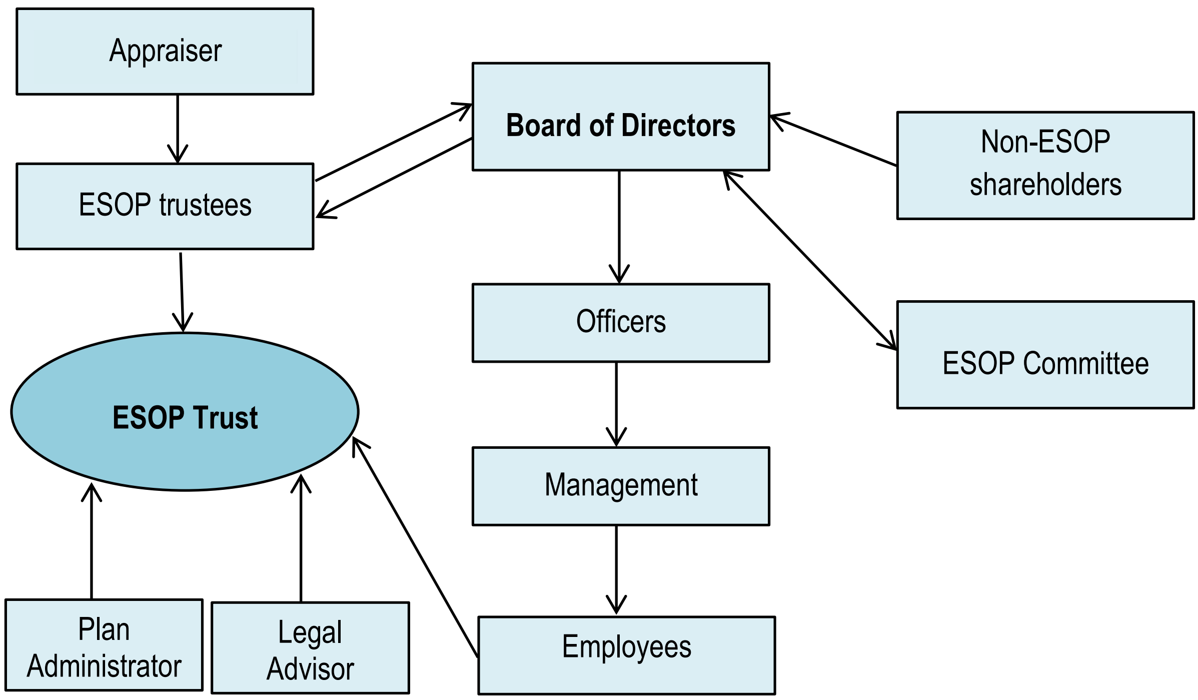
3.8 ROLES AND RESPONSIBILITIES OF MANAGEMENT AND ESOP PARTICIPANTS

The adoption of ESOP in an organisation requires a team of experts and specialists who have the knowledge, skills and experience to control and make decisions regarding the plan and its assets. This team of specialists, who are regarded as the ERISA fiduciary and ESOP participants, must act accordingly in compliance with the plan document and ensure that it meets the requirements of the Internal Revenue Code and the ERISA (IRS, 2015c:1). Management roles and responsibilities as well as the roles of ESOP participants can be very confusing if not properly identified and clarified. Therefore, it is critical that all those involved in the control of, or make decisions regarding, the management of the ESOP and disposition of its assets have no misconceptions about what it means to be a fiduciary. This will help avoid conflict amongst management or ESOP participants as well as clarify their roles and responsibilities in compliance with the requirements accompanying their positions (McIntyre, 2005:10).

In order to clarify and understand the roles and responsibilities of participants and ESOP management, it is pertinent to first have knowledge of who manages an ESOP organisation. Figure 3.1, below, illustrates the role players in the management of ESOPs in an organisation. Figure 3.1 illustrates that the appraiser performs a valuation of the organisation’s shares and gives valuation advice to ESOP trustees. ESOP trustees and plan administrators have fiduciary responsibilities towards ESOPs and their assets. The board of directors appoints trustees, and ESOP trustees and shareholders elect the board of directors.

In addition, the board of directors appoints officers; officers are responsible for hiring a management team and this management team is responsible for running the operations of the organisation. In addition, employee participants receive ESOP allocations; the board of directors may appoint other ESOP committees and the ESOP committee performs the role of advisor to management. The legal advisor provides legal assistance and services to the sponsoring organisation and ESOP trustees. Figure 3.1 illustrates the role players in the management of ESOPs in an organisation.

Figure 3.1: The role players in the management of ESOPs



Source: Adapted from Mathews (2007:7) and Brozen (2008:2).

3.8.1 Roles and responsibilities of the ERISA fiduciary and ESOP participants

According to Mathews (2007:9) and McIntyre (2005:10), not everyone who manages an ESOP organisation is a fiduciary. Specifically, the ERISA fiduciary refers to individuals or entities who exercise discretionary authority and control over the management of ESOPs and their assets. In addition, an ERISA fiduciary is described as anyone who acts in the interest of employees while having the legal obligation to provide investment advice for a fee (McIntyre, 2005:10). The Department of Labour

(DOL) (2016:1) provides a more elaborate description of the definitions and functions of an ERISA fiduciary. According to the DOL (2016:1), the ERISA fiduciaries are entities and individuals positioned to exercise control and authority over plan management or assets, administration of the plan and provide investment advice regarding the plan for a fee or have any authority or responsibility to do so.

The DOL (2016:1) states that the ERISA fiduciaries are obligated to follow the terms of ESOP plan documents and that they must ensure that the ESOP plan documents are consistent with the laws of the ERISA. The primary responsibilities of the ERISA fiduciaries include that they run ESOPs exclusively in the interests of employee participants and their beneficiaries, and provide them with plan benefits. Furthermore, the ERISA fiduciaries must ensure that they act judiciously and diversify the investment made by ESOPs to minimise the risks associated with investment loss. The ERISA fiduciaries must avoid conflicts of interest. This implies that they are not allowed to engage in any transaction that directly benefits non-ESOP participants, other related fiduciaries, service providers and the sponsoring organisation (DOL, 2016:1).

Furthermore, the DOL (2016:1) stipulates that the ERISA fiduciaries who act reluctantly and against ESOP plan documents and the laws of the ERISA are liable to reinstate and restore any losses or profits made through the improper use of plan assets. The breach of contract by an ERISA fiduciary is subject to receive any action taken by the court of law, including termination of office. Table 3.1, below, provides a summary of the ERISA fiduciaries.

Table 3.1: Summary of the ERISA fiduciaries

Title	Are they an ERISA fiduciary?
Appraiser	No
Trustee	Yes
Plan Administrator	Yes
ESOP Committee	Yes
ESOP Attorney	No
Board of Directors	Yes
Management	Generally not
Third party Administrator	Generally not

Source: Mathews (2007:9).

3.8.1.1 The roles and responsibilities of an appraiser

The valuation of shares is a critical aspect in ESOP organisations. Accuracy in the assessment of the fair market value (FMV) is essential to the ESOP's ability to comply with Code and the ERISA (IRS, 2014:1). According to the regulatory requirements of IRS and the ERISA, the sponsoring organisation is required to contract the services of an independent third party, usually known as an appraiser, to conduct the valuation of the organisation's shares that are not readily tradable on an established security market. The IRS proposes that the reason for the need for an independent third party appraiser is to ensure that appraisers do not have a direct interest (personal or financial) in the valuation of shares. In addition, the appraiser must solely perform the role of business valuation advisor on behalf of the ESOP trustees (IRS, 2014:1).

An ESOP appraiser is an independent third party entity or individual who is responsible for providing advice on the valuation of an organisation's shares annually. ESOP appraisers are not ESOP fiduciaries but are independent third party entities required to perform advisory duties on share valuation free from all participants in ESOPs. Specifically, ESOP appraisers must not perform their duties to directly benefit one or more parties or organisations that directly control and manage the plan, for example, sponsoring organisation, family, employees, officers, directors and partners (Davis, Gustafson, Potts & Steiker, 2015:5).

In order to select an ESOP appraiser capable of performing valuations of employer's shares, Brozen (2008:11) suggests that the trustee should hire a qualified appraiser who is independent and has sufficient experience in ESOPs and their valuation process. The appraiser must be actively involved in the valuation process, should apply sound business principals of valuation and conduct prudent investigations. More so, the appraiser is required to take documentation seriously. In other words, appraisers are required to take and keep notes as well as write memos that summarise the process, issues and resolutions (Brozen, 2008:11). The IRS (2014:1) states that appraisers who are valuation advisors of the organisation must consider these factors in determining the value of shares:

- Nature and history of the organisation issuing shares.
- The outlook of the economy and specific industry of the organisation.
- The book value of the shares and financial conditions of the business.
- The earning capacity of the organisation.
- The dividend paying capacity of the organisation.
- Goodwill value and recent sales of shares.

Furthermore, Davis *et al*. (2015:7) state that the DOL undertook a project that assessed the valuations of ESOPs. The findings reveal that the majority of ESOP appraisers conducted the valuations of shares poorly and ESOP appraisers often make incorrect, inaccurate or give misleading advice on the valuation of an organisation's shares. In order to address the incompetence and increase the worth of ESOP appraisers, regarding valuation analysis and opinions, the DOL issued regulations for comment that would make independent appraisers fiduciary. The proposal to make appraisers fiduciaries was not accepted and therefore withdrawn (Davis *et al*., 2015:7-9). Irrespective of the rejection of the proposal, the DOL has imposed strict sanctions on independent appraisers committing wrongs and trustees who rely on the faulty projections of appraisers (Walter, 2016:8).

3.8.1.2 The roles and responsibilities of trustees

ESOP trustees are the ERISA fiduciaries who play an important role in ESOPs. ESOP trustees are a group of persons who are legally bound and have the power to hold, control and manage the administration of the plan and the plan's assets while acting solely for the benefit of ESOP participants and their beneficiaries. ESOP trustees are the legal shareholders of the shares held in the ESOP trust; they are currently responsible for determining the fair market value (FMV) of the plan assets and establishing the annual price of ESOP shares (AICPA, 2013:2; McIntyre, 2005:10).

Alam *et al*. (2011:2-10) state that an ESOP trustee can be an independent bank or individual and trust organisation. In addition, ESOP trustees have numerous responsibilities, which include hiring a qualified appraiser, determining the FMV of shares, purchasing shares, managing investments, recordkeeping and day-to-day accounting, allocations/distributions of shares and tax reporting. Furthermore, Alam *et al*. (2011:2-10) and Brozen (2008:5) state that ESOP trustees are responsible for investing trust assets, retaining experienced independent appraisers, maintaining the confidentiality of valuation reports, determining that funding is adequate for repurchase obligation, reviewing annual allocation reports, electing a board of directors, diversifying plan assets for qualifying employee participants, voting shares held within ESOPs and performing employee communications and disclosures.

The Alaska Society of Certified Public Accountants (AKCPA) (2016:1) states that ESOP trustees must hire an appraiser who is a qualified valuation advisor. In addition, ESOP trustees must carry out a thorough investigation on the veracity of the appraiser's qualifications; take steps to ensure that the appraiser receives complete, accurate and current information that will aid the valuation of the organisation's shares; and ESOP trustees must prudently determine and ensure that the advice offered by appraisers is reasonable before accepting any transaction in reliance on such advice. In order to select an appraiser, the AKCPA (2016:1) suggests that ESOP trustees prepare a written analysis that addresses the following topics:

- A list that shows all appraisers to be considered for selection.
- The reason for selecting a particular appraiser.
- Discussions and investigation of the authenticity of an appraiser's qualifications should be considered.
- Compiling a list of references and gaining these references' views of the appraiser.
- Discussions and assessment on whether the appraiser has been involved in any criminal or civil proceedings.
- A full explanation showing and concluding that that trustees' selection of the appraiser was prudent.

Therefore, ESOP trustees hire an independent appraiser that performs an advisory role in the valuation of the plan's assets while the trustees determine and establish the FMV of the shares. This implies that the valuation report provided by the independent appraiser is seen as a mere recommendation that can either be accepted or rejected by ESOP trustees (McIntyre, 2005:10). The IRS (2014:1) states that the trustee has the responsibility of ensuring the proper valuation of an organisation's shares, must make a personal and prudent investigation of value ensuring that the underlying assumptions on which the valuation was performed have not changed by the time at which the ESOP purchases the shares. Table 3.2, below, provides a summary of the other responsibilities of ESOP trustees.

Table 3.2 Responsibilities of ESOP trustees

Responsibilities of trustees	Practical applications of trustees' responsibilities
Valuation of share	• Hires a qualified independent appraiser. • Determines the value and price of shares. • Reviews valuation report before accepting it.
Share purchase	• Must ensure that share purchase is not a prohibited transaction. • Must act prudently and ensure that purchase of shares is solely for the benefit of plan participants and their beneficiaries. • Must negotiate price. • Must prepare accurate documentation. • Must conduct a due-diligence investigation on all financial and legal matters.
Voting	• Must pass through votes to employee participants in the case of merger, consolidation, liquidations or sale of all the organisation's substantial assets. • Must provide adequate information to all employee participants. • Must ensure confidentiality of participant votes. • Must ensure no conflict of interets as regards voting. • Must conduct voluntarily voting for board of directors.
Recordkeeping and day–to-day trust accounting	• Must ensure payment of the ESOP plan. • Must notify the organisation of pending loan payments when due. • Must ensure that loan is collected from the sponsoring organisation and make necessary payment to the lender (bank or other qualified lender). • Must ensure that all exempt loans collected run through the trust, even if the loan comes from the organisation. • Must work with third party administrators in calculating the release of the shares, as per the loan documents, to ensure that the Code and the ERISA's regulations are not violated.
Miscellaneous recordkeeping/trust accounting	• Must ensure that the trust checking account is maintained. • Must ensure that custody of ESOP share certificates is retained and maintained. • Must ensure that an annual report and accounting is submitted to the organisation.
Allocations	• Must ensure that allocation reports are appropriate and correct. • Must verify the release of shares. • Must spot check the allocations. • Must ensure that the number of shares in the reports to the trust is verified. • Must receive and ensure that statements for both allocated and unallocated shares are precise.
Distributions	• Must distribute shares to employee participants as directed by the plan

	administrator. • Must ensure that distributions are verified to the allocation report before cheques are issued. • Must ensure that cheque and share certificates are prepared if the shares are to be paid out. • Must ensure that the required tax reporting forms are prepared and sent to the IRS without delay.
Non-Routine events	• Must conduct share sales, asset sales or mergers and refinancing of ESOP loan balances. • Responsible for increasing or decreasing ESOP ownership. • Must conduct board meetings, shareholder meetings and voting. • Must conduct repurchase obligation in the case of participant put option.

Source: Adapted from Alam *et al*. (2011:2-10).

3.8.1.3 The roles and responsibilities of a plan administrator

The Internal Revenue Service Code and the ERISA stipulate that the sponsoring organisation will require the services of a trained, experienced and reliable team of plan administrators that can handle the complications and complexities of recordkeeping and interpretation as well as the operations of ESOPs. The sponsoring organisation, through the board of directors, are the plan administrators who have legal and fiduciary responsibilities for overseeing the administration of the trust and the daily operations of the plan. In addition, the plan administrators, under the ERISA, are individuals or entities elected by the board of directors as the primary party responsible for communicating the benefits to employee participants and the IRS (Mathews, 2000:1).

The DOL (2012:9) affirms that the ERISA requires ESOP plan administrators to provide plan information to employee participants and beneficiaries as well as to government agencies. ESOP plan administrators must furnish information and report to the government by filing a Form 5500 Annual Return/Report with the federal government. The Form 5500 provides and reports information relating to the plan and its operations to the DOL, IRS and the Pension Benefit Guaranty Corporation (PBGC). The information contained in Form 5500 can also be disclosed and made available to plan participants and the public. According to the DOL (2012:9-10) and the NCEO (2016e:1), ESOP plan administrators are required to provide plan participants with a number of documents.

The summary plan description (SPD) is a document, written in a comprehensive language that describes and provides enough information regarding the plan to enlighten employee participants about the features, rules and expectations of the plan, as well as of their rights and responsibilities under the plan. The SPD also contains information about when and how employees become eligible to participate in the plan; the source and level of contributions; vesting periods; how claims can be filed for their benefit; names and addresses of the sponsor and fiduciaries, as well as the basic rights and responsibilities of participants under the ERISA. ESOP plan administrators provide employee participants with SPD within 90 days of joining the plan and to their beneficiaries after receiving the first benefits. After this, SPDs are redistributed from time to time and provided on request.

The summary of material modification (SMM) is a document that provides information to plan participants and their beneficiaries regarding any modifications, amendments or changes to the plan, or additional information that required in the SPD. Therefore, the SMM is seen as an updated version of the SPD; it must be distributed to plan participants 210 days after the end of the plan year in which the modification was made.

An individual benefit statement (IBS) is a document that provides comprehensive information or statements to plan participants about their account balances and vested benefits.

A summary annual report (SAR) is a document that is distributed annually. This document outlines and provides financial information in the plan's Annual Report, the form 5500, to plan participants.

The blackout period notice notifies plan participants of the closure of their transactions at least 30 to 60 days in advance thereof. In other words, during the blackout period, employees are not allowed to make direct investments or request distributions. The blackout period occurs if record keepers or investment options are changed and when the plan adds new participants as a result of a corporate merger or acquisition.

Furthermore, SES Advisors (2015:1) stipulates that ESOP plan administrators are responsible for directing ESOP trustees on decisions regarding voting shares. ESOP plan administrators ensure that statements go out in a timely manner; ensure that employee participants are given detailed information about the plan; and they ensure that employee participants receive payment and allocations. In addition, SES Advisors (2015:1) and the ESOP Association (2015b:1-3) state that the other responsibilities of ESOP plan administrators include providing plan participants with SAR, statements and management reports; delivering Beneficiary Designated Forms and SPDs to employee participants; filing SARs and Form 5500 Annual Reports/Returns with the DOL; and writing notices and giving diversification deadlines.

Furthermore, ESOP plan administrators are responsible for preparing annual government filings; giving voting instructions to trustees; completing benefit distribution forms; providing and designing amendments to ESOP plans and providing notifications to third party administrators (TPAs) on the updated FMV of shares.

Furthermore, SES Advisors (2015:1) and the ESOP Association (2015b:1-3) indicate that plan administrators are responsible for sending updated data, including the modification of plans and transactions to TPAs; sending audited financial statements for plans to TPAs in order for them to finalise the filing of Form 5500; providing customisation and compliance reports to management; providing timely notifications to customers regarding various deadlines pertaining to ESOPs; and testing for compliance (coverage and contribution limits) and non-discrimination.

3.8.1.4 The roles and responsibilities of an ESOP committee

The board of directors' power and authority is exercised through the appointment and delegation of all parties involved in the management of the plan. The rights and authority, as well as the board of directors' power of delegation, is what gives rise to the notion of an ESOP committee. The ESOP committee is also referred to as an ESOP Administrative Committee or a Plan Administration Committee. This committee consists of a group of individuals who are given part or all of the administrative functions by the board of directors (Mathews, 2000:1). The ESOP committee has a fiduciary responsibility towards the plan because it has some discretion with respect to the daily operations of the plan and is responsible for interpreting the plan. In addition, they establish the policies and procedures required to implement the plan. However, the right to make and amend policy is usually retained by the board of directors (Mathews,2000:1; McIntyre, 2005:10).

Furthermore, the NCEO (2016d:1) affirms that ESOP committees are plan fiduciaries that hold legal responsibility for the operations of the plan. ESOP committees may have six to three members consisting of members of management or the board of directors and non-management employees. An ESOP committee has several responsibilities that include: administrative duties (ensuring statements go out, participants get payment and allocations are properly made), making decisions on plan design and amendments, performing an advisory role and usually directing trustees in plan decisions, such as voting shares. More so, ESOP committees act as vehicles for the dissemination of information to plan participants.

In addition, the NCEO (2016d:1) states that other responsibilities (plan administration and communications) of ESOP committees include providing assurance that contributions to the plan will be properly credited; providing assurance that plan distributions will be appropriately done; conducting a study on repurchase obligation and creating solutions to deal with any issues that are detected; and providing an interpretation of the plan provisions. Furthermore, the roles and responsibilities of ESOP committees include ensuring effective communication and information to all plan participants; contracting the services of a plan administrator and an investment manager for non-share assets in the plan; ensuring that the plan administrator files the proper reports to be presented to the government; and ensuring that plan participants receive their own forms.

The ESOP committee is responsible for providing a guarantee that the proper procedures will be followed in the event of a plan participant's complaint about the plan and their rights. The committee is also responsible for keeping the minutes of all committee meetings; ensuring that a complete list of plan participants is given to the plan administrators; and ensuring that all plan participants receive their allocations, statements and forfeitures properly. Further, ESOP committees can adopt any additional rules that are required for the successful operations of the plan, specifically regarding general or discretionary plan provisions. They also provide the plan administrator with the information required for plan operations and gathering information that the organisation needs in order to file a tax report from the plan administrator. In addition, ESOP committees ensure that plan participants have access to certain documents on request and that they receive a summary plan description, annual reports on their account balances and reports on plan amendments (NCEO, 2016d:1).

3.8.1.5 The roles and responsibilities of an ESOP attorney

The complexity involving the ERISA and the Code's rules and regulations has led many organisations to seek the assistance and advice of attorneys with extensive experience in ESOPs. Employee participants have, over time, filed complaints against their organisations, advisors and trustees regarding improper valuations, misuse of assets, unrealised expectations or broken promises, conflict of interests and management enrichment to the detriment of plan participants. ESOP attorneys are a group of lawyers or law firms that provide legal assistance and services to the sponsoring organisation and ESOP trustees for a fee whilst acting in the best interests of plan participants and their beneficiaries. Attorneys do not have fiduciary responsibility towards the plan and plan assets. Specifically, attorneys and their law firms ensure that the ESOP organisation complies with the laws guiding ESOPs (NCEO, 2016e:1).

An ESOP attorney ensures that ESOP transaction documents, plan documents and various agreements (shareholder, ESOP and trust agreements) are prepared. In addition, corporate lawyers are responsible for overseeing any necessary adjustments to the corporate structure. Corporate lawyers are also responsible for counselling the board of directors on their fiduciary duties and the regulatory compliance issues of ESOPs, as well as providing advice to the board of directors and trustees on mergers, acquisitions, management buy-out and recapitalisation, hostile takeover bids and shareholder liquidity. Furthermore, commercial and tax lawyers has the technical skills to help implement ESOPs effectively from a legal standpoint (Phillips & Jensen, 2015). The NCEO (2016e:1) and DrinkerBiddle (2016:1-2) state that other responsibilities of ESOP attorneys include helping the sponsoring organisation comply with all the legal requirements of the ERISA in order to avoid litigation; assisting the sponsoring organisation in selecting fiduciaries and appraisers; and ensuring that plan documents and other ESOP documents are correctly prepared in accordance with the ERISA rules and regulations.

Furthermore, ESOP attorneys guide ESOP trustees in reviewing the valuation report from appraisers; conducting compliance reviews and advising trustees on corrective action; guiding trustees on how to reduce conflict of interests and obtain fairness of opinion from financial advisors; and helping the sponsoring organisation conduct pass-through votes on major corporate transactions. More so, the responsibilities of an ESOP attorney include advising and ensuring that the sponsoring organisation practices effective corporate governance; providing guidance on how the sponsoring organisation should respond to audits and investigations launched by the IRS and the DOL; and helping to prepare, review and negotiate ESOP loan documentation (NCEO, 2016e:1; DrinkerBiddle, 2016:1-2).

3.8.1.6 The roles and responsibilities of the board of directors

The board of directors in an ESOP organisation has the responsibility of ensuring that the management team makes decisions and acts in the interests of plan participants and their beneficiaries. In addition, the board of directors is a group of individuals with legal and fiduciary authority and control over the plan’s decisions (EI-Tacha, 2011:1; Mathews, 2000:1). According to Mathews (2000:1) and McIntyre (2005:11), the board of directors is responsible for delegating the ESOP committee to perform some or all of administrative functions for the plan. Moreover, the board of directors appoints ESOP trustees who hold the organisation’s shares and the ESOP’s assets. The fiduciary responsibility, and decisions taken by the board of directors, must be carried out prudently in the interests of plan participants.

Mathews (2007:13) explains that a board of directors can assume two distinct positions, although serving in both capacities in the organisation. In other words, the board of directors can act as a settlor and a fiduciary. The board of directors is settlor when it installs or designs the plan, creates the trust and has authority with respect to the trust as well as the authority to amend and terminate the plan. In addition, the board of directors is a fiduciary when it directs trustees and other fiduciaries with regard to the interpretation of the plan or the investment of assets. The board of directors performs the duties of a fiduciary when it selects ESOP trustees and committee members, performs reviews, approves appraisals and participates in transactions on behalf of the plan (Mathews, 2007:9).

Furthermore, Long (2008:1) stipulates that the primary responsibility of the board of directors is to ensure that the long-term success of the organisation is consistent with its responsibility to plan participants and its beneficiaries. A key function of the board of directors is to review the strategic direction of the organisation. Specifically, Long (2008:3) and Luckett (2014:1) state that the core responsibilities of the board of directors include: succession planning, selecting, appointing and advising the president/CEO, and growing shareholder value.

Succession planning: The board of directors has a responsibility to identify, recruit and develop potential successors within the organisation to occupy key leadership positions. The board of directors must provide continuity by ensuring adequate succession planning is in place for the president/CEO or other key senior managerial positions in the organisation (Luckett, 2014:1). Long (2008:3) states that, in ensuring adequate succession planning, the board of directors must:

- provide guidance in identifying, recruiting, selecting and evaluating senior management and candidates for election to the board;
- provide guidance in the approval of the compensation of senior management;
- ensure that it has skilled and experienced members with financial literacy and the expertise required for members of the finance and audit committee;
- ensure that directors are adequately compensated for their time, effort and assistance in the realisation of the long-term goals of the organisation; and
- ensure that the interests of the directors and long-term interests of shareholders are aligned through share ownership.

Select, appoint and advise the president/CEO: The board of directors is responsible for selecting and appointing a president/CEO who will assume responsibility for the administration of the organisation upon delegation. In addition, the board of directors provides advice and sets strategic goals for the president/CEO by approving financial statements and making financial and strategic decisions (Luckett, 2014:1). Long (2008:3) states that the board of directors is responsible for:

- providing adequate administrative support and guidance to the executive; they also determine whether to retain or dismiss the appointment of the president/CEO;
- reviewing the performance of executive members on the basis of specific job descriptions, including executive relations with the board, organisational leadership and management, as well as programme planning and implementation;
- governing the organisation by the policies formulated and agreed upon by the president/CEO and officers; they also ensure that the organisation has the ability to carry out its programmes efficiently;
- providing for fiscal accountability, approving budgets and formulating policies;
- reviewing and monitoring the organisation's financial controls and reporting systems through the audit committee;
- reviewing and approving the financial standards, policies and plans of the organisation;
- assuring that loans can be obtained for the operation of the organisation; and
- reviewing and approving the strategic plans and long-term goals of management.

Grow shareholder value: Growing and protecting shareholder value is one of the primary responsibilities of the board of directors. The board of directors has a fiduciary responsibility to carefully and prudently act in good faith and in the interests of employee participants and their beneficiaries (Luckett, 2014:1). Furthermore, Long (2008:3) asserts that the board of directors accounts to employee participants for the policies, products and services of the organisation and expenditure of its funds.

3.8.1.7 The roles and responsibilities of management

The roles and responsibilities of management in any organisation are similar to the roles and responsibilities of management in an ESOP organisation. Management in ESOP organisations are not the ERISA fiduciaries but are a group of skilled and experienced people who plan, organise, direct, control and coordinate employees, resources and business activities to achieve organisational goals and objectives (Robbins, Judge, Odendaal & Roodt, 2009:5).

According to Mathews (2014:1), management in an ESOP organisation is responsible for performing and managing various departments within the organisation, including finance and accounting, projects, information systems, operations, sales and marketing as well as human resources and personnel. McIntyre (2005:10) states that management provides assistance in the process of selecting and hiring ESOP trustees. This function is performed by reviewing proposals and making recommendations to the board of directors. The responsibility to select and hire trustees lies with the board of directors, except when the plan documents specify otherwise.

One of the basic responsibilities of management in an ESOP organisation is to ensure the actualisation of the strategic goals and objectives and to participate in the strategic operation of the organisation. In addition, management manages the day-to-day operations of the organisation and is required to give feedback to the organisation’s board of directors on the implementation, success or failure of its strategic plan (Mathews, 2014:1). More so, management is responsible for providing accurate and timely feedback or information to the board of directors and all ESOP participants. Mathews (2014:1) states that management’s other responsibilities include managing the daily activities of the organisation and ensuring the achievement of organisational goals and objectives; accurately forecasting and managing repurchase obligation costs; and controlling the effect of debt on the organisation’s value. In addition, management is faced with the responsibility of appropriately managing the exchange of funds between the organisation and its ESOPs, so as not to commit prohibited transactions; and maintaining a culture that reflects the positive influence of ESOPs on the organisation.

3.8.1.8 The roles and responsibilities of third party administrators

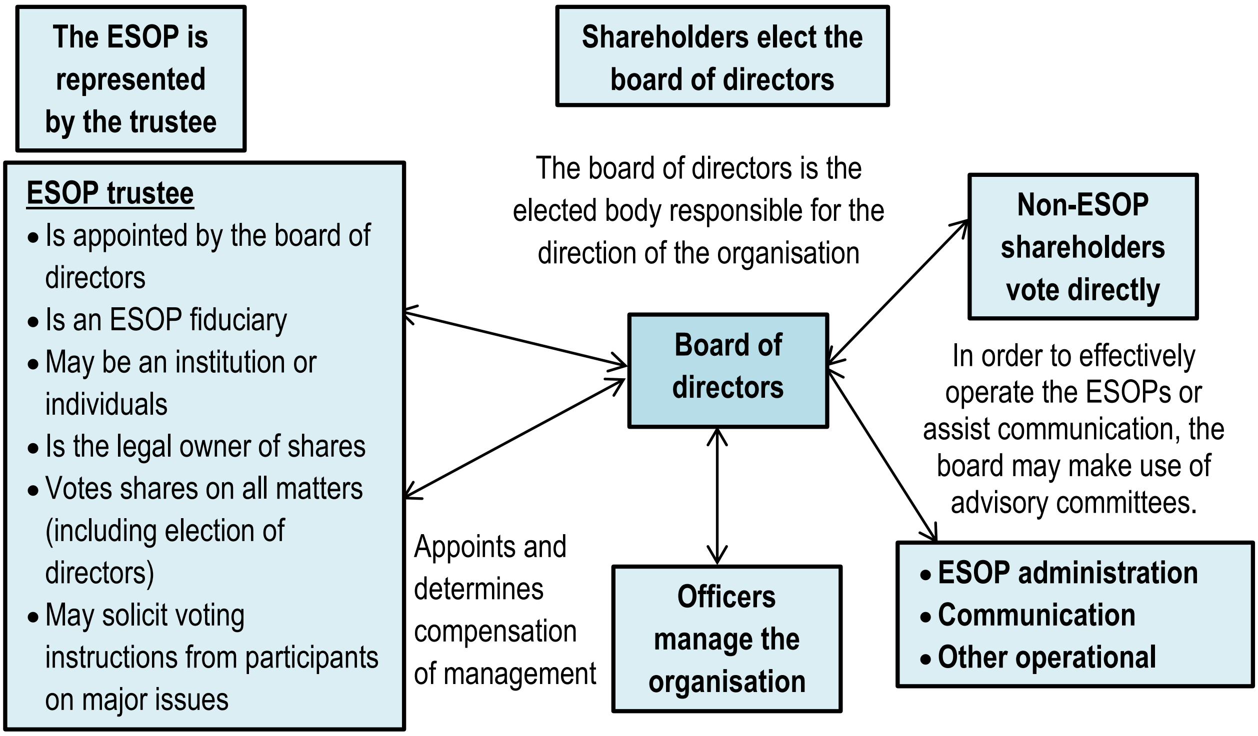
Generally, sponsoring organisations and plan fiduciaries require and hire the services of an experienced third party administrator (TPA) in handling plan administration duties, conducting compliance testing, recordkeeping and maintaining the account information of plan participants (Office of the Comptroller of the Currency (OCC), 2014:4). McIntyre (2005:10) defines a TPA as a group of experienced individuals that simplifies the administrative duties and provides assistance to the ESOP's plan administrator. In addition, TPAs generally do not have legal or fiduciary responsibilities, authority or control over the plan or its assets. According to the OCC (2014:4), ESOP trustees provide detailed information and a service agreement that outlines the duties of the TPA. Moreover, the TPA works closely with ESOP trustees to ensure that the level of information between the plan and employee participants is reconciled.

Furthermore, the OCC (2014:4-70) states that some of the duties of the TPA are to provide advice to the plan fiduciary on regulatory requirements regarding the administration of the plan; advise ESOP trustees on issues relating to voting shares and repurchase obligation; and assist in handling the administration of the plan internally. The roles and responsibilities of the TPA include helping to identify employees who are eligible for participation in the plan; helping to maintain and determine the amounts of contributions and extent of plan participants' benefits; processing the loans and withdrawal requests of plan participants; and processing and paying the benefit claim of employee participants at the instructionof the plan administrator. In addition, the roles and responsibilities of a TPA are to provide assistance with reporting and compliance testing; perform discrimination testing; ensure that ESOPs comply with the rules and regulations of the ERISA and the Code; and file various IRS and DOL forms on behalf of the plan (IRS Letter of Determination and Annual DOL Form 5500) (OCC, 2014:4-70).

3.8.2 Summary of key roles in the management of ESOPs

Clarification and understanding of roles in the management of an ESOP is necessary to avoid potential conflicts that may present challenges for the sponsoring organisation. In other words, the board of directors, officers, attorneys, appraisers, management, trustees, ESOP committees and shareholders are required to know and understand the specific roles they play in order to avoid litigation from the DOL and the IRS. In addition, to avoid fiduciary and litigation problems, all ESOP participants must know whether they are fiduciaries or not (Jackson, Kallstrom & Martin, 2007:8). Figure 3.2, below, illustrates a summary of the key roles in the management of ESOPs.

Figure 3.2: Summary of key roles in the management of ESOPs



Source: Adapted from Beyster Institute (2016:1).

The following is a summary of the fiduciary obligations of management and ESOP participants:

- Shareholders: Elect the board of directors.
- Board of directors: Are fiduciaries and the governing body of the organisation responsible for appointing and advising the president/CEO. The board of directors approves the information submitted by appraisers.

- Trustees: Are fiduciaries, appointed by the board of directors; they act on behalf of ESOPs as shareholders. Trustees are legal owners of the shares, they hire independent qualified appraisers for advice on the valuation of FMV and they make an approval on the share value.
- Management: Are not fiduciaries but they are responsible for running the daily operations of the organisation.

3.9 SUMMARY

Chapter Three provided a broad and comprehensive overview of ESOPs, which covered the nature and scope of ESOPs. Specifically, this chapter outlined the various definitions of ESOPs. The history and theory of ESOPs were also discussed in this chapter as well as the passage of the ERISA. Furthermore, to clearly understand the nature and scope of ESOPs, various ESOP terminologies were presented and defined, as well as the reasons, advantages and disadvantages of ESOPs. Moreover, this chapter presented a discussion of the two forms of ESOPs: leveraged and unleveraged ESOPs.

Furthermore, this chapter outlined and discussed the roles and responsibilities of management and ESOP participants. Comprehensive information on the roles and responsibilities of appraisers, trustees, ESOP committees, ESOP attorneys, the board of directors, management and third party administrators were presented and discussed herein. In addition, a summary of the key roles in the management of ESOPs was presented to further provide clarity on the topic.

The following chapter, Chapter Four, will present a detailed discussion of the implementation of ESOPs. The chapter will offer discussions on the implementation of the various classifications of ESOPs, the requirements for implementing ESOPs and the steps by which the types of ESOPs can be implemented in an organisation. The challenges and benefits of ESOPs to an organisation, employees and the economy will also be presented in Chapter Four.

CHAPTER FOUR
IMPLEMENTATION OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

4.1 INTRODUCTION

Chapter Three provided an overview of ESOPs. The nature and scope of ESOPs, as well as the history and theory of ESOPs were presented and discussed in the chapter. Chapter Three further clarified and provided an outline of the terminologies associated with understanding the nature of ESOPs. The reasons for the implementation of ESOPs, types of ESOPs and their respective disadvantages and advantages were discussed. More so, extant literature on the roles and responsibilities of management and ESOP participants was discussed in Chapter Three.

ESOPs have been practiced for a long time and are increasingly implemented by various organisations, globally, as a result of the benefits that they can offer. An ESOP is, by law, the only defined contribution plan that invests primarily in the shares of the sponsoring organisation (KPMG, 2011:3). ESOPs are unique amongst other defined contribution plans in their ability to borrow money at a lower after-tax cost. Furthermore, ESOPs have the ability to create benefits for organisations, employees and countries. As a compensation tool, ESOPs create wealth for employees; attract and retain employees; create feelings of ownership amongst employees, and align employees' interests with that of management. These features make ESOPs unique in comparison to other defined contribution plans (KPMG, 2011:3; Naegele, 2010:1-2).

This chapter provides a comprehensive discussion on the implementation of ESOPs. The requirements for implementing ESOPs is presented and discussed herein. Furthermore, the classification and procedures of ESOPs is explained for clarification purposes. In addition, comprehensive discussions on the steps involved in implementing ESOPs is provided. This chapter provides literature on ESOP operations and record keeping, as well as its tax implications for employees and employers. The challenges of implementing and operating ESOPs is also explained in this chapter. Furthermore, the benefits of ESOPs to the organisation, employees and country is discussed in this chapter, for clarification.

4.2 IMPLEMENTATION OF ESOPs

ESOPs have become popular and widely implemented in numerous countries and across different industries. Despite its popularity and implementation rate, numerous employers, management and employees are still unfamiliar with the concept of an ESOP. Organisations intending to implement ESOPs are required to have discussions with organisations specialised in implementing ESOPs, or make enquiries from ESOP professionals, as to why and how to successfully implement ESOPs. Employers and management require the assistance of professionals in ESOPs to provide them with the clearest meaning of the nature of and procedures involved in ESOPs (Frisch, 2002:275; Menke, 2015:1).

The question of whether or not to implement ESOPs involves a great deal of subjectivity on the part of the owners of the organisation. In other words, the employer needs to carefully consider and understand what an ESOP is and why it should be implemented. Intensive discussions with ESOP professionals will help employers and management confirm whether their goals and objectives can be actualised upon the implementation of ESOPs (Frisch, 2002:275). The implementation of ESOPs requires careful suitability and feasibility studies and it involves certain costs and complexities, administrative requirements, numerous tax implications, accounting procedures as well as legal intricacies that need to be applied by ESOP professionals (lawyer, tax consultant, auditors) (Menke, 2015:1).

Furthermore, employers and management is required to understand what an ESOP is, how it works and give careful consideration to whether the implementation of ESOPs will help actualise organisational goals and objectives before the implementation process. Careful consideration on the part of employers and management, as well as advice from ESOPs professionals, will help determine whether or not to implement the plan (Menke, 2015:1). Steere (2012:1) suggests that organisations should consider the following aspects when intending to implement ESOPs:

Understanding why: Organisations that intend to implement ESOPs need to fully understand the purpose of its implementation. Understanding why ESOPs are being implemented is an essential step that should be taken seriously. Furthermore, it guides the employer into much clarity on how to successfully implement and benefit from ESOPs. Understanding the purpose of its implementation includes consideration around what ESOPs will be used for (incentive or employee benefit plan), as well as the percentage of ownership and contributions that will be made to the trust. More so, organisations need to conduct a feasibility study in order to understand and determine the value of their shares. The various accounting procedures and methods of allocating shares must also be understood.

Structure: The second aspect that needs to be considered in implementing ESOPs is the selection of a legal structure (trust) in which ESOPs will be held. In addition, employers and management should consider appointing ESOP professionals in designing the plan and structure. ESOP professionals should ensure the successful implementation of the ESOP and its trust.

Communication: This is extremely crucial in the implementation process of ESOPs. Management is required to effectively communicate the plan to the employees, shareholders and key stakeholders of the organisation. Effective communication helps to enhance participants' understanding and support of the plan. Moreover, it manages the expectations of employees. Management should educate employees on all aspects of ESOPs, ranging from share ownership, trust structure, allocation of shares, tax advantages to the benefits of ESOPs.

4.2.1 Prerequisites of implementing ESOPs

ESOPs allow employers to reward their employees with the organisation's shares at no upfront cost (Harbaugh, 2005:568). Although similar, ESOPs differ from employee stock option plans. An employee stock option plan allows management to grant specific employees in the organisation the right, but not the obligation, to purchase a certain amount of the employer's shares at a predetermined price within a specific period of time (Harbaugh, 2005:568). ESOPs can be successfully operated by any organisation (large and small, public and private). In order for ESOPs to work, Chase

Commercial Bank (2015:2) suggests that the organisation must have a strong cash flow; a history for sustainable or increasing sales and profits; generate taxable income and have a skilled and capable management team that will be responsible for the ESOP. In addition, the organisation must have an annual payroll of one million dollars (199 million naira or 15 million rand); substantial shareholder equity; and the organisation must not be heavily leveraged (must have less debt in financing its assets).

Furthermore, ESOP organisations grant employees ownership interest by distributing all or some of their shares to their employees without cost or payment. The organisation sets up a trust fund for employees, into which it allocates or makes direct contributions of newly issued shares or cash to purchase existing shares from shareholders who are leave or retire Alternatively, ESOPs can borrow cash from banks or any qualified lender to buy existing shares from retiring employee participants. Subsequently, the organisation makes contributions to the ESOP to enable ESOP trustees to repay the loan (NCEO, 2012:3).

Generally, eligibility for participation in an ESOP is limited to full-time employees who are over 21 years of age. In addition, full-time employees who have completed one year of service, during which they worked at least 1,000 hours, are also allowed to participate in the plan (McIntyre, 2012:1). In addition, Frisch (2002:55) states that eligibility for participation in ESOPs may be extended to part-time or contract employees (less than 1,000 hours of service in a year) if the plan is designed to permit this. Furthermore, eligibility for participation excludes non-citizens in the organisation whose salaries are derived from sources outside of the country.

Furthermore, the organisation sets up an account in the trust for individual employees participating in the plan. The organisation allocates shares to employee participants and these are held in a trust until the employee participants retire or leave the organisation. Moreover, the shares contributed by the organisation are allocated to employee participants' accounts almost immediately. Alternatively, when a loan (exempt loan) is used in purchasing shares, the trust fund allocates shares to the individual employee's account as the loan is paid off. The allocation of shares is made on the basis of relative pay or the level of formula used by the organisation (Garman & Forgue, 2011:527; McIntyre, 2012:1).

The NCEO (2015c:1) states that employees who retire or leave the organisation must receive revenue payments derived from selling their shares, which the organisation is obligated to buy back at its fair market value unless there is a public market for the shares. According to the NCEO (2012:4), employee participants are required to sell the shares in their account on the stock market back to the organisation or the plan after they leave or retire from the organisation. Employee participants who are not retiring or leaving the organisation remain involved in the plan. Furthermore, employees acquire an increasing right to the shares in their account. This process is known as vesting. Employees are required to be 100% vested in no more than three years for a cliff vesting schedule, and in no more than six years for the graded vesting, as stipulated by federal law (NCEO, 2016a:1).

The NCEO (2012:4) stipulates that when employees leave the organisation, their shares are received in the fifth year and not later than the sixth year. Payment begins after one year in the case of a participant's death, retirement or disability. The organisation can spread employee repayments overtime. Furthermore, the organisation is obligated to buy back shares at its fair market value (unless a public market exists for the shares). In order for private organisations to buy back shares, they are required to have an annual outside valuation to determine the value of their shares (NCEO, 2012:4).

4.2.2 Requirements for implementing ESOPs

ESOPs can be implemented and operated in all kinds of organisations (large and small or public and private). Success in the implementation process of ESOPs in these organisations is not a guarantee that ESOPs will achieve their purpose when implemented. This implies that ESOPs will only operate successfully and work best if organisations meet certain requirements and make well-informed decisions regarding the individuals and entities required for their implementation and operations (Rosen, 2016:1-2). According to Chase Commercial Bank (2015:2), Menke (2015:1) and Rosen (2016:1-2), organisations that have an intention to implement ESOPs must ensure that they have a strong cash flow and a history of increasing and stable sales and profits; generate a taxable income or have been in an income tax bracket consistently and have operative and skilled management required for the operations of ESOPs.

Furthermore, ESOPs can be successfully implemented if the organisation can afford contributions; not heavily leveraged; has a sizable amount of shareholder equity in place; and has more than ten full-time employees employed in the organisation. In addition, ESOPs can be successfully implemented if management is comfortable with sharing ownership with employees, and no family member, specific executive or shareholder wants a major share of the organisation (Chase Commercial Bank, 2015:5; Menke, 2015:1; Rosen, 2016:1-2).

One of the major requirements for the implementation of ESOP is an advisor or an entity that will provide sound advice and information on the plan. Rosen (2016:2) indicates that organisations should be careful when selecting ESOP advisors and entities because they may provide misleading advice and information that could discourage the implementation of ESOPs. Rosen (2016:2) states that the reason why ESOP advisors and entities will provide misleading advice and information is because they have limited knowledge of ESOPs. In addition, ESOP advisors and entities may provide misleading advice because they have implemented ESOPs that did not work for clients and they fear losing the services of the organisation that has contracted them. Therefore, Philips and Jensen (2015) suggest that employers and management should consider raising questions when choosing ESOP consultants, advisors or entities. Employers and management should raise questions on the advisor’s views of ESOPs and how they intend to implement it; the total number of ESOPs that they have implemented in the past; and the nature of the organisations that have utilised the ESOPs they have previously implemented.

Furthermore, Philips and Jensen (2015) state that consultants, advisors or entities must provide answers to the size and geographical location of the organisations for which they have implemented ESOPs and the fee (fixed or variable) for implementation must be raised. Employers and management should also raise questions regarding the financial budget for implementing the project and challenges that are likely to be encountered in the implementation of ESOPs. The advisors and entities must explain other services (tax consulting, business valuations or legal services) that they offer aside from implementation, and provide three references from ESOP organisations for which they have implemented ESOPs.

Experienced consultants, advisors or entities are required for the successful implementation and operation of ESOPs. The questions raised by Philips and Jensen (2015) will enable the employer and management to understand the level of expertise of ESOP consultants, advisors or entities. Furthermore, these questions will provide insight into what the employer and management can expect during and after the implementation of ESOPs.

4.3 CLASSIFICATION OF ESOP PROCEDURES

ESOPs can be classified into two categories, namely, leveraged and unleveraged ESOPs. The difference between these two types of ESOPs are evident in how they borrow capital for the funding and purchasing of shares from the sponsoring organisation and employee participants (Jansen, 2009:306; Kratz & Craig, 2007:5). Rodrick (2015:7) supports this notion by stating that the two types of ESOPs (leveraged and unleveraged) can be distinguished according to their financing methods. The leveraged ESOP is a defined contribution plan that borrows money to buy shares from selling shareholders and newly issued shares from the sponsoring organisation. The unleveraged ESOP is a defined contribution plan that allows the organisation to make direct contributions of cash and shares to the ESOP (Jansen, 2009:306; Kratz & Craig, 2007:5).

Chang, Ruthenberg and Long (2015:1) provide a more elaborate classification of ESOPs. According to Chang *et al*. (2015:1), ESOPs can be classified into two categories: non-leveraged and leveraged. Leveraged ESOPs are further divided into two categories: leveraged buyout and leveraged issuance ESOPs. Chang *et al*. (2015:1) indicate that the leveraged buyout ESOP specifically acquires a loan from the bank or any qualified lender to buy stock from selling and retiring shareholders. The leveraged issuance ESOP acquires a loan from the bank or any qualified lender to purchase newly issued shares from the sponsoring organisation. The various types of ESOPs presented by Chang *et al*. (2015:1) will be discussed in further detail, below, for the purpose of clarification. The following section will present diagrams illustrating the various types of ESOPs. Furthermore, the diagrams and illustrations will reflect the differences that exist between the three types of ESOPs presented by Chang *et al*. (2015:1).

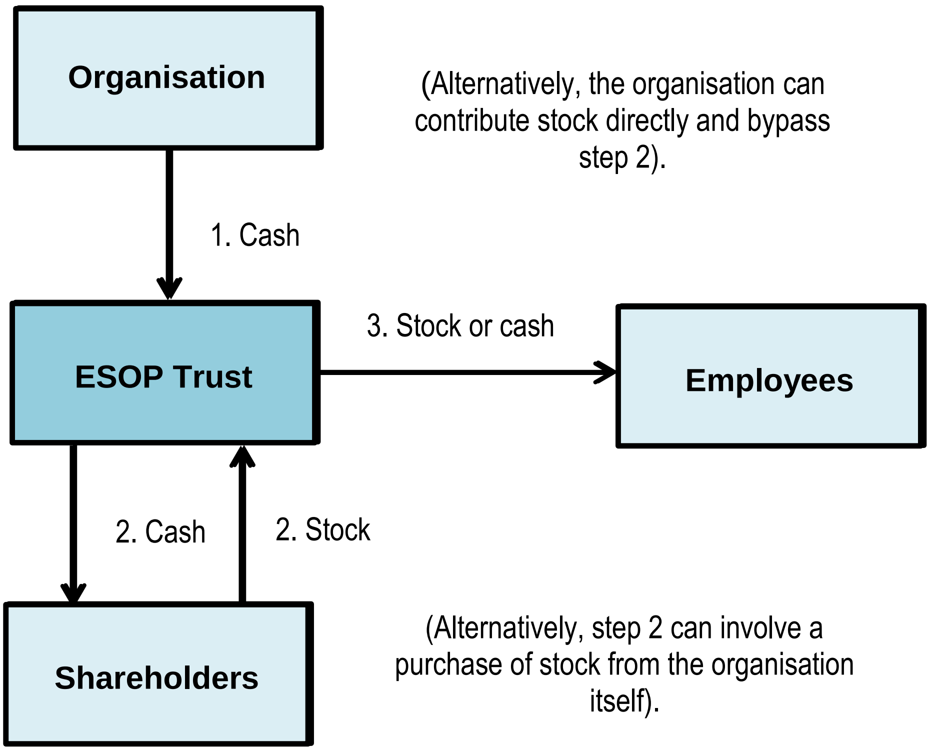
4.3.1 The procedures of non-leveraged ESOPs

Kratz and Craig (2007:5) state that in non-leveraged ESOPs, the organisation contributes to the ESOP by giving out its own shares (newly issued shares) or cash to buy shares from existing shareholders. Rodrick (2015:7) affirms that non-leveraged ESOPs allow the sponsoring organisation to contribute newly issued shares, treasury shares or cash to buy shares from existing selling shareholders. Therefore, the non-leveraged ESOP is a type of ESOP that does not require the sponsoring organisation to borrow funds to buy its own shares; instead, it makes a direct contribution of cash or newly issued shares of its own to the ESOP. Contributions of shares or cash made to the ESOP are distributed to the individual accounts of employee participants.

Zugell (2015:2) states that, in non-leveraged ESOPs, the sponsoring organisation is liable to receive a current income tax deduction for the contribution amount within a specified limit, if it makes a contribution of cash or shares to the ESOP. In addition, when the organisation contributes cash to ESOPs, the ESOPs are likely to maintain a cash account for a period of two or more years. Afterwards, the ESOPs invest primarily in the employer’s shares by purchasing shares from selling shareholders.

Figure 4.1, below, illustrates the process followed by non-leveraged ESOPs (Rodrick, 2015:7). According to Figure 4.1, the organisation contributes cash or shares to the ESOP trust. When the organisation contributes cash to the ESOP, the ESOP trust uses cash to buy back shares from shareholders, employee participants or the organisation. Furthermore, employee participants receive vested account balances (in shares and/or cash) when they retire or otherwise leave the organisation. Figure 4.1 illustrates the process of non-leveraged ESOPs.

Figure 4.1: The process of non-leveraged ESOPs

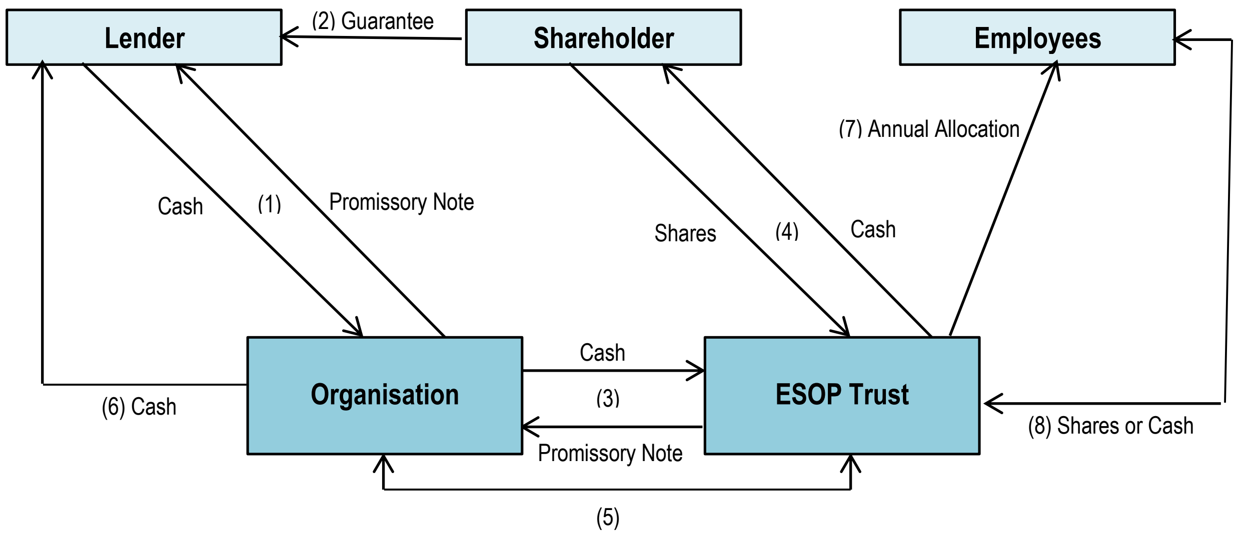


Source: Adapted from Rodrick (2015:7).

4.3.2 The procedures of leveraged ESOPs

The leveraged ESOP borrows capital from the bank or any qualified lender to purchase the organisation's newly issued shares or shares of existing shareholders (Jansen, 2009:306). In addition, this type of ESOP is used as a vehicle for the corporate financing of an organisation's transactions and projects. Furthermore, Gaughan (2010:369) states that leveraged ESOPs allow the financing of ESOP transactions with debt. In other words, the leveraged ESOP incurs debt from the bank to purchase an organisation's shares or shares from existing and retiring shareholders. In order to repay the principal amount and interest on the loan, the sponsoring organisation makes cash contributions and/or dividends to the ESOP. Shares are released to individual employee participants' accounts as the loan is repaid (Gaughan, 2010:369; Pratt, 2004:316). Therefore, the financing on ESOP transactions comes from the loan that has been given by the bank or qualified lender. Figure 4.2, below, illustrates the process of leveraged ESOPs.

Figure 4.2: The process of leveraged ESOPs



Source: Adapted from Buxton and Gilbert (2005:8).

According to Buxton and Gilbert (2005:8), the process of the leveraged ESOP is as follows:

- The bank or any qualified lender lends money to the sponsoring organisation.
- The organisation's shareholders may have to guarantee or pledge assets to secure the repayment by the sponsoring organisation.
- The sponsoring organisation lends the proceeds of the loan to the ESOP.
- The shareholders sell shares to the ESOP for cash.
- The sponsoring organisation makes annual tax deductible contributions to the ESOP, which, in turn, repays the loan on behalf of the ESOP.
- The sponsoring organisation repays the loan to the lender.
- Employee participants receive an annual allocation of shares in their individual ESOP accounts as the debt is repaid.
- Employee participants receive shares or cash when they retire or resign from the organisation.

Leveraged ESOPs can be divided into two categories: leveraged buyout and leveraged issuance ESOPs. The two types of leveraged ESOPs are discussed as follow.

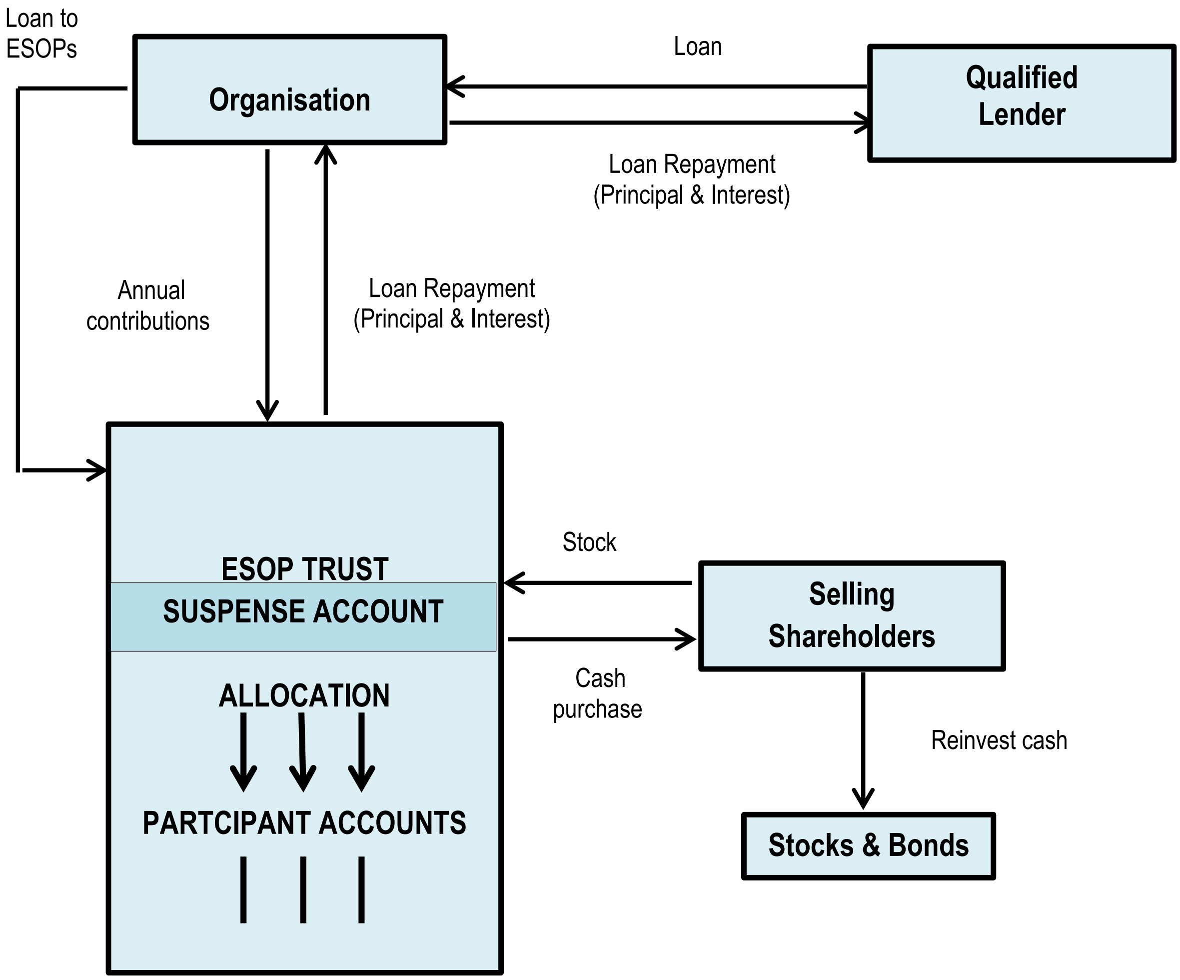
4.3.2.1 The procedures of leveraged buyout ESOPs

Kratz and Craig (2007:5), the ESOP Association (2015a:1) and Zugell (2015:2) state that, unlike any other defined contribution plan, the leveraged buyout ESOP allows the sponsoring organisation or its ESOP trust to borrow cash on credit from the bank or any other related party/qualified lender to buy shares from selling shareholders. The ESOP trust purchases the employer's shares with the cash borrowed. This situation creates the availability of cash for the organisation to purchase shares from the selling shareholders. Chang *et al*. (2015:1) support that the leveraged buyout ESOP is used to purchase shares from selling shareholders (ESOP participants) who retire or leave the organisation. Therefore, this study defines the leveraged buyout ESOP as a type of ESOP in which the sponsoring organisation acquires a loan from the bank or any qualified lender to finance the purchasing of shares from employee participants who retire from or leave the organisation.

Since the ESOP trust does not have its own assets or credit worthiness, the sponsoring organisation guarantees the loan collected or it takes out the loan to fund the ESOP's debt. Shares that are used to purchase the loan are placed in a special account called a suspense account; these shares are released and allocated to the participating employees' accounts as the loan is repaid over years. The organisation repays the loan through the contributions it makes from the ESOP trust over time (Chang *et al*., 2015:1; Kratz & Craig, 2007:5).

The ESOP Association (2015a:1) states that, in order to amortise the loan on schedule, the organisation guarantees the bank or qualified lender that contributions will be made to the trust. Furthermore, Zugell (2015:2) indicates that the organisation makes annual tax deductible contributions to the ESOP trust. The organisation uses the contributions made over time to fully repay the debt that has been used to purchase the shares. The entire principal amount that is borrowed, and interest on the loan to purchase shares, effectively becomes income tax deductible (within limits) to the organisation by virtue of it being repaid through the contributions made to the trust (Pratt, 2004:316). According to Chang *et al*. (2015:1), the organisation can therefore borrow money on a fully deductible basis to entirely purchase shares from a selling shareholder. In addition, the seller enjoys 100% capital gains, tax-free, from the sale proceeds if he/she properly structures its transaction. However, this structure involves an immediate shares sale at current fair market value (Chang *et al*., 2015:1; Zugell, 2015:2). Figure 4.3 below, illustrates the process of the leveraged buyout ESOPs.

Figure 4.3: The process of leveraged buyout ESOPs



Source: Adapted from Chang *et al*. (2015:1).

According to Chang *et al*. (2015:1), Figure 4.3 illustrates the process followed by leveraged buyout ESOPs:

- The organisation adopts the leveraged buyout ESOP plan and trust document.
- The fair market value of the shares is determined.

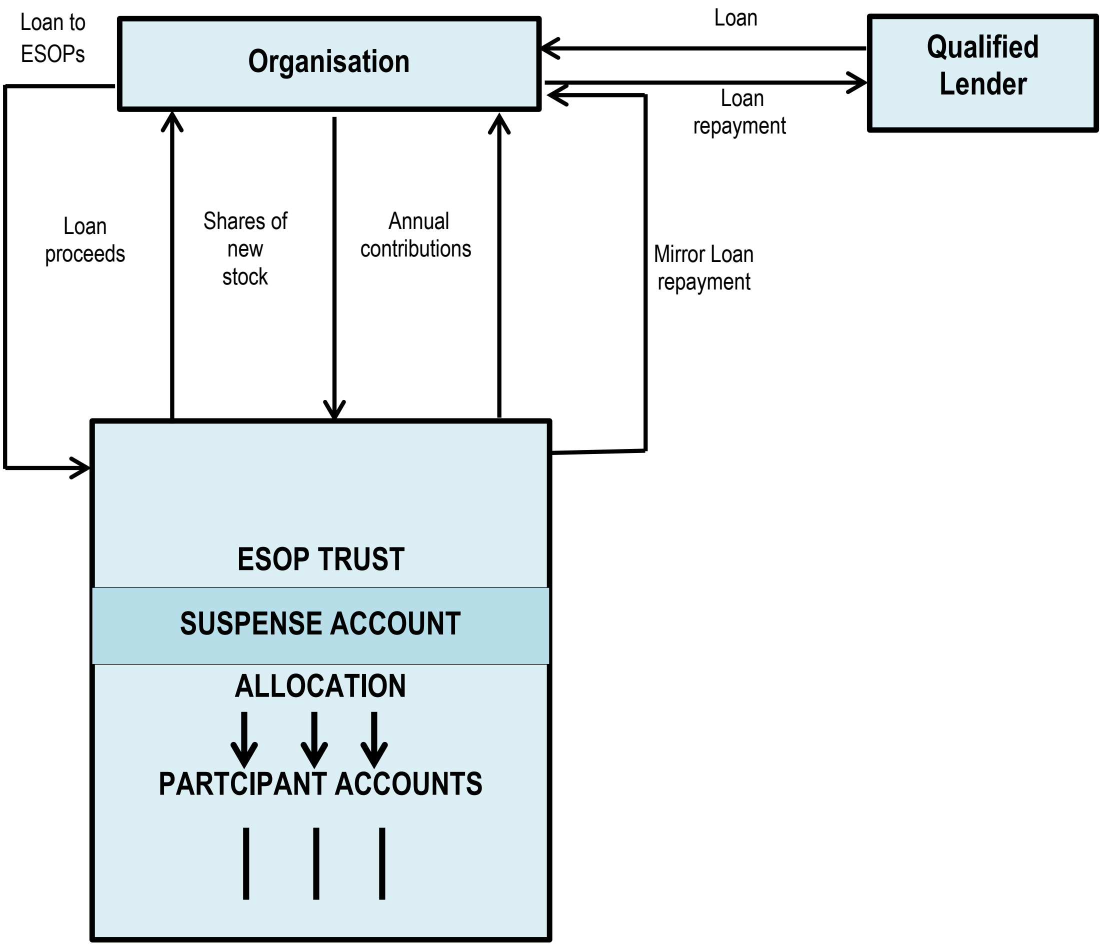
- The sponsoring organisation borrows money from the bank or any qualified lender and it lends the money to the leveraged buyout ESOP.
- The leveraged buyout ESOP purchases shares with the funds borrowed from the existing selling shareholder.
- Sellers reinvest their sale proceeds in shares or bonds and elect to defer tax on the sale.
- The sponsoring organisation contributes cash to the leveraged buyout ESOP, as the annual contribution to the ESOPs (up to 25% of participant compensation).
- The leveraged buyout ESOP makes payments on the loan from the bank from which it borrowed money.
- The sponsoring organisation makes payments on the loan from the bank.
- The shares in the suspense account are released and are allocated to individual employee participants' accounts as the loan is repaid over its term.
- The accounts of individual employee participants vest over time.

4.3.2.2 The procedures of leveraged issuance ESOPs

Chang *et al*. (2015:1) explain that, although similar to the leveraged buyout ESOP, the leverage issuance ESOP is different. The difference between the leveraged buyout ESOP and leveraged issuance ESOP is that the leveraged buyout ESOP uses financing to purchase shares from existing selling or retiring shareholders while the leveraged issuance ESOP uses financing to acquire newly issued shares from the sponsoring organisation. In other words, the sponsoring organisation borrows money from the bank or any qualified lender and the money is loaned to ESOPs. Furthermore, the leveraged issuance ESOP uses the money loaned to purchase newly issued shares from the organisation (ESOP Association, 2016:1).

Furthermore, the newly issued shares acquired from the organisation by the ESOPs are placed in a suspense account. The shares are released and allocated, according to formulas, to the participating employees' accounts as the loan is repaid over time. Financing in a leveraged issuance ESOP can be utilised by the ESOP to increase capital formation (increase in net additions of capital stocks such as equipment, building and other intermediate goods) or provide new capital for expansion or improvement and expansion by merger or acquisition (Chang *et al*., 2015:1; ESOP Association, 2016:1). Figure 4.4, below, illustrates the process of leveraged issuance ESOPs.

Figure 4.4: The process of leveraged issuance ESOPs



Source: Adapted from Chang *et al*. (2015:1).

According to Chang *et al*. (2015:1), the processes of leveraged issuance ESOPs are as follows:

- The sponsoring organisation adopts the leveraged issuance ESOP plan and trust document.
- The fair market value of the shares is determined.

- The sponsoring organisation borrows money from the bank or any qualified lender and it loans the funds to the leveraged issuance ESOP.
- The ESOP purchases newly issued shares from the sponsoring organisation with the borrowed funds.
- The organisation contributes cash as the annual contribution to the ESOP (up to 25% of participant compensation).
- The ESOP makes payments on the loan from the bank or any qualified lender from which it borrowed money.
- The organisation makes payments on the loan from the bank.
- The shares in the suspense account are released and are allocated to the participating employee's account as the loan is repaid over its term.
- The accounts of participating employees vest over time.

4.4 STEPS IN IMPLEMENTING ESOPs

The implementation of ESOPs involves several steps that can only be carried out by an experienced ESOP professional. During the process of implementation, ESOP professionals are required to analyse the situation of the organisation by using information from its stated organisational goals and objectives, existing business plan, employee benefit structure and industry. This information will enable ESOP professionals to determine the form of ESOP structure that will best suit and advance the goals and objectives of the organisation (Chang, Ruthenberg & Long, 2008:1).

Menke (2015:1-8) lists ten steps in successfully implementing ESOPs in organisations. These steps include getting sound advice, meeting minimum requirements, understanding ESOP structures, understanding ESOP benefits and potential pitfalls, comparing your change or ownership, collecting and providing information for the feasibility study, receiving and reviewing proposals for ESOP valuation, providing legal documents for executing ESOPs, communicating ESOP benefits to employees and administering the plan. This section lists and discusses the ten steps in the implementation of ESOPs.

4.4.1 Get sound advice

Getting sound advice is an essential step in the process of implementing ESOPs. Organisations that lack knowledge and understanding of the nature and procedures of ESOPs are required to contract the services of experienced ESOP professionals in order to provide them with sound judgment or reasons as to why they should or should not implement ESOPs. ESOP advisors and professionals are required to give credible information and answer all questions relating to all aspects of the implementation process and operations of ESOPs. Getting sound advice will help alleviate all fears and doubts that the employer has towards the implementation of ESOPs (Rosen, 2016:2).

According to Menke (2015:1), there are numerous aspects (legal, administrative, accounting, valuations and tax implications) of the initial set-up that need to be understood by the employer. The ESOP advisor is required to educate the employer on the classification of ESOPs, employee eligibility and participation, ESOP trusts, contributions and distribution, vesting schedules and repurchase obligation, corporate governance, legal and tax implications as well as the ERISA’s rules governing ESOPs (Aronoff & Ward, 2011:51-53). Therefore, sufficient and comprehensive information from an ESOP advisor will establish the combination of options that will work best for the organisation as well as the type of plan that will best serve the interests of the organisation. In addition, receiving advice from an expert advisor will help save time and cost, and it may lead to the implementation of the right plan structure (Menke, 2015:1).

4.4.2 Meet minimum requirements

Organisations that intend to implement ESOPs must meet certain requirements in order to qualify for the plan. The minimum requirements for ESOPs refers to the criteria, standard or necessary conditions under which the plan can be implemented (Butcher, Kober & Ray, 2012:3). Although ESOPs operate well across a broad range of organisations and industry, the ideal candidate for ESOPs must meet certain requirements like having a strong cash flow; making sales and being profitable; and consistently producing good financial results. Furthermore, the organisation must have a sufficient number of full-time employees (above ten); must have a strong management team in place for the operations of ESOPs; must have sufficient debt capacity; must have substantial shareholder equity and must be in a federal income tax bracket (Chase Commercial Bank, 2015:2). Failure to meet the following minimum requirements may hinder the success of the implementation and operation of ESOPs. The plan sponsor or employer may be obliged to freeze or terminate the plan upon its failure (NCEO, 2016:1).

4.4.3 Understand ESOP structures

ESOPs require careful planning and analysis in order to design the proper structure and policy that best suit the needs of the organisation. The ESOP advisor plays a significant role in providing clear information to the employer on how the various types of ESOPs are structured (Pendleton, 2002:60). The advisor is required to spend valuable and sufficient time with the plan sponsor or employer so as to ensure that they identify and understand the various arrangements, patterns and aspects of ESOPs. This entails that ESOP advisors must provide the clearest information to the employer on the structure of non-leveraged, leveraged buyout and leveraged issuance ESOPs. Although they are all designed as ESOPs, their structural characteristics differ (Pendleton, 2002:60).

Menke (2015:2-4) indicates that, to understand the structure of each plan, the advisor must provide information on the differences between each plan, how each plan works, how to set up each plan, how to establish trust funds, how to make contributions (shares or cash) to trusts and how to acquire and pay back the loan to the bank or any qualified lender. In addition, the advisor has a duty to provide comprehensive information to the employer on the ESOP policy, the ERISA’s rules and fiduciaries, grant letters, appraisals of shares, dividends, control and ownership, participation and allocations, liquidity, vesting period/schedules and disclosure of information (Menke, 2015:2-4).

4.4.4 Understand ESOP benefits and potential pitfalls

Understanding the benefits and potential pitfalls is a simple but essential stage in the process of implementation. At this stage, the advisor is required to truthfully outline the beneficial outcomes and drawbacks during and after the implementation of ESOPs. Chrisman, Chua and Sharma (2012:246) state that although ESOPs provide a potential solution and benefit that allows employers, organisations and employees to achieve their goals, they have some drawbacks. According to Chrisman *et al*. (2012:246), the drawbacks of ESOPs include the costs of implementation and administration, dealing with complex pension and tax regulations and the fact that ESOPs can dilute the earnings per year of an organisation and depress its share value.

While the advantages of ESOPs are numerous, it is crucial to understand their disadvantages. The ESOP advisor should ensure that they give the employer or sponsoring organisation enough time to weigh the advantages and disadvantages of ESOPs. Furthermore, the decision to continue with implementation after outlining the pros and cons of ESOPs should rest solely with the employer. This situation will help to avoid problems between the advisor and employer in the event of termination of the plan. In other words, the employer will have no claim that they were not fully informed about the drawbacks of ESOPs in the event of termination of the plan (Gibson, 2012:124).

4.4.5 Comparison of ownership alternatives

This stage in the ESOP implementation process allows the ESOP advisor to present alternatives to change of ownership compared to the ESOP change of ownership. In other words, the ESOP advisor presents alternatives or various change of ownership options to enable the employer to see why ESOPs may be the best option for transition into a different ownership structure (Menke, 2015:6). According to Finnell (2016:1), the three traditional succession strategies that can be compared against ESOPs are: sell to an insider, sell to an outsider and till death do us part.

4.4.5.1 Sell to an insider

Sell to an insider refers to an ownership succession method whereby the employer or owner of the organisation transfers ownership or makes sales of its organisation to several potential buyers that include current employees or the owner's family members (sons, daughters, brothers, sisters or other relatives) (Shim & Lansner, 2016:133). During retirement, the employer assumes that key employees or family members will be in the best position to take over the organisation. Therefore, the employer makes major sale of its equity holding to insiders (Finnell, 2016:1). The disadvantage of selling to an insider is that, if the organisation is heavily leveraged, the owner is usually a guarantor and must remain involved in the organisation to assure payment of the debt. Furthermore, the disadvantage of succession planning with insiders is that key employees or family members rarely have sufficient cash or the personal resources required to purchase the organisation. Therefore, if these internal members are to purchase the organisation, the acquisition must be "*bootstrapped*". Bootstrapping allows the organisation to bonus employees or family members with the cash needed to acquire the organisation (Frisch, 2002:24).

The disadvantage of granting a bonus is that this process becomes financially inefficient as internal members pay a large amount of tax on bonuses from the organisation. However, when ESOP is used as a succession method to purchase the organisation, the organisation receives a tax deduction for the ESOP contribution utilised to service the acquisition of the debt. In addition, internal members wanting to purchase the organisation may not have to pay tax on the money that the organisation contributes to ESOPs. Therefore, an ESOP is a much more financially effective means than a traditional sale to an insider (Finnell, 2016:1; Frisch, 2002:24-25).

4.4.5.2 Sell to an outsider

Sell to an outsider refers to an ownership succession method whereby the employer or owner sell their organisation to willing buyers, who include competitors, private equity groups (PEGs), suppliers or individual investors (Finnell, 2016:1). Selling to an outsider has an initial advantage that later appears to be a disadvantage on the part of the seller. Furthermore, owners are under the assumption that when their organisation is sold they will receive cash at closing and will be able to retire the following day. This may not work accordingly because buyers try to ensure that the organisation they are purchasing will continue to have sustainable growth and profit after closing the transaction. Therefore, buyers protect themselves from future negativity by structuring the sales agreement containing provisions such as earn-outs, escrows or holdbacks, agreements and covenants not to compete (Finnell, 2016:1).

Earn-outs refer to a contractual provision in a purchase agreement under which the buyer of the organisation makes additional payment or compensation to the seller (owner) on the basis of the future financial performance of the organisation (Hauser, 2014:86). In other words, an earn-out is a financing agreement whereby the seller obtains additional payment from the buyer when the sold organisation achieves a predetermined level of future earnings. This method allows the buyer to protect himself from overpaying too much in case any future challenges and difficulties arise regarding the organisation's cash flow (Mathonet & Meyer, 2008:60; Mellen & Evans, 2010:234). Escrows refers to a situation wherein a financial or written instrument, contract, shares, money, deed, document is held by a neutral third party (Haupt & Rockwell, 2006:305). These valuables are released when the process of transaction ends between two parties (seller and buyer, or grantor and grantee). Although escrows protect each party from the other's change of mind, it is disadvantageous as it hinders the employer from being able to sell the organisation and retire almost immediately (Haupt & Rockwell, 2006:305).

Furthermore, sales agreements and covenants not to compete are contractual provisions that prevent or restrict competition between the buyer and seller, as well as prevent the seller from pirating the organisation's customers. Furthermore, the sales agreement contains a provision that requires the employer to work for the organisation three years following the sale. This prevents the employer from selling the organisation and retiring almost immediately (Finnell, 2016:2). Frisch (2002:24) reports that other disadvantages of selling to an outsider include that the seller must pay taxes on the gain; the seller might have feelings of guilt for having abandoned key employees and family members whose financial future might be unsure. In addition, the buyer might pay less than what the seller bargained for, and the seller might not gain the maximum value of sales as a result of the deal being structured on a workout arrangement.

4.4.5.3 Till death do us part

Till death do us part refers to a type of succession planning whereby the owner chooses not to sell to an insider or outsider but rather hold on and maintain control of the organisation until they die. Death is the only consideration by which the owner can part ways with his organisation (Astrachan, 2009:4). Finnell (2016:2) states that the reason why major owners adopt this succession strategy is because many owners have their legacy, identity and self-worth tied to their involvement in the organisation. The risk associated with this succession strategy includes that the owner may not be able to retain key employees who are capable of running the organisation. The employer may find it difficult to retain key and potential employees who are also old enough to retire. Another risk inherent in this type of succession strategy is the probability of the untimely disability or death of the owner. Due to these unforeseen consequences, the organisation is likely to be sold for a fraction of its value (Astrachan, 2009:4). Table 4.1, below, provides an elaborate comparison of various ownership succession or transition alternatives.

Table 4.1: Change of ownership methods

Succession method	External methods "*sell-out*"		Internal methods "*sell in*"		
	Corporate sale	IPO	Stock redemption	Key employee plan	ESOPs
Min. size or organisation	Small	large	small	small	small
Ability to sell shares now	Yes	no	yes	no	yes
Partial sales option	No	yes	yes	no	Yes
Probability of success	Medium	low	high	high	high
Remain independent	No	yes	yes	yes	yes
Independent tax deferred proceeds	no (unless merger)	no	no	no	yes
Tax deductible contributions	N/A	N/A	no	no	yes
Maintain control	No	public scrutiny	no	yes	yes
Employee security	Low	high	high	high	high
Promote productivity	No	no	no	yes	yes
Key employee incentive	depends on buyer	usually	no	yes	usually
Time to completion fees	6-12 months large	6-12 months large	2 weeks small	2 weeks small	2-6 weeks small

Source: Adapted from Menke (2015:5).

Table 4.1, above, shows the external and internal methods of ownership methods. The employers utilise the external method when the organisation is to be sold to an outsider. Table 4.1 shows that the methods utilised when selling to an outsider include corporate sale and Initial Public Offering (IPO). Furthermore, Table 4.1 shows that employers will utilise the internal method when selling the organisation to insiders. Table 4.1 illustrates that the methods to utilise when selling to an insider include stock redemption, key employee plans and ESOPs. Table 4.1 shows that ESOPs are the best option that employers can utilise as a method to change ownership structure.

4.4.6 Collect and provide information for the feasibility study

This stage in the ESOP implementation process allows the ESOP advisor to collect and provide information required for the feasibility study. The employer is required to furnish accurate information, which will be used in an analysis for the successful completion of the plan, to ESOP professionals. In addition, the employer must provide precise information on the organisation’s category, financial history, goals and objectives, number of shareholders, number of full-time employees, classes of shares owned, involvement in union, approximate annual revenue and utilisation of any other defined contribution plan. The information furnished by the employer will enable the ESOP advisor to fully analyse whether an ESOP is beneficial for the organisation and its employees (Menke, 2016a:1).

This stage of the ESOP implementation process also allows the ESOP advisor to identify the objectives of all shareholders directly involved in the organisation. There are often conflicting objectives between the organisation (tax advantage, incentive or retirement benefit objectives) and potential selling shareholders (expansion objectives). These overlapping and conflicting objectives need to be resolved by the ESOP advisor and all parties should have similar objectives for the implementation of ESOPs (Menke, 2015:6).

4.4.7 Receive and review proposal for ESOP valuation

Menke (2015:6) states that this stage is the most crucial aspect of the ESOP implementation process. This stage allows the ESOP advisor to provide a financial and plan structure after receiving sufficient information about the organisation, from the employer, for a feasibility study. The plan must be properly structured so as to avoid the risk of losing out on the financial benefits of ESOPs. According to Menke (2015:6), the information received from the employer allows the advisor to provide a review of how the ESOP will work for the organisation and a written proposal on the following aspects:

(a) **ESOP structure**: There are many ways by which ESOPs can be structured (non-leveraged, leveraged buyout and leveraged issuance). The ESOP advisor must ensure that it provides the structure that best suits the goals and objectives of the organisation (Butcher *et al*., 2012:5). The employer and management will maximise the benefits of the ESOP if it is properly designed and structured by an experienced ESOP advisor. Furthermore, this stage allows the advisor to provide a review and various ESOP options that best suit the objectives of the employer and shareholders. The structure selected by the employer and advisor is dependent on its organisational goals and objectives, as well as its reasons for implementing the ESOP. Furthermore, experienced and expert advisors are obligated to ensure that the organisations meet the legal, financial and administrative requirements of the selected structure (Butcher *et al*., 2012:5).

(b) **Preliminary valuations**: In order to avoid drawbacks and determine whether ESOPs will fit the needs of the organisation, Frisch (2002:275) advises that a feasibility study needs to be conducted. In conducting the feasibility study, the employer and management is required to first perform a preliminary valuation of their shares. The ESOP trustee hires an independent appraiser from a valuation firm to perform and determine the valuation of ESOP shares and the value of the organisation. The initial valuation of the shares is performed by an independent appraiser, if the shares have no established or readily tradable stock market. However, if a stock market exists, a valuation of the stock is not required (Butcher *et al*., 2012:5). In addition, the IRS and DOL have stated guidelines that govern the valuation of shares in ESOPs. The IRS and DOL also specify that the ESOPs must pay a fair market value for shares they purchase from shareholders.

Furthermore, Chase Commercial Bank (2015:3) indicates that the ESOP advisor is required to conduct a feasibility study in order to analyse the overall framework of the transaction. In addition, the ESOP advisor must determine the amount of money that the organisation can afford to contribute to the ESOP yearly, and whether a part of the contribution cost can be paid for by excluding other benefit programmes. Moreover, the ESOP advisor must determine the influence or impact of the ESOP on the earnings and cash flow of the organisation, how the transaction will be structured and how the ESOP will be financed (Chase Commercial Bank, 2015:3).

(c) **Execution plan, timing and fees:** The ESOP advisor is required to provide a proposal on how and what structure of ESOP will be executed, the period of time it will take to implement the ESOP and the fees required for the implementation of the ESOP (Menke, 2015:5).

4.4.8 Legal documents for the execution of ESOPs

The acceptance of the proposed structure of ESOPs, independent appraisers and valuation of ESOP shares lead to the execution of the plan. There are several rules as well as administrative and legal technicalities during this implementation stage. Therefore, management requires the assistance of an experienced ESOP professional to manage and deal with the complexities of this stage. In order to execute the proposed plan, Menke (2015:6) and Sherman (2011:142) state that the ESOP advisor and professionals must provide the following legal documents:

Plan document: This document is prepared by an expert ESOP attorney. This document provides a comprehensive and specific description of the key terms and features of the ESOP, which must be adhered to by all parties involved in the plan (Sherman, 2011:142). The plan documents must be drafted in a comprehensible language and they must address and provide information on the purpose and operations of the plan, eligibility for participation (standards and requirements) employer contributions and distribution rules. In addition, the plan document must contain information regarding account allocation formulas, terms of put options, vesting schedule and forfeitures, voting rights and responsibilities of fiduciaries, employee disclosures and provisions for plan amendments (Sherman, 2011:142).

Corporate resolution: The board of directors in an organisation has the responsibility of resolving and making major decisions such as the election of board members, appointing officers to perform duties, dividend payments and secondary offerings (issuance of new shares for public sale) (Daily & Quinn, 2013:138). A corporate resolution, for example, will be created if the board of directors resolves and makes a decision regarding the selection of corporate officers or trustees. Therefore, a corporate resolution is a legal document in the form of a written statement prepared by the board of directors detailing their decisions made at the board meeting (Daily & Quinn, 2013:138). Corporate resolutions are utilised by the board of directors to identify and appoint officers and committees that can trade, act and perform duties on behalf of the ESOP organisation. The corporate resolution forms part of the document, given to the IRS, which details the nature of the organisation and the time at which organisation first issued shares. In addition, the corporate resolution must contain information stating that the shares issued are its own, the sale and issuance of the shares will be conducted in compliance with the IRS and that the proper officers will be utilised to perform all transactions. The ESOP legal advisor strives to ensure that the legal documentation of the corporate charter amendment and related board resolutions have been designed in a precise manner (Daily & Quinn, 2013:138).

Fairness opinion: The independent ESOP financial advisor renders the transaction of fairness opinion to the ESOP trustee. The independent financial advisor provides assistance to the trustees to enable them to fulfil their fiduciary obligations to employee participants in the areas of ESOP transaction fairness opinions and employer share valuations for DOL and IRS regulatory compliance (Wishing, Kirk & Haley, 2013:65). According to Wishing *et al*. (2013:65), the ESOP trustee authorises the independent financial advisor to perform a fairness opinion on the analysis of a fair market value range of shares in order to determine whether the tendered offer is fair to employee participants from a financial perspective.

Employee announcement: The ESOP advisor assists the employer to prepare a document that will provide detailed information announcing the implementation of ESOPs to employees. This document contains detailed information on all aspects of ESOPs; it will provide clarity on the meaning, nature, procedures, benefits, eligibility, goals and objectives of the plan, to all employees in the organisation (Moss, 2003:16).

Determination letter: The implementation of an ESOP requires the organisation to submit a determination letter to the IRS for approval. The determination letter is a formal letter issued by the IRS to the employer, specifying whether the ESOP design is within the guidelines of the ERISA (Internal Revenue Service (IRS), 2005:1). According to the IRS (2005:1), the IRS confirms and approves the determination letter if it is within the guidelines of the ERISA. In other words, the IRS requests the determination letter for the implementation of a new ESOP in order to determine if the plan that has been drafted qualifies for implementation and if the leveraged rules are in accordance with Code Section 4975. In order to request a determination letter, the employer is required to file form 5309 (application for determination of ESOPs) and it must be filed in conjunction with form 5300 (application for determination for employee benefit plan) (ESOP Association, 2003:248; IRS, 2005:1).

These documents must be prepared and scrutinised by expert attorneys, accountants and IRS reviewers to ensure their precision. Furthermore, raising finance for the transaction of leveraged ESOPs (buyout and issuance) presents issues for the sponsoring organisation (Rowling, 2007:625). Upon request, the ESOP advisor provides assistance in the structuring and funding of the two types of leveraged ESOPs (buyout and issuance). The ESOP advisor assists the employer to make an arrangement with the bank, or any qualified lender, in order to secure financing to complete the transaction in a leveraged buyout or issuance ESOP (Rowling, 2007:625). The level of financial experience of the ESOP advisor may be an advantage in assisting the organisation to negotiate a better deal and terms with the bank or qualified lender (Menke, 2015:8).

4.4.9 Communicate ESOP benefits to employees

Organisations that have transited to an ESOP ownership structure are required to communicate the new development and changes of ownership structure and operations to employees. The communication stage in the implementation process of an ESOP is critical as it determines the success of the plan (Renckly, 2004:133). This stage allows the employer and management to educate and communicate the organisational objectives as well as the reasons for ESOPs to employees. More so, the concept, procedures and objectives of ESOPs must be communicated to all employees in the organisation. The ESOP advisor, employer and management must ensure that they provide effective and consistent information from the initial implementation and through the on-going operations of the plan (Renckly, 2004:133).

Moss (2003:15) states that communicating the plan is challenging yet rewarding. ESOP professionals, employers and management may experience challenges in explaining the concept and terms associated with ESOPs (vesting, distributions, leverage, suspense account, fiduciaries and valuations). Moss (2003:15) indicates that employees are likely to feel excited, doubtful or scared about the introduction of a plan that they have little knowledge of. Therefore, to improve trust and eliminate fear and doubt, ESOP professionals and management is expected to exert effort in providing clear information of how the plan works, how it will affect the organisation and how it will benefit individual employees. Success in effectively communicating the plan may inspire employees, thus leading to an improvement in interest, participation, productivity and performance (Horn, Lu, Moss, Rosen & Vanderslice, 2014:25).

Organisations are required to set up an ESOP communications committee that will be responsible for educating employee participants about the plan. The ESOP communications committee performs an advisory role to senior management and it serves as a two-way communication channel between employee participants and management (Moss, Vanderslice & Lu, 2011:9-10). Furthermore, the committee conducts a variety of tasks such as providing ownership and business training to employees and conducting new employee participants' orientation. In addition, the committee has the responsibility of publishing newsletters, soliciting employee input on various employee policy issues and other communication tasks (Moss *et al*., 2011:9-10). Ownership Associates (2004:3) indicates that the maximum benefit of the implementation of ESOPs will be actualised if management educates and effectively communicates the intricacies and legal framework of the plan to all employees in the organisation.

4.4.10 Administer the ESOP plan

The administration of the ESOP is the final stage in the ESOP implementation process. The administration of the ESOP is required for the on-going success of the plan. This stage requires careful planning because of the complexities inherent in the recordkeeping and operations of ESOPs (Menke, 2015:7-8). The numerous laws of Code and the ERISA make the recordkeeping and administration of ESOPs complex. Therefore, management must contract the services of professional plan administrators, recordkeepers and third party administrators in the areas of accounting, law, administration, finance and actuary to handle the numerous recordkeeping and administrative activities of ESOPs (NCEO, 2016d:1).

According to Menke (2015:7-8), the NCEO (2016d:1) and Pentegra Retirement Services (2016:4-6), the activities included in the administration and recordkeeping of ESOPs are: preparing an annual form 5500 filing whilst complying with the regulations of the IRS; annual compliance testing to ensure that the plan meets with the rules of the DOL; determining share allocation and release in a leveraged ESOP; and preparing an annual share allocation report.

Furthermore, other activities related to the administration and recordkeeping of ESOPs include allocating shares and cash dividends to employee participants and preparing a dividend allocation report that summarises the amount of dividends allocated to individual participants. The administration and recordkeeping of an ESOP also includes providing a plan statement that summarises the transaction activity and benefits for employee participants, and providing the organisation with reports and information on share allocation, distribution and census data reports (Menke, 2015:7-8; NCEO, 2016d:1; Pentegra Retirement Services, 2016:4-6).

4.5 ESOPs OPERATIONS AND RECORDKEEPING

The operations, activities and recordkeeping of an ESOP is quite complex for the sponsoring organisation to carry out alone. Therefore, to aid the smooth operations and success of ESOPs, the sponsoring organisation is required to contract specialised and experienced third party administrators to simplify, run and direct the administration of the ESOP. Third party administrators are responsible for maintaining the assets and providing critical advice and services (financial, legal and administrative) to trustees on all recordkeeping, report requirements, interpretation and operations of the ESOP. More so, third party administrators advise and run the daily operations of ESOPs (London & Brozen, 2014:3). In addition, the custodian and investment manager are plan administrators responsible for the maintenance of trust assets. The custodian is an entity that holds the physical assets of the plan while the investment manager is an entity that makes investment decisions for the plan (Mathews, 2000:1).

The American Institute of Certified Public Accountants (AICPA) (2013:2) and Mathews (2000:1) state that the range of activities encompassed in the recordkeeping of ESOPs include establishing the eligibility of employee participants and vesting schedule, processing distributions and tracking vesting account as well as loan balances, and maintaining the suspense account. Other activities included in the recordkeeping of ESOPs are: accounting for shares, producing and issuing proxy statements to participants as well as performing allocations on the earnings of investments, contributions and forfeitures.

The AICPA (2013:2) and Mathews (2000:1) state that activities relating to the interpretation and operations of ESOPs include reconciling shares held in the suspense account, loan payments and plan assets with employee participant's account balance. Furthermore, the interpretation and operational activities of ESOPs include determining the proper collateral release and individual benefit claims; obtaining, reviewing and approving annual valuation; direct trust investments and distributions. Other interpretation and operational activities of ESOPs are preparing periodic statements of participants and annual financial statements, complying with restrictions on ESOP transactions and special tax rules, and performing coverage and non-discrimination testing (AICPA, 2013:2; Mathews, 2000:1).

4.6 TAX IMPLICATIONS OF ESOPs

ESOPs are an effective means for employers to restructure the organisation to a full or partial employee-owned organisation (NCEO, 2015b:1). The tax incentives that ESOPs offer have attracted the interest of numerous employers and employees. Employers who seek to benefit from the tax advantages of ESOPs, as provided by the government, are gradually becoming employee-owned organisations. ESOP have important tax implications for both employers and employee participants. In other words, ESOPs allow employers and employee participants to enjoy numerous tax advantages that have been provided by the government (NCEO, 2015b:1; Corey, 2015:1465). This section provides an explanation of the tax implications for both employee participants and employers.

4.6.1 Tax implications for employees

Employee participants retiring or leaving the organisation are eligible to receive their vested portion of ESOP benefits. In other words, employee participants receive distributions from the plan at the termination of their employment with the organisation, and management makes their vested portion of ESOPs in cash or the organisation’s shares. The option by which employees chose to receive their distributions has different tax penalties and implications (Marcinko & Hetico, 2014:91).

Marcinko and Hetico (2014:91) state that, under the ESOPs terms and conditions, employee participants who are retiring or leaving the organisation usually receive their distributions in shares. Employee participants who receive distributions into their individual accounts have the right to hold or sell back their shares (put option) to the organisation. In addition, Saper (2009:1) states that an employee participant can choose to sell their shares immediately or rollover the shares into an Individual Retirement Account (IRA), individual retirement annuity, or into another employer's qualified retirement plan. When an employee chooses to sell back their shares, the employer prepares a share certificate in the name of the employee participant for the shares in their account; the certificate is, however, not distributed to the employee. The certificate that is not distributed to the employee is cancelled by the employer, and the employer pays the purchase price of shares in cash to the employee (Saper, 2009:1). Therefore, the employee can either receive cash or shares or choose to rollover its shares to an IRA. The following section will explain the tax implications for the option chosen by employee participants.

4.6.1.1 Tax implications for ESOP rollover

Saper (2009:1) indicates that an employee participant who leaves or terminates his/her employment with the organisation has few options for the distribution of their ESOP benefits. Employee participants have the option of rolling over their assets into a non-retirement account. In addition, employee participants are allowed to rollover their distributions into an Individual Retirement Account (IRA) and annuity or another employer's qualified retirement plan. An employee’s money that is rolled into an IRA or another employer's qualified retirement plan receives no current tax treatment until the money is withdrawn. When withdrawn, it is taxed as an ordinary income (NCEO, 2016a:1). In order for employee participants to qualify for a rollover, ESOPs must own at least 30% of the organisation’s shares immediately after the sale and employee participants must reinvest the proceeds from the sale in an IRA or another employer's qualified retirement plan (Marcinko & Hetico, 2014:91).

The rollover to an IRA or another employer's qualified retirement plan is usually done as a direct rollover (a distribution of eligible rollover from the defined contribution plan to an IRA) (Jamison, 2009:47). In addition, the employee is required to notify management that distributions should be rolled into the new plan within 60 days before the distributions are paid out. Alternatively, the employer can pay the amount to employee participants and they have 60 days to rollover into an IRA. Money rolled over to the IRA is not taxed until it is withdrawn (Frisch, 2002:97).

4.6.1.2 Tax implications for ESOP distributions

Saper (2009:1) indicates that an employee participant who fails to rollover their benefits to an IRA, receives a different tax implications depending on whether the organisation makes the distribution in cash or shares. This implies that distributions made by management to an employee participant in cash or shares receive a different tax treatment. In order to enjoy the special tax advantages, the employer is required to make distributions carefully for employees who may want to benefit and report the "*net unrealised appreciation*" as a capital gain and pay a lower tax rate, in the absence of an IRA rollover (Pope, Sulzer, McInerney & Thompson, 2004:968).

Saper (2009:1) states that when an employee participant receives distributions as cash, they are required to report the total value of the payment as an ordinary income and pay taxes on it. For example, ESOPs acquire shares for R10 per share (₦50 per share). Employee participants may have 5,000 shares of organisational stock in their ESOP account, currently valued at R50 or ₦150 per share during retirement or termination of employment. If an employee receives a cash distribution of R250,000 (5,000 × R50) or ₦750,000 (5,000 × ₦150) and does not rollover to an IRA, he reports the total amount as ordinary income and pays income taxes accordingly. This indicates that the employee participant will owe taxes on the full balance of their cash distribution reported as an ordinary income. More so, an employee participant might incur a 10% tax penalty for the early withdrawal of distribution, especially if they are under the retirement age of 59½ (NCEO, 2016a:1).

Furthermore, Saper (2009:1) indicates that employee participants who receive distributions as shares, rather than cash, are subject to different tax implications. In other words, if a lump-sum distribution is made in an organisation's shares and the employee sells the shares, the net unrealised appreciation while the shares was held by the ESOP is taxed as a long-term capital gain (Saper, 2009:1). Pope *et al*. (2004:968) state that the net unrealised appreciation refers to the excess of the fair market value of the shares on the date of its distribution, over the share's cost or other basis, to the plan's trustee.

According to Marcinko and Hetico (2014:91), the Tax Reform Act of 1984 allows employee participants of a closely held organisation to sell their shares to the organisation and defer all taxes on the gain from sale. If an employee participant, for example, receives 5,000 shares, elects to sell shares and does not rollover to an IRA, he reports only R50,000 or ₦250,0000 as an ordinary income (R10 or ₦50 cost basis to the ESOP × 5,000 shares) and will be taxed accordingly. In addition, the employee can report the "*net unrealised appreciation*" of R200,000 (R40 × 5,000) or ₦500,000 (₦100 × 5,000) as long-term capital gains.

Therefore, employees will owe taxes on the ordinary income reported and a 10% penalty by the IRS for early distributions, especially if they are under the retirement age of 59½ (NCEO, 2016a:1). Furthermore, the NCEO (2016a:1) states that employee dividends are taxed as ordinary income any time that the organisation pays dividends directly to employees in cash. The ordinary income is subject to a penalty if employees receive an early distribution. In addition, the beneficiaries of ESOPs, or employee participants, are taxed in the year that distributions are made available to them (Aska & Turpin, 2015).

4.6.2 Tax implications for organisations

An ESOP, as a defined contribution plan, grants employees the right to defer (rollover to IRA) tax implications to a much future date. The tax deduction or tax implications for an employer are immediate. The contributions (cash or shares) made by the employer to the ESOP are tax-deductible in the year in which the contributions are made. Employers' contributions to fund the ESOPs are generally tax-deductible, up to a limit. This implies that employers' contributions are tax-deductible up to a limit of 25% of covered payroll. The organisation deducts up to 25% of their covered payroll from the salaries of employee participants and from their federal income taxes (NCEO, 2016a:1). In addition, Aska and Turpin (2015) state that the dividends paid on the organisation's shares held in the ESOP are tax deductible. More so, the employer makes a tax-deductible payment, which is sufficient, to the ESOP so as to enable it to make its annual debt payment to the bank or qualified lender (James, Livingston & Linder, 2015:13).

4.7 THE NIGERIAN STOCK EXCHANGE

The Nigerian Stock Exchange (NSE) was established in 1960 and was formerly known as the Lagos Stock Exchange. The NSE has branches located in popular and commercial cities all over Nigeria. However, the headquarters of NSE are located in the city of Lagos State (Olowe, Matthew & Fasina, 2011:14-15). Furthermore, Olowe *et al*. (2011:15) state that the NSE commenced operations in 1961 with 19 securities listed for trading on the Stock Exchange Market. As at 2015, the NSE has 252 organisations listed on the stock exchange market with a total market capitalisation of approximately ₦81Trillion (Nigerian Stock Exchange (NSE), 2015a:1). Table 4.2 summarises the categories of securities listed on the NSE.

Table 4.2: Categories of securities listed on NSE

Category	Number listed	Market capitalisation (NGN)	Market capitalisation (USD)
Shares-Main Board	185	10,717,529,112,553	53,813,662,947
Shares-AseM	11	8,584,168,275	43,101,869
Exchange Traded Products	4	4,198,654,260	21,081,815
FGN Bonds	15	4,780,112,923,285	24,001,370,372
Corporate Bonds	17	188,391,500,000	945,930,408
State and Municipal Bonds	19	540,993,942,400	2,716,378,502
Supranational Bonds	1	12,000,000,000	60,253,063
Total	**252**	**16,251,810,300,773**	**81,601,778,976**

Source: Adapted from the NSE (2015b).

The NSE is a financial market, or a stock exchange market, that provides financial services in Nigeria and Africa. The financial services offered by the NSE include listing, trading and licensing services, market data solutions and ancillary technology services. In addition, the NSE is licenced under the Investment and Securities Act (ISA) and its operations are regulated by the Securities and Exchange Commission (SEC) (NSE, 2016:1). Furthermore, the NSE is a capital market where two types of organisations' shares are traded. These shares are ordinary and preference shares. In order to invest in the NSE, investors have to make a decision regarding which categories or types of shares to invest in (NSE, 2016:1).

Staloch (2015:1) states that ESOPs are adopted and implemented by privately and publicly held organisations of different sizes and across different industries in an economy. In addition, the stock exchange market represents a fundamental aspect that aids the success of the adoption and implementation of ESOPs. The shares given to employee participants through ESOPs often represent full or partial ownership of an organisation. Employers of privately held organisations have an obligation to buy back shares from employee participants at their fair market price during retirement, resignation, death or disability (NCEO, 2016c:1; Wells Fargo Company, 2013:3-4). However, employers may not buy back shares if there is a stock exchange market available on which to sell the shares of departing employee participants. The employers of publicly held organisations that have adopted and implemented ESOPs must allow departing employees to sell their shares on the stock exchange market (NCEO, 2016c:1). Therefore, the NSE is evidence of a ready stock exchange market for the trading of ESOP shares. In other words, employee participants in NSE-listed ESOP organisations have the privilege of selling their shares on the stock exchange market during retirement or resignation.

4.8 THE CHALLENGES OF IMPLEMENTING AND OPERATING ESOPs

The implementation of ESOPs provides distinctive benefits and numerous challenges if not designed properly and managed effectively. Numerous organisations experience challenges with the complexity and cost of setting up ESOPs, communicating the benefit plan, gaining employee participation, managing the continuous repurchase obligation of shares, on-going regulatory compliance and recordkeeping (Wells Fargo Company, 2013:3-6). Wormley (2012:1) supports this notion by stating that there are a number of challenges, that are not immediate, associated with the implementation of ESOPs. In addition, ESOPs are expensive, they have repurchase obligation and it is difficult and complex to sell an ESOP organisation. The potential issues and challenges that influence the implementation and operation of ESOPs, according to Armstrong, Thompson, Silcox and Armstrong (2014:18), Horn *et al*. (2014), Ochs (2012:2) and Wormley (2012:1) are highlighted and discussed below.

Complexity and cost: Designing and implementing ESOPs involves numerous legal complexities and costs. The initial costs associated with setting up ESOPs include consultancy (financial and legal) and plan administrative fees (recordkeeping, filing reports and sending plan account statements) for structuring the transaction, fees associated with the preparation and drawing up of the plan documents and government filings, a valuation fee and the cost of borrowing money (loan commitment fee). Furthermore, complexity in the operations and implementation of ESOPs arise when the organisation extends its sharing of ownership to international employees and operates vesting periods that are stretched over several years. Sharing ownership with employees internationally will propel the organisation to contract the services of international consultants to run the operations of ESOPs. This situation presents an additional cost for the organisation (Armstrong *et al*., 2014:18; Frisch, 2002:11; Wormley, 2012:1).

Diversification risk and uncertainty: ESOPs have been considered a benefit plan that allows employees to put all their eggs in one basket. The challenges encountered in the implementation and operations of ESOPs are the risks associated with investing only in an employer's shares. Uncertainty regarding the financial situation of the organisation and a consistent fall in share prices place the employees' retirement savings at risk. Furthermore, in the event of bankruptcy, employees stand the chance of losing their jobs, their shares held in the ESOP trust account and their retirement savings (Anderson, 2009:3-6).

Repurchase obligation: In the long run, numerous closely or privately held organisations fail to put the future repurchase obligation into consideration during the establishment of ESOPs. This indicates that closely held organisations fail to consider how they can repurchase shares distributed to selling shareholders (ESOP participants). ESOP participants are given a put option that allows them to sell their shares back to the organisation at its fair market value. The challenges and setbacks of ESOPs occur when management fails and is unable to purchase shares from retiring shareholders. Furthermore, if a closely or privately held organisation fails to generate cash, the repurchase obligation of the organisation will be a major challenge to the long-term viability of its ESOP (Ochs, 2012:2).

Reviewing and refreshing plans: One of management's objectives in the implementation of an ESOP is to retain, attract and improve employee performance. The challenge associated with achieving these objectives over time is that ESOPs might no longer be effective to motivate the kind of behaviours and attitudes required by management. Employees may become too familiar with ESOPs and this may be viewed by employees as being "*part of the furniture*". Therefore, management is required to constantly review and refresh ESOPs in order to maintain their effect and value in the eyes of employees. Management's review will be to regularly examine the plan's performance against its objectives, and annually assess whether the processes supporting the plan are still effective. Furthermore, organisations sharing ownership with international employees will need to conduct a review to assess the effectiveness of offering the plan in countries where the participation rate of employees is low (Armstrong *et al*., 2014:19).

Communicating the plan and gaining participation: Numerous organisations encounter challenges communicating ESOP informations and gaining participation from their employees. Evidently, employees who have no or limited knowledge of ESOPs require a thorough explanation of how ESOPs work. Ineffective communication and explanations, from management, regarding the pros and cons of ESOPs can significantly undermine employees' confidence in and intentions to participate in the plan. Employees are likely to perceive high financial and diversification risks in participation and that being a shareholder requires them to be overly involved in their work. More so, employees may perceive that participating in ESOPs will restrict them from partaking in industrial action. Employees with this perception of employee ownership are likely to decline participation. Organisations also face challenges in gaining the participation of trade unions. The lack of effective communication regarding ESOPs from management will propel trade unions to perceive that ESOPs have certain implications on the jobs and pension plans of their members (Horn *et al*., 2014).

Measuring return on investment: Organisations encounter challenges in calculating the specific overall return on the investment of an ESOP, even if its desired outcomes can be assessed and its success evaluated. For example, the extent to which ESOPs discourage talented employees from seeking employment from a rival organisation can only be explored by means of a questionnaire (annual employee engagement survey). Furthermore, assessing the participation rate is a means that organisation can utilise to evaluate whether the implementation of ESOPs meets the set objectives. Organisations that lack an understanding of how to review ESOPs after implementation will face challenges in actualising their set goals and thus lose the investment made on ESOPs (Armstrong *et al*., 2014:19).

Difficulties in raising equity capital: ESOP organisations experience challenges with raising equity capital in the event of high and low valuations. The valuation of ESOP organisation must be done on a regular basis so as to establish the value of ESOP shares. The valuations, when performed, establish a standard that must be considered when evaluating an equity capital raise. The organisations will face challenges and difficulties in raising outside capital if the valuation is too high; if the valuation is too low, ESOP trustees may likely answer to displeased ESOP shareholders, whose new equity capital will be diluted (Wormley, 2012:1).

Employee versus Shareholder: Numerous organisations, after sharing ownership, experience challenges associated with the governance, authority and responsibility levels between management and employees. Employee participants may hold the view that, as shareholders, management should be accountable to and scrutinised by them. Furthermore, employee participants who perceive themselves as shareholders may decline participation and their responsibility to work and they may constantly demand rights to financial information. The potential pitfalls of ESOPs are that employees who view themselves as shareholders may also demand a greater say and influence in the decision-making and governance of the organisation. This challenge arises when the plan document and management fail to effectively communicate the level and rights of employee participants in ESOPs (Horn *et al*., 2014).

Recordkeeping and operations: ESOP organisations face major challenges in recordkeeping and operations as a result of their complexity and cost. The numerous laws of CODE and the ERISA governing ESOPs make recordkeeping and operations complicated. Plan administrators, recordkeepers and third party administrators are required to constantly perform numerous recordkeeping and operational activities, such as the high maintenance of the ESOP's suspense account, as well as loan and account balance tracking. Other activities include restrictions on transactions, rules for tax deductions, general accounting on shares, detecting eligibility and vesting, distributions and preparing annual form 5500. The various parties involved in the recordkeeping and operations of ESOPs are likely to incur a significant liability if proper or correct information is not maintained. In addition, the organisation is likely to face litigation from the IRS and DOL if parties involved in recordkeeping violate the laws of Code and the ERISA (Wells Fargo company, 2013:5).

Financing obstacles in securing a loan: Leveraged buyout and issuance ESOPs allow the sponsoring organisation to acquire a loan from a bank or any qualified lender. The sponsoring organisation may have difficulty in securing financing for these types of ESOPs if it has a history of inconsistent operating cash flows, insufficient cash flow to service its debt obligations, insufficient assets or collateral to secure the loan, and if it is highly leveraged (Prairie capital advisors, 2014:1).

Fiduciary responsibility and litigation of ESOP trustees: The likelihood of an ESOP's excess debt, inconsistent operating cash flows, inability to repay debt and loss of the organisation's main customers is likely to lead to the termination of a leveraged ESOP or the failure of the ESOP organisation. In addition, ESOP trustees are likely to face substantial legal exposure from employee participants and they may face litigation from the IRS and DOL on account of mismanagement of the plan and plan assets (Menke, 2015:4; Wormley, 2012:1).

Conflict of interests: ESOPs have the potential to create conflict of interests in relation to the personal interests and corporate duties of management, plan participants and the ERISA fiduciary. The law stipulated in the IRS Code and the ERISA indicate that all plan participants must perform activities solely in the best interests of participants and beneficiaries. Irrespective of this law, employers, management and plan participants are likely to have conflict of interests in terms of the formation of ESOPs, transaction of employers' shares and the voting ESOP shares (Anderson, 2009:14-21). In other words, employers are likely to adopt and implement ESOPs for the primary reason of raising capital and allowing employees to invest their retirement savings solely in its own shares. The stated employer's reason has nothing to do with the improvement of the lives of the majority of their employees. More so, employees have no ground for complaints about the formation of the plan. In addition, the purchasing and selling of shares requires that the independent appraiser and trustee determine the share price of a closely or privately held organisation. Conflict of interests may arise when the two parties set share prices or values that tend to favour an inside party rather than employee participants (Anderson, 2009:14-21).

4.9 THE BENEFITS OF IMPLEMENTING AND OPERATING ESOPs

Numerous organisations are faced with various external and internal challenges such as fierce competition, high (key or talented) employee turnover, low productivity and organisational performance (Greene, 2012:1; Sengupta, 2008:2). Vandenbosch (2003:4) reports that in order to proffer solutions to these challenges, organisations need to search for strategies and implement programmes that are needed for success and survival. In addition, Proctor (2005:8) states that the problem solving capabilities of management need to be challenged in order to create solutions to organisational challenges. Furthermore, innovative ideas and new perspectives are required through the restructuring of a creative process to proffer solutions and enhance organisational success. According to Greene (2012:1), the success and growth of an organisation depends on its ability to overcome these challenges.

Numerous organisations, globally, are recognising and discovering new and better ways to tackle organisational challenges. According to Sengupta (2008:170), an ESOP is an effective tool that can be used by an organisation to tackle organisational challenges and achieve the objective of profit maximisation. Governments and organisations in Europe, North America, Asia, Australia and Africa have discovered and promoted ESOPs as a beneficial strategy to manage challenges and enhance success (Kaarsemaker, *et al*., 2009:3; NBIF, 2006:12). Boone and Kurtz (2011:169) postulate that the popularity and number of employee-owned organisations is rising as a result of the benefits associated with the implementation of ESOPs. Furthermore, organisations implement ESOPs as a strategy to align and increase the interests of employees and management, and build employee commitment.

ESOPs stand as an employee defined contribution plan that can offer numerous benefits to organisations, employee participants and country (Brueggemann, 2013:310). Reuland (2011:1) reports that the most attractive benefit of an ESOP is that it can assist an organisation to generate income through its advantageous tax incentives. Furthermore, the income generated can be used to cost-effectively finance the growth of the organisation. The NBIF (2006:3) points out that ESOPs provide an opportunity for employees and various stakeholder groups associated with the organisation to benefit and generate lasting wealth. Irrespective of past successes and benefits that ESOPs have offered, NBIF (2006:3) advises that the implementation of ESOPs should not be interpreted as success or as an instant solution to organisational problems. This implies that the organisation should take greater steps in ensuring that the plan meets the needs of its employees, and organisational goals and objectives. The benefits of ESOPs to an organisation, employees and the economy will be discussed below.

4.9.1 The benefits of ESOPs to an organisation

The implementation of ESOPs offers numerous benefits to an organisation. Ownership Associates (2004:3) states that a plethora of research affirms that the implementation of an ESOP is beneficial to an organisation as it provides clear answers to the flow of communication within the organisation, organisational culture and employee participation. Furthermore, Ownership Associates (2004:5) highlights that the implementation of an ESOP is associated with positive outcomes within the organisation. The positive outcomes associated with the implementation of ESOPs are higher productivity, growth in sales, increased retirement assets and firm survival. In addition, the implementation of ESOPs benefits an organisation as it enhances corporate performance.

Lowitzsch *et al*. (2014:1) report that the implementation of an ESOP is profitable and beneficial for organisations at three levels: macroeconomic, organisational and regional. The beneficial outcome of ESOPs at the macroeconomic level includes higher productivity, competition and economic growth as well as the strategic stabilisation of ownership. ESOPs at the organisational level solve problems relating to employee absenteeism and high employee turnover. In addition, ESOPs retain talented employees and are important tools for business succession and funding. In addition, ESOPs at the regional level enhance the purchasing power of household products and discourages outsourcing and hostile takeovers (Lowitzsch *et al*., 2014:1).

Furthermore, Freeman (2007:1) and Zhu *et al*. (2013:17) state that numerous studies report that the implementation of ESOPs leads to the organisation's desired outcome. This implies that the implementation of ESOPs enhances organisational and employee commitment, employee productivity, organisational performance, employment stability, employee participation, job satisfaction and organisational profitability. In addition, Linnoinen (2013:14) points out that the implementation of ESOPs benefits an organisation as it improves employee motivation, employee innovation capabilities, access to employees' ideas that are needed for improvement; furthermore, it reduces labour/management conflicts, wage demand and is a source of investment capital. NBIF (2006:3) supports this notion by stating that the implementation of ESOPs enhances organisational productivity and competitiveness. According NBIF (2006:3) and Veronica and Soekarno (2015:90), the other benefits of ESOPs to an organisation include:

Ownership culture: One of the major benefits that an ESOP offers an organisation is that it creates an ownership mentality amongst employees within the organisation. This implies that the sharing of ownership with employees enables them to act more like owners and shareholders. Owners desire success in their organisation, therefore, the situation of ownership culture within the organisation raises and aligns the interests of employees and management. ESOPs allow employees and managers to think alike and put the organisation first in all their dealings (NBIF, 2006:3).

Enhancement of desired organisational outcomes: Numerous studies on the implementation of ESOPs report that ESOPs can reduce employee absenteeism and turnover. Employees who become owners through the sharing of ownership adopt a culture of being available at work and being committed to the organisation until retirement. Furthermore, in a bid to enhance organisational success, employee-owners become innovative and productive. The organisation benefits from the ESOP as it enables employees to be committed and this increases organisational performance. In addition, the implementation of an ESOP increases the competitiveness of the organisation and the value of its shares as a result of an increase in employee productivity (Menke, 2015:4; Veronica & Soekarno, 2015:90).

Increased cash flow: The proponents of the implementation of ESOPs argue that ESOPs create increased cash flow, which is needed for the advancement and development of the organisation. The advantage of borrowing funds with leveraged ESOPs, the beneficial tax incentive of ESOPs and the non-cash share contributions made to ESOPs improve and increase the operating capital and cash flow of the organisation. Furthermore, the increased cash flow benefits the organisation as it strengthens its operational performance (Frisch, 2002:79; Menke, 2015:4).

Tool for attracting and retaining employees: Organisations require skilled and talented employees in order to remain innovative and competitive. A plethora of research reveals that an ESOP is a beneficial strategy used in retaining and attracting critical talent needed for organisational survival and competition. This indicates that employees who desire to become shareholders get attracted to an organisation that has implemented ESOPs. Due to the long-term nature of ESOPs, employee participants stay committed as a result of the employer's shares they hold (Armstrong *et al*., 2014:17).

Tax benefits: Organisations adopt ESOPs to gain from its advantageous tax benefits. ESOPs in Europe have received much attention from the government. The government, through the department for Business, Innovation and Skills (BIS), has set out a range of planned steps to increase the awareness of ESOPs. More so, the UK government has made the implementation of ESOPs more interesting for organisations as it grants tax incentives to employee-owned organisations and employee participants (NBIF, 2006:3; Veronica & Soekarno, 2015:90).

Potential exit strategy: Owners of organisations search for strategies that allow them to exit their business slowly. ESOPs offer organisational owners an opportunity to exit the business while maintaining control of its operational activities. In other words, the owners of an organisation can slowly exit their business by sharing full or part ownership with its employees. The owner has the advantage of managing and maintaining control of the business by being part of the board of trustees. Furthermore, the owner of the organisation can sell its stocks of shares holdings to the ESOPs during succession and enjoy the benefit of deferring or avoiding capital gain taxes, which are associated with the sale of the organisation (Awe, 2012:252).

4.9.2 The benefits of ESOPs to employees

The use of an ESOP is an incentive that offers quite a number of potential benefits to employees. According to Westendorf (2006:200), sharing ownership with employees allows them to share directly in equity growth and the achievements of the organisation. Furthermore, ESOPs benefit employees in that the contributions made by management to the ESOP trust tend to be greater than 401(k) matching or profit sharing contributions. In addition, Westendorf (2006:200) states that numerous studies of ESOPs affirm that they unite the efforts of both management and employees (team spirit), and employees enjoy job stability in their organisation.

Furthermore, Freeman (2007:6) indicates that the benefits of an ESOP are usually bequeathed and enjoyed by the ESOP participants. According to Freeman (2007:6), the benefits of ESOPs that employees enjoy are: gaining substantial wealth, greater employment stability, job security and satisfaction. Moreover, the risk and sacrifice associated with creating or purchasing an organisation is bypassed. In addition, employees enjoy some sense of identification and participation within the organisation. This indicates that employee participants enjoy being identified as shareholders rather than just employees, and they have the benefit of increased participation in decision-making and rights to information (Freeman, 2007:6-8). According to NBIF (2006:3), other benefits of ESOPs to employees include:

Retirement savings: One of the important benefits of an ESOP is that it can be an additional retirement benefit plan that builds retirement savings for employee participants at no cost. An ESOP as an employee retirement plan benefits employees as it secures their financial future. Shares of the organisation are contributed by management and held in a trust account on behalf of employees until they leave or retire. During retirement, the shares are sold back to the organisation by the employee. The proceeds from the sale of shares create savings or finances for employees at retirement (Brueggemann, 2013:310; Murphy, 2009:125-126).

Stocks without cost: Employees enjoy the benefit of accumulating assets, gaining their employer's shares without cost, and investment in the organisation. The employer shares ownership with employees through the distribution of the organisation's shares at no upfront cost. This implies that the organisation's shares are not paid for by the employees. Shares are contributed by management and held in a trust on behalf of employees at no up-front cost or payment. Employees become full or partial owners and enjoy the gains of equity created by their labour (Brueggemann, 2013:310).

Tax benefits: ESOPs have the potential of offering significant tax advantages during the sale of shares in a closely held organisation. Section 1042 of the Internal Revenue Code (IRC 1042) specifies that a selling shareholder is allowed to rollover its proceeds from sales of shares into a qualified replacement property. In addition, employees will not pay tax until the replacement property is sold. This indicates that employee participants can sell back their shares to ESOPs and defer tax on the capital gains (NBIF, 2006:3).

Job stability: ESOPs offer employees the benefit of maintaining their positions and employment in the organisation for which they work. Numerous organisations create and adopt ESOPs to retain key and talented employees. ESOPs transform participating employees to shareholders and offer the benefit of greater job stability for skilled and talented employees in the organisation. ESOPs instil a sense of pride due to the development of an ownership mentality and enhance employee job satisfaction (NBIF, 2006:3).

4.9.3 The benefits of ESOPs to the country

The earlier discussion on the benefits of ESOPs to organisations and employees suggests that ESOPs maintain job stability, instil a sense of ownership culture in employees and enhance employee loyalty, productivity and commitment to the organisation. The implementation of ESOPs were further revealed to enhance the productivity, prosperity and longevity of the organisation (Brill, 2013:1-2). Furthermore, the effects and benefits of the implementation of ESOPs impact on the economy at large. This implies that ESOPs can enhance employee productivity which, in turn, impacts on the value and profitability of the organisation. Due to the profitability and success, the organisation is likely to give back to society through corporate social responsibility (Brueggemann, 2013:310).

Veronica and Soekarno (2015:90) affirm that an ESOP is beneficial in creating a rapid response to the development of a new and viable economy. According to Brill (2013:1-3), during the economic distress and recession in the USA, employee-owned organisations were known to be stronger and more competitive than non-employee owned organisations. During this era, employee-owned organisations out-performed non-employee owned organisations in the areas of production, employment, and labour income. Furthermore, the success and prosperity of employee-owned organisations also benefited their suppliers, customers, contractors, businesses used by the employee-owners, local economy and the U.S. economy broadly (Brill, 2013:1-6).

Furthermore, ESOPs benefit an economy by generating income and promoting the flow of income (spending and re-spending). This implies that, through the sharing of ownership, employees gain wealth from shares that are sold when they leave or retire from the organisation (Brill, 2013:1). The proceeds from sales create a disposable income for employees; this can be used in purchasing services or goods from other organisations. This creates jobs and supports the growth of other organisations. Furthermore, as employee expenditure occurs, the government enjoys the benefit of tax from sales, property and income, which is further used for the development of the society (Brill, 2013:1). According to Brill (2013:1) and NBIF (2006:3), other benefits of ESOPs to the economy are that they increase employment and job stability, thus reducing the level of unemployment; this represents a solution to social or economic inequity by narrowing the increasing wage gap and wealth disparities between the rich and the poor, and it enables the government to reap greater benefits from tax revenue.

Furthermore, an ESOP offers an opportunity and advantage for a competitive global economy as a result of its effect and the outcome of its implementation (organisational success and prosperity); it provides the government with alternative retirement plan options it reduces the poverty levels in the economy because it makes a retirement fund available for employees; and it has the increasing ability of creating long-term, capital based wealth amongst employees (Brill, 2013:1; NBIF, 2006:3).

4.10 SUMMARY

This chapter provided an elaborate and comprehensive discussion of the implementation of ESOPs. The procedures and requirements for implementing ESOPs were presented and discussed herein. Furthermore, the three categories of ESOPs, which include non-leveraged, leveraged buy-out and leveraged issuance ESOPs, were discussed for clarification purposes.

This chapter also provided a discussion of the steps to be taken in implementing an ESOP. Specifically, this chapter highlighted and discussed ten steps towards implementing an ESOP. These steps are: getting sound advice; meeting minimum requirements; understanding ESOP structures; understanding ESOP benefits and potential pitfalls; comparing your change or ownership; collecting and providing information for a feasibility study; receiving and reviewing a proposal for ESOP valuation; documenting, financing and executing ESOPs; communicating ESOP benefits to employees; and administering the plan.

The operations and recordkeeping of ESOP was also discussed in this chapter. This chapter also provides an overview of the relevant literature that explains the various tax implications for employee participants and employers. Furthermore, the chapter incorporated a discussion of the challenges that are present in implementing and operating ESOPs. This chapter shows that effective communication, corporate culture, corporate governance and plan operations can address the challenges associated with implementing and operating ESOPs, thus ensuring their success. More so, the operations and recordkeeping, as well as the benefits of ESOPs to the organisation, employee and country were discussed herein. Chapter Five will provide a comprehensive discussion of the success stories of ESOPs in various organisations across a number of countries.

CHAPTER FIVE
SUCCESS STORIES OF IMPLEMENTING ESOPs

5.1 INTRODUCTION

Chapter Four provided a discussion of the implementation of ESOPs, which included an overview of the procedures and requirements for the implementation of ESOPs. Furthermore, Chapter Four provided literature on the classification (non-leveraged, leveraged buyout and leveraged issuance) of ESOPs and the ten steps for the implementation of ESOPs. The chapter also explored the operations and recordkeeping as well as the tax implications of ESOPs for employee participants and employers.

The USA and European governments have shown increasing interest in ESOPs as a result of what ESOPs can be used for and the benefits they offer upon implementation. Laws and legislative bills have been enacted by the North American, Australian, Asian and European governments to encourage, support and promote the adoption of ESOPs. In addition, the number of ESOP organisations in European countries has increased as a result of government interventions in creating awareness of and support for the adoption of ESOPs (Martes, 2012:5; McHugh, *et al*., 2005:277). Furthermore, ESOPs are also gaining popularity in a few African countries, such as South Africa and Egypt (Rosen, 2013:1).

The widespread awareness and success of ESOPs experienced by organisations have prompted the governments of Egypt, South Africa and Zimbabwe to promote the adoption and implementation of ESOPs. The government in these countries understands that an ESOP is a critical factor needed to enhance and promote employee performance, morale, engagement and job involvement. There has been considerable success upon the adoption and implementation of ESOPs in these countries (Anglo American, 2007:13; Charles-Henri & Stephane, 2002:1; Employee Ownership Australia & New Zealand (EOA), 2014:2; Lowitzsch *et al*., 2014:108-116). This chapter, Chapter Five, provides a discussion of the history and forms of employee ownership as well as the success stories of ESOPs in the United States of America, the United Kingdom, Ireland, Egypt and South Africa.

5.2 ESOPs IN THE UNITED STATES OF AMERICA

The concept of an ESOP originated and was first implemented and practiced in the United States of America (USA) in 1956. The government and policy makers have since supported and promoted the adoption and growth of ESOPs through the enactment of favourable policies and programmes aimed at creating widespread awareness (Madland & Walter, 2013:14-15). Furthermore, Madland and Walter (2013:16) indicate that federal policy makers in the USA still provide on-going support and expansion of ESOPs through the utilisation of tax incentives. This section provides a brief description of the history of ESOPs in the USA as well as other forms of employee ownership and success stories related to the implementation of ESOPs.

5.2.1 History of ESOPs in the United States of America

The concept of employee ownership did not originate with the San Francisco lawyer and economist, Louis Kelso. Employee ownership through the utilisation of a stock bonus plan (profit sharing) appeared earlier in history, from 1921 to 1956, in the USA. During this time, organisations such as Sears Roebuck, J.C. Penney, Proctor & Gamble, Lowe's, Pillsbury and many others invested their funds in their profit sharing plans in their organisations' shares. These organisations utilised profit sharing plans to increase the incentives and productivity of their employees (Madland & Walter, 2013:13; Menke, 2015:1).

However, Kelso, the pioneer of the ESOP idea, was the first to utilise it as an IRS tax-qualified tool for business succession (Menke, 2015:1). Kelso perceived ESOPs as an important business succession tool that owners can utilise to transit their businesses into employee-owned organisations. Kelso implemented ESOPs to help the owners of Peninsula Newspapers, Inc. to change their ownership structure into an employee-owned organisation (Menke, 2015:1; Tiley, 2004:151). In addition, Menke (2015:1) states that Kelso was of the view that internal buyers (the organisation's employees) should be the logical buyers and owners of the organisation, as a result of the hard work they put in for its success and survival.

Furthermore, Wiarda (2009:145) postulates that legislation to support and promote the utilisation of ESOPs in the USA was facilitated by Kelso and Russell Long (Democratic Senator of Louisiana). Kruse, Freeman and Blasi (2010:153) indicate that Kelso and Long perceived ESOPs as a means to increase employee wealth and their share of capital and income from capital (shared capitalism). According to Tiley (2004:151), Long aided the adoption of ESOPs in the USA by proposing an amendment to the Employee Retirement Income Security Act of 1974 (ERISA). In 1974, the ERISA gave ESOP legal recognition as a result of the 25 passage legislation favourable to ESOPs, which Long processed through congress. The ERISA Act of 1974 presently forms the central element of American Legislation on ESOPs (Gartner & Bellamy, 2010:505; Menke, 2015:1; Tiley, 2004:151).

5.2.2 Forms of employee ownership plans in the United States of America

Employee ownership refers to a situation wherein all or some of the employees own shares in the organisation for which they work (Madland & Walter, 2013:13). In addition, the extent of ownership ranges from whether employees have full or partial ownership in the organisation in which they are employed. Furthermore, the NCEO (2016h:1) states that employee ownership is the ownership of an organisation, directly or indirectly, in full or in part, by some or all of the employees in the organisation. This study describes employee ownership as an employee-owner programme in which the employer shares full or part ownership with all or some of its employees. In addition, sharing ownership of the organisation or employer's assets/shares is made possible through the distribution of the organisation's shares.

Madland and Walter (2013:8) and the NCEO (2016g:1, 2016h:1) indicate that ESOPs are not the only type of employee ownership adopted and implemented in the USA. Other forms of employee ownership in the USA include employee stock purchase plans, employee stock option plans, broad-based individual equity plans, 401(k) plans and profit sharing plans.

An employee stock purchase plan (ESPP) is an agreement whereby the employer offers to sell shares to its employees and employees purchase shares by using after-tax payroll deductions (Samsa & Scheidt, 2003:126). Furthermore, CCH (2009:597) stipulates that employee stock purchase plans grant employees the option to purchase the shares of their organisation for not less than 85% of their fair market value, at the end of an offering period. In other words, employees have the option of purchasing the organisation’s shares, often at a discount price from the fair market value, using after-tax payroll deductions.

CCH Hong Kong (2008:174) states that, in an employee stock purchase plan, employers utilise the payroll deductions of participating employees to purchase the organisation’s shares for them. The payroll deduction is usually contributed by the employee between the offering and the purchase dates of the shares. Management utilises the funds accumulated from employees’ payroll deductions to purchase the organisation’s shares on behalf of the participating employees. In addition, the discount amount and option price on shares must not be less than 85% of their fair market value (CCH, 2008:227).

An employee stock option plan is a contractual compensation plan whereby management gives specific employees the right, but not the obligation, to purchase a stipulated number of the organisation’s shares at a pre-specified price and time (Wu, 2009:38). Furthermore, Wolff (2012:15) states that an employee stock option plan is a compensation contract that gives an executive or employee the right, without obligation, to acquire a stated number of shares within a specified period of time and at a specified price. Organisations in the USA utilise the employee stock option plan as a tax qualified financial incentive to attract, retain and encourage top executives and skilled employees. The implementation of this plan is aimed at increasing organisational productivity and performance (Abudy & Benninga, 2011:11).

Individual equity plans include restricted stock, phantom stock and stock appreciation rights. The NCEO (2016i:1) indicates that restricted stock refers to the acquisition of shares as a gift or through purchasing by employees, usually at a fair price of discounted value. In other words, employees are granted shares as an award by their employer or they are given the right to buy shares at a discounted price. Furthermore, Bogardus (2009:319) states that restricted stocks are actual shares (not the option to purchase shares) usually awarded to employees who demonstrate exceptional performance. According to Gibson (2010:354), this plan restricts employees from taking ownership of their shares until certain requirements are met. These requirements include working for a specified number of years and/or vesting and meeting organisational targets and goals (Gibson, 2010:354; Madland & Walter, 2013:9).

Schenk (2015:52) states that, in phantom stock, employees receive units of shares when certain events occur, such as retirements, outstanding performance or liquidation. In addition, the units of shares grant employees an entitlement to economic benefits. Furthermore, the NCEO (2016i:1) states that phantom stock allows the employer to make future payment either in cash or as a share bonus equivalent to the value of a certain number of shares, to employees' individual accounts. Therefore, in phantom stock, employees do not receive actual shares but "*shadow shares*" (employees pretend to receive actual shares). The employer makes a future payment in cash or shares equal to the value of the shadow shares received by employees. Wright (2008:175) affirms that phantom stock is an employee benefit plan that allows the employer to award bonuses, in the form of organisational shares, to selected employees. In other words, it is a bonus made in cash or shares equal to the value of a specified number of shares.

Stock appreciation rights (SARs) refers to an award paid either in cash or shares; it is based on the appreciation in value of a specified number of shares, awarded at the end of a specific period (Madland & Walter, 2013:10). Wright (2008:175) states that SARs refers to the right granted to an employee, to receive a bonus equivalent to the appreciation in the value of an organisation's shares between a specific period of time (usually between the date of the grant and date of exercise). The NCEO (2016i:1) affirms that SARs provide employees with the rights to receive cash, or equal value of the organisation's shares, as is equal to the appreciation of a specified number of shares within a specified time. Therefore, employees benefit from SARs if there is an appreciation in the price of shares. Through SARs, employees receive the amount of the increase in cash or shares.

The 401(k) plans with ownership of an organisation's shares are popular amongst organisations. Since 1978, the utilisation of the 401(k), as an employer sponsored retirement savings plan for employees, has grown considerably in the USA (Rahaim, 2005:1-2). According to Rahaim (2005:6), 401(k) plans are an arrangement in which the participating employee decides between taking compensation in cash or deferring a percentage of it to their individual account under the plan. The IRS (2015d:1) defines 401(k) plans as defined contribution plans that allow the employer and employee to make matching contributions from the employee's pay cheque into the employee's individual 401(k) account. In addition, the 401(k) is a tax qualified and defined contribution retirement plan that allows both the employer and employee to make matching contributions of pay in order to purchase the organisation's shares (Madland & Walter, 2013:8). Alternatively, management grants the organisation's shares as a match to the employees' contributions.

Profit sharing plans with ownership of an organisation's shares are adopted and utilised by numerous organisations in the USA, in order to share ownership and provide retirement savings for their employees (Estay & Pesme, 2011:23). Profit sharing plans refer to defined contribution plans whereby the employer makes an arrangement to contribute (cash, cheque or shares) from the organisational profits to the employee's individual account (Mezzullo, 2007:8). According to Madland and Walter (2013:8), profit sharing can either be a cash plan (employer makes direct and immediate contributions in cash, cheque or shares to employees at the time at which profit is determined), a deferred plan (contributions are not immediate but rather deferred to the employee's account and distributed upontermination of employment) or a combination plan (employees have the option of deferring all or part of their profit sharing allocation).

5.2.3 Success stories of ESOPs in the United States of America

The implementation, growth and success of ESOPs have been evident in the USA. This implies that ESOP organisations have experienced a considerable increase in profitability, productivity and growth. In addition, the steady propagation of the adoption and implementation of ESOPs by the American government has led to a steady increase in the number of participants since the beginning of the 21st century. According to the NCEO (2016f:1), approximately 7000 ESOPs covered about 13.9 million employees. In addition, 28 out of an estimated 120 million non-governmental employees participated in employee ownership plans in 2015. Furthermore, the

NCEO (2016g:1) states that ESOP organisations in the USA experience growth of about 2.3% to 2.4% faster per year after their implementation of ESOPs. This indicates that the implementation of an ESOP is beneficial as it improves organisational performance, growth and success. Despite the wide range of employee ownership plans prevalent in the USA, ESOPs remain the most prominent and highly utilised form of employee ownership in the USA. Furthermore, the Department for Business Innovation and Skills (BIS) (2013:18) reports that employee-owned organisations increased the employment rate by 60% in comparison to the employment rate in the economy as a whole. Table 5.1, below, provides a summary of the number of plans and participants as well as the value of the assets of different forms of employee ownership plans in the USA.

Table 5.1: Forms of employee ownership plans in USA

Type of plan	Number of plans	Number of participants	Value of plan assets
ESOPs	6,795	13.9 million	$1.2 trillion
Stock bonus plans and profit sharing plans primarily invested in employer's stock	2,528	1.8 million	$64 million
Broad-based individual equity plans	3,000	9 million	not estimated
Employee stock purchase plans	4,000	11 million	not estimated

Source: NCEO (2016g:1).

Table 5.1 shows that ESOPs has a high number of plan, number of participants and value of plan assets than the other employee ownership plans. This indicates that, in the USA, ESOPs are the most utilised form of employee ownership plans. Employee stock purchase plans (ESPP) record the second most utilised number of plans and participants, followed by stock bonus plans and profit sharing plans. Broad-based individual equity plans are the least utilised plans in the USA.

5.3 ESOPs IN THE UNITED KINGDOM

The utilisation of ESOPs as a form of employee ownership is prevalent in the United Kingdom (UK). Numerous organisations have adopted and implemented ESOPs in order to share ownership interest with their employees (Pendleton, 2002:4). The government in the UK promotes the adoption of ESOPs through advantageous tax policies and reforms. In addition, the government in the UK encourages the adoption of ESOPs through the creation of awareness and the development of an advantageous regulatory process (Lowitzsch *et al*., 2014:125). In a bid to promote the adoption and implementation of ESOPs, the UK government set up a national institution aimed at providing guidance, resources and information to all employers and employees (Lowitzsch *et al*., 2014:125). This section provides a brief overview of the history and success stories of ESOPs in the UK.

5.3.1 History of ESOPs in the United Kingdom

The concept ESOPs appeared in the UK during the mid-1980s. Specifically, the first ESOP was adopted and implemented in the motorway service company, Roadchef, in 1986 (Pendleton, 2002:19). During this time, a quarter of the shares belonging to one of the owners of the motorway service station organisation, Roadchef, were passed on to the employees of the organisation. Furthermore, the organisation's shares were purchased by an Employee Benefits Trust (EBT), with the loan provided by the trade union bank, Unity Trust. Subsequent to the implementation of the first ESOP, the development of ESOPs in the UK was primarily associated with the privatisation programme initiated by the UK government. In other words, the adoption and implementation of ESOPs in the UK became widespread as a result of the response to the privatisation programme initiated by the British government (Pendleton, McDonald, Robinson & Wilson, 1995:1).

An ESOP was implemented by People's Provincial, a bus organisation, during the time of intense privatisation from the National Bus Company. An ESOP was adopted and implemented in People's Provincial as a way of accomplishing a management-employee buy-out. In addition, the creation of an ESOP in People's Provincial was a result of the pressure to privatise. People's Provincial passed out 80% of its shares freely to its employees through the utilisation of an ESOP, and 20% were purchased directly by its employees. During the late 1980s and early 1990s, the majority of bus organisations in the UK adopted and implemented ESOPs in response to pressures, from government, to privatise. In addition, by mid-1994, a quarter of the employees in the bus industry were covered by ESOPs (Pendleton *et al*., 1995:2).

According to Pendleton *et al*. (1995:2), the development of the implementation of ESOPs in the UK is largely traced to the threat posed by policies created by the government. This is unlike other forms of share ownership plans, the adoption and implementation of which were spurred on by supportive legislative policy and the central government. However, the popularity and widespread adoption and implementation of ESOPs in the bus industry propelled the UK government to enact favourable policies that supported the development of ESOPs in other industries nationwide. The advantageous ESOP policies were enacted by the UK government on the basis that ESOPs will enhance organisational performance, employee commitment and participation (Pendleton *et al*., 1995:2).

5.3.2 Success stories of ESOPs in the United Kingdom

The benefits of ESOPs are demonstrated by the many success stories displayed by numerous employee-owned organisations in the UK. The UK government, organisations (public and private, listed and unlisted), employees and trade unions have widely supported and encouraged the adoption of ESOPs. Such wide acceptance comes as a result of the positive impact of employee ownership on organisations and the economy (BIS, 2013a:9-18). The number of employee-owned organisations in the UK has grown considerably since inception. In addition, the successes of employee-owned organisations have become a driving force for economic prosperity in the UK (Employee Ownership Association (EOA), (2015d:1).

According to the Employee Ownership Association (EOA) (2015d:1), employee-owned organisations are recognised for their ability to reduce the employment rate and make jobs available for many employees. The top 50 largest employee-owned organisations have a total number of 151,000 individuals employed in their establishments. Furthermore, the combined sales of these organisations amount to £25.5 billion. These employee-owned organisations contribute £30 billion (GDP) to the UK economy annually. This shows that the presence of ESOPs has a positive effect in the growth of the economy (EOA, 2015d:1).

Furthermore, the EOA (2015e:2-3), published a report that confirms that employee-owned organisations in the UK outperform non-employee owned organisations in terms of resilience, performance, productivity and profitability. The statistics presented by the EOA (2015e:2-3) show that employee-owned organisations experience increase in productivity year-on-year at 4.5%, an increase in operating profit year-on-year at 25.5%, an increase in sales year-on-year at 4.6% and a 3.3% increase in the number of employees year-on-year.

5.4 ESOPs IN IRELAND

ESOP is a term used to describe a tax efficient plan that allows all employees in the organisation to participate in share ownership in Ireland. ESOPs in Ireland are utilised by employers to provide their employees with ownership interests in the organisation through the distribution of shares at no up-front cost. ESOPs provided by employers in Ireland allow employees to share in the profit and wealth of the organisation for which they work. The Revenue Commissioner in Ireland has encouraged the adoption and implementation of ESOPs through significant tax laws (KPMG, 2012:2).

Furthermore, Gorecki, Lyons and Tol (2011:198) assert that ESOPs in Ireland are primarily adopted and implemented by state-owned organisations undergoing a change or privatisation. However, an organisation that is not state-owned and under the control of another organisation is encouraged to implement ESOPs as part of their employee ownership plan (Guide to ESOPs, 2013:2). Furthermore, the ESOP World Forum (2015:1) indicates that ESOPs in Ireland are made up of a combination of two plans approved by the Revenue Commissioner. These plans are the Employee Share Ownership Trust (ESOT) and the Approved Profit Sharing Scheme (APSS). In other words, the ESOT is established in conjunction with the APSS. The ESOT acquires, holds and distributes shares to employee participants. While, the APSS refers to the means through which shares are issued to enable employee participants to enjoy tax relief on the appropriation of shares worth up to a limit of €12,700 annually (ESOP World Forum, 2015:1; Guide to ESOPs, 2013:2).

The Guide to ESOPs (2013:2) states that eligibility for participation in ESOPs is open to all employees and full-time directors of the organisation. In Ireland, employers make cash contribution or directly transfer certain percentages of shares between

5% and 15% to the ESOT. The shares are held in the ESOT for a period of three years before they are allocated to employee participants' accounts through an APSS. Employee participants incur income tax upon receipt of payment for their shares. However, the shares received by trustees through the APSS, which are held for three years and distributed to employee participants, will be tax free up to a limit of €12,700 in a tax year. Employees are also required to pay capital gain tax of 20% on the sale of shares acquired through an ESOT or APSS (Guide to ESOPs, 2013:4).

5.4.1 History of ESOPs in Ireland

The Irish government concerned itself with employee financial participation and share ownership through the enactment of the Finance Act of 1982. The rationale behind the enactment of this legislation was to support and encourage ESOP adoption as well as to broaden ownership structures through the utilisation of share-based profit sharing plan (Wilke, Maack & Partner, 2014:1). From 1984 to 1995, the Finance Act underwent a series of amendments to enable the plan to look attractive and to be considered by employers and employees (Wilke, Maack & Partner, 2014:1). Furthermore, government policies enacted in the early 1990s encouraged the increase of privatisation and the commercialisation of state-owned organisations. Specifically, the Finance Act of 1997 marked the beginning and growth of ESOPs in Ireland (McCarthy & Palcic, 2011:2). According to Wilke, Maack & Partner (2014:1), the Finance Act of 1997 states that employees of state-owned organisations should be granted an organisation's shares in the event of full or partial privatisation.

The adoption of ESOPs in Ireland, as part of reform programme, is similar to that of the UK. The adoption and implementation of ESOPs in Ireland was prompted by the public sector reform programme initiated by the government. ESOP was introduced to Ireland under the Finance Act of 1997 to encourage the restructuring and privatisation of large organisations in the public sector (McCarthy & Palcic, 2011:2). In addition, the reform in the public sector allowed state-owned organisations to allocate 14.9% of their shareholding to employees through the establishment of ESOPs. Gorecki *et al*. (2011:198) affirm that ESOPs in Ireland are adopted and implemented when a state-owned organisation is privatised and where shares held by the ESOP are below 15% of the organisation's shares.

Furthermore, McCarthy and Palcic (2011:2) indicate that the rationale behind the adoption and implementation of ESOPs by the Irish government was to eliminate the trade union opposition to the privatisation programme. In order to achieve this, employees were given the right to participate at board level and in financial issues. In addition, the government established ESOPs as a way of enhancing the productivity of employees and aligning the interests of employees with that of management (McCarthy & Palcic, 2011:2). Gorecki *et al*. (2011:198) support this notion by stating that the reason for the adoption and implementation of ESOPs in state-owned organisations in Ireland was as payment to the trade unions in order to stop their attempts to oppose privatisation, to enhance workplace changes and to increase employee flexibility.

5.4.2 Success stories of ESOPs in Ireland

In Ireland, ESOPs are the main driving force for the financial participation of employees, in the form of share ownership. ESOPs were a distinctive element of Ireland's privatisation initiative. This is exemplified by the fact that, since the sale of the country's telecommunication operators (EIRCOM) in 1999, standard practice is to allocate 14.9% of equity to employees, and allocate a 35% increase in organisational ownership stake (McCarthy, *et al*., 2010:384-387).

Furthermore, the success stories of organisations adopting ESOPs in Ireland are well documented in employee ownership literature. According to Perotin and Robinson (2002:7-9), the adoption of ESOPs has contributed in raising the productivity of employees in Irish organisations. Furthermore, the number of organisations that have adopted ESOPs has increased since the first adoption. Notable companies that have welcomed and adopted ESOPs include Irish Sugar, Irish Life, B&I Line, Trustee Savings Bank and Aer Lingus.

According to Kikeri (1998:6), employee share ownership has facilitated the improvement of labour relations and increased organisational productivity in Ireland.

ESOPs have created a higher sense of ownership amongst employees after they were given a direct stake in the performance of the organisation. Rosen (2007:2) reports that the share contributions made to employees have reinforced and increased the level of employee participation and involvement in organisational activities. Due to Ireland's allocation of shareholdings to employees, Ireland is recoded to have the highest percentage of employees participating in ESOPs in the EU27 (Lowitzsch, Hashi & Woodward, 2009:31-35; McCarthy & Palcic, 2011:1-2).

5.5 ESOPs IN EGYPT

The concept of an ESOP is not new to Egypt. The Egyptian government adopted and supported ESOPs as a means to provide widespread capital ownership to employees in Egypt. The urge to promote privatisation prompted the advent and adoption of ESOPs (Equity Expansion International, 1988:1). In other words, the privatisation process, of state-owned organisations, by the Egyptian government encouraged the adoption of ESOPs. The adoption of ESOPs was advantageous to employees, the organisation and the government (Equity Expansion International, 1988:129). In addition, organisations enjoyed tax incentives, employees were empowered and the government enjoyed reduced public sector payrolls and fiscal deficit. The following section provides a discussion of the history and success stories of the adoption of ESOPs in Egypt.

5.5.1 History of ESOPs in Egypt

Egypt was the first developing African country to support the adoption of ESOPs. In May 1989, the government in Egypt welcomed ESOPs as a financial scheme through the formation of the Alexandria Tire Company (ATC), and a joint venture with the Pirelli Tire Company of Italy, as well as the USAID Mission in Cairo and other investors (Center for Economic and Social Justice, 2016:1). Furthermore, Equity Expansion International (1988:8) affirms that USAID Cairo took up the initiative to introduce a type of ESOP that is similar to that of USA in Egypt. The Alexandria Tire Company (ATC), Pirelli (the Italian tire manufacturer), various banks and insurance organisations spearheaded the creation of a pilot plant project. The innovation and formation of this pilot plant project by the ATC provided its employees with 30.5% of its shares through ESOPs.

Kurland and Brohawn (1993:1) affirm that Egypt was the first African country to utilise ESOPs to broaden capital ownership. Furthermore, the rationale behind the adoption of ESOPs in Egypt was to divest and privatise troubled state-owned organisations. In other words, the Egyptian government adopted ESOPs as a means to seek out private investors that can purchase and continue the business operations of highly inefficient state-owned organisations. According to Rosen (2008:364), employees are required by law to own 10% of state-owned organisations that have been privatised. Employees acquire the shares of the organisation for which they work through an Employee Shareholder Association (ESA). The organisation grants the ESA shares (large or small stake) at less than the market value and they pay for shares over time, out of the dividends received from the shares (Rosen, 2008:364). Through these means, several organisations have been sold off partially or entirely to employees.

Kurland and Brohawn (1993:1) point out that ESOPs were utilised in Egypt to broaden capital ownership and as a catalyst for economic democratisation. In addition, Equity Expansion International (1988:8) reports that ESOPs were used as a tool for financing private sector development (divesting state-owned organisations, humanising the privatisation process), motivating employees and promoting economic and social justice. Furthermore, Equity Expansion International (1988:20) postulates that the ATC was utilised as an example and as experience by other Middle Eastern and developing countries looking to initiate ESOPs. This implies that the success of the adoption and implementation of ESOPs by the ATC encouraged other countries to adopt ESOPs as a financial scheme.

5.5.2 Success stories of ESOPs in Egypt

The adoption and implementation of ESOPs was a success in Egypt. The privatisation process hastened and became possible as a result of the adoption of ESOPs. This implies that an increased number of state-owned organisations were quickly divested and privatised through the incorporation of ESOPs (Ramanadham, 2003:248). Carana Corporation (2002:5) and Posusney (2016:1) state that, from 1993 to 2002, 190 out of a total of 314 state-owned organisations were partially or fully privatised. In 1998, the International Monetary Fund announced its satisfaction with the progress of the privatisation process and success of ESOPs in Egypt. The adoption of ESOPs also prompted the growth and expansion of Egypt's financial market. Between 1992 and 1996, Egypt's trading volume experienced massive growth. Furthermore, the number of organisations that traded in the stock market grew from 111 in 1985 to 354 in 1996 (Posusney, 2016:1).

Furthermore, Posusney (2016:1) indicates that Egypt was ranked fourth internationally in terms of its annual privatisation receipts as a percentage of GDP. This position is attributed to the success of the privatisation process through the utilisation of ESOPs. In addition, the success of privatisation through the utilisation of ESOPs led to Egypt being listed in the International Finance Corporation's emerging markets index. Rosen (2008:364) affirms that the privatisation process and ownership arrangements through ESOPs have been very successful. Through ESOPs, the majority of employees have become shareholders just by acquiring a majority stake in numerous organisations.

In addition, Carana Corporation (2002:5-6) reports that privatisation through the utilisation of ESOPs had a positive effect on the economy. In other words, Egypt welcomed new investors and entrants; the size of its fiscal deficit was reduced; there was access to markets and new technologies and there was improved efficiency in the utilisation of the government's assets and resources. Privatised organisations experienced improved quality in productivity (goods and services) and improved financial performance, while employees enjoyed early retirement funds.

5.6 ESOPs IN SOUTH AFRICA

South Africa is one amongst a few African countries that have adopted and implemented ESOPs. In South Africa, ESOPs are an emerging financial incentive that have been utilised to broaden the base of ownership in selected organisations. Shared capitalism through ESOPs enabled organisations in South Africa to distribute wealth and close the income gap between the poor and the rich (Dougall, 2004:2).

Although, there are several forms of employee ownership in South Africa, ESOPs have received acceptance and support from both employers and employees. Furthermore, the adoption and implementation of ESOPs in South Africa has helped employers to align the interests of employees with those of management (Dougall, 2004:2).

Employee share ownership is practised in many large organisations, especially in large mining organisations. The practice of employee share ownership by mining organisations was seen as a vital element of the Black Economic Empowerment program (Dougall, 2004:2). In addition, numerous organisations in South Africa, especially those listed on the Johannesburg Stock Exchange (JSE), are classified as employee-owned organisations because they have adopted and implemented ESOPs. An ESOP is an employee-owner arrangement that gives employees in South Africa an ownership interest in their organisations. An ESOP facilitates the economic empowerment of employees, and it enhances their productivity and loyalty to their organisation (Ottinger, 2008:2). The government enacted the Revenue Laws Amendment Act in 2013 in order to encourage the adoption of ESOPs in South Africa. The major drive of the act is to promote long-term broad-based black economic empowerment (B-BBEE) and to support a realistic strategy that aims to achieve South Africa's full economic potential (Ottinger, 2008:2).

5.5.1 History of ESOPs in South Africa

The ESOP is a wide-spread economic scheme in present day South Africa. The practice of ESOPs by South African organisations is traced back to the 1980s. The National Union of Metalworkers of South Africa (NUMSA) and the South African Motor Corporation (SAMCOR) established a collective ESOP after Ford divested in response to protests against South African's system of Apartheid (Barney & Schenck, 2008:515). The adoption of ESOPs started in a few organisations in the early 1980s, however, ESOPs became well established in South Africa in 1987.

Barney and Schenck (2008:515) postulate that the number of ESOP organisations has significantly increased since 1987. The rise in the adoption and implementation of ESOPs was due to the increased interest in and support of ESOPs by trade unions. The Congress of South African Trade Unions (COSATU) and the National Council of Trade Unions (NACTU) have significant shareholdings in New Africa Investments and Real Africa Investments (Barney & Schenck, 2008:515). The participation of trade unions in ESOPs reduced discrimination against junior level employees (clerical and manual job categories) who wished to qualify for and participate in ESOPs (Barney & Schenck, 2008:515; Grobler, 2001:1-2). In addition, ESOPs have achieved extensive acceptance and support in South Africa, and there is a spread of share ownership amongst a greater number of employees in the private sector.

5.5.2 Success stories of ESOPs in South Africa

South African organisations that have adopted and implemented ESOPs have enjoyed the numerous benefits of ESOPs. ESOPs in South Africa have helped to align employees' goals and interests with the goals and interests of management (Chantelle, 2014:2-8). Furthermore, ESOPs have increased the attractiveness of these organisations to job seekers and investors. ESOP organisations enjoy a higher level of employee retention and have reduced employee turnover to a minimum (Chantelle, 2014:2-8). Furthermore, South African organisations that have implemented ESOPs enjoy an increased level of productivity and performance at 3% to 5%, annually. The NCEO (2015d:1-3) indicates that employee-owned organisations in South Africa have enjoyed better organisational performance than non-employee owned organisations. Le Roux (2005:1-3) postulates that ESOPs have assisted in broadening the base of share ownership nationally and in redistributing wealth and closing the income gap between the poor and the rich.

5.7 OPERATING ESOPs SUCCESSFULLY

The success of ESOPs is not solely dependent on the process of its implementation but also on how it is operated by management, the ERISA fiduciaries, third party administrators and expert ESOPs advisors. In order to achieve ultimate success, all parties involved in ESOPs must participate and work as a team to ensure that ESOPs are operated well. Furthermore, Ownership Associates (2004:3-6) state that what differentiates a successful ESOP organisation from one that is not successful are communications, strong ownership culture and participation. The NCEO (2012:10) supports this notion by affirming that factors that determine success in the operation of ESOPs are: communication, corporate culture, corporate governance and plan operations.

5.7.1 Effective communication

The success and survival of ESOPs depend on the level of communication provided by the ESOP advisors, employers and management. Employees need to understand how ESOPs work in order for the plan to operate successfully (Moss, *et al*., 2011:9). Management can create an effective communication programme by setting up an ESOP communications committee. The committee should be made up of management and employees who are familiar with their colleagues in the organisation. Employees who are part of the ESOP communication committee may know and understand their colleagues' fears, doubt, excitement and hopes regarding the plan. Therefore, employees who are part of the ESOP communication committee are likely to effectively communicate and educate their colleagues about the plan (Moss *et al*., 2011:9).

Furthermore, an orientation programme is required as a means to communicate the plan to new employees or on-going employee participants who require a refresher course or further information regarding the plan. Management should set up a class that will allow ESOP experts or professionals to provide lectures to employees on all aspect of ESOPs. ESOP professionals should ensure that they have fun while lecturing so as to create an enjoyable, relaxing and fun learning environment between themselves and the employees. Management should also provide employee participants with an ESOP handbook that is easy to read and understand (Armstrong, *et al*., 2014:18).

In addition, ESOPs will be successfully operated if management regularly disseminates information regarding different issues and changes in the plan. Regular information on small issues and changes in the plan will improve employees' understanding of the plan. Management should ensure that they utilise a means of communication that will encourage all employees to learn about the plan. Armstrong *et al*. (2014:18) indicate that numerous employees learn in different ways. Therefore, multiple means of communication, such as source material, internet, blogs, internal bulletin boards, emails, mails, a helpline, frequently asked questions (FAQs), surveys, newsletters, group meetings, should be used by management to help employees learn more about the plan. Management should also encourage employees to acknowledge receipt of communication materials and request feedback on their reactions and concerns related to any aspect of the plan. Effective communication will solve the challenges associated with trust, doubt, fear and participation in ESOPs (Armstrong *et al*., 2014:18; NCEO, 2012:10).

5.7.2 Corporate culture

Corporate culture refers to the blend of shared behaviour and attitudes, values, norms, beliefs, philosophy and behaviours that form the core identify and constitute the style and policies of an organisation (Herzog, 2011:59). In other words, corporate culture is the pattern of shared basic assumption that govern and provide a description of how employers, management and employees perceive, think and act (Herzog, 2011:59). According to Kane (2015:3), a corporate culture that encourages employee engagement and participation in the daily operations of the organisation increases the success of ESOPs. Furthermore, Kane (2015:3) indicates that employee engagement and participation refers to the willingness of employees to contribute to the success of the ESOP in the organisation. Therefore, employee participation and engagement allow employees to put in extra time, brainpower and energy to increase the success of the organisation. The NCEO (2012:10) affirms that there will be a marginal increase in the performance of the ESOP organisation when there is minimal employee participation and engagement. However, there will be a high increase in organisational performance when employees are allowed to participate in generating innovative ideas on how to do things better in the organisation.

Furthermore, Kane (2015:7), the NCEO (2012:10) and Ownership Associates (2004:6) state that the combination of an ESOP with a high degree of employee engagement and participation in the organisation will lead to an increase in sales, share value, profit, performance, resilience and competitiveness. Furthermore, Armstrong *et al*. (2014:18), Kane (2015:7) and the NCEO (2012:10) advise that a corporate culture that encourages employee participation and involvement should not restrict the regular sharing of financial data and information from employees. Management that desires success in the operation of an ESOP is required to share key financial performance data and create an opportunity for employees to share and generate ideas as well as provide recommendations and information for better decision-making.

In addition, employees should be educated on how to read and analyse financial data. Large group meetings should be set up for employees to interact and discuss how to improve financial figures as well as to generate new ideas on how to address and resolve problems (NCEO, 2012:10). Therefore, employee engagement and participation help to eliminate the challenges associated with constantly renewing and refreshing ESOPs. In addition, employee engagement and participation encourages team work and open dialogue, minimises authority, creates awareness of any situation regarding the plan and instils excitement towards achieving a common goal.

5.7.3 Corporate governance

Corporate governance in ESOPs refers to a process by which duties and authority are allocated amongst the shareholders, board of directors, trustees and management of the organisation. ESOP shareholders have the responsibility of electing the board of directors and voting on corporate matters. The board of directors is seen as the governing body of the organisation and they are responsible for hiring and evaluating senior management (CEO/president) and appointing ESOP trustees. ESOP trustees are the shareholders of the ESOP trust and they hold the fiduciary responsibility of operating the plan while acting in the best interests of employee participants and their beneficiaries. In addition, management have the responsibility of running the day-to-day operations of the organisation (Burdette, 2007:24; Olson, Johanson & Gordy, 2008:3).

Olson *et al*. (2008:2) state that the success of ESOP operations lies in the availability of strong corporate governance. This indicates that good corporate governance should be a prerequisite as it often leads to an organisation that is well operated and it enhances the success in ESOPs. The organisation is required to have a strong team of skilled and knowledgeable shareholders and directors to elect and hire the best candidates required for the operations of the ESOP. This indicates that the right ESOP trustees, CEO/president, committee and management can effectively support the actualisation of the long-term objectives and goals of the organisation. In addition, a properly structured, competent and knowledgeable board of directors and ESOP trustees is effective for protecting the interests of employee participants and for the survival of the plan (Serwinski, 2014:1).

Furthermore, an ESOP will be successful if the retiring owner or employer remains with the organisation for a short period of time. The employer may remain with the governing board to provide assistance in the development of the organisation's strategy. The development of a strategy and strong leadership in the governing bodies in ESOPs (board of directors, trustees and management) can be an effective value driver. In addition, this is a strategic way of ensuring the success of the ESOP and preserving the corporate culture of the organisation (Serwinski, 2014:1).

The roles of management and ESOP participants in corporate governance will be enhanced by a strong, skilful, effective and prudent governing body in the organisation. Management and ESOP participants that usually make up the governing body are required to act skilfully, prudently, carefully and in the best interests of participants and their beneficiaries (Olson *et al*., 2008:15). In addition, management and ESOP participants are required to know and understand their roles and responsibilities in order to avoid conflict of interests or of roles. In addition, gross negligence of duties by the governing body attracts litigation from the IRS. Therefore, a governing body that understands their roles and responsibilities enhances the success of an ESOP. In addition, an understanding of the rules of corporate governance will help avoid or minimise conflict and potential liability; it will also increase organisational growth and optimise corporate culture (Olson *et al*., 2008:15).

Burdette (2007:24-25), the NCEO (2012:10) and Olson *et al*. (2008:45) state that to enhance the success of ESOPs, the governing body is required to be fair, truthful, honest and open in dealing with all relevant parties and facts when making decisions that may affect the value of shares, and when creating a participation system. In addition, the governing body must ensure that ESOP trustees are provided with relevant and sufficient information as well as independent resources that will be utilised for the protection of employee participants. In addition, the trustee must ensure that valuation and voting shares in the plan are done appropriately. They also oversee the administration of the ESOP to ensure that it complies with all the requirements of the ERISA in order to avoid a lawsuit.

Furthermore, Burdette (2007:24-25) states that ESOPs will be successful if the governing body ensures that care is taken in maintaining the independence of the ESOP when conflict of interests arises within the board of directors and trustees. The governing body should clearly define the rights and privileges of shareholders and define and communicate the responsibilities of managers and directors to all stakeholders. In addition, the governing body must ensure that management employs the assets of the organisation in a manner that is consistent and in the best interests of employee participants.

The success of an ESOP will be enhanced if the board of directors pays close attention to trustees. This will ensure that trustees perform their functions effectively and act prudently, in good faith and in the interest of the participants. The board should also remain faithful to the purpose (maximisation of share value) of the organisation. In addition, ESOP committees should ensure that transparent and accurate financial information, and position, operations, performance and risk of the organisation are disclosed to the plan participants (Burdette, 2007:24-25; NCEO, 2012:10; Olson *et al*., 2008:45).

5.7.4 Plan operations

The success in ESOPs is dependent on ESOP plan administrators who are charged with the responsibilities of bookkeeping and operations. In other words, what differentiates a successful ESOP organisation from an unsuccessful ESOP organisation is the availability of a qualified and experienced ESOP plan administrator. Wells Fargo Company (2013:5) states that the numerous laws of Code and the ERISA that that currently exist make recordkeeping and operations complicated. Therefore, an experienced and professional plan administrator should be charged with the responsibility of taking care of the complexities associated with the bookkeeping, on-going operations and administrative duties of ESOPs. This will aid the success of the operations of ESOPs. Furthermore, Ochs (2012:2) reports that repurchase obligation can be a major challenge to the long-term viability of the organisation, if not properly planned for. In order to avoid this challenge, organisations should ensure that ESOP plan administrators take on the responsibility of performing studies on the repurchase obligation in order to carefully manage and plan for it (NCEO, 2012:10).

5.8 SUMMARY

Chapter Five provided discussions on the brief history and success stories of the adoption of ESOPs in the USA, UK, Ireland, Egypt and South Africa. The overview provided in this chapter reveals the positive effect of ESOPs for organisations, employees and the economy. In other words, organisations that have broadened ownership through the utilisation of ESOPs enjoy employee innovation, satisfaction, participation and commitment as well as organisational productivity, profitability, performance and attractiveness.

Furthermore, this chapter provided discussions on how to operate ESOPs successfully. According to the knowledge presented in this chapter, the success of the adoption of ESOPs is dependent on effective communication; corporate culture that encourages employee engagement and participation; properly structured corporate governance; and qualified plan administrators. The following chapter will present a discussion of the modelled influence and outcome of the adoption of ESOPs. The theoretical model developed for this study will also be discussed in the ensuing chapter. In addition, the research findings supporting the hypotheses formulated for this study will be discussed in Chapter Six.

CHAPTER SIX
MODELLED INFLUENCE AND OUTCOME OF THE ADOPTION OF ESOPs

6.1 INTRODUCTION

Chapter Five presented a discussion of the success stories of the implementation of ESOPs. The history, forms and success stories of employee-owned organisations in several countries were discussed for greater understanding. In addition, Chapter Five presented literature that shows that the adoption and implementation of ESOPs is beneficial as they assist organisations (public and private or small and large) to achieve increased productivity, profitability and performance.

The purpose of this chapter is to discuss existing research findings related to the attributes, influences and outcomes of the adoption of ESOPs. This chapter provide discussions of the theoretical model developed in this study. This theoretical model is based on the modelled influence of employees' perceptions and the outcomes of employee share ownership schemes propounded by Mazibuko and Boshoff (2003:35), and the implementation flow chart of ESOPs that has been propounded by the Employee Ownership Association (2015c:18).

The theoretical model developed for this study comprises independent, mediating and dependent variables. The independent variables are comprised of stakeholder consultation, government intervention and the corporate governance of ESOPs. The mediating variable is the adoption of ESOPs. The mediating variable (adoption of ESOPs) has five components: transparency, two-way communication, empowerment, decision-making and awareness of ownership. These components are required to promote and enhance the adoption of ESOPs. The dependent variables consist of organisational performance, employee retention and employee commitment. The hypotheses are formulated on the basis of the theoretical model put forward in this study. Furthermore, discussions and research findings that support each of the formulated hypotheses is provided herein.

6.2 THE MODELLED INFLUENCES OF THE ADOPTION OF ESOPs

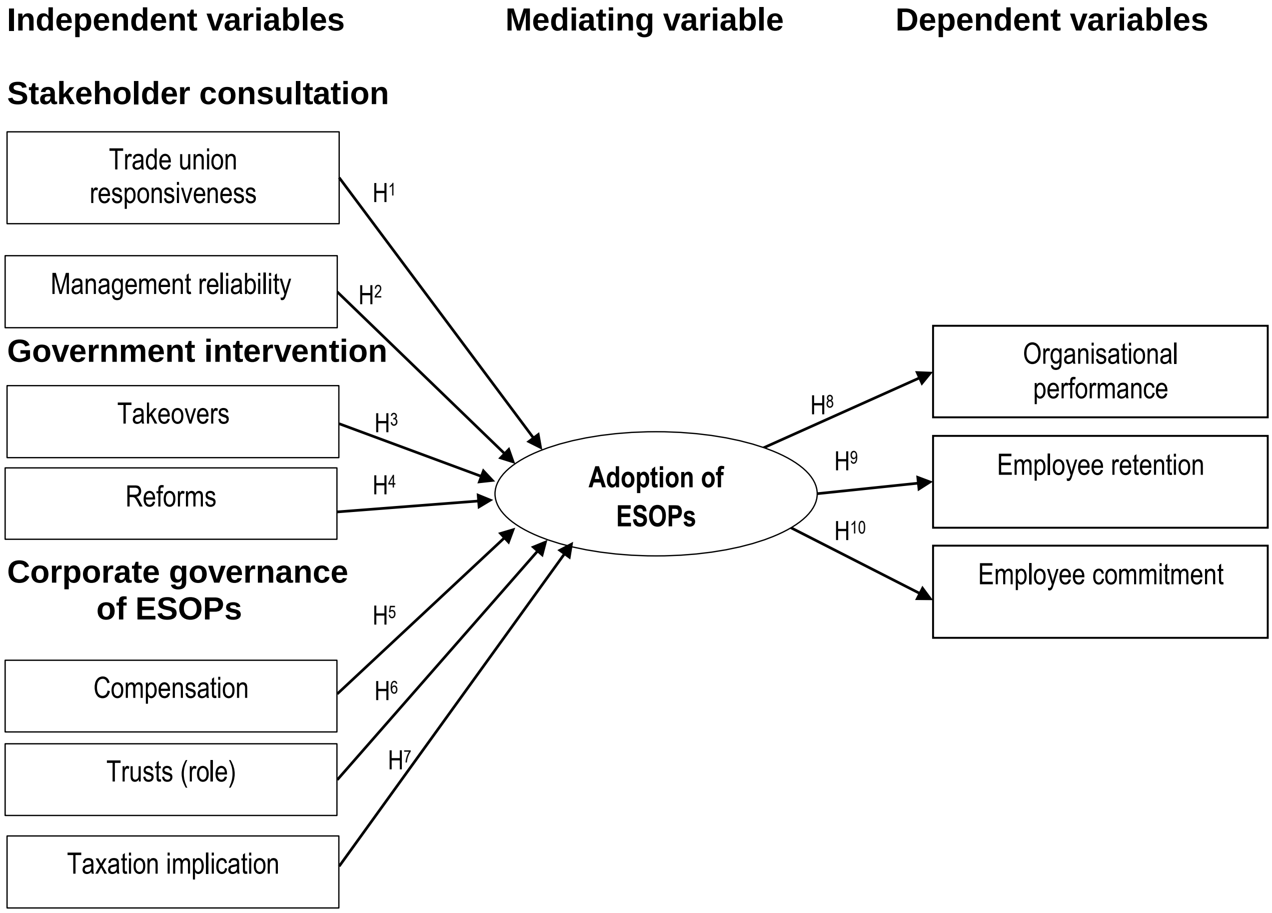
ESOPs are unique in comparison to other defined benefit plans. The features that make ESOPs unique when compared to other defined benefit plans are that ESOPs allow the sponsoring organisation, or the employer, to invest primarily in its own shares. In addition, ESOPs have the ability to borrow money from banks or other qualified lenders for the purchasing of shares from shareholders (Corey, 2015:1465). Furthermore, ESOPs allow employers to grant the organisation's shares to employee participants at no upfront cost. The organisation sets up a trust that acquires, holds and distributes shares to individual employees' accounts. In addition, employees who have reached retirement age and participated in ESOPs for 10 years or more are allowed to diversify 20% of their ESOP account to other alternative investments (Corey, 2015:1465). At 60 years of age, employee participants are allowed to diversify 50% of the organisation's shares in their ESOP account to other alternative investments. Furthermore, employee participants are allowed to receive the vested portion of their account after retirement, resignation, disability or death (Corey, 2015:1465-1467).

There has been growth in, and wide acceptance of, the adoption and implementation of ESOPs in countries such as the USA, UK, New Zealand, South Africa, Jamaica, and Japan. Meng, Ning, Zhou and Zhu (2011:1541) affirm that employers in these countries use ESOPs as an incentive scheme in order to increase employee productivity and organisational performance. Furthermore, Zhu *et al*. (2013:18) argue that an ESOP is a financial incentive scheme that employers use to reduce employee turnover, align employees' interests with that of management and enhance active participation and employee involvement in the organisation.

This study outlines and investigates a number of factors responsible for hindering the adoption and implementation of ESOPs. Figure 6.1, below, illustrates the theoretical model of factors influencing the adoption of ESOPs and the outcome of the adoption of ESOPs. In other words, Figure 6.1 illustrates the theoretical model of the influence and outcomes of the adoption of ESOPs.

Influence on the adoption of ESOPs comprises of stakeholder consultation, government intervention and the corporate governance of ESOPs. The mediating variable is the adoption of ESOPs (transparency, two-way communication, empowerment, decision-making and awareness of ownership). The proposed outcome of the adoption of ESOPs is comprised of organisational performance, employee retention and employee commitment. Figure 6.1 illustrates the modified theoretical model of the influence and outcomes of the adoption of ESOPs.

Figure 6.1: Modified theoretical model of the influence and outcomes of the adoption of ESOPs



Source: Researcher's own construct.

6.2.1 Stakeholder consultation

The stakeholders of organisations are people, groups or independent bodies that have an interest in and can influence the actions, decisions, goals and survival of an organisation (Gossy, 2008:6; Merrilees, Getz & O'Brien, 2005:1063). Furthermore, stakeholders contribute to the success and survival of the organisation as they are responsible for representing a positive image of the organisation. Stakeholders can enhance the success of the organisation by spreading positive word-of-mouth messages about the organisation (Gossy, 2008:6; Merrilees, *et al*., 2005:1063). Stakeholders can be internal (people who operate within the organisation) or external (people who operate outside the organisation). Internal stakeholders include employees, the board of directors and management. External stakeholders include trade unions, the government, authorities, the media, community, suppliers, distributors, customers/clients and investors (Rogers, Finley & Galloway, 2001:48; Zaremba, 2015:30-31).

Judd, Higman, Bass, Mayers and Nussbaum (2013:67) postulate that stakeholder consultation is the creation and sustainability of the relationship between all stakeholders over time. In addition, stakeholder consultation involves a two-way relationship and communication between management and its stakeholders on issues concerning the organisation. The engagement with, and consultation of, stakeholders in major projects and decisions made in the organisation are crucial as it keeps all parties involved and informed about developments within the organisation (Dunlop & Radaelli, 2016:155-156). Furthermore, stakeholder consultation improves the relationship, participation and trust between all stakeholders. In addition, stakeholder consultation can align the interests, goals and objectives of all stakeholders in the organisation towards the achievement of organisational success (Dunlop & Radaelli, 2016:157).

Therefore, for the purpose of this study, stakeholder consultation refers to the establishment and maintenance of relationships, participation and communication between individuals, groups or independent parties that have a vested interest in, and the power to influence, the adoption of ESOPs. Stakeholder consultation, in this study, comprises of two attributes: trade union responsiveness and management reliability. Engaging with and consulting organisational stakeholders in the adoption of ESOPs involves establishing relationships and maintaining good and effective communication between all parties (management, employees and trade unions) in the process of adopting and implementing ESOPs (Judd *et al*., 2013:67). This section provides a discussion of the attributes of stakeholder consultation, namely, trade union responsiveness and management reliability. The theoretical model formulated for this study illustrates that the two attributes of stakeholder consultation have an influence on the adoption of ESOPs. A discussion, coupled with an outline of the research findings, will be presented on both attributes for clarification purposes.

6.2.1.1 Trade union responsiveness

Trade unions play an important role in society and they are fundamental in every industry in a country. Trade unions are capable of influencing the actions and major decisions of organisations. Furthermore, trade unions exert a strong influence on the methods of production of goods and services, employment and unemployment, rights and privileges of employees as well as on government and organisational policies (Sinha, Sinha & Shekhar, 2004:1). According to Peters (2012:113), trade unions are incessant organisations or an association of employees in a common trade, business, profession or industry. In addition, this group or association is formed to maintain and protect the rights and interests of its members. Furthermore, Gumbrell-McCormick and Hyman (2013:1) and Sinha *et al*. (2004:1) argue that trade unions are an on-going organisation of employees established for the principle purpose of protecting and advancing the economic interests of their members, within the working environment, through collective action.

Soos (2011:75) suggests that the roles of trade unions are significant in promoting the adoption and implementation of ESOPs. Employers are required to consult trade unions regarding the adoption and implementation of ESOPs. The roles played by trade unions include participating, managing, bargaining and negotiating the terms and conditions of the adoption of ESOPs with management. Blanpain (2011:157) argues that trade unions may be sceptical that ESOPs may be used as an instrument to unite and give employees too much power, which might weaken or destroy their association with the trade union. However, proper negotiation between management and trade unions helps to alleviate conflict and scepticism, and enhances their understanding of the benefits of the plan. Furthermore, the empirical findings of McCarthy, Reeves and Turner (2009:438) support that collaboration between management and trade unions will propel trade unions to support and encourage the adoption and implementation of ESOPs.

Mazibuko and Boshoff (2003:40) report that trade unions play an important role by being responsive to their members. Trade union responsiveness refers to the ability of trade union heads to carefully represent ESOPs on behalf of their members (Mazibuko & Boshoff, 2003:40). Furthermore, trade unions are responsive when they have a good relationship, and share full ESOP-related information, with their members. Responsiveness also extends to the ability of trade unions to provide their members with answers and feedback to questions, fears and suggestions regarding ESOPs (Mazibuko & Boshoff, 2003:40). The empirical findings of Selamoglu and Urhan (2008:102-107) reveal that numerous employees behave irrationally as a result of the lack of trust and confidence they have regarding how trade unions represent them in organisational issues. In other words, employees behave negatively due to a lack of confidence and trust in how trade unions represent and protect their rights and interests in the adoption of ESOPs.

Sverke *et al*. (2004:124-125) maintain that employees often rely on the protection and support of their trade unions to positively influence, consult and represent them in work-related issues. The ability of trade unions to demonstrate support to employees in issues related to ESOPs, influences and shapes the perceptions and attitudes that employees have towards the adoption of ESOPs (Sverke *et al*., 2004:125). Therefore, trade union responsiveness to members, regarding ESOPs, is important for the successful adoption and implementation of ESOPs. A good working relationship and shared information between trade unions and members regarding the adoption of ESOPs is likely to create a positive perception of ESOPs (Sverke *et al*., 2004:125).

Based on the evidence gained from the literature and research findings presented herein, it is argued that trade union responsiveness, as an attribute of stakeholder consultation, influences the adoption of ESOPs. Therefore, it is hypothesised that:

H^1: *There is a relationship between trade union responsiveness and the adoption of ESOPs*.

6.2.1.2 Management reliability

Management reliability is a fundamental component for the successful adoption and implementation of ESOPs. Tzafrir (2005:1600) reports that management reliability refers to employees' positive expectations of and trust in the consistency between the words and actions of management. Furthermore, Krot and Lewicka (2012:225) suggest that management reliability is the ability of employees to depend upon and trust in the actions and decisions of management, even in risky conditions. In addition, management reliability implies that employees believe that the actions and decisions made by management will be beneficial, and not detrimental, to their employment (Krot & Lewicka, 2012:225). Therefore, for the purpose of this study, management reliability refers to the actions and abilities of management to be fair, honest, transparent and trustworthy as well as to communicate effectively with key stakeholders about the adoption and implementation of ESOPs.

Employees require more than a salary from employers and management (Tzafrir, 2005:1600). This indicates that employees want to be informed, involved, committed and participate in the activities and affairs of the organisation. Management can satisfy the needs of employees by creating a reliable relationship and a positive working environment (Tzafrir, 2005:1600). Paliszkiewicz (2012:206-207) argues that a reliable relationship and a positive working environment is one that is safe and harmonious for both management and employees to work in. In other words, employees and management will operate well in an environment where there is trust, respect, honesty, fairness, coordination, open communication, sincerity, consultation and support (Krot & Lewicka, 2012:224-226). Furthermore, Tzafrir (2005:1614) supports this notion by suggesting that organisations will achieve success in performance and profitability if a reliable relationship exists between management and employees.

Furthermore, the study carried out by Tzafrir (2005:1613-1614) reveals that employees' reliance on management is significantly associated with organisational performance, employee decision-making, participation, trust, compensation and high market performance. Krot and Lewicka (2012:228) investigated the importance of reliability related to trust in the relationship between management and the employee. Their findings reveal that when management is reliable, employees' trust, competence, integrity and benevolence are increased. Therefore, management reliability will enable employees to trust management with regard to the adoption of ESOPs.

Furthermore, Rogers *et al*. (2001:48) and IITA (2001:5) suggest that management should consult and communicate effectively with key stakeholders in order to win their approval and support in the adoption of ESOPs. According to IITA (2001:5), it is expected that the adoption and implementation of ESOPs will change the processes and practices of the organisation. Therefore, management must consult with and communicate to trade unions and employees about changes in the organisational structure. In addition, IITA (2001:5) suggests that management must make a "*plausible promise*" to key stakeholders during the start-up phase of the adoption of ESOPs. This implies that management must communicate truthfully about the process, structure and benefits of ESOPs to trade unions and employees.

Furthermore, Rogers *et al*. (2001:48) argue that reliability extends to having good and open communication between management and employees. This situation will help in dealing with the new changes in organisational structure and procedures. The acceptance of, and participation in, ESOPs by employees may be influenced by how well management honestly informs and communicates the plan to employees (Ownership Associates, 2004:13-14). Furthermore, effective communication will minimise employee confusion and maximise employee understanding of the intricacies and benefits of ESOPs.

In addition, a reliable management that displays the characteristics of trust, honesty, fairness, transparency can enhance trade union and employee interest in and acceptance of the adoption of ESOPs (Schnackenberg & Tomlinson, 2014:1-12). The research findings of Aryee, Budhwar and Chen (2002:267-285), Morgan and Zeffane (2003:55-75) and Paliszkiewicz (2012:206-207) reveal that, when management is fair, honest and transparent in their dealings, employees will trust, engage and participate in organisational activities.

The evidence presented in the literature and research findings show that when management is reliable, trade unions and employees will trust in management's ability to take actions and make decisions that are beneficial to employees. Management reliability that encourages a culture of trust, honesty, fairness, transparency and open communication can increase trade union and employee interest in participating in ESOPs. Therefore, it is hypothesised that:

H^2: *There is a relationship between management reliability and the adoption of ESOPs*.

6.2.2 Government intervention

Government intervention refers to the ability of the government to interfere with strategies and address issues relating to economic equity, efficiency and imperfect markets (unregulated and highly competitive markets) (Henderson, 2014:87). In addition, government intervention is seen as a strategy that ensures efficient market performance and equitable outcomes. Labonte (2010:15) supports that government intervention is the ability of government to control and regulate industries and markets in order to achieve income redistribution and economic efficiency. Therefore, for the purpose of this study, government intervention refers to the adoption and utilisation of ESOPs as a strategic to promote shared capitalism, economic efficiency, growth and prosperity.

Numerous countries search for strategies that can promote economic efficiency, growth and prosperity. In a bid to achieve this, industrial policies, legislation and regulations are enacted to support and enable industries to achieve optimum productivity and performance (Arnold, 2008:373). In other words, the government of every country gets involved and takes regulatory action in order to interfere with the decisions made by organisations, lawmakers, social and pressure groups. Furthermore, the government intervenes through the enactment of industrial policies, legislation and regulations, in order to combat market inequalities, prevent market failures, and promote economic equity and fairness (Belsky & Wachter, 2010:8). Wendt, Mischke and Pfeifer (2011:21) postulate that the reason for government intervention in social and economic issues is to cause a revolutionary change in or a positive impact on the country's economy.

Arnold (2008:373) and Lam, Percy and Wong (2012:262) suggest that the government of a country can intervene by providing certain incentives for aiding industries that are considered to be of strategic importance to the economy and world marketplace. Sobhan (2010:376) supports this notion by stating that governments in several countries have adopted and promoted ESOPs as a strategic means to redistribute wealth, eradicate poverty, promote economic efficiency and compete globally. In addition, these governments have also promoted and supported the adoption of ESOPs through advantageous tax policies and legislation.

The theoretical model formulated for this study illustrates that government intervention, through takeovers and reforms, can influence the adoption of ESOPs. The purpose of this section is to provide a discussion of the influence of both attributes on the adoption of ESOPs.

6.2.2.1 Takeovers

A takeover occurs when one organisation gains a controlling interest and total power and authority over another organisation and its management, through purchasing its shares (Machiraju, 2007:1). Organisations operate in a highly volatile and dynamic environment faced with frequent price shifts, shifts in consumer preferences, change in technology, high competition and government policies (Shukla, 2008:47). In order to survive and succeed, employers, management and employees need to strategise and innovate more efficiently so as to cope with the environmental demands. This implies that success in profitability and performance can only be achieved by adapting and strategically responding to the continuously changing environment (Shukla, 2008:47).

Organisations that succeed and perform better in the business environment often have the capability to acquire or takeover the controlling interest of rival organisations. Furthermore, mergers, acquisitions and takeovers are familiar terms in the business environment. Mergers, acquisitions and takeovers reveal organisations that have the financial capability of expanding and venturing into new markets (Machiraju, 2007:1; Schade, 2014:1). Wolff (2008:2) reports that mergers refers to the unification or consolidation of two or more organisations to become a new organisation, while continuing operations with a new name. Contrarily, acquisition refers to the total purchase of controlling interest of one organisation by another.

Furthermore, Schade (2014:4) postulates that mergers occur when two or more independent organisations consolidate to become one; in this process, at least one of the organisations loses its autonomy. In contrast, an acquisition occurs when an organisation purchases a part, minority or majority of the ownership or controlling interest of another organisation. Machiraju (2007:2-3) explains that an organisation can gain controlling interest of another organisation by purchasing its shares in the stock market or directly from shareholders. Furthermore, the targeted organisation may either be retained as a subsidiary or dissolved to merge.

International Business Publication (2014:212) argues that takeovers can be friendly or unfriendly. In a friendly takeover, the management, board of directors and shareholders approve and are receptive to the idea of a merger or acquisition by another organisation. Contrarily, an unfriendly takeover (hostile) occurs when the board of directors of an organisation rejects the idea of being acquired by another organisation (Machiraju, 2007:3). In addition, an unfriendly takeover can occur in two ways: the acquiring organisation can purchase 50% or more of the controlling interest of the target organisation, or they can directly contact existing shareholders of the target organisation and persuade them to vote in acceptance of a takeover offer (Gorzala, 2010:7).

Gorzala (2010:12) reports that the high level of unfriendly takeover activities in the business environment has encouraged numerous target organisations to utilise anti-takeover defence strategies. Furthermore, Gaughan (2010:381) specifies that the rising popularity of ESOPs is attributed to the fact that they can be utilised by target organisations as an anti-takeover defence mechanism. Jansen (2009:316) supports this notion by stating that ESOPs are an effective mechanism to significantly reduce the probability of a takeover. Rauh (2006:383) presents research findings that reveal that ESOPs reduce the likelihood of a takeover attempt from acquiring organisations. In other words, ESOPs that grant share ownership to employees, managers and other affiliated block holders, reduce the attempt of a takeover by an acquiring organisation. Furthermore, Chemla's (2005:385-392) research reveals that an ESOP is a solution for decreasing the likelihood of takeover in the business environment.

Furthermore, Gaughan (2010:381) reports that the government in the USA, through the enactment of constitutional laws, has encouraged organisations to adopt ESOPs as anti-takeover defence. The attractiveness and adoption of ESOPs as anti-takeover defence has increased. Employers who seek to defend and protect their organisations have shared ownership with their employees through the utilisation of ESOPs. The combined holding of shares in the ESOP and affiliated block holders prevents an acquiring organisation from reaching the 85% level necessary for a takeover (Gaughan, 2010:381). Therefore, it can be argued that ESOPs can be utilised as anti-takeover defence mechanisms. Government intervention, through the enactment of legislative bills on ESOPs as anti-takeover defence, has encouraged its adoption and implementation. Based on these research findings, it is hypothesised that:

H^3: *There is a relationship between takeovers and the adoption of ESOPs*.

6.2.2.2 Reforms

Reforms are approaches taken by the government to bring change, transformation and improvement to the economy (Bouvard, Dohrmann & Lovegrove, 2009:1). According to Wallis (2007:17), reform is defined as bringing change into a system of practice. In addition, reform indicates altering the status quo through the enactment of new policies. Caiden (2011:65) maintains that reform occurs when the government eradicates obstacles to change and improve on the results of change, where necessary. In addition, Lockner (2013:1) describes reform as enforcing change as well as developing and implementing effective policies to correct drawbacks, weaknesses and irregularities, in order to promote efficient functions and structures. Therefore, in this study, reforms refer to government's intervention through the enactment of laws, policies or legislative bills that support the adoption of ESOPs. This creates a transformation or improvement in a system of practice.

Currie (2005:425-427) suggests that the success or failure of an economy is dependent on the decisions and policies created by policy makers. In addition, policies to achieve success in reforms are necessary for rapid and sustainable growth as well as improvement in institutional, legal and economic conditions. Furthermore, Bouvard, *et al*. (2009:1) argue that it is the duty of the government of every country to intervene during an economic crisis or to complex challenges in healthcare, social and national security, education and critical infrastructure. In addition, the government is required to perform its functions effectively through the creation of reforms.

Rosen (2013:1) postulates that the governments of numerous countries have created laws and policy reforms in order to create awareness and support the adoption and growth of ESOPs. The government of the USA introduced advantageous tax reforms to encourage the adoption of ESOPs and broaden share ownership (Kurland, Brohawn & Greaney, 2004:13). In addition, the Irish government reformed the Finance Act of 1997 to enhance the attractiveness of ESOPs and encourage their adoption (Wilke, Maack & Partner, 2014:1) Lowitzsch *et al*. (2014:125-127) specify that the UK government also committed itself to promoting ESOPs through tax reforms. The reforms were meant to simplify tax rules and encourage growth in the adoption of ESOPs.

Furthermore, the South African Government (2016:1) reports that in South Africa numerous organisations have adopted and implemented ESOPs due to the policy reform instituted through the Broad-Based Black Economic Empowerment (BEE) program. This reform in policy was aimed at shared capitalism (broader spread of ownership to support low income employees) through ESOPs, for all black South Africans (Africans, Coloureds and Indians). In addition, the policy reform was aimed at facilitating economic growth and stability in the economy.

The Zimbabwean government also established reforms through the Indigenisation Economic Empowerment (IEEA). The reform was established to allow Zimbabwean nationals to own 51% of the shares of all organisations with a share capital above $500,000 (Chingwaru, 2014:35). Freeman (2007:18-19) found that organisations adopt ESOPs as a result of tax reforms. Furthermore, Kruse (1996:515) performed an empirical investigation into why organisations adopt ESOPs; his findings reveal that organisations adopt ESOPs as a result of the reforms made on tax. In other words, legislation altered the Tax Reform Act that granted ESOPs special tax incentives. Organisations faced with high tax burdens were motivated to adopt and implement ESOPs as a result of the changes to the Tax Reform Act (Kruse, 1996:530).

Based on the literature and research presented on the influence of reforms on the adoption of ESOPs, it is hypothesised that:

H^4: *There is a relationship between reforms and the adoption of ESOPs*.

6.2.3 Corporate governance

Corporate governance refers to the rules, structures, systems and processes implemented by the board of directors in order to inform, direct, manage and monitor the activities of the organisation (Keay, 2015:15). Furthermore, the system of rules and practices governing the organisation ensures that the board of directors and management is fair, honest, transparent and accountable in their business dealings with employees, shareholders and stakeholders (Dewan, 2006:95; Malla, 2013:16). According to Akinpelu (2012:2), corporate governance relates to the exercising or application of power and authority geared towards the achievement of organisational objectives. In addition, corporate governance broadly refers to the mechanisms or system of rules and practices by which an organisation is directed and controlled.

Furthermore, Akinpelu (2012:2) maintains that the goal of corporate governance is to encourage the efficient utilisation of resources and power to align the interests of employees, shareholders, stakeholders and society. Malla (2013:17) affirms that corporate governance refers to the relationship between two or more participants with the fiduciary responsibility of determining the direction and performance of the organisation. For the purpose of this study, corporate governance refers to the rules, practices, systems and structures that direct, control, manage and monitor the activities that form part of the adoption, implementation and operations of ESOPs.

Corporate governance is an inherent and a significant part of every organisation globally. Corporate governance is fundamental to the facilitation of effective and prudent management in organisations. Furthermore, effective corporate governance is crucial for the success and survival of organisations (Mallin, 2016:1). According to Mallin (2016:1), effective corporate governance can prevent the collapse of organisations, secure employees' retirement funds and restore the confidence of investors. Tricker (2012:4) postulates that every public, private and governmental organisation, as well as profit and non-profit organisation, needs governing. Furthermore, Tricker (2012:4) argues that management differs from corporate governance. Management is responsible for managing and running the organisation, while the governing body ensures that the organisation is running in the right direction and that it is managed effectively.

Corporate governance is essential for the successful adoption, implementation and operations of ESOPs. Strong corporate governance is required for the sustainability of ESOP organisations (Serwinski, 2014:1). In addition, Serwinski (2014:1) argues that good corporate governance will lead to the successful adoption of ESOPs. According to the NCEO (2012:10) and Serwinski (2014:1), ESOPs and their trusts are governed by a board of directors and trustees. Furthermore, through the Department of Labour (DOL), the government provides laws (Internal Revenue Service Code and Employee Retirement Income Security Act (ERISA)) that govern and regulate the adoption, implementation and operations of ESOPs (Brown, 2015:74-79).

Corporate governance is an independent variable modelled as an influence on the adoption of ESOPs. Corporate governance has three attributes: compensation, trust and taxation implication. The theoretical model of this study illustrates that the attributes of corporate governance will influence the adoption of ESOPs. The ensuing discussion focuses on the nature of each attribute of corporate governance, for the purpose of clarity.

6.2.3.1 Compensation

Compensation refers to the exchange of anything of monetary and non-monetary value between employers and employees for work performed (Deb, 2009b:30). In addition, compensation refers to a tool used by management to fulfil the most basic needs of employees. According to Lahap, Isa, Said, Rose and Saber (2015:10), compensation involves all monetary and non-monetary benefits (satisfaction from the job and working environment) received by employees for the purpose of rewarding and motivating positive behaviour.

Compensation is a significant tool utilised by Human Resource Management (HRM) to achieve organisational goals and objectives, and to enhance the desired organisational outcomes (KFH Group, 2008:1). In addition, the aim of compensation is to attract and retain employees and reduce employee turnover. Attractive compensation packages enhance employee and organisational productivity, performance, efficiency and effectiveness (Prasetya & Kato, 2011:383). Furthermore, a well-designed and structured compensation plan is the key to linking rewards to organisational goals and objectives (KFH Group, 2008:1; Prasetya & Kato, 2011:383). Therefore, the utilisation of an effective compensation plan is likely to positively impact on employees' attitudes, thus enhancing organisational productivity and performance.

Davis and Edge (2004:32) report that a compensation strategy that is not aligned with organisational strategy will prevent the achievement of organisational goals. According to Prasetya and Kato (2011:383), HRM constantly search for strategic and effective compensation plans to compete, survive and achieve organisational and employee goals and objectives. In order to achieve organisational success, HRM adopts and rewards employees with strategic and effective non-financial and financial compensation.

An ESOP is an effective and strategic financial compensation that has been widely accepted and promoted globally (Brill, 2012:1-2; NBIF, 2006:3). Furthermore, the promotion and growth of the adoption of ESOPs is a result of the benefits they offer the economy, employers and employees (Brill, 2012:1-2; NBIF, 2006:3). Governments and policy makers have supported and promoted the adoption of ESOPs through the enactment of advantageous laws and policies. ESOPs, as strategic financial compensation, help organisations to raise capital, invest primarily in their own shares and to enjoy increased cash flow and tax advantages. Through the adoption of ESOPs, employees become shareholders at no cost. ESOPs, as strategic financial compensation, provide retirement benefits for employees (Menke, 2016:1; NBIF, 2006:3).

Furthermore, the ESOP Association (2012:1) conducted a survey on ESOP organisations and economic performance; their findings reveal that ESOPs are an effective compensation strategy that enhances organisational productivity, profitability and performance. Gamble, Culpepper and Blubaugh (2002:9) investigated ESOPs and employee attitudes. Their research findings reveal that the adoption of ESOPs has a positive effect on employee empowerment, commitment, loyalty, engagement, participation, satisfaction, productivity and performance. In addition, the survival and success of ESOP organisations creates consistent and sustainable growth in the economy (Brill, 2012:2; ESOP Association, 2012:1). In addition, Gamble *et al*. (2002:9), argue that the adoption of an ESOP as a compensation strategy aligns the interests of employers and employees. The alignment of interests between all parties helps the organisation to reduce agency cost and achieve both short and long-term goals. This actualisation of goals and objectives creates value for the organisation and its shareholders.

The popularity and adoption of ESOPs have grown due to their beneficial effects on the economy, and the livelihoods of employers and employees. The utilisation of ESOPs as meaningful compensation plans has created value for the economy, organisations, employees and shareholders (Blanpain, 2011:157). In addition, McHugh *et al*. (1999:537) and Zu (2008:97) report that the acceptance of the adoption of an ESOP by employees and trade unions is prompted by their understanding of the plan and the benefits that it offers as a compensation tool. This implies that trade unions and employees will accept and adopt an ESOPs as financial compensation if they perceive it to help them participate in organisational decision-making, secure an employee's employment, prevent hostile takeovers and retain their rights and privileges.

The discussions and research presented in this section reveal that ESOPs are one of the numerous financial compensation plans that offer benefits to the economy, employers and employees. The promotion of the adoption of ESOPs, by governments and policy makers, is a result of what this unique financial compensation plan can offer. Based on this, this study hypothesises that:

H^5: *There is a relationship between compensation and the adoption of ESOPs*.

6.2.3.2 Trust in ESOPs

Trust is an essential component in the adoption and implementation of ESOPs. Organisations intending to adopt and implement ESOPs are required to create a trust into which they make tax-deductible contributions of their own shares for the benefit of their employees. In other words, ESOPs operate through a trust that is created by the organisation. The adoption and implementation of ESOPs would not be realised in the absence of a trust (Employee Ownership Association, 2015c:8). The ESOP trust is a separate entity from the organisation; it is responsible for holding and distributing share contributions made by the organisation into employee participants' accounts (Edmonds, 2009:110; NCEO, 2012:4). Additionally, the shares allocated to employees by the organisation, and held in a trust, are distributed to employees when they retire or leave the organisation. The trust also receives cash contributions from the organisation or it can borrow money from banks, or any qualified lender, to purchase the organisation's shares for employee participants (Edmonds, 2009:111; NCEO, 2012:4).

The Employee Ownership Association (2015c:8) postulates that, in order to create a trust, a trust deed that sets out the terms of trust must be prepared as formal evidence of the existence of the trust. Law and Smullen (2008:140) argue that the trust deed contains information relating to the employment period of employees and all employees who are included in the class of beneficiaries of the trust (i.e. employees who meet the requirements). According to the Employee Ownership Association (2015c:8), the terms of the trust deeds also include how organisations intend to appoint the trustees responsible for running the trusts; the particular constraints on what the trust may do with the shares allocated to it; and an indication of whether the trust is intended to confer any specific statutory tax reliefs on shareholders who sell shares to the trust or employee participants.

The NCEO (2012:4) suggests that an ESOP trustee is a significant part of the corporate governance of ESOPs. The ESOP trust is governed by trustees, and the trustees act as the legal shareholders of the trust. In addition, trustees are charged with the fiduciary responsibilities of operating the plan in the best interests of employee participants. Brown, Croscut and Fusco (2007:1) support this notion by stating that ESOP trustees are charged with the sole responsibility of managing and controlling the assets in the trust. The trustees govern and manage the assets of the trust by voting shares to elect the board of directors, determining and establishing the value of the shares, performing share distributions and determining the adequacy of funding for repurchase obligation (Alam, *et al*., 2011:3).

The adoption of ESOPs will lead to failure if trustees fail to act prudently and in accordance with the plan documents and the rules of Code and the ERISA. The rules of Code and the ERISA provide specific guidelines to be followed by trustees regarding the adoption, implementation and operation of the plan and its assets (Olson, *et al*., 2008:15). Furthermore, failure to comply with the stipulated rules and mismanagement of the plan and its assets will attract litigation from the government, which may further lead to the termination of the plan (Olson *et al*., 2008:15). Furthermore, the IRS (2016:1) reports that the establishment, implementation and operation of an ESOP and trust must meet the regulations of the government, as issued by the Department of Labour (DOL) and the Internal Revenue Service (IRS). The ESOP Direct (2014:2) argues that the ESOP trust is formed under legislation enacted by the government. The provision of the Company Act and Rules on ESOP governs and regulates issues of ESOPs, establishment of trust, funding and operation for administration of ESOPs. Furthermore, Binns (2006:11) suggests that a favourable regulatory framework and policies by the government can aid the adoption of ESOPs and the establishment of its trust. The adoption of ESOPs is likely to be a success if the government and policy makers create a regulatory climate that supports the establishment of ESOPs and their trusts (ESOP Direct, 2014:2).

This discussion shows that trusts are an essential part of the adoption of ESOPs. ESOP trustees form part of the corporate governance of ESOPs. The trustees are required to manage and operate the plan for the benefit of employees and the survival of the plan. Furthermore, favourable laws enacted by the government will aid the adoption of ESOPs and their trusts. Based on this, it is hypothesised that:

H^6: *There is a relationship between the role of the trust, as perceived as a governing body, and the adoption of ESOPs*.

6.2.3.3 Taxation implication on the adoption of ESOPs

Taxation refers to a financial charge levied by the government on a tax payer (Martin, Mehrotra & Prasad, 2009:3). In addition, taxation is the act or process by which the government obligates, charges and collects money or goods from its citizens, based on their level of income and property owned. Murphy and Higgins (2015:3) argue that taxation and death are inevitable for every citizen of a country. Furthermore, taxation is the price that is paid by a citizen in a civilised society. According to Murphy and Higgins (2015:4), taxation is an enforced contribution made by a tax payer and required by law for the purpose of raising revenue that will finance public and governmental expenditures.

Taxation is one of the most important, prominent and incomprehensible concepts globally. The federal government expects that employees, investors, organisations and citizens pay some form of tax. In other words, individuals and organisations are required to make a mandatory payment to the federal, state or local government for the maintenance of the country and society (Tyson, Munro & Silverman, 2009:2-3). Brooks and Hwong (2006:5) and Horton and El-Ganainy (2012:1) affirm that taxation is the civic responsibility of every citizen because it is revenue utilised by the various arms of government to finance the cost of public expenditure, promote a sustainable economy and reduce poverty. Therefore, employees, organisations, investors and citizens make compulsory contributions to the country through taxation.

Taxation is a complex and major part of ESOPs and ESOPs organisations are not exempted from paying tax. An ESOP is a defined contribution plan that has important tax implications for both employers and employees (NCEO, 2016b:1). Furthermore, the government obligates and requires employers and employees of an ESOP organisation to pay taxes on dividends, shares and cash contributions, as well as income tax and Capital Gain Tax (CGT) on their investment in organisational shares (NCEO, 2016b:1). Furthermore, Freeman (2007:3) specifies that the laws of taxation regarding ESOPs have gone through several reforms in countries where they have been adopted and implemented.

Governments and policy makers have revised and enacted advantageous laws on ESOP taxes. The reform of taxation implication of ESOPs has increased their attractiveness, adoption, implementation and growth. In addition, the advantageous tax incentives of ESOPs have attracted the interest of non-ESOP organisations (NCEO, 2016b:1). Beatty (1994:299-300) postulates that the increase in the adoption of ESOPs is a result of the advantageous tax implications or the employee incentive it provides. Employees enjoy the benefits of paying no tax on shares allocated to their accounts until they receive distributions at retirement, death or disability. Employees enjoy the advantage of deferring income tax by rolling their money into an Individual Retirement Account (IRA). Furthermore, through the adoption of ESOPs, organisations and employees make tax payments at a lower and more favourable rate (Freeman, 2007:3).

Furthermore, Gamble (1998:529) reports that the federal taxation incentive on ESOPs is one of the reasons why ESOPs are adopted and the reason why ESOP organisations improve financially. The study reveals that ESOP organisations performed better as a result of the availability of the tax benefits provided by the Tax

Reforms Act. Furthermore, Gamble's (1998:529) study reveals that the beneficial tax implications of ESOP not only reduce an organisation's tax liability, it helps the organisation reduce agency cost. Beatty (1994:313) performed an analysis of corporate control, tax and incentive motivation for the adoption ESOPs. Beatty's (1994:313) empirical study reveals that taxation incentives and the incentive characteristics of ESOPs are significantly related to the adoption of ESOPs. In other words, the taxation and characteristics of ESOPs are predictors of their adoption.

In light of the foregoing discussion, it can be argued that the favourable taxation incentives provided by the government and policy makers will support the growth and adoption of ESOPs. Employers and employees will be inclined to adopt and participate in ESOPs if they perceive that they can pay minimal rates on taxes. Therefore, it is hypothesised that:

H^7: *There is a relationship between taxation implication and the adoption of ESOPs*.

6.2.4 Components of the adoption of ESOPs

The goal of the adoption and implementation of ESOPs is to create benefits for employers and employees. ESOP will just be a four letter word if it is not created for the right situation and managed effectively (Buxton & Gilbert, 2005:5). Furthermore, the success and survival of ESOPs depends on how well they are managed by all parties involved. An ESOP is a valuable mechanism for sharing ownership and an effective means for improved organisational performance and productivity. However, the beneficial outcome of an ESOP will not be realised if the management team lacks clarity on how to operate and manage it (Deyhle, 2013:4). Chase Commercial Banking (2015:2) supports this notion by suggesting that one of the requirements for a successful ESOP is a strong management team that is capable of managing and operating it. In other words, one of the reasons why ESOPs fail is management's lack of understanding of how to successfully manage and operate them. Therefore, the benefit of an ESOP will not be maximised if management is incapable of operating it.

Buxton and Gilbert (2005:3) report that the success and effectiveness of ESOPs depends on how well management changes the culture of the organisation to suit the present organisational structure. An ESOP goes beyond setting up a trust fund and enjoying numerous tax advantages as well as retirement benefits. ESOPs involve incorporating a culture that encourages transparency, two-way communication, decision-making, empowerment and awareness (Buxton & Gilbert, 2005:3). The NCEO (2012:10) affirms that the success of an ESOP depends on a capable management team in place that will create awareness and communicate the plan effectively to employees. Moreover, ESOPs will be successful if management encourages a culture of transparency, decision-making and empowerment. Non-ESOP organisations that witness the success of an ESOP organisation are more likely to adopt and implement ESOPs so as to compete, succeed and survive. Employers must understand and consider the operational requirements of ESOPs in order to ensure their success (Brown & Scheidt, 2008:24).

The adoption of ESOPs consists of five components: transparency, two-way communication, decision-making, empowerment and awareness. The components of the adoption of ESOPs are perceived as the mechanism required in promoting and enhancing the adoption of ESOPs. The aim of this section is discuss and explore the findings of existent research on the components of ESOPs.

6.2.4.1 Transparency

Transparency refers to stakeholders' rights and access to information. In other words, transparency refers to management's ability to be open and present precise and true information to all stakeholders (Villeneuve, 2014:557). Furthermore, Zowghi and Jin (2014:123) define transparency as the provision of true, relevant and timely information about the actions and activities of organisations to the public. Wehmeier and Raaz (2012:340) describe transparency in the adoption of ESOPs as: fairness and ethical practices by management, effective two-way communication, disclosure and openness of information, trust, accountability, collaboration and cooperation. In addition, Al-Mahayreh and Abedel-qader (2015:105) describe management transparency in the adoption of ESOPs in terms of five dimensions. These dimensions are: information management systems (providing relevant information needed for effective decision-making), administrative communication (exchange of ideas and information process), accountability (commitment to perform duties), participation (collaborative effort between management and employees) and work procedures (following procedures to ensure that the adoption process is smooth) (Al-Mahayreh & Abedel-qader, 2015:105). Transparency in this study refers to the extent to which management is open, fair, honest, accountable and not secretive, while providing relevant, timely and comprehensible information to employees and trade unions about the adoption of ESOPs.

Transparency is a fundamental and key aspect of the business environment. One of the key successes of any organisation is their ability to operate in a manner that is honest and open to all stakeholders. Organisational stakeholders want to be informed of, and involved in, the operational activities of the organisation by accessing relevant information (Reiman, 2012:132; Villeneuve, 2014:556). Bennis *et al*. (2011:3) maintain that management needs to be open and clear in performing organisational activities so that employees, trade unions, investors and consumers as well as society can trust the manner in which their business is conducted. In addition, transparency also implies communicating and disclosing full information of financial, production, marketing and corporate activities in a clear, open, honest and precise way to stakeholders. Furthermore, a high level of transparency in organisations is effective in preventing organisational failure, breaches of fiduciary trust and financial crisis (Reiman, 2012:132).

Transparency is needed to ensure the survival and success of an organisation. Transparency in organisations builds the trust of stakeholders and shareholders (BIS, 2013:9). L' Etang and Pieczka (2012:80-83) suggest that transparency is beneficial in organisations because it reduces doubt, conflict and corporate scandals between management and stakeholders. Furthermore, organisational transparency increases the level of trust; attracts investors; retains and attracts consumers; increases a positive image and perception of the organisation; and it gives employees clear guidance on what to do and how to perform tasks.

Ura (2015:1) argues that management needs to consider transparency as a priority in promoting the adoption and implementation of ESOPs. In order to be transparent, management needs to effectively communicate the plan to employees and share true and clear information about why and how the plan will benefit all parties. Management should truly communicate the pros and cons of the plan and process that employees will go through before they receive payment. In addition, the organisation's financial information should be presented precisely and accurately to all stakeholders. Ura (2015:1) postulates that suspicion and disbelief will arise from employees and trade unions when management is not transparent with information regarding the adoption of ESOPs. Villeneuve's (2014:561) research reveals that transparency in a system leads to greater trust, increases stakeholder participation and improves governance. Therefore, insufficient and false information provided by management, on the adoption of ESOPs, will negatively influence the interest and participation levels of employees and trade unions.

Furthermore, Murthy (2012:14) advises that the adoption and implementation of ESOPs should be based on transparency. Transparency in the adoption of ESOPs ensures that management is fair and not corrupt in their operations. Management must fully disclose all elements and processes of ESOPs and they should be open for public scrutiny (Phillips & Jensen, 2015:234). Transparency and clear information minimises doubt; helps provide clear expectations; increases speed and efficiency in decision-making; increases employee participation and performance as well as builds trust, relationships and understanding (Wehmeier & Raaz, 2012:339-349).

Furthermore, Oge (2016:42) argues that transparency in the adoption of ESOPs will help management to be open in their dealings. According to Oge (2016:42), transparency will also eliminate corruption related to the misappropriation of shares and nepotism. Oge (2016:48-49) claims that transparency by management is a remedy that may reduce corruption and increase good governance. In addition, Al-Mahayreh and Abedel-qader (2015:101) investigated the impact of transparency on corruption. Their research findings reveal that transparency enhances employee participation, increases the sharing of information, promotes good governance and reduces corruption (Al-Mahayreh & Abedel-qader, 2015:113-122).

Due to the discussions and research findings presented, it is evident that employees and trade unions will be interested in the adoption of ESOPs when they recognise how transparent management is with information regarding the adoption of ESOPs. In other words, employees and trade unions are likely to question and not support the adoption of ESOPs when they perceive management as deceitful and not transparent regarding the adoption of ESOPs.

6.2.4.2 Two-way communication

Two-way communication is a form of transmission that can occur in all communication channels (downward, upward and horizontal) (Furnham & Gunter, 2015:163). Fielding (2006:502) maintains that two-way communication involves the transmission of information and messages between two parties (sender and receiver). In addition, both parties are involved in creating the messages. Fielding (2006:502) and Furnham and Gunter (2015:163) report that two-way communication is commonly utilised in organisations and it is better than one-way communication (transmission of information and messages by the sender without the involvement of the receiver).

Al-Humaidi and Shahbazpanahi (2013:3363) argue that two-way communication occurs when two or more transceivers send and receive information and messages from each other through a communication medium or network of relays. Nelson and Quick (2013:283) postulate that two-way communication refers to a form of communication that allows interaction, feedback and questions/answers between a communicator and receiver. In addition, two-way communication is an interactive form of communication that allows the communicator and receiver to exchange ideas, meanings and feelings. Two-way communication can be utilised for decision-making and problem solving. Dianne (2006:12) affirms that two-way communication involves interaction between the different parties responsible for contributing to and controlling the flow of events. Furthermore, it is a process of communication that allows the receiver and sender to create and share information with each other in order to reach an agreement. In this study, two-way communication refers to a process whereby management shares full and accurate information on the adoption of ESOPs to employees and employees interact with management through questions and feedback.

The performance of assigned tasks and the achievement of goals and objectives in organisations depend on how well management communicates with its employees (Gopalakrishnan & Haleem, 2015:734-735). Organisations do not operate in a vacuum and they will seize to exist without communication. Collective actions are coordinated through effective communication by management (Gopalakrishnan & Haleem, 2015:734-735; Keyton, 2011:11). Furthermore, effective communication in the workplace is essential for providing employees with a sense of direction. In addition, communication eliminates barriers, confusion and errors, resolves problems, builds stronger relationships with employees and creates serenity in the workplace (Keyton, 2011:11). Gallagher (2013:57) postulates that effective verbal, written and non-verbal communication should be part of an organisational culture. In other words, management must train and promote a culture that encourages all employees to effectively communicate through conversation, feedback, actions (body language and signs), written reports and emails.

Dalton, Hoyle and Watts (2010:357) maintain that management can achieve increased performance and productivity by understanding and utilising several forms of formal communication channels. In addition, these communication channels vary according to the direction in which they flow, whether it is one-way or two-way, and the chances of their messages being distorted. According to Dalton *et al*. (2010:357), Fielding (2006:13-15) and Lunenburg (2010:2), organisations should provide communication in three distinct channels:

Downward communication: This is the downward flow of information and messages that are directed from the higher levels of the organisation to its lower level employees. In other words, downward communication occurs when information and messages begin at upper level management and move downwards towards subordinate employees at the bottom. Typical forms of downward communication include policy, value and mission statements, procedures and instructions, emails, appraisals and feedback, handbooks, manuals, newsletters and memoranda, as well as the conclusions drawn and decisions made at meetings.

Upward communication: This communication channel occurs when information and messages flow from the lower level of employees (subordinate) to the higher levels of management (superiors). Upward communication can be described as a process of communication that allows information and messages to travel from bottom to top. Typical forms of upward communication include memoranda, conclusions drawn from meetings, attitude surveys, suggestion systems and formal or informal grievances.

Horizontal communication: This channel of communication occurs when information and messages flow between employees, departments and divisions at the same level. In other words, horizontal communication is the flow of information and messages between employees of equal status or who work on the same level (e.g. flow of information and messages between production, sales and purchase managers) in an organisational structure. Typical forms of horizontal communication include reports on departmental activities and information on company policies and departmental progress reports.

The channels of communication have been identified and described for the sake of clarity. This study will now focus on providing an explanation of two-way communication.

Effective two-way communication is fundamental to positive recognition of ESOPs amongst employees. This implies that open two-way communication (full information sharing) between management, employees and trade unions can help minimise the lack of knowledge they have of the adoption of ESOPs (Mazibuko & Boshoff, 2003:33). Therefore, effective two-way communication between management, employees, and trade unions allows all parties involved to be enlightened about the significance, issues, expectations and processes that form part of ESOPs. In addition, success in the adoption of ESOPs depends on how well trade union leaders communicate the plan to their members.

Furthermore, the utilisation of two-way communication is a means for transmitting information that will encourage the adoption and success of ESOPs (NCEO, 2012:10). According to Philips and Jensen (2015:51), open and effective two-way communication is required for the adoption and implementation of ESOPs. Management and the ESOP communication committee are required to disclose full information regarding the adoption of the ESOP. In addition, management and the ESOP communication committee must provide realistic answers to employees' questions and solicit employee input and feedback. This situation eliminates unrealistic expectations (e.g. quick riches), creates true partnership and stimulates trust between employees and management (Philips & Jensen, 2015:51).

Chen and Zhang's (2009:448) empirical study reveals that two-way communication enhances performance, obtains strong support from employees and provides information for better decision-making. In addition, Logue and Yates (2015:285-307) conclude that the successful adoption and operation of ESOPs depends on how management trains and communicates with employees. In addition, training and communication will enhance employee involvement and participation in the plan. The discussions and research findings presented above show that two-way communication between management, employees and trade unions is essential in promoting the adoption of ESOPs.

6.2.4.3 Decision-making

Collaborative decision-making is a process of engagement in which two or more parties work together by using information and communication technologies to understand organisational issues and to ascertain the best course of action (O'Grady & Jadad, 2010:1). In addition, to collaborate means working together to achieve a common goal, especially in a joint intellectual effort. Rockar and Kohun (2011:177) purport that collaborative decision-making is one in which management and employees interact, work together and jointly negotiate a collective meaning. In other words, management and employees jointly engage in an interactive process by sharing information and making joint decisions. For the purpose of this study, decision-making refers to management's willingness to collaborate, share full information and engage employees in the decision-making process for the adoption of ESOPs. This implies that management is willing to share full information and push decision-making downwards to their subordinates. Management that encourages collaborative decision-making will allow employees and trade unions to openly express their views and opinions regarding the adoption of ESOPs.

Organisations operate in an environment that is constantly influenced by political, legal environmental, social, economic and technological factors. Organisational activities are influenced by the changes that occur in these environments. In order to adapt to the changing environment, management is required to make effective decisions to remain competitive and profitable (Guo, 2008:118). Furthermore, day-to-day decision-making processes occur in organisations in order to solve problems and draw conclusions regarding further action for the achievement of short and long-term goals and objectives. Decision-making is basically a function of management. However, collaborative decision-making by management and employees is required for the attainment of a common purpose and goal (Fyall & Garrod, 2004:1; Rockar & Kohun, 2011:175).

The NCEO (2012:4) reports that the adoption and success of ESOPs in the improvement of performance will be achieved when employees participate in decision-making that affects their work. Deyhle (2013:6) supports this notion by suggesting that the effectiveness in the adoption of ESOPs will be realised if combined with employee involvement and decision-making. According to Buxton and Gilbert (2005:3), employees are likely to feel alienated and not part of the plan when management fails to share decision-making authority with them. Therefore, Buxton and Gilbert (2005:6) maintain that employers should adopt a holistic consideration of all key stakeholders in the decision-making process, for the adoption of ESOPs.

According to Mazibuko and Boshoff (2003:36), decision-making in ESOP related activities extends to trade unions and their members. Their study reveals that trade union members were, to some extent, not satisfied with trade union heads on the grounds that their input into ESOP related decision-making was ignored and their contributions obstructed. In other words, trade union members held grievances against trade union heads because they felt that they were not genuinely allowed to partake in ESOP related discussions and decision-making.

Furthermore, Mazibuko and Boshoff (2003:36) argue that participation in ESOP decision-making, by trade union heads and members, will encourage the development of innovative ideas and enhance better approaches for cooperating all the more effectively. According to the NCEO (2012:4), numerous research findings on employee ownership and organisational performance reveal that organisations that combine ESOPs with a high degree of employee participation in day-to-day decision-making perform significantly better. In addition, Rockar and Kohun's (2011:203) findings reveal that collaborative decision-making involving managers, employees and trade unions will lead to quicker problem solving and improved decisions. Therefore, employees and trade unions that seek greater participation in decision-making are likely to adopt ESOPs.

6.2.4.4 Empowerment

The concept of employee empowerment is described differently by numerous researchers and authors. Besterfield *et al*. (2011:80) argue that employee empowerment is a process whereby employees have the authority to make decisions for problem solving and gain confidence in generating ideas. In addition, empowerment allows employees to utilise their skills, knowledge and abilities to independently perform tasks for the achievement of organisational goals and objectives. Furthermore, Koontz and Weihrich (2006:180) define employee empowerment as giving employees decision-making authority; employees have to accept responsibility for their decisions, actions and tasks performed. In addition, the rationale behind empowering employees with authority is to enhance participation, job enrichment and idea generation. Baird and Wang (2010:574) further argue that employee empowerment is a collaborative effort (decision-making and generation of ideas) between management and employees for the enhancement of organisational performance and productivity, for the achievement of goals and objectives.

Huq (2016:211) provides a more holistic definition of employee empowerment, by summarising the concept into seven themes: power-sharing, devolution of responsibility, participative decision-making, people-oriented leadership style, access to information, collaboration and enablement. Based on this study, employee empowerment is the ability of management to collaborate with employees by sharing full ESOP information, decision-making authority and responsibility.

Empowerment in organisations are often overlooked, misunderstood and feared by managers. Management may perceive that sharing information and granting employees the power to make decisions regarding actions might undermine their position and authority in the organisation (Huq, 2016:3). Nevertheless, Yukl and Becker (2006:210) postulate that employee empowerment is fundamental for the generation of innovative ideas, the enhancement of organisational desired outcomes and positive employee behaviour. Employee empowerment can increase trust between management and employees, improve productivity, performance, employee satisfaction, participation, commitment and loyalty (Kim, Lee, Murrmann & George, 2012:10).

Furthermore, Cole (2002:451) and Huq (2016:16-17) report that employee participation is a major part of employee empowerment in the organisation. In order to empower employees, management is required to transfer some decision-making authority and encourage employee participation in organisational activities (Cole, 2002:451). In other words, employees are encouraged to involve themselves and participate in the managing and improving of organisational processes and operations. Cole (2002:451) and Huq (2016:17) argue that employee participation in organisational activities includes recognising employees' ideas, input, suggestions and opinions, and granting employees the ability to work without supervisory interference. In addition, Cole (2002:453-455) maintains that employee participation related to empowerment involves granting employees shareholdings in the organisation, involving employees in the day-to-day operations and consulting employees before making major organisational decisions that affect their job. Furthermore, job enrichment, delegation of authority and granting employees the ability to improve their skills and abilities, as well as the competence to work effectively, are ways of promoting employee empowerment in the organisation (Cole, 2002:453-455).

Gamble *et al*. (2002:9) maintain that employee empowerment is fundamental to the successful adoption of ESOPs. Employees who are well informed and have the ability to make effective decisions are more likely to pursue activities in the best interests of all shareholders and organisations. According to Gamble *et al*. (2002:9-10), an employee empowering and financially rewarding ESOP creates positive employee behaviour in the organisation. Furthermore, Yukl and Becker (2006:215) report that the adoption of ESOPs rewards employees with empowerment if employee participants have a real voice regarding the manner in which the organisation is managed. In other words, the adoption of ESOPs will be a success if organisations promote empowerment. In order to promote the adoption of ESOPs, Yukl and Becker (2006:215-216) advise management to empower employees by providing training, sharing information, collaborating, pushing decision-making downward, consistency in communication and encouraging self-managed teams (autonomy). Empowering employees will help them understand financial terminology, business performance, goals and strategies, and thus promote employee interest and commitment in the adoption of the plan.

Furthermore, Gamble *et al*. (2002:9) examined how the adoption and implementation of ESOPs influence employee attitudes. They also examined the importance of empowerment and financial value. Their research findings revealed a positive relationship between the adoption of ESOPs and employee attitudes (Gamble *et al*., 2002:9). In other words, employee empowerment enhanced employee satisfaction, involvement and commitment in ESOP organisations (Gamble *et al*., 2002:18-21). Furthermore, Kim *et al*. (2012:10) investigated the effect of the empowerment of employees' organisational commitment, with the mediating role of management trustworthiness. The research findings reveal that, when employees are empowered, they will stay committed to the organisation and trust the actions and decisions of management (Kim *et al*., 2012:16). Therefore, empowered employees are likely to trust management's decisions regarding the adoption of ESOPs. The discussions and research findings reveal that employee empowerment is crucial to the successful adoption of ESOPs.

6.2.4.5 Awareness of ownership

Awareness means to become aware or knowledgeable about an issue, situation or fact (Drake, 2013:6). In other words, awareness is the state of being conscious about the existence of something of interest. According to Mishra (2007:73), awareness is having knowledge and understanding about something that exists. For the purpose of this study, awareness refers to employees' awareness, knowledge and understanding of the existence and benefits of ESOPs.

The adoption and implementation of ESOPs have received significant attention and support in the USA, UK and other European and Asian countries. Furthermore, a few African countries, such as South Africa, Zimbabwe and Egypt, have also adopted and implemented ESOPs as part of their employee ownership programmes. The increasing adoption and implementation of ESOPs in these countries is a result of the support and promotion of the plan (Lowitzsch *et al*., 2014:48; NCEO, 2016b:1). In other words, governments and policy makers in these countries have promoted the adoption of ESOPs by creating widespread awareness through the enactment of favourable laws and the establishment of institutes to advise employers and employees on the plan (NCEO, 2016k:1).

Numerous countries, organisations and employees in Africa are unaware of the concept ESOPs. Specifically, in countries where ESOPs are not adopted and implemented, it is supposed that the government and employers are unaware of the existence of this beneficial form of an employee ownership plan (BIS, 2012:14-15). Mathews (2015:1) reports that the adoption and implementation of ESOPs will be prompted if countries and employers are aware of it. In addition, organisations are likely to adopt ESOPs if there are ESOP organisations in the country. This implies that the awareness of ownership through the utilisation of ESOPs may increase organisational interest in adopting the plan (Mathews, 2015:1).

Furthermore, Lowitzsch *et al*. (2014:48) argue that creating awareness of ESOPs is crucial to promoting the adoption of ESOPs in countries and organisations. In addition, the lack of awareness is a threat that could make the dissemination of ESOPs difficult. Landau *et al*. (2007b:4) support that the adoption and growth of ESOPs is negatively influenced by a lack of awareness. The research findings of Landau *et al*. (2007b:4) reveal that the majority of organisations that adopted ESOPs were aware of and familiar with the plan. BIS (2012:14-15) refers to a lack of awareness as a number one barrier to the adoption of ESOPs. In addition, the opportunity to adopt ESOPs is lost when employers, employees, policy makers and government are unaware of the plan, its concepts and benefits. These research findings, according to BIS (2012:30-31), reveal that a lack of unawareness is a fundamental barrier to the adoption of ESOPs.

Budd (2007:11) postulates that participation by employees and trade unions in the adoption of ESOPs is influenced by awareness. Budd's (2007:11) findings reveal that lack of reported employee and trade union participation in ESOPs is a result of their lack of awareness of the plan. The ignorance of employees and trade unions allows them to be sceptical of the plan, thus, rejecting participation and involvement in the plan (Budd, 2007:11). Therefore, the creation of awareness regarding ESOPs is necessary for their adoption and implementation.

Moreover, BIS (2012:16-30) suggests that awareness is broad and also relates to the extent of knowledge that employers and management have on how to successfully operate ESOPs. In addition, the beneficial outcome of ESOPs will not be realised as a result of unawareness and poor management.

6.3 THE OUTCOMES OF ADOPTING EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

The motive behind why organisations adopt ESOPs is to resolve financial, practical and philosophical issues. Financial and practical issues include motivating employees into cost minimisation, enhancing productivity and profitability, and linking compensation to performance. While some of the philosophical issues that organisations seek to resolve are enhancing equality and social justice, and increasing employees' commitment to the organisation (Linnoinen, 2013:11). McCarthy *et al*. (2010:383) support this notion by stating that an organisation's aim in adopting ESOPs is to create a closer relationship between, and align the interests of, management and employees; it also aims to enhance employee performance and reduce opposition to organisational reforms.

Furthermore, McCarthy *et al*. (2010:383) suggest that the adoption of ESOPs in numerous organisations is encouraged in order to address the attitudes and behaviours of employees, and to enhance organisational performance. In addition, Kaarsemaker *et al*. (2009:17) postulate that the rationale behind why organisations adopt ESOPs is because of ESOPs' capability of influencing employee attitudes and behaviours. Kaarsemaker *et al*. (2009:17) maintain that two-thirds of over fifty quantitative academic studies that have been conducted reveal a significant and positive relationship between ESOPs and employee attitudes and behaviour. This implies that ESOPs enhance employee commitment, engagement, participation, innovation and satisfaction. Moreover, ESOPs help to attract and retain skilled and talented employees, and reduce employee turnover.

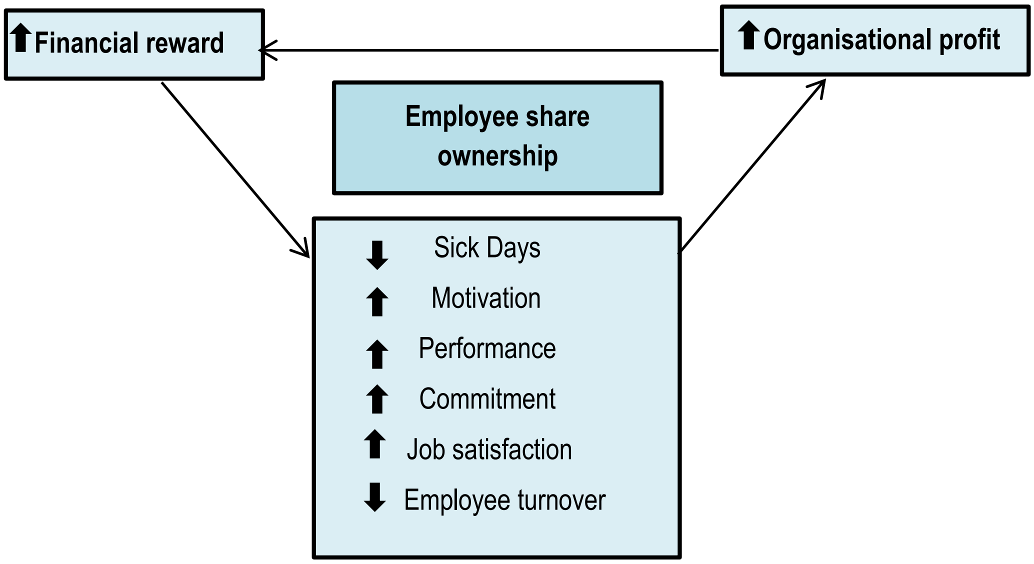
Furthermore, the rationale behind government adoption of ESOPs is a result of the economic benefits that ESOPs offer. Numerous governments have enacted advantageous laws and legislation that promote and support the growth and adoption of ESOPs (Binns, 2006:1). According to NBIF (2006:3), ESOPs broaden capital ownership, thus narrowing the wage gap between the rich and poor. ESOPs create long-term capital based wealth for employees, thus reducing poverty and increasing organisational success, which in turn has a positive effect on the economy.

Furthermore, the research findings of Kramer (2010:449), Kruse, Blasi and Freeman (2011:15), McConville *et al*. (2012:4-7) and Zhu *et al*. (2013:17) reveal a positive relationship between ESOPs, employee attitudes and organisational outcomes. In other words, the adoption of ESOPs increases organisational performance and profitability lowers the level of employee absenteeism and employee turnover; it also increases employee motivation, loyalty, commitment, productivity, participation and cooperation with management.

A plethora of academics has performed diverse investigations of the effect of the adoption of ESOPs on an array of variables. A number of researchers have investigated the influence of the adoption of ESOPs on desired organisational outcomes, employee behaviour and attitudes and their effect on the economy. Numerous findings on the effect and outcome of the adoption of ESOPs reveal positive results that have increased the popularity and adoption of ESOPs (Kruse, 2015:1). Furthermore, Kruse (2015:1) performed a review of numerous published studies that investigated the impact of the adoption of ESOPs on employee attitudes and behaviour. These studies revealed a positive and significant association between the adoption of ESOPs and organisational commitment, identification, employee commitment, satisfaction and motivation. Furthermore, Kruse's (2015:1) research findings claim that the adoption of ESOPs increased employee participation and influence in decision-making. Kruse (2015:1) postulates that attitudinal and behavioural changes in employees are the result of the psychological effect of ownership (feeling or status of being owners) rather than the size of the ownership stake of the employees. This implies that employees generally like the idea of being employee-owners.

Furthermore, Linnoinen (2013:42) developed a model on the intrinsic effects of ESOPs. The model illustrates a significant relationship between the adoption of ESOPs, organisational profitability, and employee attitudes and behaviours. This implies that the adoption of ESOPs enhanced employee motivation, satisfaction, performance and commitment, and that it reduced employee turnover and absenteeism. Figure 6.2, below, illustrates the outcomes of the adoption of ESOPs.

Figure 6.2: Outcomes of the adoption of ESOPs



Source: Adapted from Linnoinen (2013:42).

The outcomes of the adoption of ESOPs are portrayed as the dependent variables in this study. Figure 6.1 illustrates the influence of the mediating variable (adoption of ESOPs) on the dependent variables. In other words, Figure 6.1 illustrates that the adoption of ESOPs will result in three outcomes: organisational performance, employee retention and commitment. This section provides a discussion of the three dependent variables investigated in this study.

6.3.1 Organisational performance

Organisational performance refers to the ability of employees to collectively contribute their efforts, so as to attain the objectives and goals of the organisation (Thomas, *et al*., 2008:24-27). Furthermore, organisational performance refers to the results (output) that are attained from the various activities (input) carried out in the organisation. According to Zumitzavan and Michie (2015:19), organisational performance is the degree of success in the achievement of organisational goals and objectives. The features of organisational performance include: increased resourcefulness; satisfied customers; high level of admiration and competition from rival organisations; threat to potential entrants and competitors; favourable position in the market and high imitation of the organisation's production output by competitors.

Organisational performance has been ascribed different meanings by various authors, academics and researchers from a wide range of perspectives. The reason for the difference in meaning results from their perceptions of what performance entails (Carton & Hofer, 2006:45; March & Sutton, 1997:698; Zumitzavan & Michie, 2015:19). In this regard, Zumitzavan and Michie (2015:19) maintain that each organisation analyses and perceives performance differently on the basis of their own criteria. Retail organisations, for example, may judge their performance on the basis of financial outcomes, while manufacturing and sales organisations may analyse their performance on the basis of market performance (Carton & Hofer, 2006:45). Furthermore, Carton and Hofer (2006:45) report that the varying perceptions of performance have contributed to the difficulty of providing a general measure or specific definition of organisational performance, which can be applied to all organisations.

Organisations adopt ESOPs not only to positively influence the attitudes and behaviours of employees but also to improve organisational productivity and performance, as well as to strengthen their competitive edge (Hua, 2006:4). Meng *et al*. (2011:1541) argue that organisations adopt ESOPs as part of their compensation plans in order to influence and enhance employees' efforts in production, which will in turn improve organisational performance. Furthermore, HallockRonald and

Venneman (2003:58) maintain that an ESOP is a technique that organisations can utilise to stay competitive, improve employee attitudes and boost overall organisational performance.

Kaarsemaker *et al*. (2009:20) affirm that the improvement in organisational performance is influenced by the changes in employees' attitudes and behaviours. The performance of ESOP organisations will be enhanced if there is a positive change in the attitudes and behaviours of employees. Contrarily, negative attitudes and behaviours are likely to negatively impact on the performance of ESOP organisations. According to Kaarsemaker *et al*. (2009:20), management adopts three strategies – hard version, softer version and sorting effect – in order to positively influence organisational performance.

Organisations adopt the hard version strategy when it links the reward of employees to organisational outcomes. Organisations perceive that sharing ownership through the distribution of shares will instil an ownership culture that will positively influence employees to participate in ways that will improve their share value and organisational performance (Kaarsemaker *et al*., 2009:20-21). Organisations adopt a softer version with the perception that the psychological effect of sharing ownership will possibly influence favourable employee attitudes and behaviours geared towards organisational performance. The sorting effect explains the use of an ESOP as a means to attract highly talented and skilled employees who will work towards improving performance. In addition, organisations adopt the sorting effect with the perception that the adoption of ESOPs will help to retain talented and skilled employees, which will improve performance (Kaarsemaker *et al*., 2009:20-21).

Furthermore, Employee Ownership Australia and New Zealand (EOA) (2014:9) and Hua (2006:4) report that a plethora of research has investigated the impact of ESOPs on organisational performance. These researchers investigated the impact of the adoption of ESOPs by utilising financial measures such as Return on Assets (ROA), Tobin's Q, Return on Sales (ROS), profitability, productivity, employment stability and cash flow. According to Hua (2006:4), the empirical findings of these investigations have revealed a positive association between the adoption of ESOPs and these financial measures, thus enhancing the performance of the organisation.

Furthermore, Freeman (2007:10) reports that the majority of the existent research on ESOPs revealed a significant relationship between the adoption of ESOPs and improved organisational performance, productivity, profitability, survival and shareholder returns (Freeman, 2007:10-11).

Caramelli (2015:177) conducted a survey on the influence of employee ownership (ESOPs) on organisational performance in large public organisations. Caramelli's (2015:203) study reveals that ESOPs are positively associated with organisational performance (i.e. increased productivity, economic and market performance). Furthermore, the research findings show that ESOPs enhanced the performance of organisations through the improvement of management and employee attitudes and behaviours towards work, savings from tax incentives, as well as financial and stock market benefits.

Furthermore, the NCEO (2016j:1) presents a summary of the key studies performed by numerous researchers on ESOPs and organisational performance. The various studies reveal findings that support the positive influence of the adoption of ESOPs on organisational performance. All key studies performed through 1980 to 2010, on the adoption of ESOPs, reveal a significant association between the adoption of ESOPs and organisational performance. Table 6.1, indicates that the adoption of ESOPs in private and public organisations led to the improvement of sales growth, employment growth and productivity growth. Furthermore, ESOPs in private and public organisations led to an increase in Tobin's Q relative industry median, Return of Assets (ROA), net profit margin and Return on Equity (ROE). Table 6.1, illustrates the impact of the adoption of ESOPs on organisational performance.

Table 6.1: Impact of the adoption of ESOPs on organisational performance

Plan	Performance measure	Study period	Performance impact
ESOPs in private organisations	Annual growth post-ESOP relative to pre-ESOP, indexed for comparable organisational data	1988-1997	Sales growth: +2.4% Employment growth: +2.3% Productivity growth: +2.3%
	Annual growth post-ESOP relative to pre-ESOP, indexed for comparable organisational data	1982-1986	Sales growth: +3.8% Employment growth: +3.4%
ESOPs in public organisations	Tobin's Q (the ratio of the organisation's share value to its book equity value)	1980-2004	ESOPs led to an 8.12% increase in Tobin's Q relative to the industry median.
	Return on assets, profits, return on equity, and sales growth	1998-2004	Compared to comparable organisations: Return on assets: +5.5% Net profit margin: +10.3% Return on equity: +5.6% Sales growth rate: -0.8%
	Tobin's Q, long-term investment, operating risk, productivity, and growth	1995-2001	Compared to all non-ESOP organisations: Median Tobin's Q: -9.0% Median annual sales growth: -3.0% Total factor productivity: -4.7%
ESOPs and Employee Compensation	Salaries and retirement benefits compared to comparable employees in comparable organisations using all ESOP organisations in Washington State and a sample of comparable non-ESOP organisations	1997	Wages 5% to 12% higher Total retirement assets 2.6 times greater Diversified retirement assets roughly comparable
	Public organisations with ESOPs compared to comparable non-ESOP organisations	1980-2004	Effect on employee compensation in ESOP organisations owning: Less than 5%: + 0.8% More than 5%: + 5.2%
	Participation in other retirement plans for ESOP participants; value of organisation-contributed assets to retirement plans in ESOPs versus non-ESOP organisations.	2004-2007	ESOP participants are at least as likely to participate in a second retirement plan as comparable non-ESOP participants are likely to be in any retirement plan. Organisation-contributed assets to retirement plans in ESOP organisations are 2.2 times greater than organisation-contributed assets to retirement plans in non-ESOP organisations.
	ESOPs have better rates of return and lower volatility than 401(k) plans.	1990-2010	ESOPs had a rate of return of 9.1% per year between 1990 and 2010 while 401(k) plans had a return of 7.8%. ESOPs outperformed 401(k) plans in 15 of 23 years and tied in two. ESOPs were also less volatile over the period.

Source: Adapted from the NCEO (2016j:1).

This discussion highlights a significant association between the adoption of ESOPs and organisational performance. In addition, the findings from numerous studies provide evidence to support the positive relationship between the adoption of ESOPs and organisational performance. Based on this, it is hypothesised that:

H[8]: *There is a relationship between the adoption of ESOPs and organisational performance*.

6.3.2 Employee retention

Employee retention refers to the ability of HRM to adopt and implement systems and practices geared at retaining employees who contribute to the success of the organisation (Tanwar & Prasad, 2016:7). In addition, employee retention is when employees with skills, competence and knowledge make a decision to stay in the organisation for a longer period of time. According to Das and Baruah (2013:8), employee retention refers to encouraging employees to stay employed in the organisation for a longer period of time, or until the completion of a project. Furthermore, employee retention is the ability of employees to make a choice to remain employed or continue doing business with an organisation.

HRM is charged with the responsibility of investing time, energy and investments to attract, select and hire talented and skilled employees who will drive the organisation into achieving its goals and objectives. The duties of HRM do not end in hiring, but continues as they create strategies to develop and retain skilled and talented employees (Oladapo, 2014:20; Pittino, Visintin, Lenger & Sternad, 2015:1). In a highly competitive environment, skilled and talented employees are fundamental to gaining a competitive edge, generating innovative ideas, enhancing performance and productivity as well as achieving goals and objectives (Schichtle, 2011:4-10). Contrarily, an increased rate of employee turnover negatively affects organisational efficiency, performance, productivity, profitability and innovation. In addition, employee turnover leads to the loss of knowledge, skills and competencies, and it increases operational and opportunity cost (Allen, 2008:2-3; Butali, Wesangúla & Mamuli, 2013:2; Tanwar & Prasad, 2016:2).

Tanwar and Prasad (2016:2-3) maintain that attracting, recruiting and retaining skilled and talented employees is often a challenge for HRM. The increasing rate at which employees retire poses a great threat to organisations. Tanwar and Prasad (2016:3) advise that HRM should develop effective strategies to combat the shortage of employees in organisations. Furthermore, Schichtle (2011:17) argues that, in a competitive market place, organisations are required to make smart decisions regarding how they retain a talented and skilled workforce. Furthermore, attracting and retaining employees is key to increasing shareholder value and organisational performance. Allen (2008:21) concurs with this notion by stating that HRM are required to create and adopt effective strategies aimed at retaining the skilled and talented workforce needed for organisational performance, success and survival. According to Oladapo (2014:22) and Veloso, Da Silva, Dutra, Fischer and Trevisan (2014:52), incentives, compensation and rewards are effective strategies for attracting and retaining employees in the organisation.

Pratt (2009:337) maintains that ESOPs are an effective strategy utilised by HRM to attract and retain skilled employees. The utilisation of ESOPs allows employers to share capital ownership with employees on a long-term basis. KPMG (2011:2) affirms that retention is one of the key drivers for ESOPs. In addition, the popular reason for the adoption and implementation of ESOPs is to create wealth for employees and to attract and retain employees. Furthermore, KPMG (2011:11) investigated organisations' objectives for adopting and implementing ESOPs. Their study revealed that the retention of skilled employees is the key objective for the adoption of ESOPs by the organisations being investigated.

NBIF (2006:3) maintains that the success of ESOPs has been popularised by its ability to attract and retain skilled and talented employees. Philips and Jensen (2015:234) support this notion by stating that ESOPs are a fundamental approach that HRM can utilise to attract and retain skilled and talented employees in a highly competitive market. Furthermore, Lin, Trenberth and Kelly (2010:287) argue that skilled and talented employees are attracted to countries and organisations with better employee benefits and incentives. Lin *et al*. (2010:287) examined the relationship between employee benefits (ESOPs) and organisational outcomes. The research findings reveal that organisations with attractive employee benefits, such as

ESOPs, will perform in the labour market. In other words, the availability of ESOPs in an organisation will help to recruit and retain employees, and reduce employee turnover (Lin *et al*., 2010:295).

Furthermore, DePamphilis (2015:27) and Wang (2006:40) report that ESOPs are designed by organisations as a tool to attract and retain skilled and talented employees. Pierce and Rodgers (2004:589) argue that employees are stimulated to work harder when employers share ownership interest with them. In addition, the sharing of ownership through ESOPs reduces employee turnover, absenteeism and grievances. O'Halloran (2012:657) supports this notion by outlining the findings of studies that show a positive association between the adoption of ESOPs and employee retention. The research findings showed that skilled and talented ESOP participants are more likely to remain with their current employers than those who are not ESOP participants. This implies that the adoption and participation in ESOPs retains employees and reduces employee turnover (O'Halloran, 2012:657).

The foregoing discussion reveals that employee retention is a critical and important factor for organisational success and survival. ESOPs have been utilised by organisations as a tool to share ownership, as well as to retain and attract talented employees. The long-term nature of investment that characterises ESOPs allows employee participants to stay under the employ of the organisation for a longer period of time. Therefore, it is hypothesised that:

H^9: *There is a relationship between the adoption of ESOPs and employee retention*.

6.3.3 Employee commitment

Commitment is an act of dedicating or binding oneself to a relevant course of action or activity (Krishna, 2008:31). In addition, it is an act of dedication, loyalty, emotional attachment or allegiance to a cause, seeing that it is paramount to the success of the organisation and more significant than any other activities or targets. Commitment is always associated with binding oneself to activities, entities, specific people or factors that could include family, jobs, politics, religion, clubs, education, children, a spouse, friend, cause or society (Krishna, 2008:31). According to Baker (2009:135), employee commitment refers to a psychological attachment and bond that employees have with their organisation. Irefin and Mechanic (2014:34) describe employee commitment as the degree of devotion, attachment and loyalty that employees feel towards their organisation.

Furthermore, Vance (2006:1) argues that employee commitment is a crucial factor in organisational excellence. Committed employees can increase productivity, performance and give organisations a competitive edge and advantage over their rivals. Robinson (2003:2) supports this notion by suggesting that increased employee commitment is a necessity in an organisation because it increases job satisfaction; employee performance; total return of shareholders' value and employee retention. Moreover, employee commitment decreases employee turnover and absenteeism and employees' intention to search for and switch to alternative employers (Lesabie & Nkosi, 2007:35).

Organisations are constantly faced with challenges relating to increasing competition, employee turnover, low productivity and performance. Organisations will fail to achieve maximum financial returns if talented and skilled employees are not committed to the organisation (Lesabie & Nkosi, 2007:35). Furthermore, Dixit and Bhati (2012:35) support that the goals and objectives of organisations cannot be actualised unless the workforce is committed. Employees who are committed have a sense of connection and bond with their organisation. The degree of connection and bond that employees have with their organisation allows them to understand the goals and objectives that need to be achieved in the organisation (Dixit & Bhati, 2012:35). Brill (2012:1) postulates that numerous studies confirm that employee commitment is a significant driver of organisational productivity, growth and job stability.

Irefin and Mechanic (2014:33) and Lesabie and Nkosi (2007:35) argue that a plethora of research has investigated several factors and determinants of employee commitment. According to Irefin and Mechanic (2014:33), the determinants identified by researchers include organisational fairness, corporate social responsibility and leadership style. Thompson (2016:2) maintains that ESOPs are a unique determinant for increased employee commitment in the organisation. Organisations adopt ESOPs to share ownership and align the interests of employees with that of management. Sharing ownership through the utilisation of ESOPs allows employees to stay committed to the organisation in the long-term (Freeman, 2007:7). Furthermore, Freeman (2007:7) reports that the research findings of studies performed on the adoption of ESOPs reveal higher employee-owner satisfaction and commitment with their organisation.

Furthermore, Brill (2012:2) maintains that the adoption of ESOPs allows employees to have a psychological attachment to the organisation. In addition, the psychological effect of ownership that ESOPs create allows employees to act as organisational owners. In other words, employees who own shares act as owners and stay committed to the organisation in order to see it grow and succeed. Brill (2012:1) performed an analysis on the benefits of ESOPs to the economy and workforce; these findings reveal that ESOPs are positively associated with the loyalty and commitment of employees (Brill, 2012:11). In addition, the attitudinal behaviour (loyalty and commitment) of employees enhances economic prosperity.

According to Zhu *et al*. (2013:18), employers utilise ESOPs to reward the long-term commitment of employees. Furthermore, as a financial incentive, an ESOP enhances commitment, reduces employee intention to quit and increases productivity and profitability. Buchko (1993:633) investigated the effects of the adoption of ESOPs on employee attitudes. Buchko's (1993:634) findings reveal that the adoption of ESOPs was positively related to employee satisfaction with the plan. Furthermore, employees' perceived influence of ownership enhanced their job satisfaction and commitment, and reduced turnover intention. This discussion reveals that the adoption of ESOPs allows employees to be committed to the organisation in the long run. Moreover, sharing ownership creates a psychological effect that allows employees act and think like owners. As potential owners of the organisation, employees stay committed because they want to see the organisation grow and succeed. Therefore, this study hypothesises that:

H^{10}: There is a relationship between the adoption of ESOPs and employee commitment.

6.4 SUMMARY

Chapter Six provided a series of comprehensive discussions on the modelled influences and outcomes of the adoption of ESOPs. The theoretical model formulated for this study illustrates that the independent variables – stakeholder consultation, government intervention and corporate governance of ESOPs – will influence the adoption of ESOPs. Furthermore, the theoretical model shows that the adoption of ESOPs will result in the following outcomes: organisational performance, employee retention and employee commitment.

In this regard, the chapter presented a series of discussions and an overview of the research findings that support the hypotheses formulated from the theoretical model of the study. The hypotheses were formulated on the basis of the theoretical model designed for this study; specifically, focus was placed on the ten hypotheses created from both the independent and dependent variables.

The following chapter presents a detailed discussion of the research design and methodology utilised for this study. Furthermore, the chapter presents an outline of the paradigm, sampling process, research instrument, reliability and validity, as well as the data collection methods incorporated in this study. The selected research techniques and statistical analysis (exploratory factor analysis (EFA)), descriptive statistics, regression analysis and correlation analysis that have been employed in achieving the objectives of this study is highlighted and discussed in Chapter Seven.

CHAPTER SEVEN
RESEARCH DESIGN AND METHODOLOGY

7.1 INTRODUCTION

The previous chapter provided a discussion of the modelled influences on and outcomes of the adoption of ESOPs. A series of comprehensive discussions of the hypothesised model developed for this study were also provided in the preceding chapter. The previous chapter also provided a literature review and outlined the relevant research findings, from previous studies, supporting the hypotheses formulated for the study. Following this, chapter Seven, provides a detailed explanation of the research approach taken in this study.

An explanation of the research approach serves to outline the key research activities and strategies employed in an empirical investigation. These activities and strategies include: steps from broad assumption, detailed information on methods of data collection, analysis and interpretation. In addition, the selection of a research approach is made on the basis of the problem being investigated, the audience for the study and the researcher's personal experience (Creswell, 2013:3). Numerous researchers from the natural and social sciences have used plans involving several decisions on the approach used to study a topic as well as the approach used to address the problem investigated (Creswell, 2013:3).

Furthermore, Creswell (2013:3) reports that researchers are required to make decisions regarding the procedures of inquiry (research designs) and specific research methods (data collection, analysis and interpretation) relevant to their research. This chapter will provide a discussion of the research design and methods that used in this study. The procedures of inquiry (research design and paradigm) will be provided and discussed herein. Furthermore, this chapter will provide comprehensive information on the sampling, data collection techniques, measuring instruments, as well as the statistical and analytical methods employed in this study.

7.2 RESEARCH DESIGN

The research design is the most important aspect of any research investigation or enquiry as it helps the researcher to carefully consider every detail and component of the research. Therefore, it makes an overall decision on how to plan the entire study. The research design refers to the overall plan and procedures that are used in carrying out, and accomplishing the aims of, the study (Maxwell, 2012:1). Bickman and Rog (2009:11) indicate that the research design represents the architectural blueprint of a research investigation. Furthermore, the research design links all components of the research (design, data collection and analysis) to the research questions and ensures that the research problems and objectives are addressed and met. Gray, Williamson, Karp and Dalphin (2007:34) support that the research design is a good place to start when planning a research investigation. The process of research design allows the researcher to brainstorm and use their imagination.

Blaikie (2009:12-13) claims that the research design is a private working document prepared by a researcher or researchers. This document, which is prepared before the commencement of the research investigation, outlines the decisions that need to be taken as well as the justification for such decisions. Furthermore, the research design guides the researcher on how to conduct the overall study. Suresh (2015:140) defines research design as the plans and procedures employed by the researcher in the selection of the methods of data collection and analysis. Suresh (2015:140) further reports that, in order for researchers to meet the aim and objectives of a study, the most appropriate design must be selected.

Vogt, Gardner and Haeffele (2012:3) refer to research design as the "*master category*" in, and a fundamental aspect of, a research investigation because it provides a systematic flow from design choices linked to the research questions and theories. Furthermore, the research design is a framework that provides direction regarding the methods of collecting evidence. Jalil (2013:6) claims that the research design refers to the logical structure of the research investigation. Jalil (2013:8) concurs with Knight (2010:98) when stating that the research design is a plan or procedure that describes what data is required, from whom it will be collected, the methods used to collect the data, what statistical methods will be employed for data analysis and how the data will answer the research questions.

Gray *et al*. (2007:34) postulate that research design refers to the overall process that allows the researcher to simply employ their imagination as well as the strategies and tactics of science in the collection and analysis of data. Maxwell (2012:2) affirms that in a good research design, every component of the study is harmoniously linked and integrated in a coherent and logical way, while a bad research design leads to the poor operation and failure of the study. In addition, Bickman and Rog (2009:11) concur that the credibility, usefulness and feasibility of a study are dependent on the research design implemented therein.

Furthermore, Jalil (2013:8) reports that there have been inconsistencies in the classification of research designs. Bickman and Rog (2009:15) outline three main categories of an applied research design: descriptive, experimental and quasi-experimental. McDaniel and Gates (2006:33-35) classify research designs into two categories: descriptive and causal research designs, while Jalil (2013:8) classifies research design into three, namely, experimental, quasi-experimental and non-experimental. According to Jalil (2013:8), many researchers and authors classify research design according to the type of research question addressed, while others classify research design according to the methodology (qualitative and quantitative) employed. The quantitative research method was used to address the research questions and achieve the research objectives of this study.

7.3 PARADIGM OF THE STUDY

Numerous academic disciplines or fields of study have their unique view and understanding of what research is, how it is to be conducted and how it relates to the knowledge that is being developed. Paradigms provide guidance on how researchers across disciplines make decisions in conducting and carrying out the research investigation. This indicates that the discipline of a researcher will be guided by a particular paradigm (Guba, 1990:18; Guba & Lincoln, 1994). Killam (2013:6) supports this notion by stating that across various disciplines, research is based on a particular set of beliefs. Therefore, to understand research in a specific discipline, the researcher must examine the philosophy behind the research.

Killam (2013:5) purports that the term ‘paradigm’ originates from the Greek word “*paradeigma*”, which refers to a basic belief system, set of beliefs, assumptions or worldview that guides research or an inquiry (Killam, 2013:5; Mack, 2010:5; Morgan, 2007:50). More so, a paradigm is a way of thinking and a framework that researchers use as a basis for everything they do. Therefore, a paradigm guides a researcher’s pattern of thought and it changes the way a researcher views the world. Moreover, a paradigm is the set basic belief system that guides the researcher’s action. It is also the starting point that determines what inquiry is and how it is to be practiced (Guba, 1990:18; Guba & Lincoln, 1994).

Johnson and Christensen (2010:31) describe a paradigm as the viewpoint, perception or perspective held by researchers in an academic discipline that is based on a set of shared assumptions, concepts, values and practices. In other words, paradigm is a researcher’s approach to thinking about and conducting research. Similarly, Hassanein (2015:69) indicates that every research inquiry is connected to its workable paradigm. A paradigm guides the way a researcher views the world, it guides the way a researcher interprets what is seen and decides which of the things observed by the researcher are real, valid and important enough to be documented.

Briggs and Coleman (2007:38) claim that a research paradigm includes three dimensions: ontology, epistemology and methodology. Similarly, Guba and Lincoln (1994:108) and Johnson and Christensen (2010:31) emphasise that the fundamental belief surrounding paradigms can be grouped by the responses to three important questions:

- The **ontological** question: What is the form and nature of reality and what is there that can be known about it? Ontology is a branch of philosophy that deals with the nature of existence, reality and truth.

- The **epistemological** question: What is the nature of the relationship between the researcher-participant and the theory of knowledge? Epistemology is a branch of philosophy that deals with the nature of knowledge and justified belief.
- The **methodological** question: How can the researcher obtain knowledge? Methodology deals with the identification, study and justification of research methods.

Hassanein (2015:69) reports that the three broad paradigms in social and human sciences are the positivist, interpretive and critical paradigms. A positivist paradigm is a scientific, quantitative, confirmatory, hypotheses-testing or predictive paradigm. However, interpretative and critical paradigms are exploratory, hypotheses-grounded, descriptive, qualitative, interpretative, non-positivist or naturalistic paradigms (Hassanein, 2015:69). Furthermore, the three main educational research paradigms, according to Johnson and Christensen (2010:31), are quantitative, qualitative and mixed methods research. The three types of research suggested by Johnson and Christensen (2010:31) will be discussed below.

7.3.1 Qualitative research method

Qualitative research relies on the gathering of data that is presented in words, pictures and non-numerical items. This approach to research allows the researcher to study a phenomenon in an open-ended way, without prior expectations. In addition, hypotheses and theoretical explanations are developed by the researcher based on the interpretations of their observations (Johnson & Christensen, 2010:31). In addition, qualitative research is exploratory and the results are usually narrative with rich description, rather than statistical reports. Gray *et al*. (2007) support this notion by stating that the qualitative research method focuses and relies on the use of words to convey what exists. Furthermore, the qualitative researcher has an advantage of obtaining rich and deep data from complex phenomena in a specific social context.

Atieno (2009:14) reports that qualitative research concerns itself with process rather than outcomes and products. Researchers who engage in qualitative research are interested in meaning. This implies that researchers seek to have an in-depth understanding of human behaviour, experiences and events. Moreover, Plooy-Cilliers, Davis and Bezuidenhout (2014:173) argue that the major focus of qualitative research is that it deals with the subjective experiences and meaning associated with a phenomenon. In other words, the qualitative researcher views things through the eyes of the participant; this gives the researcher the opportunity to understand the why, what and how of a particular phenomenon. Furthermore, Plooy-Cilliers *et al*. (2014:173) highlight that quantifiable measurements are insignificant for researching human experiences, opinions, perceptions of the world and experiential meanings. Furthermore, Della Porta and Keating (2008:26) and Marshall and Rossman (2006:2) describe qualitative research as a method of research that studies social phenomena. Furthermore, research method is naturalistic, holistic, interpretative and critical in understanding and discovering meaning from the external world. Table 7.1 provides a summary of the steps in the process and characteristics of the qualitative research method.

Table 7.1: Steps in the process and characteristics of the qualitative research method

Steps in the process of the qualitative research method	Characteristics of the qualitative research method
Identifying a research problem	• Exploratory and understanding oriented
Reviewing the literature	• Minor role • Justification for the research problem
Specifying a purpose	• General and Broad • Participants' experiences
Collecting data	• General, emerging from • Text or image data • Smaller number of respondents or sites
Analysing and interpreting data	• Text analysis • Description, analysis and thematic development • The larger meaning of findings
Reporting and evaluating research	• Flexible and emerging • Reflective and biased

Source: Adapted from Cottrell and McKenzie (2011:6).

Davies (2007:10) and Denzin and Lincoln (2011:3) describe qualitative research as an activity that locates the observer in the world. These practices are basically interpretative, naturalistic, and materialistic, and they transform and make the world visible. This implies that the qualitative researcher studies things in their natural form; the researcher makes an effort to make sense of or to interpret occurrences on the basis of the meaning that participants ascribe to it. Furthermore, Zikmund and Babin (2010:131) confirm that qualitative research permits the researcher to understand and interpret phenomena without the use of numbers or statistical procedures. Therefore, the researcher focuses on quality rather than quantity, as words, oral description and pictures are used to interpret data.

Klenke (2016:37-38) indicates that the issue of quality in qualitative research has become a major concern for scholars and academics. According to Klenke (2016:37-38), scholars across academic disciplines have sought to understand the reliability and validity of qualitative research. According to Page, Carr, Eardley, Chadwick and Porter (2012:37), the drawback of qualitative research is that it is value-laden and biased, it lacks objectivity and produces data that lacks reliability. However, advocates of the qualitative research method claim that qualitative research is high in validity (Pellissier, 2008:12).

Furthermore, Harding (2013:10) argues that the qualitative research method is helpful in getting accurate answers to questions. Through qualitative means, the researcher can observe and understand the behaviour demonstrated by respondents. According to Houser (2014:78), the qualitative research method is advantageous because it can be conducted in a cheap and fast way, and the researcher can gain more insight into the subject of discourse. Furthermore, the qualitative research method is helpful in understanding situations that can be identified through the utilisation of a smaller-scale sample size and the researcher can easily have access to populations and minorities that are difficult to reach (Houser, 2014:78).

7.3.2 Quantitative research method

Organisations are often faced with problems on how to understand consumer behaviour, how to meet the demands of consumers and how to make effective decisions in order to satisfy consumers (Adams, Khan & Raeside, 2014:6; Sekaran &

Bougie, 2016:18). In order to find solutions to these problems, academics and researchers in the business and social sciences employ quantitative research methods to investigate and identify organisational problems. Furthermore, researchers utilising the quantitative research method follow an organised and logical approach to provide answers and solutions to organisational problems (Adams *et al*., 2014:6; Sekaran & Bougie, 2016:18). Researchers employ the quantitative research method in order to systematically observe human behaviour, gather and analyse numerical data so as to explain a particular phenomenon and to generalise results across a given population (Allen, Titsworth & Hunt, 2008:5-7). Furthermore, the quantitative research method focuses on empirically investigating a phenomenon through the utilisation of statistical, mathematical or numerical techniques. According Bryman and Bell (2011:26), the quantitative research method can be described as a research strategy that places emphasis on quantification in the collection and analysis of data.

Furthermore, Creswell (2013:4) indicates that quantitative research focuses on the utilisation of numbers rather than words. In addition, the quantitative research method allows the researcher to test theories deductively and examine the relationship amongst a given set of variables. In quantitative research, theories can be measured by using a research instrument that gathers numerical data. Researchers who engage in quantitative research analyse their data by means of statistical procedures (Creswell, 2013:4). Hanson and Grimmer (2007:59) purport that the quantitative research method is the dominant research strategy used in the field of marketing. Researchers in a quantitative research enquiry explain issues through the utilisation of a numerical approach.

Baran and Jones (2016:29) specify that the quantitative research method is a deductive and theory-driven approach that focuses more on the utilisation of large samples, strict measurements and statistical analysis to identify links among data. Furthermore, Burns and Grove (2010:20) maintain that the quantitative research method is a scientific enquiry that is formal and objective. Quantitative researchers follow a systematic process and utilise numerical data to obtain information about the world. According to Burns and Grove (2010:20), descriptive, correlational, quasi-experimental and experimental research constitutes the various research processes in the quantitative research method. Descriptive research tests theories by describing variables and correlation research examines the relationships that exist between variables. Quantitative researchers conducting quasi-experimental and experimental research method determine the cause and effect interactions between variables (Burns & Grove, 2010:20). Furthermore, Williams (2007:66) describes the quantitative research method as a research strategy that allows the researcher to collect numerical data so that the information gathered is quantified and subjected to statistical treatment. In addition, the results of the statistical analysis are either refuted or supported. Curtis and Drennan (2013:19) claim that the quantitative research method allows the designing of experiments to establish and test hypotheses, and the utilisation of statistical scales and methods to gather and analyse numerical data. In addition, in a quantitative enquiry, researchers place emphasis on objectivity, validity and reliability. Table 7.2 provides a summary of the steps in the process and characteristics of the quantitative research method.

Table 7.2: Steps in the process and characteristics of the quantitative research method

Steps in the process of the quantitative research method	Characteristics of the quantitative research method
Identifying a research problem	• Description and explanation oriented
Reviewing the literature	• Major role • Justification for the research problem and specification for the need for the study
Specifying a purpose	• Specific and narrow • Measurable, observable data
Collecting data	• Predetermined instruments • Numerical (numbered) data • Large number of respondents
Analysing and interpreting data	• Statistical analysis • Description of trends, comparison of groups, or relationship between variables • A comparison of results with predictions and past studies
Reporting and evaluating research	• Standard and fixed • Objective and unbiased

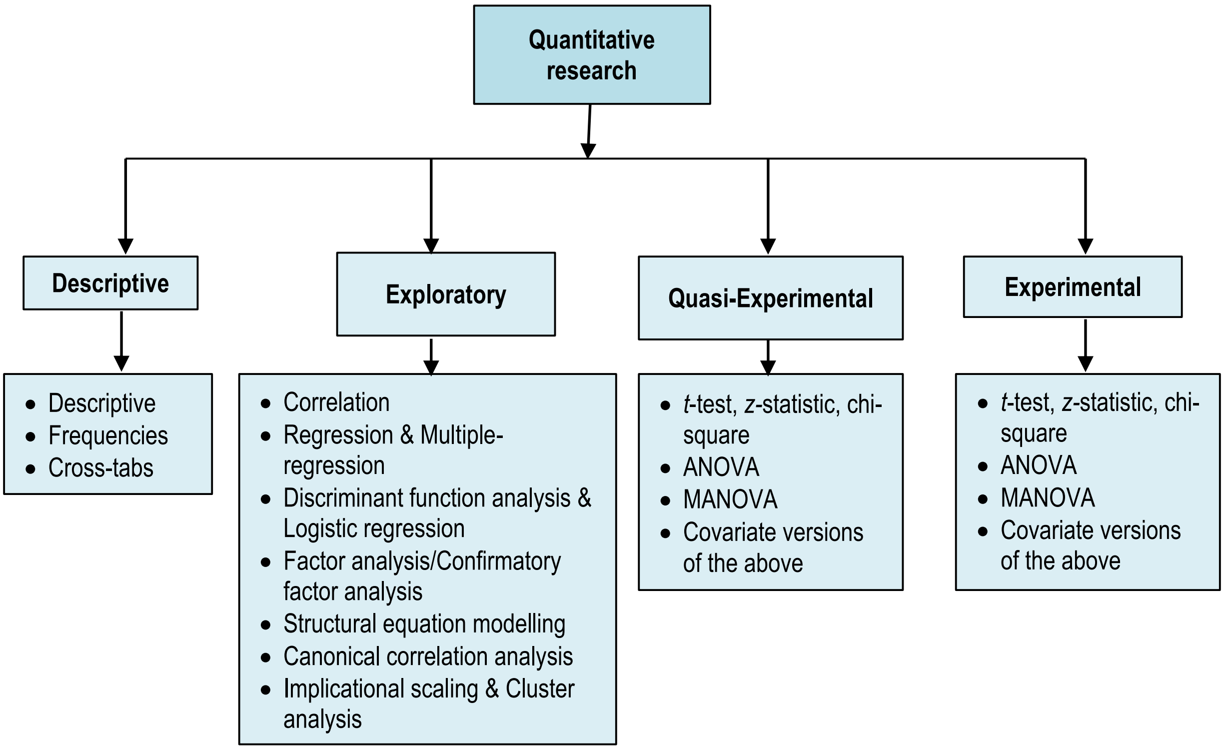
Source: Adapted from Cottrell and McKenzie (2011:6).

Data collection is a significant aspect of the quantitative research method. In order to complete the research investigation, researchers are required to gather primary data from respondents (Hair, Celsi, Money, Samouel & Page, 2015:185). Hall (2008:147) claims that data collection instruments are designed to collect primary data in a quantitative study. According to Hair *et al*. (2015:187), a quantitative research inquiry gathers primary data by utilising self-completion surveys (regular mail, overnight delivery, fax, internet and drop off/pick up), interview-completed surveys (telephone, shopping mall, home, office), and observation (human, electronic and mechanical). Furthermore, Wiid and Diggines (2010:85) support that the methods of gathering primary data in quantitative research include surveys, observations and experiments. Williams (2007:66) affirms that the quantitative research method employs experiments and surveys as an inquiry strategy, and it utilises predetermined instruments to gather primary data. According to Hall (2008:148), the most utilised data collection instruments in quantitative research method are questionnaires and rating scales. Furthermore, the utilisation of a structured data collection instrument (questionnaire) contains statements on a Likert scale. The data collection instrument produces results that are summarised, compared and generalised to the study population.

Wiid and Diggines (2010:85) indicate that researchers in a quantitative research enquiry gather primary data from a more representative larger sample size. Ahmed, Opoku and Aziz (2016:82) support this notion by stating that the quantitative research method places emphasis on the utilisation of a highly structured approach to gathering data from a larger sample size. Furthermore, the utilisation of a larger sample size allows the generalisability of results to the study population. Cottrell and McKenzie (2011:7) affirm that the aim of the utilisation of a larger sample size is to enable the results gathered from respondents to be generalised to the study population at large.

Bryman and Bell (2011:163) suggest that the primary data gathered in a quantitative study must be analysed through statistical procedures. In other words, researchers are required to utilise a number of statistical techniques to reduce the numerical data that has been gathered into meaningful results. In addition, the analysis of the primary data will allow researchers to test for relationships between variables and to produce meaningful results (Bryman & Bell, 2011:163). Figure 7.1 provides a summary of the various quantitative research methods and techniques by which data can be analysed.

Figure 7.1: Quantitative research types and methods of analysis



Source: Adapted from Hinkel (2011:192).

Pellissier (2008:12) reports that the quantitative research method is advantageous because of its ability to utilise statistics to generalise findings. Furthermore, the quantitative research method is more reliable and objective than qualitative research meathod. The quantitative research method is an important research enquiry because it enables the researcher to test theories or hypotheses, and results from the study sample can be generalised to the study population; this helps the researcher to solve or reduce a complex problem to a limited number of variables (Nykiel, 2007:56). In addition, Natveev (2002:60) and Nykiel (2007:56) indicate that the strengths of quantitative research include achieving high levels of reliability in measurement scale and reducing subjectivity of judgement. Furthermore, the strengths of quantitative research include the following: researchers can specifically state the research problems; a large amount of data can be gathered; the independent and dependent variables under investigation are clearly specified and it follows a logical process that allows the achievement of the research objectives (Bellini & Rumrill, 2009:5; Natveev, 2002:60; Nykiel, 2007:56).

The quantitative research method was utilised in this study because it enabled the researcher to gather useful data; in this respect, the statistical analysis was conducted speedily, and the testing and validation of the formulated hypotheses increased the precision of the quantitative data (Johnson & Onwuegbuzie, 2004:19). Furthermore, the quantitative research method was employed for the purpose of achieving high levels of reliability in the measurement scale and reducing the level of bias in the results.

7.3.3 Mixed methods research

The mixed methods research is referred to as the "*third research approach*", "*third research paradigm*" or "*third methodological movement*" (Creswell & Clark, 2011:1; Johnson, Onwuegbuzie & Turner, 2007:112). According to Johnson *et al*. (2007:112), mixed methods research is becoming increasingly recognised and accepted in research practices. Furthermore, mixed methods research is a technique that utilises both the qualitative and quantitative research methods to address research problems. Creswell (2013:4) describes mixed methods research as the integration of both qualitative and quantitative design in the collection, analysis and interpretation of data that provides a holistic solution to understanding the research problem. Table 7.3 provides a comprehensive summary of the distinction between qualitative, quantitative and mixed methods research.

Table 7.3: Distinction between qualitative, quantitative and mixed methods research

	Qualitative research	Quantitative research	Mixed methods research
Scientific method	Exploratory or bottom up – the researcher generates knowledge, hypotheses and grounded theory from data collected during fieldwork	Confirmatory or top-down -the researcher tests hypotheses and theory with data	Confirmatory and exploratory
Ontology	Subjective, mental, personal and constructed	Objective, material, structural, agreed-upon	Pluralism; appreciation of objective, subjective and intersubjective realities and their interrelations
Epistemology	Relativism; individual and group justification; varying standards	Scientific realism; search for truth; justification by empirical confirmation of hypotheses; universal scientific standards	Dialectical pragmatism; pragmatic justification (what works for whom in specific contexts); mixture of universal (e.g. always be ethical) and community-specific needs-based standards
View of human thought and behaviour	Situational, social, contextual, personal, and unpredictable	Regular and predictable	Dynamic, complex and partially predictable - multiple influences include environment/nurture, biology/nature, freewill/agency, and chance/fortuity
Most common research objectives	Qualitative/subjective description, empathetic understanding and exploration	Multiple objectives; provide complex and fuller explanation and understanding; understand	Quantitative/numerical description, causal explanation and prediction

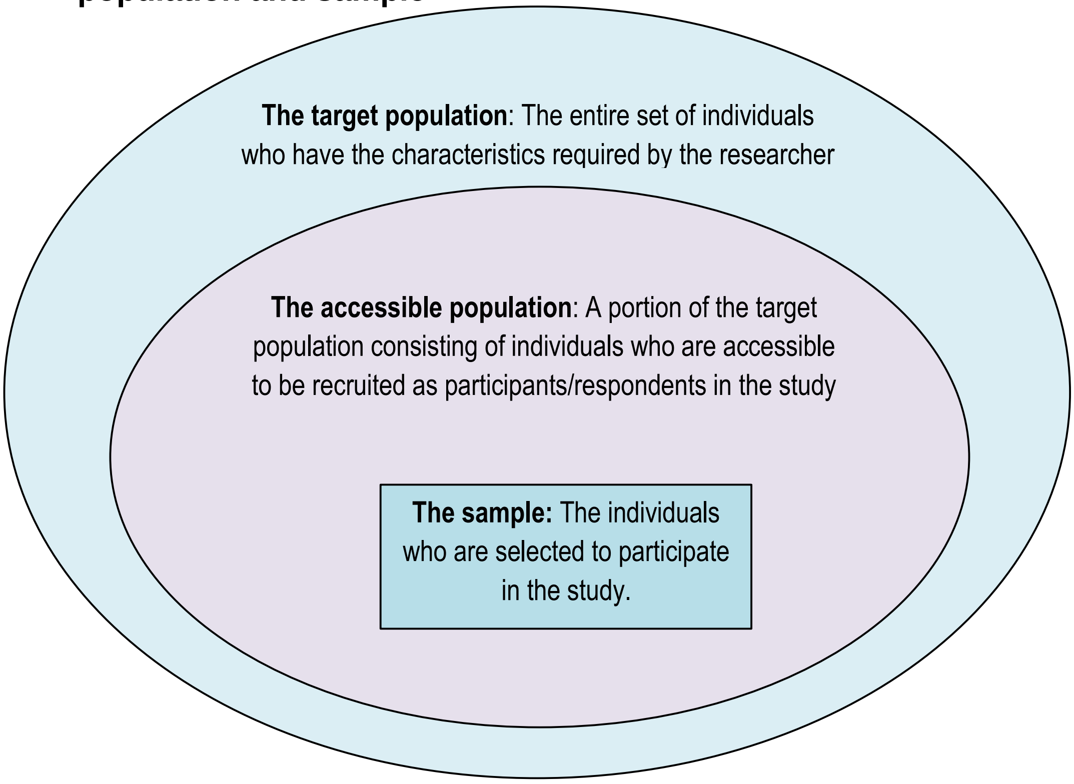
		multiple perspectives	
Interest	Understand and appreciate particular groups and individuals; inform local policy	Identify general scientific laws; inform national policy	Connect theory and practice; understand multiple causation, nomothetic (i.e. general) causation, and idiographic (i.e. particular, individual) causation: connect national and local interests and policy
Focus	Wide-angle and deep-angle lens, examining the breadth and depth of phenomena to learn more about them	Narrow-angle lens, testing specific hypotheses	Multi-lens focus
Nature of observation	Study groups and individuals in natural settings; attempt to understand insiders' views, meanings, and perspectives	Study behaviour under controlled conditions; isolate the causal effect of single variables	Study multiple contexts, perspectives, or conditions; study multiple factors as they operate together
Form of data collected	Collect qualitative data such as in-depth interviews, participant observations, field notes, and open-ended questions. The researcher is the primary data collection instrument	Collect quantitative data based on precise measurements using structures and validated data collection instruments	Collect multiple kinds of data
Nature of data	Words, images, categories	Variables	Mixture of variables, words, categories, and images
Data analysis	Use descriptive data; search for patterns, themes, and holistic features; appreciate difference/variation	Identify statistical relationships among variables	Quantitative and qualitative analysis used separately and in combination
Results	Particularistic findings; provision of insider viewpoints	Generalisable findings providing representation of an objective outsider viewpoint of populations	Provisions of "subjective insider" and "objective outsider" viewpoints; presentation and integration of multiple dimensions and perspectives
Form of final report	Less formal narrative report with contextual description and direct quotations from research participants	Formal statistical report (e.g., with correlations, comparisons of means, and reporting of statistical significance of findings)	Mixture of numbers and narrative

Source: Adapted from Johnson and Christensen (2013:34-35).

7.4 SAMPLING

The need to sample is a fundamental aspect of the research process that is carried out by researchers conducting a quantitative study (Bryman & Bell, 2011:175). Sampling is utilised by researchers as a technique to gather useful information about the study population (Lim & Ting, 2012:2). Furthermore, the process of sampling allows researchers to gather information from a smaller portion of the population in an attempt to generalise their findings to the population at large (Lim & Ting, 2012:2). According to Bryman and Bell (2011:176), sampling involves a process of selecting a segment of the population that is needed for the research investigation. According to Gravetter and Forzano (2015:135), sampling refers to the process of selecting a subset and sufficient number of respondents who are representative of the population of analysis. In addition, the researcher must select a sample that is a representative of the population so that the results of the study can be generalised to the population of interest. The target population, in this study, refers to the totality of employees (unit of analysis) that work in small, medium and large organisations in Nigeria. Following this, the accessible population is a subset of the target population consisting of employees of small, medium and large organisations that are reachable, available and recruited as respondents in the study. Figure 7.2 depicts the relationship between the population of interest, accessible population and sample.

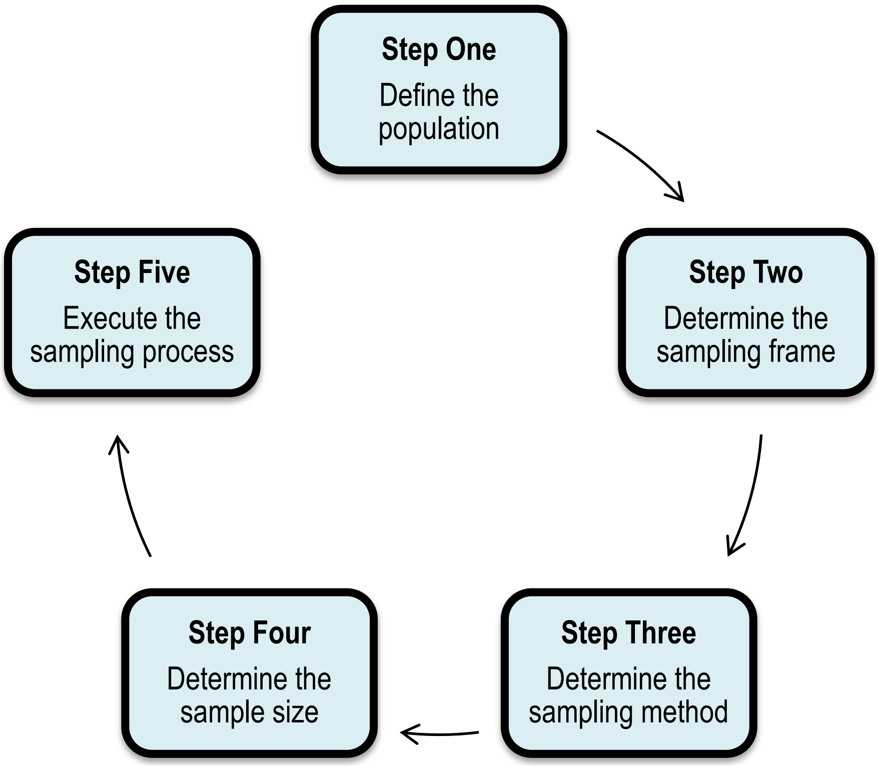
Figure 7.2: The relationship between the population of interest, accessible population and sample



Source: Gravetter and Forzano (2015:135).

Sekaran and Bougie (2016:239) support that sampling refers to the process of selecting sufficient participants or a subset from the population of interest in a way that allows the findings to be generalised to the study population. Furthermore, Hair *et al*. (2015:165) and Sekaran and Bougie (2016:239) indicate that researchers must pass through five steps in order to select a sufficient number of the right elements (person or object) from the population. The steps in the sampling process include defining the population; determining the sample frame; determining the sampling method; determining the appropriate sample size and executing the sampling process (Hair *et al*., 2015:165; Sekaran & Bougie, 2016:239-240). Figure 7.3 illustrates the steps in the sampling process.

Figure 7.3: Steps in the sampling process



Source: Adapted from Hair *et al*. (2015:165) and Sekaran and Bougie (2016:240).

7.4.1 Definition of the population

The sampling process begins by defining the population of interest. Polit and Beck (2004:289) refer to a population as the individuals or objects that researchers are interested in studying. Furthermore, Polit and Beck (2004:290) and Whitley and Kite (2012:485) refer to a population as the group of people to whom the researcher wants their research to apply, and their results to be generalised to. According to Jha (2014:183), a population is also referred to as a universe; it is the total number of individuals or objects that are studied and the target population is a well-defined group of individuals or objects for which data is ideally required. In addition, Gravetter and Forzano (2015:134) refer to a population as the entire set of individuals and objects of the researcher's interest. Stevens (2006:183) suggests that the population is frequently referred to as a universe and must be defined and identified accurately in order to focus on the unit of analysis (who or what is being studied). In addition, researchers must define and identify the population in order to know where they are located and learn their characteristics. Furthermore, defining and identifying the target population accurately helps the researcher to gather representative data (Stevens, 2006:183). Neelankavil (2015:234) supports this notion by stating that the incorrect identification and definition of the target population may produce results that are biased and a study that is invalid.

Furthermore, Neelankavil (2015:234) specifies that researchers should identify their target population through specified and distinct characteristics. Researchers can utilise characteristics such as demographics (age, income, educational level, marital status) or organisational description (sales volume, number of employees, geographic location or types of industry) to define and identify their population (Neelankavil, 2015:234). For the purpose of this study, the population refers to the totality of employees of small, medium and large organisations in Nigeria.

7.4.2 Determination of the sampling frame

The second step in the sampling process is to determine the sample frame. Once the population has been defined, researchers must identify and determine an appropriate sample frame for the study (Morgan & Summers, 2005:123). According to Morgan and Summers (2005:123), establishing the sample frame helps researchers to determine boundaries in the study population. Burt, Barber and Rigby (2009:258) define the sampling frame as the set of source material or an ordered list from which the sample is selected in a given population. Rubin and Babbie (2010:362) support this notion by stating that the sample frame refers to a list, quasi-list or source material from which the sample is drawn. In other words, it is a list of all elements, objects and individuals within the study population. Furthermore, Morgan and Summers (2005:123) affirm that the sample frame is a list containing all the sample units from which the sample would be drawn. Therefore, the sample frame is described as the entire list containing objects or individuals in the study population from which the sample can be drawn.

Burt *et al*. (2009:258) claim that the sampling frame has two important properties, namely, the sampling frame must be exhaustive and it must contain individual elements. In other words, the sampling frame must include all respondents in the study population and each individual element contained in the population must appear once on the sampling frame list. Furthermore, Nishishiba, Jones and Kraner (2013:76) indicate that determining and defining the sampling frame has significant implications for the quality of the study. Researchers who pay minimal attention to the composition of a sample frame may encounter sampling frame errors and problems in generalising their results to the study population.

Nishishiba *et al*. (2013:76) advise researchers to pay attention to four problems encountered in the sampling frame: missing elements, foreign elements, duplicate entries (multiple listing) and clusters. Missing elements refers to some elements of the target population which are of importance to the research but have not been included in the sample frame (Hall, 2008:191). Foreign elements refers to elements (individuals and objects) that are not relevant to the research (elements that may add false information) but are included in the sampling frame (Nishishiba *et al*., 2013:76). The problem with duplicate entries (multiple listing) arises when the sample frame consists of units of analysis (individual or objects) that appear more than once (Hall, 2008:191).

Furthermore, a sampling frame that includes multiple entries in a list with a similar identity but different individuals is known as a cluster (Nishishiba *et al*., 2013:76). According to Rubin and Babbie (2010:362), researchers are more likely to gather appropriate information that describes the study population if they draw the sample properly. Therefore, researchers must ensure that they establish a sample frame that captures the characteristics of the population in order to minimise sampling frame errors in the sampling process. The sample frame in this study consists of a list of organisations within the financial services, consumer goods, oil and gas, and service sectors located in Abuja, Kano, Port Harcourt and Lagos.

7.4.3 Determination of the sampling method

During a research investigation, researchers often experience challenges in accessing and studying the entire population. In other words, it is difficult and almost impossible for researchers to study an entire population. In order to overcome this challenge, researchers gather data from representative samples (a subset of the study population) so as to generalise their findings to the study population (Gomez & Jones, 2010:81). In addition, Gomez and Jones (2010:81) argue that researchers are required to utilise the probability and non-probability sampling technique in order to accomplish the goal of obtaining a sample that is representative of the study population. Furthermore, Babbie (2016:195) and Connaway and Powell (2010:117) support that researchers are required to utilise at least one of two types of sampling methods to select the individuals or objects in the population being sampled. The two basic types of sampling methods are probability and non-probability sampling methods.

Gerrish and Lacey (2010:144) describe probability sampling as a sampling technique whereby each unit in the target population has a known and equal chance of being selected. According to Bailey (2008:89), the probability sampling method is a technique in which the probability of selection of each respondent is known. Furthermore, Gravetter and Forzano (2011:144) affirm that in probability sampling, the population is known and each respondent in the population has an equal probability of selection. In addition, there are five types of probability sampling methods: simple random, systematic, stratified, proportionate stratified and cluster sampling.

The non-probability sampling method is a sampling technique in which the selection of samples from the target population is based on the subjective judgement of the researcher (Feinberg, Kinnear & Taylor, 2012:304). In other words, each unit in the target population does not have a known or equal chance of being selected. Furthermore, Maxfield and Babbie (2010:244) describe the non-probability sampling method as one in which the likelihood of selecting any given element is unknown. Marlow (2010:140) specifies that the non-probability sampling method allows researchers to personally select their sample to suit the nature of their research problem and phenomenon under investigation.

According to Maxfield and Babbie (2010:244), the four types of non-probability sampling methods are purposive or judgemental, quota, convenience (reliance on available subjects) and snowball sampling. Furthermore, Daniel (2011:67) advises that the weaknesses and strengths of the probability and non-probability methods must be considered by researchers before choosing which methods to utilise. Table 7.4 presents a summary of the strengths and weakness of the probability and non-probability sampling methods.

Table 7.4: Strengths and weaknesses of probability and non-probability sampling in addressing selected contingencies

Contingencies	Probability sampling	Non-probability sampling
Objectives:		
Research has an exploratory purpose	Weakness	Strength
Need for quick decision	Weakness	Strength
Need to target specific elements of the population	Weakness	Strength
Need for a representative sample	Strength	Weakness
Need to make statistical inferences from the sample	Strength	Weakness
Need to minimize selection bias	Strength	Weakness
Important study	Strength	Weakness
Purpose of the sampling is to provide illustrative example	Weakness	Strength
Nature of the population:		
Heterogeneous population	Strength	Weakness
Difficult to gain access or locate population elements	Weakness	Strength
Population is highly scattered	Weakness	Strength
Availability of resources:		
Limited time, money, etc.	Weakness	Strength
Skilled and highly trained personnel	Weakness	Strength
Sampling frame is not available	Weakness	Strength
Research Design considerations:		
Qualitative research design used	Weakness	Strength
Important to use easy operational procedures	Weakness	Strength
Very small sample size targeted	Weakness	Strength

Source: Daniel (2011:67).

Table 7.4 summarises the strengths and weaknesses of the probability and non-probability sampling methods. The non-probability sampling method is utilised in this study. This sampling method has the advantage of granting researchers easy access to populations that are highly scattered and difficult to locate (Daniel, 2011:67). In addition, convenience and snowball sampling, in the non-probability sampling method, will be utilised in this study in order to select elements in the population to be included in the sample.

Convenience sampling is a non-probability sampling method that allows researchers to select respondents on the basis of their availability and willingness to respond (Gravetter & Forzano, 2011:151). Weathington, Cunningham and Pittenger (2010:205) support that convenience sampling is a non-random sampling method that allow researchers to utilise members of the population that are easy to find. Fry (2008:97) describes convenience sampling as a non-probability technique in which samples in the population are detected and selected based on the ease of access of their shared characteristics. Therefore, convenience sampling is a non-probability sampling method that allows researchers to use respondents who are conveniently available to partake in the study.

Cottrell and McKenzie (2011:132) and Gravetter and Forzano (2011:151) state that convenience sampling is the most frequently used form of non-probability sampling. The convenience sampling method was utilised in this study because it was cost effective. In addition, the researcher had the advantage of gathering a large amount of data in a short period of time. Furthermore, Sweeney, Williams and Anderson (2011:297) specify that the convenience sampling method is beneficial because it grants researchers easy access to the selection of samples and, consequently, data collection.

Snowball sampling is a non-probability sampling method that allows researchers to locate survey subjects on the basis of referrals from other respondents (Black, 2011:232). This implies that respondents aid the researcher in identifying and recruiting potential respondents who share similar characteristics needed for the study. According to Isaias and Nunes (2012:45), snowball sampling is a process that allows each respondent to supply contacts, thus creating a chain of referrals until the target number of participants is reached. Furthermore, Trochim *et al*. (2015:89-91) affirm that snowball sampling is a non-random sampling technique that basically begins with the identification of respondents who meet the criteria for inclusion in a study. Following this, the researcher requests that current respondents recommend other respondents who also meet the criteria of the study (Trochim *et al*., 2015:89-91). Therefore, the snowball sampling method allows researchers to gain access to possible respondents through the information (address, phone numbers) provided by the current respondents.

The snowball sampling method was utilised in this study because it enabled the researcher to reach respondents who were difficult to locate. Furthermore, snowball sampling was beneficial as it assisted the researcher to reach respondents who have the characteristics needed for the study (Isaias & Nunes, 2012:45). The use of snowball sampling is advantageous because it allows the researcher to locate and identify respondents cheaply and efficiently. In other words, the use of snowball sampling is cheap, simple and cost effective (Black, 2011:232).

7.4.4 Sample size of the study

Determining the appropriate sample size is a fundamental and difficult step in the sampling process, and an important feature in any empirical study. The determination of an appropriate sample size allows researchers to make inferences about a study population (Dattalo, 2008:3). Woodward (2013:295) supports that determining the sample size is a critical aspect of an empirical study that should involve careful planning.

Gerrish and Lathlean (2015:180) claim that one of the major principles of the quantitative research method is the utilisation of large sample sizes. Irrespective of this advantage, researchers are required to calculate and utilise an appropriate sample size that represents the population. According to Balakrishnan (2010:719) and Woodward (2013:295), the utilisation of an unnecessarily large sample size may increase research costs, elongate the time frame of the study and the study results may be statistically significant but it might not have any practical significance. Furthermore, the utilisation of a smaller sample size or inappropriate determination of the sample size may cause empirical studies to produce results that are inconclusive and inaccurate. Therefore, the incorrect determination of the appropriate sample size can reduce the worthiness of any empirical study

(Woodward, 2013:295). Determining the sample size in quantitative research is the process through which researchers choose the number of respondents that will be included in a study (Caroline, 2015:322). Furthermore, Woods (2016:89) explains that there is no standard sample size that describes a population. In other words, a sample size of 150 can accurately describe a population of 15,000 or 15 million, assuming that all other aspects of sampling design and procedures are similar. This implies that 150 respondents is an accurate number for a sample size and anything less is likely to increase sampling errors (Woods, 2016:89). According to Veal and Darcy (2014:404), one of the criteria used in determining the sample size in quantitative research is the availability of budget and time. Sekaran and Bougie (2010:268) affirm that the determination of sample size depends on six factors, namely, research objectives; extent of precision desired; acceptable risk in predicting the level of precision; amount of variability in the population itself; cost and time constraints; and size of the population. Therefore, the extent of the sample size is required to be a function of these factors (Sekaran & Bougie, 2010:268).

The researcher distributed questionnaires to employees in major Nigerian cities such as Abuja, Kano, Port-Harcourt and Lagos. Employees from these cities are representative of four out of the six geo-political zones (North-Central, North-West, South-South and South-West) in Nigeria. The threshold for a representative sample size for this study is 375. The sample size was calculated as follows: 15 variables (7 independent, 5 mediating and 3 dependent)* 5 * 5 = sample size of 375. This sample size is a representative of the population. However, this study achieved a high sample size of 773 respondents.

7.4.5 Execution of the sampling process

Execution is the final step of the sampling process. This step allows the researcher to present detailed specifications on how to execute or implement all other steps of the sampling process (Fawwaz & AbuShikkah, 2012:50). Rios and Perez del Campo (2013:196) support this notion by stating that executing the sampling process requires the researcher to draft out and make decisions on how to define the population; determine the sample frame, determine the sampling method; and determine the appropriate sample size.

The study population of this research consists of employees from organisations situated in Abuja, Kano, Port-Harcourt and Lagos state, Nigeria. The sample size was drawn from the four states aforementioned using the non-probability sampling techniques (convenience and snowball sampling). This study intended to have a sample size constituted of a minimum of 500 and a maximum of 1000 employees. The sample size obtained after fieldwork was 773. Therefore, this study achieved an acceptable response rate of 77%. Table 7.5 provides a summary of the demographic profile of the respondents in this study.

Table 7.5: Demographic profile of respondents

Variables	Range	N	%
Gender	Male	369	48
	Female	404	52
	Total	**773**	**100%**
Age	20-29	162	21
	30-39	329	42
	40-49	168	22
	50-59	76	10
	60 and above	38	5
	Total	**773**	**100%**
Level of Education	No formal education	5	0
	Primary school	1	0
	Junior secondary school	12	2
	Secondary school	33	4
	Diploma	149	19
	Bachelor’s degree	220	29
	Postgraduate degree	198	26
	Other	155	20
	Total	**773**	**100%**
Organisational Sector	Manufacturing	86	11
	Retailing	65	8
	Wholesaling	104	14
	Services	291	38

Variables	Range	N	%
Organisational Sector	Other	227	29
	Total	**773**	**100%**
Employment Level	General Employee	122	16
	Supervisor	99	13
	Admin Secretary	72	9
	Assistant manager	103	13
	Manager	223	29
	CEO/General manager	154	20
	Total	**773**	**100%**
Employment Tenure	1-5 Years	134	17
	6-10 Years	139	18
	11-15 Years	122	16
	16-20 Years	202	26
	21 Years and above	176	23
	Total	**773**	**100%**
Involvement in Trade Unions	Yes	259	34
	No	514	66
	Total	**773**	**100%**
Listed on the Stock Exchange	Yes	247	32
	No	526	68
	Total	**773**	**100%**

Source: Researcher's own construct.

Table 7.5 shows the demographic profile of the 773 respondents selected for this study. According to Table 7.5, forty-eight percent (48%) of respondents were male and fifty-two percent (46%) were female. Forty-two percent (42%) of respondents belonged to the 30-39 year age group of while the lowest percentage, five percent (5%), were 60 years and above. Twenty-two percent (22%) of respondents belonged to the 40-49 years age group, twenty-one (21%) were 20-29 years of age, and ten percent (10%) were 50-59 years of age. Furthermore, four (4%) of respondents attained a secondary school certificate while the majority of twenty-nine percent (29%) held a bachelor's degree. Twenty-six percent (26%) of the respondents held a postgraduate degree, nineteen percent (19%) a diploma and four percent (20%) held other qualifications. The lowest percentage, two percent (2%), of respondents held a junior secondary school certificate.

Eleven percent (11%) of respondents belonged to the manufacturing organisational sector, whilst the majority, thirty-eight percent (38%), were involved in service delivery. Fourteen percent (14%) of respondents were involved in wholesaling, eight percent (8%) were retailers and twenty-nine percent (29%) of the respondents were involved in other organisational sectors that were not indicated on the research instrument. In addition, twenty-nine percent (29%) of the respondents were managers and sixteen percent (16%) were general employees. Twenty percent of the respondents (20%) were CEOs/general managers, thirteen percent (13%) were assistant managers, nine percent (9%) were administrative secretaries and thirteen percent (13%) were supervisors.

Furthermore, the highest percentage (26%) of employees has been employed for a period of 16-20 years. Twenty-three percent (23%) of the respondents have worked with their organisation for 16-20 years while sixteen percent (16%) have been under the employ of their organisation for 11-15 years. The employment tenure for seventeen percent (17%) of the respondents is within 1-5 years and eighteen percent (18%) of the respondents are within the 6-10 year category. Thirty-four percent (34%) of the respondents indicated that they belonged to a trade union whilst sixty-six percent (66%) reported that they do not belong to a trade union. Organisations listed on the stock exchange constitute thirty-two percent (32%) of the respondents' organisations, while sixty-eight percent (68%) are not listed on the stock exchange.

7.5 DATA COLLECTION METHOD

Data collection represents a critical aspect of any research investigation. In a quantitative study, researchers are required to gather secondary and primary data in order to achieve the objectives of the study (Hair *et al*., 2015:31). Furthermore, the type of data collected by the researcher will depend on the research questions and problems. In order to gather data, researchers are required to critically think about what data to collect, what method to utilise in collecting data and how the data will ensure the quality of the study itself (Ellis, 2016:95). Furthermore, Ellis (2016:95) argues that quantitative researchers are required to focus on the consistency and accuracy of the data collection process. The level of consistency and accuracy will ensure that the research findings can be generalised to the broader population. According to Wiid and Diggines (2010:70), the process of data collection commences once the researcher makes a decision to commence the research investigation.

Egan (2007:130) describes data collection as the process of gathering data needed for a particular research investigation. Therefore, data collection refers to a process by which researchers gather information on the variables of interest in order to test the stated hypotheses, find answers to the research questions and achieve the research objectives. Data collection methods can be divided into two categories, namely, secondary and primary data (Egan, 2007:130; Mooi & Sarstedt, 2011:29). Thyer (2010:68) reports that secondary and primary data are required in a study because they complement one another. Secondary data provides information, knowledge and an agenda for future research whilst primary data is required to fill a current gap in, and produce new, knowledge. The two types of data will be discussed below.

7.5.1 Secondary data collection method

The collection of secondary data is important in a study because it provides past and useful information needed for current research investigation. Furthermore, the collection of secondary data involves the application of practical and theoretical knowledge and skills on the part of the researcher. In other words, the researcher must aim to gather existing data relevant to the study. The researcher must also gather existing data that addresses the research questions and objectives (Johnston, 2014:620). Beri (2010:12) describes secondary data as existing data that is collected by a researcher for use in a new and specific study. In other words, secondary data is referred to as second-hand data. The purpose of second-hand data is to facilitate the collection of primary data. However, the primary data gathered by a researcher will become secondary date for future researchers (Beri, 2010:13). Furthermore, Wiid and Diggines (2010:58) describe secondary data as historical data that was previously gathered, by a particular researcher for the purpose of their own study, rather than data gather specifically for the study currently in question. According to Wiid and Diggines (2010:58), researchers should gather and analyse secondary data by considering its relevance, accuracy, reliability, timeliness, and appropriateness. Furthermore, the secondary data that is gathered must be dependent on the research problems and objectives. Wegner (2010:27) indicates that secondary data are data processed for use by other researchers for the purpose of solving research problems other that the current problem. Thyer (2010:68) affirms that secondary data refers to existing data needed to answer new research questions in a new study.

Secondary data is cheap to gather; it can be gathered quickly and it does not require expert skills to be gathered (Morgan & Summers, 2005:110). Mooi and Sarstedt (2011:29) and Stevens, Loudon, Ruddick, Wrenn and Sherwood (2012:97-98) affirm that the advantages of secondary data include that it is low cost and easily accessed; sample size tends to be bigger; gathering it can be accomplished within a short period of time; secondary information is widely available and it is flexible (variety of information to choose from).

The secondary data gathered for this study was specific to the study itself. Secondary information relating to the study was gathered from journals, articles, books, and credible websites using the Nelson Mandela Metropolitan University Library and its online databases. The secondary data provided useful information in understanding the research problems; it also provided information that assisted the researcher in developing a theoretical framework and hypotheses. Furthermore, the secondary data was helpful as it provided information for designing the research instrument and it was used as a standard for evaluating the primary data (Stevens *et al*., 2012:97).

7.5.2 Primary data collection method

Primary data is the direct opposite of secondary data. The distinction between these two methods of data collection is inherent in the collection and originality of the data (Jones, 2014:8). In other words, secondary data is historical data gathered from another study and primary data are fresh and original data gathered for a specific study. According to Rugg and Petre (2006:32), conducting primary research by collecting primary data is highly valued in academia; this is because primary data provides new answers to current research questions. Furthermore, Rugg and Petre (2006:32) argue that breakthroughs in research usually come from conducting primary research and gathering primary data, rather than secondary research and data. However, secondary data is useful for gaining information and knowledge on the researcher's interests. According to Hair *et al*. (2015:186) and Kuiper (2009:315), primary data must be collected if the secondary data that has been collected is not adequate to answer the research questions and achieve the objectives of the study. In addition, Kuiper (2009:315) advises researchers to utilise appropriate sources, and select valid and reliable methods in gathering primary data.

Mooi and Sarstedt (2011:29) define primary data as new and fresh data collected for achieving the purpose of a specific study. According to Wegner (2010:26), primary data are data gathered for the first time with the researcher's specific research problems and objectives in mind. Furthermore, Stevens *et al*. (2012:99) claim that primary data are first-hand data generated by researcher(s) to achieve the purpose of a specific study and gathered from a specific population sample. Reid and Bojanic (2009:222) describe primary data as conducting original research and collecting new data to provide answers to current questions.

Wegner (2010:27) purports that the collection of primary data is advantageous because it focuses primarily on addressing the research problems and objectives of a particular study. In addition, the researcher has the advantage of having greater control over data accuracy. Furthermore, primary data is more reliable, credible, complete and accurate for use in addressing problems in a specific study (Houser, 2009:272; Morgan & Summers, 2005:110; Reid & Bojanic, 2009:222). This study gathered primary data by means of a measuring instrument. The questionnaire, which measured responses on a 7-point Likert scale, had items relating to the topic under research investigation. The questionnaire was self-administered to respondents by the researcher and experienced fieldworkers. The fieldworkers were chosen by the researcher because of their familiarity with and experience in data collection. Furthermore, the fieldworkers chosen by the researcher have access to the target population of the study. The primary data gathered was subjected to a series of quantitative analyses. The analysed data assisted the researcher to provide answers to the research questions and to achieve the research objectives (Houser, 2009:276).

7.6 THE RESEARCH INSTRUMENT

Prior to the collection of primary data, researchers are required to design and develop the research instrument. The research instrument is utilised by researchers to gather primary data from respondents. In other words, the research instrument refers to the tool utilised by researchers to gather primary data that will be further analysed in order to answer the research questions (Mligo, 2016:78). In order to gather the primary data, researchers have an option of developing a new instrument or utilising an existing and well-known instrument that has been developed by other researchers. Mligo (2016:78) advises that researchers must ensure that the chosen research instrument (newly developed or existing) must be reliable and valid. Fitzpatrick and Kazer (2011:104) affirm that the decisions taken by researchers during the development of the research instrument may have a profound effect on the quality of evidence presented by the study.

Furthermore, there are various research instruments that researchers can utilise to gather primary data. Specifically, researchers in social sciences utilise observations, interviews and questionnaires as research instruments for the collection of data from respondents (Mligo, 2016:78; McKenna, 2006:214; Wallace & Van Fleet, 2012:180). For the purpose of this study, the questionnaire was utilised as a research instrument, in order to gather primary data. Gupta and Gupta (2011:66) define a questionnaire as a research instrument or tool containing a list of questions that is used to gather data from respondents on a particular study of interest. Furthermore, Jonker and Pennink (2010:155) purport that a questionnaire is a document that contains questions or other tools designed for the purpose of soliciting information necessary for analysis. In addition, Pathak (2008:110) supports that a questionnaire is a measuring tool consisting of a series of clear questions related to the problems investigated by the researcher. Therefore, this study defines a questionnaire as a measuring instrument that contains a series of questions coupled with a choice of answers designed, for the sole purpose of gathering data in order to solve the research problem.

7.6.1 Questionnaire design and structure

The designing and structuring of a questionnaire is a fundamental stage in research. In order to design a questionnaire, researchers are required to be skilful in presenting questions that focus on the problems being investigated (Pathak, 2008:113). Furthermore, the proper design and structure of a questionnaire will allow researchers to gather data that are relevant to the study while an improper questionnaire may fail to gather the information required for problem solving. Furthermore, Shukla (2008:86) indicates that the researcher's skill in questionnaire design and development is not the only factor that guarantees the collection of relevant data. Another factor that aids the collection of relevant data is the researcher's understanding of what designing and structuring a questionnaire entails. Gillham (2007:15) affirms that the first and logical step in designing a questionnaire is to ask and know what the broad aim of the study is. In other words, researchers must understand what they are trying to find out.

Furthermore, Shukla (2008:87) states that, in marketing, there has been an on-going debate on how to design a questionnaire. Some researchers are of the opinion that designing a questionnaire is an art based on the experience of the researcher. While other researchers view questionnaire design as a science based on sound theoretical development. Irrespective of the debate, Leedy and Ormrod (2013:196-197), Pellissier (2007:72) and Shukla (2008:87) advise that, in order to design, structure and develop an appropriate questionnaire, researchers must follow the necessary guidelines. According and Pellissier (2007:72), researchers must ensure that the process of questionnaire design must be well thought out and carefully planned before beginning the actual process itself. In addition, the properties of a questionnaire, i.e. the layout, structure, content, presentation and ease of understanding, are fundamental for producing a quality questionnaire. Furthermore, Leedy and Ormrod (2013:196-197) support this notion by stating that the questionnaire requires careful designing and planning in order to ensure that the questionnaire gathers accurate responses needed to answer the research questions.

Table 7.6 summarises the guidelines for designing and structuring an appropriate questionnaire.

Table 7.6: Guidelines for designing a questionnaire

Dos	Don'ts
The questionnaire must look attractive and professional (language, editing, font, layout)	Questions contained in the questionnaire should not be too long
The questionnaire must begin with an introductory letter that will familiarise respondents with the study	Researchers should avoid the use of too many abbreviations or acronyms
The languages and instructions contained in the questionnaire should be concise and simple to understand and follow	Questions contained in the questionnaire should not be vague and unclear
The questionnaire should contain sufficient space for respondents to use	A single question should not contain double-barrelled questions (one question asking two or more questions)
The questions contained in the questionnaire should be short and relevant to the study	Researchers must not use questions to lead respondents to specific answers
The questions contained in the questionnaire should be simple and easy for respondents to understand	Questions structured in a Yes/No format have little value
Researchers should ensure that they are unbiased and neutral	Researchers must refrain from asking open-ended questions in a closed-ended questionnaire
Researchers should ensure that they start the questionnaire with general questions and lead up to the more specific ones	Researchers must restrict themselves from asking hypothetical questions
Personal and confidential questions should be asked at the end	
Researchers should ensure that the right questions are asked in order to ensure reliability	
The questionnaire should be pilot tested in order to ensure its validity	
Similar questions in the questionnaire should be grouped together in the same paragraph	
The questionnaire should follow a logical flow from one question to the next	
Researchers should ensure that responses are mutually exclusive and collectively exhaustive (this implies that categories of questions must not overlap)	
Researcher should kindly request that respondents read each question before answering them	
Ratio or interval styles should be considered by the researcher	
The questions in the questionnaire should be properly coded in order to ensure accuracy in the data analysis stage	
The confidentiality and anonymity of the respondents should be taken seriously	

Source: Adapted from Leedy and Ormrod (2013-196-197), National EMSC Data Analysis Resource Center (NEDRAC) (2016:1-3) and Pellissier (2007:72).

Sharma (2012:20) suggests that questionnaires can be categorised as structured and unstructured, and/or closed-ended or open-ended. Furthermore, a structured questionnaire (closed-ended questionnaire) contains a series of questions in a predetermined order and the ability of the respondent to answer is only limited to the alternative answers presented in the questionnaire. An unstructured questionnaire (open-ended) provides respondents with questions and the freedom to provide information or answers using their own words (Sharma, 2012:20).

Morrow, Mood, Disch and Kang (2015:182) indicate that the closed-ended questionnaire requires respondents to select answers from the alternatives listed in the questionnaire. In contrast, an open-ended questionnaire requires respondents to provide their own answers to the questions. Furthermore, Jonker and Pennink (2010:155) indicate that a closed-ended questionnaire is a measuring tool that contains a fixed set of questions of nominal, ordinal or interval scales. Furthermore, closed-ended questions contain fixed questions and choice answers on a Likert scale and do not permit resondents to provide their personal information using their own words. An open-ended questionnaire is the opposite of the closed-ended questionnaire. The open-ended questionnaire is a measuring tool with questions that grant employees the possibility of providing their own responses or answers (Jonker & Pennink, 2010:155).

A structured and closed-ended questionnaire was used in this study to solicit data from the respondents. It was advantageous to utilise the structured and closed-ended questionnaire because it was easy and quick for respondents to answer; the responses to coded questions were easily computed in the Statistica software package (version 12); and it allowed the analysis of data to be performed quickly (Ary, Jacobs, Sorensen & Walker, 2013:418). Bailey (2008:118-119) and Morrow *et al*. (2015:182) support that the advantages of the structured and closed-ended questionnaire include the following: questions are quick to answer and less ambiguous for the respondent; there is a high rate of return of the questionnaire; and it allows easy coding for computer analysis.

7.6.2 Measuring instrument scales

The items contained in the questionnaire were both self-developed and collected from well-known instruments that were developed by other researchers. The items collected from previously used scales were paraphrased to fit into the current study and to avoid plagiarism. Furthermore, a comprehensive expert review was used to evaluate the correctness of the questionnaire. In other words, the questionnaire was assessed by the research coordinators (expert judges) from the Department of Business Management at the Nelson Mandela Metropolitan University (NMMU). The process of expert review enabled the research coordinators to identify question errors and other potential measurement errors (Olson, 2010:296). In addition, the questionnaire was also edited by a language editor to avoid language errors.

The questionnaire, in this study, was used to gather primary data. The questionnaire was designed in two sections: Section A and Section B. A cover letter accompanied the questionnaire; this letter contained a brief introduction to the researcher and a brief explanation of the topic under investigation. Furthermore, the aim of the study and researcher’s commitment to confidentiality and anonymity were explained to respondents.

7.6.3 Section A scales

Section A of the questionnaire has ninety-three items on a 7-point Likert scale (1=strongly disagree, 2=disagree, 3=somewhat disagree, 4=undecided, 5=somewhat agree, 6=agree, 7=strongly agree). The items contained in Section A of the questionnaire measured the independent and dependent variables of the study. Section A of the questionnaire investigated respondents’ perceptions of the adoption of ESOPs, specifically in relation to shareholder consultation, government intervention, corporate governance of ESOPs, organisational performance and talent retention, as well as employee commitment. The variables and their attributes, as well as the sources from which the items were adapted will be discussed below. Table 7.7 shows a summary of the variables, the attributes of variables as well as the number of items testing each attribute contained in the questionnaire.

Table 7.7: The structure of the questionnaire: Number of items per variable

Variables	Attributes	Number of items
Independent variables		
Shareholder consultation	Trade union responsiveness	5
	Management reliability	5
Government intervention	Takeover	5
	Reform	5
Corporate governance of ESOPs	Compensation	5
	Trust	5
	Taxation implication	5
Mediating variable	**Components**	**N**
ESOP	Transparency	5
	Two-way communication	5
	Decision-making	5
	Empowerment	5
	Awareness	5
Dependent variables		**N**
Organisational performance	-	7
Employee retention	-	7
Employee commitment	-	7
Demographics	-	8

Source: Researcher's own construct.

7.6.3.1 Shareholder consultation

Shareholder consultation is an independent variable in this study. This study refers to stakeholder consultation as the establishment and maintenance of relationships, participation and communication between individuals, groups or independent parties that have vested interests in and power to influence the adoption of ESOPs. Shareholder consultation has two attributes: trade union responsiveness and management reliability. These variables were measured using five items on a 7-point Likert scale.

(a) **Trade union responsiveness** is an attribute of shareholder consultation. IN this study, trade union responsiveness refers to the ability of trade unions to maintain, represent, support and protect the rights and interests of members in respect of organisational issues. Trade union responsiveness also relates to the union's ability to provide members with answers and feedback to their questions, fears and suggestions. Trade union responsiveness was measured using five items linked to a 7-point Likert scale. The items used in measuring trade union responsiveness were adapted from Mazibuko and Boshoff (2003).

(b) **Management reliability** is an attribute of shareholder consultation. Management reliability refers to the trust and belief that employees have regarding the actions and decisions of management. Reliability also portrays management as being fair, honest, transparent and trustworthy in their dealings with employees. Furthermore, the effective communication of accurate information is an attribute of reliable management. Management was measured using five items linked to a 7-point Likert scale. The items used in measuring management reliability were adapted from Krot and Lewicka (2012:225-229) and Mazibuko and Boshoff (2003).

7.6.3.2 Government intervention

Government intervention is an independent variable, in this study, with two attributes: takeovers and reforms. This study refers to government intervention as the ability of government to interfere in the adoption and utilisation of ESOPs as a strategic means to promote shared capitalism, economic efficiency, growth, longevity and the prosperity of organisations and the economy.

(a) **Takeover** is an attribute of government intervention and it refers to the willingness of the government to promote ESOPs as a strategic means to encourage foreign investors to bring in ESOPs and block attempted takeovers amongst organisations. In other words, it is the ability of the government to enact laws that will allow ESOPs be utilised as an anti-takeover defence mechanism. The five items measuring takeovers were adapted from Seely (2015:15-29).

(b) **Reform** is an attribute of government intervention that refers to government’s creation of reforms on policies aimed at promoting shared capitalism. In addition, the adoption, implementation and attractiveness of ESOPs will be promoted through favourable reforms that are created by the federal government. Reform was measured using five items that were self-developed by the researcher, from the existent literature.

7.6.3.3 Corporate governance of ESOPs

Corporate governance is an independent variable in this study; it refers to rules, practices, systems and structures that direct, control, manage and monitor activities related to the adoption, implementation and operation of ESOPs. Corporate governance is made up of three attributes: compensation, trust and taxation implication. The three attributes of corporate governance is discussed below.

(a) **Compensation**, in this study, refers to the willingness of management to utilise ESOPs as a financial incentive to reward the performance of employees. Furthermore, compensation refers to management's ability to reward employees with free shares by means of ESOPs in order to provide them with financial security and savings during retirement. Compensation was measured using five items adapted from Al-Nsour (2012:88).

(b) **Trust** is a separate entity from an ESOP organisation. In this study, a trust refers to a financial entity responsible for holding and distributing share contributions made by the sponsoring organisation into employee participants' accounts. Organisations are required to set up a trust prior to the establishment of ESOPs. Trust was measured using five items that were self-developed, from the existent literature, by the researcher.

(c) **Taxation implication** is an attribute of the corporate governance of ESOPs. Taxation implication refers to the advantageous tax incentives provided to organisations and their employees upon the adoption of and participation in ESOPs. Taxation implication was measured using five items linked to a 7-point Likert scale. The items used in measuring taxation implication were adapted from Oberholzer and Stack (2014:20) and Revenue-Irish Tax & Customs (2013:47-51).

7.6.3.4 Adoption of ESOPs

The adoption of ESOPs is a mediating variable in this study. The components of ESOPs, in this study, refer to the attributes or mechanisms needed to be in place to ensure the success and effectiveness of ESOPs upon adoption. The adoption of ESOPs has five attributes: transparency, two-way communication, decision-making, empowerment and awareness. These attributes were all measured with five items linked to a 7-point Likert scale.

(a) **Transparency**, in this study, refers to the extent to which management is open, fair, honest, not secretive, accountable and provides relevant, timely and comprehensible information to employees and trade unions about the adoption of ESOPs. The items used in measuring transparency were adapted from Al-Mahayreh and Abedel-qader (2015:112-117), Schnackenberg (2010:44) and Rawlins (2008:9).

(b) **Two-way communication** is a component of ESOPs. Two-way communication, in this study, refers to a process by which management shares full and accurate information on the adoption of ESOPs to employees and, in return, employees interact with management through questions and feedbacks. Two-way communication involves interactions between the different parties responsible for contributing to and controlling the flow of events. More so, it is a process of communication that allows management and employees to create and share ESOP information with each other in order to reach an agreement. Two-way communication was measured using five items linked to a 7-point Likert scale. The items used in measuring of two-way communication were adapted from Hayase (2009:66-70).

(c) **Decision-making**, in this study, refers to the process by which management is willing to collaborate, share full information and engage employees in decision-making regarding the adoption of ESOPs. This implies that management is willing to share full information and push decision-making downwards to their subordinates. Decision-making was measured using five items linked to a 7-point Likert scale. The items used in measuring decision-making were adapted from Muindi (2011:22).

(d) **Empowerment** is a component of ESOPs. For the purpose of this study, empowerment refers to the ability of management to collaborate with employees by sharing decision-making authority and responsibility as well as encouraging a people-oriented leadership style. Empowerment was measured using five items adapted from Menon (2001:166) and Spreitzer (1995:1464).

(e) **Awareness**, in this study, refers employees' perceptions and knowledge of the existence and benefits of ESOPs. The awareness of ESOPs was measured using five items that the researcher developed from the existent literature.

7.6.3.5 Organisational performance

Organisational performance is a dependent variable in this study. This study considers organisational performance to refer to management's ability to adopt ESOPs in order to attain the objectives and goals of the organisation. Furthermore, organisational performance is the willingness of management to adopt ESOPs in order to attain a favourable position in the market, as well as to increase resourcefulness, long-term survival, productivity, profitability, innovation and attractiveness. Organisational performance was measured using seven items linked to a 7-point Likert scale. The items used in measuring organisational performance were adapted from Tshuma (2013:296) and Xingwana (2013:264).

7.6.3.6 Employee retention

Employee retention is a dependent variable in this study; in this respect, it refers to the ability of HRM to adopt and implement ESOPs geared towards retaining employees who contribute to the success of the organisation. Furthermore, employee retention is the ability of talented employees to make a commitment to remain employed or continue doing business with their organisation. Employee retention was measured using seven items on a 7-point Likert scale. The items used in measuring employee retention were adapted from Kyndt, Dochy, Michielsen and Moeyaert (2009:18).

7.6.2.7 Employee commitment

Employee commitment is a dependent variable in this study; it refers to the degree of devotion, attachment and loyalty employees feel towards their organisation. The degree of connection and the bond that employees have with their organisation allows them to understand the goals and objectives that need to be achieved in the organisation. Employee commitment was measured using seven items linked to a 7-point Likert scale. The items used in measuring employee commitment were adapted from Gathungu (2016:79) and Jaros (2007:23-25).

7.6.4 Section B scales

Section B of the measuring instrument solicited biographical information from the respondents. In addition, Section B contained eight items on varying scales. The items and scales contained in Section B will be outlined below, for the sake of clarity.

Gender was measured as a single item using a two-point scale:
Male = 1
Female = 2

Age was measured using a five-point scale, with the following range options:
20-29 = 1
30-39 = 2
40-49 = 3
50-59 = 4
60+ = 5

Level of education was measured using an eight-point scale:
No formal education = 1
Primary school = 2
Junior secondary school = 3

Secondary school = 4

Diploma = 5

Bachelor’s degree = 6

Postgraduate degree = 7

Other = 8

Organisational sector was measured using a five-point scale:

Manufacturing = 1

Retailing = 2

Wholesaling = 3

Services = 4

Other = 5

Level of employment was measured using a six-point scale:

General employee = 1

Supervisor = 2

Admin secretary = 3

Assistant manager = 4

Manager = 5

CEO/General Manager = 7

Length of current (tenure) employment was measured using a five-point scale:

1-5 years = 1

6-10 years= 2

11-15 years = 3

16-20 years = 4

21years+ = 5

Trade union was measured using a two-point scale:

Yes = 1

No = 2

Organisation listing in stock exchange market was measured using a two-point scale:

Yes = 1

No = 2

7.6.5 Level of measurement

The level of measurement, or scale of measure, is a fundamental aspect for consideration during the development of a measuring instrument. Prior to the collection of the primary data, researchers are required to understand how the data is to be measured (Maimon & Rokach, 2005:114-115). Furthermore, data takes different forms, ranging from discrete (quantitative data that assumes values that can be counted) to continuous (quantitative data with infinite numbers of possible values that can be measured). Data can also be qualitative (data placed in distinct categories) or quantitative (numeric data that can be ranked) (Maimon & Rokach, 2005:114-115). Therefore, in order to achieve precise, reliable and accurate measurements, researchers must critically consider the level of measurement as it determines the type of data to collect and the type of analysis that can be performed on the data (Adler & Clark, 2014:147; Smith, Gratz & Bousquet, 2008:8). Furthermore, Adler and Clark (2014:147), Salkind (2010:139) and Smith *et al*. (2008:8) maintain that data can be categorised or classified into four levels of measurement: nominal, ordinal, interval and ratio. The four levels of measurement are briefly discussed below.

Data measured in the nominal level of measurement are classified in unique numbers, labels, names or categories. The nominal measurement scale assigned to each variable has no meaning other than it being used as a label (Melnyk & Fineout-Overholt, 2011:233). Smith *et al*. (2008:8) affirm that the nominal level of measurement uses names or numbers as a way to label variables. A nominal level of measurement such as gender can be categorised as Male=1 and Female=2. The numbers assigned to each variable has no meaning attached to it other than it being used as a label. Furthermore, data categorised in the nominal level of measurement are considered to be qualitative in nature (Smith *et al*., 2008:8).

The ordinal level of measurement refers to the order of values. In other words, the characteristic of the variable that is to be measured is placed in order (Salkind, 2010:140). Furthermore, at the ordinal level of measurement, researchers can categorise data by applying numeric or alphabetic labelling; the data (attributes that characterise a person, object or event) are also placed in rank order (Fitzpatrick & Kazer, 2011:279; Smith *et al*., 2008:8). Furthermore, Kim and Mallory (2013:39) state that the ordinal level of measurement imposes a rank and order on categories and data are classified into mutually exclusive categories. This level of measurement is typically utilised to measure non-numeric concepts such as satisfaction, pain or discomfort. Pain, for example, can be categorised as 0=no pain and 10=severe pain, or satisfaction can be categorised as 1=very unsatisfied, 2=somewhat satisfied, 3=neutral, 4=somewhat satisfied, 5=very satisfied (Kim & Mallory, 2013:39).

Melnyk and Fineout-Overholt (2011:23) describe the interval level of measurement as one of the highest levels of measurement. The interval level of measurement describes a variable in which its attributes are rank ordered and the distance between the nearby attribute of the variable is equal (Babbie, 2007:150). In addition, Smith *et al*. (2008:8) support this notion by stating that at the interval level of measurement, researchers can apply labels to the variables and data can be placed in order of rank. Moreover, the distance between any two units is equal. Therefore, the interval level of measurement refers to a scale of measurement in which the levels or distance between the points in a scale have the same meaning.

Furthermore, Rubin (2012:24-25) explains that scales at the ordinal level of measurement are sometimes statistically treated by researchers as if they were at the interval level. In other words, scales (Likert scale) that question respondents on how strongly they agree or disagree with a statement relate more at the ordinal level. This is because researchers have no insight into the quantitative difference in degree of agreement between the responses on the scale. In addition, each response category is assigned a score (1=strongly disagree, 2=disagree, 3=somewhat disagree, 4=undecided, 5=somewhat agree, 6=agree, 7=strongly agree). The scores for the response to each statement are summed up and the aggregate score is treated statistically with procedures that assume interval data (Rubin, 2012:24-25).

The ratio level of measurement exhibits the characteristics of the nominal, ordinal and interval levels of measurement. This implies that data in the interval level of measurement can be placed in labels, data can be put into rank order and an equal distance exists between the points in scale (Adler & Clark, 2014:148; Smith *et al*., 2008:8). However, the unique characteristic of the ratio level of measurement is that categories on the measurement scale have an absolute zero point. Furthermore, Adler and Clark (2014:148) and Rosenthal (2011:10) specify that height, length, weight or income are examples of variables that can be categorised using the ratio level of measurement. These variables have an absolute zero point. A person, for example, who earns ₦40,000 or R40,000 per month makes twice as much as someone who earns ₦20,000 or R20,000 per month and four times more than someone who earns ₦10,000 or R10,000. Rosenthal (2011:10) states that counts are at the ratio level of measurement and the ratio level of measurement does not require that any category actually has the value 0.

The interval and nominal level of measurement were utilised to categorise data in this study. Section A of the measuring instrument (questionnaire) used in this study was categorised using the interval level measurement. Section A of the measuring instrument contained ninety-three items on a 7-point Likert scale ranging from (1=strongly disagree, 2=disagree, 3=somewhat disagree, 4=undecided, 5=somewhat agree, 6=agree, 7=strongly agree). Section B of the questionnaire in this study contained variables that were categorised using the nominal level of measurement. Variables such as gender, age, level of education, organisational sector, employment level, length of current employment, involvement in trade union and organisational listing on the stock exchange were categorised using the nominal level of measurement. The numbers and words assigned to variables in Section B of the questionnaire are for labelling purposes only.

7.6.6 Reliability and validity of the research instrument

The reliability and validity of a measuring instrument are fundamental concerns in the quantitative research method. Testing the reliability and validity of the measuring instrument is carried out by researchers to assess how reliable and valid the measuring instrument is (Klenke, 2008:37). Hyman and Sierra (2010:121) indicate that one of the major goals of research is to obtain the best results needed to answer the research questions. In a bid to achieve this, researchers require an appropriate measurement. Reliability and validity assures the appropriateness of a true measure.

Furthermore, Wood and Kerr (2010:198) maintain that researchers establish the reliability and validity of the measuring instrument in order to ensure the accuracy, consistency, stability, repeatability and genuineness of the measuring instrument. In addition, Wood and Kerr (2010:198) purport that the reliability and validity of the measurement of data will provide accurate answers to the research questions. The reliability and validity of the measuring instrument will be discussed in further detail, below.

7.6.6.1 Reliability of the measuring instrument

The reliability of the measuring instrument refers to the consistency of a true measure. In other words, a measuring instrument is said to be reliable when it consistently produces unchanged results when it is used to measure the same concept repeatedly (Bailey, 2008:83). Furthermore, Jackson (2014:83) affirms that the reliability of a measuring instrument is the stability and consistency of its measures. In addition, a measuring instrument is reliable when it produces similar measures anytime it is used. Moreover, the consistency of the measure implies that the measuring instrument produces similar scores or values when it is used over time (Jackson, 2014:83).

Hyman and Sierra (2010:121) support this notion by stating that reliability is the degree to which the measuring instrument produces the same results when it is utilised continuously. Furthermore, reliability is the degree to which the measuring instrument produces scores that are free from random errors, thereby yielding consistent results. Researchers can test the reliability of a measuring instrument by using several types of reliability approaches such as test-retest, inter-rater (inter-observer), equivalent-form (parallel-form) and internal consistency reliability (Bajpai, 2011:50; Klee & Moore, 2013:256; Vogt *et al.*, 2012:3; Weiner & Greene, 2011:50). For the purpose of this study, the method of reliability used to assess the measuring instrument is internal consistency reliability.

Klee and Moore (2013:256) purport that internal consistency reliability is used to measure the degree of inter-item correlation in a measuring instrument. Furthermore, Cronbach's alpha is used to check for the internal consistency of a number of items and the degree to which these items inter-correlate. According to Zeanah (2009:243), internal consistency reliability examines the degree to which single items on a scale reflect the same construct. In addition, Cronbach's alpha is used to assess the internal consistency of the scale. Rubin and Babbie (2009:83) support that internal consistency reliability assumes that the measuring instrument contains inter-correlated items with a score, and the scores of the items are summed up to produce an overall score. Furthermore, internal consistency reliability is the extent to which the scores among subsets of items correlate with each other (Rubin & Babbie, 2009:83). Therefore, internal consistency reliability is the degree to which inter-correlated items on a test measure the same construct. Internal consistency reliability is utilised to assess the reliability of the measuring instrument in this study. Furthermore, Cronbach's alpha of 0.6 and above is considered as an acceptable level of reliability in this study (Baggio & Klobas, 2011:71).

7.6.6.2 Validity of the measuring instrument

Validity is one of the most fundamental psychometric characteristics of a test. A measuring instrument can be reliable in providing consistent results, however, the results produced may not be true and valid. Validity is the extent to which the measuring instrument measures what it is intended to measure (Frick, Barry & Kamphaus, 2009:37). According to Rai (2012:91), researchers are required to establish the validity of the measuring instrument before it is utilised. In other words, researchers must ensure that the instrument must be tested to ensure that it measures what it is intended to measure.

Furthermore, Krishnaswamy *et al*. (2009:265) state that validity ensures that the measuring instrument is useful for providing accurate and precise measures. Furthermore, Franklin, Allison and Garmen (2014:47) support that validity is a scientific utility that ensures that the measuring instrument measures what it is supposed to measure. Therefore, validity refers to the credibility, authenticity or genuineness of the measuring instrument in providing results that reflect the underlying constructs of the study. In other words, validity is when the measuring instrument measures what it has been created to measure.

Researchers can utilise various forms of validity to examine the measuring instrument. According to Franklin *et al*. (2014:47), Krishnaswamy *et al*. (2009:265) and Rai (2012:91), there are various types of validity: face, content, construct, convergent, discriminant (divergent), predictive, and criterion-related. The types of validity utilised in this study are discussed below.

Face validity implies that the items on the measuring instrument measure the concepts they are meant to measure. In other words, the items are a replica of the concepts they are intended to measure (Krishnaswamy *et al*., 2009:265). According to Bailey (2008:69), face validity examines whether the researcher knows the definition of the concepts being measured; if the items created by the researcher are relevant to the concept; if the measuring instrument is measuring the kind of behaviour that the researcher wants; and if the instrument adequately samples the behaviour required by the researcher. Therefore, this study considers face validity to be the degree to which the items appear to measure the intended concepts.

Content validity is the extent to which the items on the measuring instrument adequately provide coverage of the topic under investigation (Krishnaswamy *et al*., 2009:265). Polit and Beck (2008:459) maintain that the content validity of a measuring instrument is based on the judgment of researchers (expert reviewers or judges). This implies that expert reviewers are asked to assess the measuring instrument to ensure that items are relevant and appropriate in terms of how it adequately measures its construct. Furthermore, content validity is the degree to which the measuring instrument adequately covers the content of the study (Polit & Beck, 2008:459).

Construct validity ensures that the measuring instrument adequately measures the construct that it is intended to measure. In other words, construct validity refers to the extent to which the items capture the true theoretical meaning of the concept used in the study (Bohlander & Snell, 2010:259). According to Frick *et al*. (2009:37), construct validity ensures that the items in the measuring instrument capture the operational definition of the construct and measure the hypothetical construct. Furthermore, Domino and Domino (2006:55) affirm that construct validity is the totality of information about a particular construct in a test. Furthermore, the information contained in the test concerns the hypothesised model of the study.

Convergent and discriminant validity are subcategories of construct validity. In other words, these are types of validity that establish the measures of construct validity (Cohen, Manion & Morrison, 2013:89). According to Cohen *et al*. (2013:89), convergent and discriminant validity are two sides of the same coin; this implies that they go hand in hand. Robins, Fraley and Krueger (2009:255) report that convergent validity is established when measures of constructs that, theoretically, should be related to each other show results that they are in fact related to each other. Discriminant validity is the opposite of convergent validity. Discriminant validity is established when measures of constructs that, theoretically, should not be related to each other show results that they are in fact not related to each other (Robins *et al.*, 2009:255).

Furthermore, Dmitrienko, Chuang-Stein and D'Agostino (2007:377) claim that convergent validity is the degree to which a scale under review is strongly related to another validated scale thought to measure the same construct. However, discriminant validity is established when there is lack of correlation between the scale under review and another validated scale thought to measure different constructs. According to Dmitrienko *et al*. (2007:377), Pearson's correlation coefficient is utilised to estimate the degree to which the measures are related to each other. In other words, correlation coefficient is used to quantify the convergent and discriminant validity. Furthermore, a correlation coefficient of 0.4 and higher is used as evidence for convergent validity while a correlation coefficient of 0.3 can be used as evidence for discriminant validity (Dmitrienko *et al*., 2007:377).

7.6.7 Pretesting the questionnaire

The measuring instrument (questionnaire) represents the only tool that can be used to gather primary data in a study. In order to gather relevant data and achieve quality in a survey, researchers should ensure that the questionnaire is pretested. In other words, pretesting the questionnaire is crucial for achieving quality in a study that utilises the questionnaire as its measuring instrument (DeMaio, Rothgeb & Hess, 2010:1). According to Johnson (2014:218), pretesting the measuring instrument refers to the empirical evaluation and preliminary testing of the questionnaire prior to conducting the main distribution of the questionnaire. Researchers pre-test the questionnaire by conducting a pilot study. The questionnaire is distributed to a smaller number of respondents in order to test for possible errors (Johnson, 2014:218). According to Burt *et al*. (2009:260), a pilot study or pre-test allows the researcher to test the data collection instrument in advance of and in preparation for the main data collection procedures.

Furthermore, Remenyi and Money (2012:85) postulate that conducting a pilot study is the final stage in the preparation of the measuring instrument for data collection. The pilot study enables researchers to detect if the proposed measuring instrument will be effective in gathering relevant data and if questions in the questionnaire are clear and free from errors. According to Remenyi and Money (2012:85), a pilot study enables researchers to test for substantive and methodological problems in the measuring instrument. Blessing and Chakrabarti (2009:114) affirm that a pilot study is crucial for the identification of potential problems that may impact negatively on the quality and validity of the results. Furthermore, the need to conduct a pilot study should be taken seriously by researchers. According to Blessing and Chakrabarti (2009:114), the aim of a pilot study is to ensure that the study results are effective and efficient. Furthermore, the importance of a good measuring instrument should not be underestimated.

McBurney and White (2009:236) describe a pilot study as a small-scale study performed in order to pre-test and make changes to the measuring instrument. A pilot study is important to increase the efficiency of the measuring instrument; gain familiarity with the respondents; access the adequacy of the data by adjusting the questionnaire; gain more access to information and understanding of the topic and minimise error in the instrument (Gibson, 2014:34; Ruxton & Colegave, 2011:17-20; Taylor, Kermode & Roberts, 2006:263). The pilot study was useful in the current study as it ensured the accuracy and effectiveness of the measuring instrument. The pilot study revealed deficiencies and common mistakes in the measurement instrument. In addition, a pilot study allows mistakes such as poor wording and misinterpretation of questions by respondents to be corrected and fixed (Burt *et al*., 2009:260).

Furthermore, for this study, twenty five structured and closed-ended questionnaires were empirically evaluated through a pilot study. In other words, the pilot study was a small scale study that involved twenty five respondents drawn from the study population. The pilot study addressed issues relating to language errors, irrelevant and unclear questions, and well as the improper design and structure of the questionnaire. Furthermore, the researcher, through the pilot study, gathered useful information regarding the employee perceptions, as required for the questionnaire development.

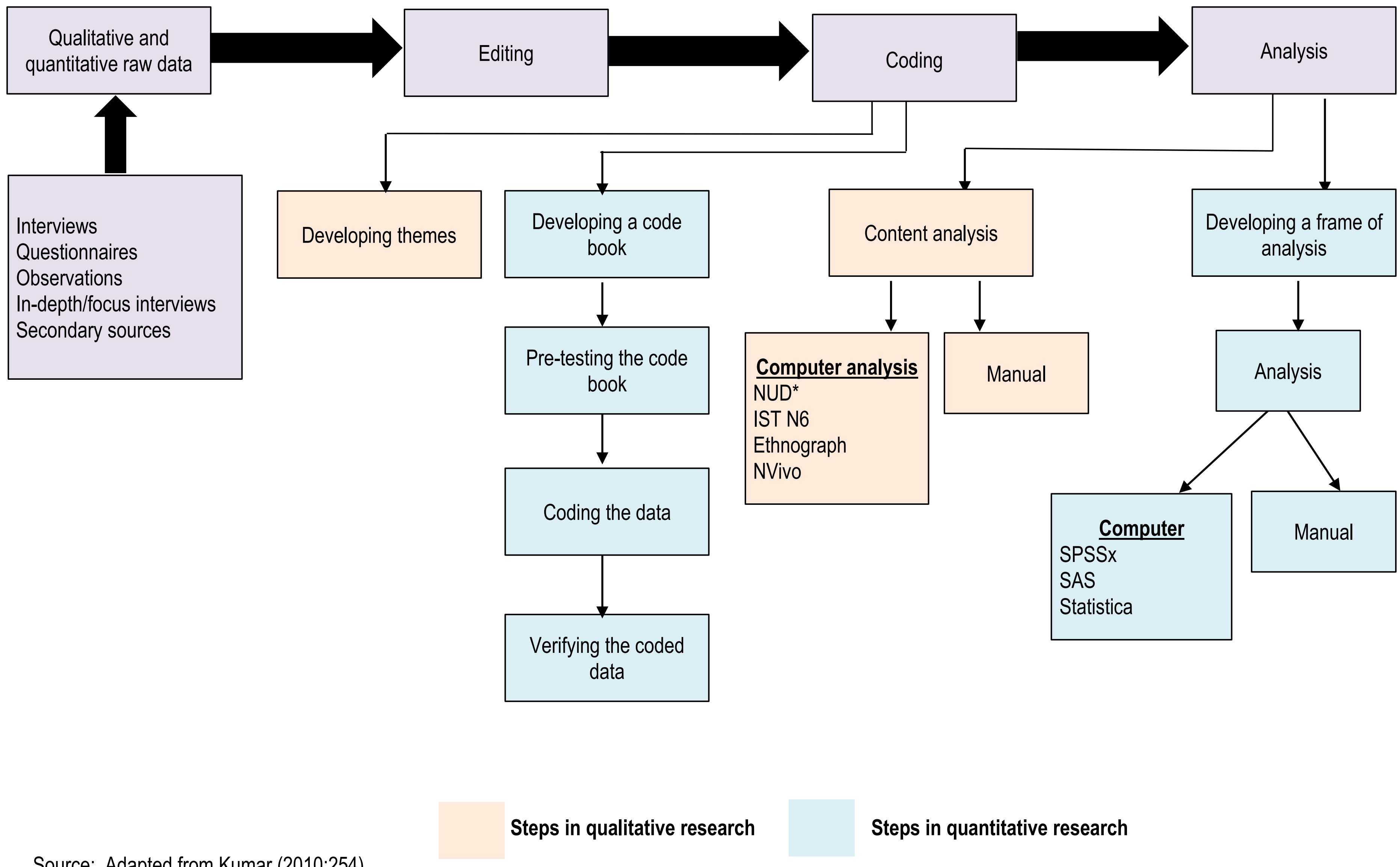
The twenty five respondents that partook in the pilot study lacked an understanding and awareness of ESOPs and needed clarity on the meaning and benefits of ESOPs. In order to resolve this problem, the researcher provided a short and comprehensive explanation of ESOPs in the introductory letter attached to the questionnaire. During the course of the pilot study, the researcher also educated respondents on the subject of the study, ESOPs. Furthermore, respondents in the pilot study expressed satisfaction with the study and encouraged widespread awareness and implementation of ESOPs. The twenty five respondents who partook in the pilot study perceived the research investigation as important in relation to the increased productivity and performance of organisations and economic prosperity, as well as the provision of income and retirement savings for employees.

7.7 DATA ANALYSIS

The data analysis stage involves a lot of analytical activities and requires great analytical skill from researchers. The data analysis process allows the researcher to transform the numerical data collected into meaningful information (Taylor & Cihon, 2004:1). According to Taylor and Cihon (2004:1), data are raw information (quantitative/numbers or qualitative/words) or assumed facts and figures that require some kind of analysis. In addition, researchers analyse data and interpret data in order to test a model or hypothesis, solve research problems and provide knowledge of the subject of interest.

Prior to the analysis of data, Kumar (2010:254) indicates that researchers are required to map out a strategy for analysing the primary data. In other words, researchers must subject their raw data to a number of procedures that constitute the core of data processing. The data processing cycle is a sequential stage of the analysis (input, processing and output) that involves how the raw data will be transformed into meaningful information (Correa, 2012:4). Siddiqui (2011:655) affirms that the data processing cycle incorporates the steps (data capturing-inputing-processing-generating information) required in processing data into meaningful and useful information needed for decision-making. Murthy and Bhojanna (2009:183) support this notion by stating that the primary data collected by researchers are to be processed. This implies that researchers must analyse and interpret data after collecting it. Furthermore, the purpose of processing and analysing data is to draw conclusions. According to Murthy and Bhojanna (2009:183), data processing involves preparing the raw data, editing, coding, tabulating and summarising the data as well as using statistical tools to analyse the data. Figure 7.4, illustrates the number of steps required to process qualitative and quantitative data.

Figure 7.4: Steps in data processing



Source: Adapted from Kumar (2010:254).

Bryman and Bell (2015:13) define data analysis as a stage in which researchers reduce large amounts of data into meaningful information. Furthermore, data analysis refers to a stage that involves several elements such as managing, coding and analysing data. Moreover, Jonker and Pennink (2010:142) support that the analysis of data is a systematic application of statistical techniques to reduce large data by summarising and reporting it in a mathematical way. In addition, the purpose of data analysis is to summarise data that will yield answers to the research questions. Mangal and Mangal (2013:159) state that researchers in quantitative studies analyse data by means of statistical procedures based on mathematical computation.

Bhattacharyya (2006:32) specifies that data analysis is a systematic approach that allows researchers to transform numerical data in order to test hypotheses and draw conclusions regarding the information gained from the analysed data. In other words, data analysis acts as a link between the data and the information needed to address the research questions (Taylor, Shinha & Ghosal, 2006:135). Therefore, data analysis refers to a stage of research that allows researchers to utilise statistical techniques to examine and summarise data for the singular aim of producing meaningful information to answer the research questions.

Hinkel (2011:192) claims that there are various methods of analysing data in a quantitative study. Researchers can analyse quantitative data by using descriptive analysis (frequencies, cross-tabs), exploratory analysis (correlation, regression and multiple-regression, discriminant function analysis & logistic regression, factor analysis/confirmatory factor analysis, structural equation modelling, canonical correlation analysis, implicational scaling and cluster analysis), quasi-experimental (*t*-test, *z*-statistic, chi-square, ANOVA, MANOVA and covariate versions of the above) and experimental analysis (*t*-test, *z*-statistic, chi-square, ANOVA, MANOVA and Covariate versions of the above) (Hinkel, 2011:192). According to Zikmund and Babin (2010:491), data can be analysed by means of descriptive, univariate, bivariate and multivariate analysis.

The primary data gathered in this study was processed and further subjected to statistical analysis. The primary data was analysed using the Statistica (version 12) software package. The primary data gathered was analysed in five stages: exploratory factor analysis, reliability of the measuring instrument, descriptive statistics (inferential statistics), multiple regression analysis, and correlation analysis (Pearson correlation). The five stages of the data analysis used to analyse the primary data are discussed below.

7.7.1 Exploratory factor analysis

The first stage of data analysis in this study is the Exploratory Factor Analysis (EFA). EFA is an advanced statistical technique that is widely utilised in various academic fields (psychology, education, management, marketing, sociology and public health) (Brown, 2015:10). Furthermore, as a statistical technique, EFA reduces variables and identifies the number of latent constructs and underlying factors of a large set of variables. Similarly, EFA allow researchers to identify the number of underlying factors responsible for the covariation of data (O'Rourke & Hatcher, 2013:43). In other words, performing EFA helps researchers determine the number and nature of constructs measured by the questionnaire.

Furthermore, Everitt and Hothorn (2011:135) indicate that EFA is a complex multivariate statistical method utilised by researchers to identify the underlying structure of a large set of variables. Furthermore, EFA is a method of analysis, within factor analysis, that aims to uncover or investigate the underlying relationships between measured variables. Leech, Barrett and Morgan (2005:88) support that EFA reduces data to a set of small and summarised variables; it also explores and identifies the structure of the relationship between the variables and the study respondents. According to Brown (2015:11), EFA is a psychometric evaluation of multiple items testing instrument. In other words, researchers utilising EFA examine how a single factor accounts for inter-correlations amongst indicators and they determine whether the items in the questionnaire are reasonable indicators of the underlying construct (EFA provides answers to how strongly each item is related to the factor). In addition, Brown (2015:11) explains that researchers utilise EFA as a psychometric evaluator for construct validation. This indicates that researchers obtain evidence of convergent and discriminant validity.

Rubin (2009:263) affirms that EFA examines the way in which items are inter-correlated with one another. Furthermore, EFA allows researchers to identify the number of factors present in the instrument and the commonality of items in each instrument. Kline (2014:10) supports that EFA is an ideal statistical technique that can be used by researchers when data are complex and when researchers are not sure about what the most important variables in the study are.

Munro (2005:324) indicates that the aim of EFA is to reduce a large set of data in order to easily use and describe it. Furthermore, EFA helps researchers to summarise a large set of data by grouping together variables that are correlated. According to Kline (2014:7), the fundamental purpose of EFA in a study is to discover or uncover the main constructs or dimensions of its variables. Factors that are constructs or dimensions explain the relationship between variables by their factor loadings. In addition, factor loadings assist researchers to interpret factors (Kline, 2014:10). Munro (2005:324) defines factors as those items that belong or stand together in a row.

In this regard, Rubin (2009:263) describes factor loading as the association between the variables and the factor. Factor loadings can also be regarded as regression coefficients. Furthermore, analysed variables in the EFA matrix have some loadings on every factor. Some variables may show high loadings on one factor over other factors (Rubin, 2009:263). Ostello and Osborne (2005:4-5) conclude that factor loadings in the EFA matrix are classified by the level of their magnitude. Researchers must take into consideration the criteria and statistical significance of factor loadings. According to Asthana and Bhushan (2016:206), Ostello and Osborne (2005:4-5) and Yong and Pearce (2013:81), the rule of thumb for factor loadings is: 0.30 is considered a minimum loading of an item, 0.40 is considered important and 0.50 and greater is considered a practical and significant loading.

7.7.2 Reliability of the measuring instrument

The second stage of analysis in this study was carried out by testing the reliability of the measuring instrument. Bajpai (2011:50) defines the reliability of the measuring instrument as the extent to which the measuring instrument produces similar results when used consistently under a similar or almost similar circumstances. According to Bajpai (2011:50), a reliable instrument gives researchers confidence about the results obtained from the use of the measuring instrument. Jackson (2014:83) supports this notion by stating that reliability is the consistency and stability of the measuring instrument. This implies that the measuring instrument must measure and produce the same results every time it is used or administered. According to Krishnaswamy *et al*. (2009:144), reliability is a criteria and fundamental statistical technique that assesses whether the measuring instrument can be accepted in the study. Furthermore, Krishnaswamy *et al*. (2009:144) describe reliability as stability, dependability, predictability and the extent to which the measuring instrument and results are free from errors.

Researchers can test the reliability of a measuring instrument by using three methods: test-retest, equivalent form and internal consistency reliability (Bajpai, 2011:50; Weiner & Greene, 2011:50). Internal consistency reliability was used to assess the reliability of the measuring instrument in this study. Zeanah (2009:243) suggests that internal consistency reliability assesses how well individual items on the measuring instrument measure the same construct. According Weiner and Greene (2011:50), internal consistency reliability investigates the similarity amongst items in a measuring instrument. Furthermore, Cronbach's alpha coefficient is used by researchers to report the internal consistency reliability of a measuring instrument for a psychometric test.

Furthermore, Westner (2009:224) reports that Cronbach's alpha coefficient ranges between 0 and 1 in providing the general assessment in measuring reliability. Zeanah (2009:243) claims that a Cronbach's alpha of 0.70 and greater is considered adequate reliability; 0.60 and 0.70 is considered to have marginal reliability and 0.60 and below is considered unacceptable. Baggio and Klobas (2011:71) support this notion by stating that the rule of thumb for an acceptable level of reliability is a Cronbach's alpha of 0.6 and above.

Hair, Black, Babin, Anderson and Tatham (2006:12) affirm that a satisfactory and sufficient value of Cronbach's alpha is 0.6 and greater. However, Johnson and Christensen (2013:170) argue that the size of Cronbach's alpha considered by a researcher will depend on the context and other factors considered in the study. A Cronbach's alpha of 0.6 and above will be considered acceptable in this study. In other words, a Cronbach's alpha of 0.6 is used as a cut-off point in assessing the internal consistency reliability of the measuring instrument used in this study.

7.7.3 Descriptive statistics

The researcher's knowledge and understanding of descriptive statistics is essential in conducting research. This is because researchers are required to interpret results and discuss findings presented in frequency counts and distributions, proportions, percentages, ratios, rates and measures of central tendency and variability (Blaikie, 2003:52; Rubin, 2012:15). Boslaugh (2012:83) postulates that descriptive statistics is a statistical and graphical technique that presents summarised information about a large set of data. In other words, the aim of descriptive statistics is to provide a concise description of the basic features of a data set in a study.

Furthermore, Nestor and Schutt (2014:20) report that descriptive statistics is a statistical technique that describes, shows and summarises data in a meaningful way. Nestor and Schutt (2014:23) further advise researchers to note that the analysis of data and presentation of results using descriptive statistics does not permit conclusions to be drawn on hypotheses and/or the generalisation of results to the larger population. Rather, descriptive statistics only focuses on summarising and describing the data in the study. According to Landy and Conte (2010:68), descriptive statistics organises, describes and summarises a large set of data numerically and graphically. Burt *et al*. (2009:4) support this notion by stating that descriptive statistics focus on organising and summarising data. Furthermore, the principal aim of descriptive analysis is to replace a large set of measured variables and minimise the effect of information loss.

Therefore, descriptive statistics is a statistical technique that summarises and describes data presented in tables, charts, percentages, counts, and measures of central tendency and dispersion. The following section will provide an explanation of the methods of descriptive statistics considered in this study.

7.7.3.1 Frequency, counts, distributions and percentages

Frequency, counts, distributions and percentages are forms of descriptive statistics that summarise large sets of data that appear in categorical format (Blaikie, 2003:52). Furthermore, frequency, counts, distributions and percentages summarise data collected in nominal and ordinal as well as whole numbers (discrete data), and continuous data. This study presents descriptive results by summarising data represented in nominal categories or scales. In other words, Section B (demographic profile of respondents) of the questionnaire was analysed using descriptive statistics and the results were presented in frequency, counts, distributions and percentages.

7.7.3.2 Measures of central tendency

Measures of central tendency provide numerical information for the data set and on the values that frequently occurs, value in mid-point and average values (Black, 2009:47). Furthermore, Joint Commission Resources (JCR) (2008:37) support this notion by stating that measures of central tendency provide summary measures that basically describe values as mode, median and mean. According to Landy and Conte (2010:98) and Nestor and Schutt (2014:23), measures of central tendency are summarised and described in three forms: mode, median and mean. Mode refers to the most commonly and frequently occurring value in a distribution or particular variable. Median refers to the middle value in a distribution or variable when all values are presented numerically in ascending or descending order (ranked from highest to lowest or lowest to highest). Mean refers to the sum of all values divided by the total number of values. The mean is referred to as an arithmetic average and it is used in statistical analysis as a standard reference point (Black, 2009:47; Landy & Conte, 2010:98; Nestor & Schutt, 2014:23).

7.7.3.3 Measures of variability (dispersion)

JCR (2008:37) purports that measures of central tendency alone are not sufficient to describe a population. Measures of variability are also essential and critical in describing the population. McBurney and White (2009:396) affirm that besides utilising and knowing the measures of central tendency (typical scores of variables), researchers may want to understand how much the data vary (measures of variability). Measures of variability provide a description of the amount of variability or spread of scores in a set of data (Lunenburg & Irby, 2007:64; McBurney & White, 2009:396; Sidhu, 2006:42). In other words, measures of variability refer to the extent to which scores in a distribution vary and are spread out.

According to Lunenburg and Irby (2007:64), McBurney and White (2009:396), Sidhu (2006:42) and Lind, Marchal and Wathen (2012:75-80), measures of variability include the following:

- **Range** is the simplest measure of variability and to calculate. Range is the score derived from the difference between the highest and lowest value.

- **Variance** is a measure of variability that provides an explanation of how close the scores in the distribution are to the middle of the distribution. Variance is the arithmetic mean of the squared deviation of the mean.

- **Standard deviation** as a measure of variability is the square root of the variance. The standard deviation is an essential measure when the distribution is normal or approximately normal.

Furthermore, Kumar (2010:131) claims that the purpose of the measure of variability is to provide judgement on the reliability of the average; to provide a comparison of two series with regard to disparities (a higher extent of variability implies a lack of consistency of the data and a variation of a smaller degree means greater consistency); and to control variability (determining the nature and cause of variation in order to control the variation itself). In addition, Kumar (2010:132) indicates that the essential requirements for measures of variability include that it should be capable of subjection to further statistical treatment; it should be least influenced by fluctuations of sampling; and it should be based on all observations.

7.7.4 Multiple regression analysis

Regression analysis is one of the most commonly utilised statistical techniques in all fields of academic study (Yan & Su, 2009:4). Regression analysis is a statistical technique that discovers and estimates the relationship between variables (Sen & Srivastava, 2012:4). In other words, the aim of regression analysis is to discover how the independent variables (predictor or regressor variables) influence the dependent variable (response or criterion variable). According to Yan and Su (2009:4), the purpose of regression analysis is to establish a causal relationship amongst variables.

The fourth stage of data analysis is the multiple regression analysis. Multiple regression analysis is a popular form of regression analysis. Multiple regression analysis is an advanced statistical analysis that predicts the unknown value of the dependent variable from the known value of two or more independent variables (Baran & Jones, 2016:159). According to Salkind (2013:324), multiple regression analysis is used by researchers in the social and behavioural sciences to determine how more than one variable (independent) can predict another. Furthermore, Aron, Aron and Coups (2008:95) affirm that multiple regression analysis is a statistical procedure that, when computed, predicts scores on a dependent variable from scores on two or more independent variables.

Cohen, Cohen, West and Aiken (2013:1) specify that in a quantitative study, multiple regression analysis is used when a dependent variable (denoted as Y) is to be studied as a function of, or in relationship to, the independent variables (denoted as X). Therefore, multiple regression analysis is a statistical technique that describes the relationship or how well the independent variable explains the dependent variable. Furthermore, multiple regression analysis produces results that are often difficult for novice researchers to understand and interpret. The following section will provide a concise explanation of how to understand and interpret the results of a multiple regression matrix.

The results from the multiple regression analysis provide values of multiple correlation coefficient (r), coefficient of determination (r^2), Beta coefficient (β), p-value, t-value and standard error. In order to understand the results of the multiple regression analysis, the meaning of the concept in a regression analysis matrix will be explained below.

7.7.4.1 Multiple correlation coefficient (r)

The r refers to the multiple correlation coefficients. The r is a measure of the quality of how well (strength) the dependent variable is predicted by the independent variables used in a linear function (O'Rourke, Hatcher & Stepanski, 2005:381). This implies that r represents the strength of the relationship between the dependent variable and a combination of two or more independent variables. Aggarwal and Khurana (2009:3) support this notion by stating that r measures the combined influence of two or more independent variables on a single dependent variable.

According to Aggarwal and Khurana (2009:3) and O'Rourke *et al*. (2005:381), r lies between 0 and 1.00, and it can never appear as a negative (it only assumes positive values). The values that are close to 0 implies weak relationship between dependent and independent values, values near 1.00 indicate strong relationships and a value of 1 indicates a perfect or complete prediction of independent values.

7.7.4.2 Coefficient of determination (r^2)

The r^2 refers to the coefficient of determination or coefficient for multiple determination. The r^2 is calculated by squaring the correlation of coefficient (r). The r^2 measures the percentage of the dependent variable's variation that is explained by its relationship to two or more independent variables (Jackson, 2009:243). In other words, r^2 explains the proportion of variability in the dependent variable that is caused or explained by its relationship with two or more independent variables. Keller (2015:135) affirms that r^2 measures the percentage of variation in the dependent variable that is explained by its relationship with the independent variables.

The values of r^2 range between 0 to 1 (0 to 100%). A value close to 0 implies that the independent variable explains none of the variability of the dependent variable, a value close to 1 implies that the independent variable explains the variability of the dependent variable. A value of 1 implies that the independent variable completely explains the variance of the dependent variable, a value that is 0 implies that the independent variable is not useful in predicting the dependent variable (Kinney & Raiborn, 2010:717; Keller, 2015:135). Cohen (1988), in Gravetter and Wallnau (2012:264), postulates that the criteria for interpreting the value of r^2 is as follow: r^2 = 0.01 (small effect), r^2 = 0.09 (medium effect) and r^2 = 0.25 (large effect).

7.7.4.3 P-value

Statistically, the p-value is used for testing hypotheses ($p<0.000$; this refers to the level of significance and it can assume values of $p<0.05$, 0.01, 0.001). According to Jackson (2009:107), the p-value means that the researcher is confident that there is a small probability that the results were due to chance. Furthermore, Ramachandran and Tsokos (2014:333) affirm that the p-value (attained significance level) is the lowest level of significance at which the researcher may reject the null hypothesis.

According to Mendenhall, Beaver and Beaver (2011:333), if the p-value is less than or equal to a pre-assigned level of significance, then the null hypothesis is rejected. Further, if the p-value is less than or equal to a pre-assigned level of significance, then the alternate hypothesis is accepted. Albright and Winston (2014:542) indicate that when the p-value is high, researchers must eliminate this variable but when the p-value is low, researchers must keep this variable in the equation.

7.7.4.4 T-value

The t-value is also used in testing hypotheses (two-tailed test on hypothesis). Quirk (2013:72) postulates that the t-value tells researchers whether or not they have found a significant result in the statistical test. Schwager (1995:297) affirms that the t-value establishes significance at a probability level. Furthermore, the t-value is the coefficient of Beta divided by its standard error. Albright and Winston (2014:542) report that researchers conduct a t-test to decide whether a particular independent variable belongs in a regression equation. In order to conduct this test, researchers must check if the corresponding Beta coefficient (variable coefficient) is zero. A variable coefficient that is zero must not be included in the test because the zero cancels its effect on the dependent variable (Albright & Winston, 2014:542). Furthermore, t-values can either be positive or negative. The higher the value of t (either positive or negative value), the greater the evidence against the null hypothesis that the result obtained is not significant. Conversely, the greater the t-value, the greater the evidence for the alternate hypothesis that the result obtained is significant (Albright & Winston, 2014:542).

7.7.4.5 Standard error

Standard error in regression analysis is also referred to as the standard error of estimate or the root-mean-square error. The standard error is estimated as the standard deviation of the coefficient of Beta (β) (Wooldridge, 2008:58). The standard error of estimate is a measure of the level of precision or accuracy made from the regression equation (Albright, Winston & Zappe, 2010:550). In other words, the standard error of estimate assesses the precision of predictions. According to Albright *et al*. (2010:550), the smaller the value of standard error the more accurate predictions tend to be.

7.7.4.6 Coefficient of Beta (β)

The Beta coefficient measures how strongly each independent variable influences or is associated with the dependent variable. In other words, the Beta measures the relative importance of the dependent variable against all independent variables (Wang & Jain, 2003:64). The Beta coefficient reports how many standard deviations of the dependent variable would change as a result of the change of one standard deviation of the independent variable (Baum, 2006:81). In addition, the Beta coefficient can either be positive or negative. A positive Beta coefficient indicates a positive relationship between the independent and dependent variable. While a negative Beta coefficient implies a negative relationship between the independent and dependent variable. Furthermore, Baum (2006:81) reports that the higher the value of the Beta coefficient, the greater the strength of the effect of the independent variable on the dependent variable. Therefore, the size or magnitude of the Beta coefficient for each independent variable explains the size or magnitude of the effect that each independent variable has on the dependent variable.

7.7.5 Correlation analysis

The final stage of data analysis is the correlation analysis (Pearson correlation). Correlation and regression share similarities in that they deal with the relationship between variables. Regression analysis predicts the relationship between two variables by estimating the variability of a variable's value of another (McNabb, 2015:194). Furthermore, McNabb (2015:194) indicates that correlation analysis focuses on investigating and measuring the strength of the association between variables.

According to Monsen and Van Horn (2007:391), correlation analysis uses its coefficient (depicted as r) to measure the strength of the linear relationship between two variables. In addition, Madrigal (2012:193) purports that correlation analysis is a popular statistical technique that determines whether two variables co-vary. There are several procedures for conducting correlation analysis: Pearson product-moment correlation, Kendall rank and Spearman correlation (Martella, Nelson, Morgan & Marchand-Martella, 2013:220). This study employed the use of Pearson product-moment correlation to analyse the data.

Pearson correlation measures the degree of the linear association between variables (Parasuraman, Grewal & Krishnan, 2006:441). Furthermore, Parasuraman *et al*. (2006:441) describe Pearson correlation as a more refined measure than any other type of correlation analysis. Furthermore, the Pearson correlation coefficient plays a fundamental role in advanced multivariate analysis procedures. In addition, Katz (2006:69) affirms that Pearson correlation measures the strength of the association between variables. Furthermore, the correlation coefficient is based on the assumption that the relationship between the two variables is linear.

Pearson's correlation coefficient (r) ranges between -1.0 and +1.0. The correlation coefficient measures the strength and direction of the linear relationship between the independent and dependent variables (McNabb, 2015:194; Mirkin, 2011:69). The following interpretation of Pearson’s correlation coefficient can be utilised to understand the strength and directions of the linear relationship between two variables. A correlation coefficient of -1 implies perfect negative linear relationship; -0.70 implies strong negative linear relationship; -0.50 implies moderate negative linear relationship; -0.30 implies weak negative linear relationship; 0 implies no linear relationship; +0.30 implies weak positive linear relationship; +0.50 implies moderate positive linear relationship; +0.70 implies strong positive linear relationship; and +1 implies perfect positive linear relationship (Rumsey, 2010:117).

Furthermore, McNabb (2015:194) and Mirkin (2011:69) suggest that the plus and minus sign of the correlation coefficient depicts a positive association or negative association. In other words, a negative association means a positive relationship (Y increases as X increases) and a negative correlation coefficient implies a negative relationship (X increases as Y decreases) (Monsen & Van Horn, 2007:391). Furthermore, Monsen and Van Horn (2007:391) report that the correlation coefficient indicates whether the dependent variable is associated with the independent variable. However, the correlation coefficient does not provide any quantitative information to describe the linear relationship and it does not describe the amount of change in the dependent variable that occurs for each unit of change in the independent variable.

7.8 SUMMARY

This chapter provided a comprehensive series of discussions on the design and methodology of this study, by highlighting the specific methods and designs used to conduct the research. The paradigm of the research refers to a basic assumption or framework, set of beliefs and values that guide the researcher’s actions in a study. This study highlighted three types of paradigms, namely, qualitative, quantitative and mixed methods research. The quantitative research method was adapted by the researcher to conduct this study. The use of quantitative research allowed the researcher to conduct primary and secondary research. Firstly, the researcher conducted secondary research to gather past and current information (secondary sources) about the topic of discourse. Secondly, the primary research focused on developing a measuring instrument to gather data needed to answer the research questions and achieve the research objectives.

Furthermore, the sampling process was discussed in this chapter, with an outline of the various stages in the sampling process being provided for clarity. This chapter provided information regarding the study population, sampling frame, sampling procedures and sample size of the study. The chapter also provided information on the research instrument utilised to gather the primary data. Specifically, a questionnaire was utilised as the measuring instrument for gathering primary data in this study. The closed-ended and structured questionnaire used in this study has two sections, Section A and Section B. Furthermore, this chapter provided a discussion on the level of measurement that shows how the data in the measuring instrument were classified. This study utilised nominal and interval levels of measurement to categorise data in the measuring instrument. The reliability and validity of the measuring instrument were highlighted and discussed herein. The reliability and validity of the measuring instrument ensured that the results produced from the measures are reliable, true and free from random errors.

This chapter further provided a comprehensive discussion of the five methods by which data will be analysed in this study. These five methods are: exploratory factor analysis, reliability of the measuring instrument (Cronbach's alpha), descriptive statistics, regression analysis and correlation analysis (Pearson's correlation). The following chapter will present the empirical findings of the study, from the analysed data. In other words, Chapter Eight will present and discuss the results gained from the analysis of the primary data.

CHAPTER EIGHT

EMPIRICAL EVALUATION AND RESULTS OF THE ADOPTION OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

8.1 INTRODUCTION

The previous chapters of this study provided comprehensive information from the literature review and prior research regarding the topic of discourse. In light of this, a detailed discussion of the hypothesised model developed for this study was provided. The previous chapter provided a literature review and findings that support the hypotheses formulated for the study. The previous chapter highlighted and extensively discussed the research design and methods, as well as measuring instrument and the methods by which the primary data was gathered and analysed, in this study.

This chapter provides a detailed discussion of the empirical evaluation and results from the primary data gathered and analysed specifically for this study. The research hypotheses and objectives of the study are presented herein, in order to gain an understanding of the evaluation and analysis of data in this chapter. In addition, this chapter provides concise information related to the statistical techniques utilised in the analysis of data in this study. The results from various analyses – validity, reliability, descriptive, multiple regression and correlation – is discussed accordingly.

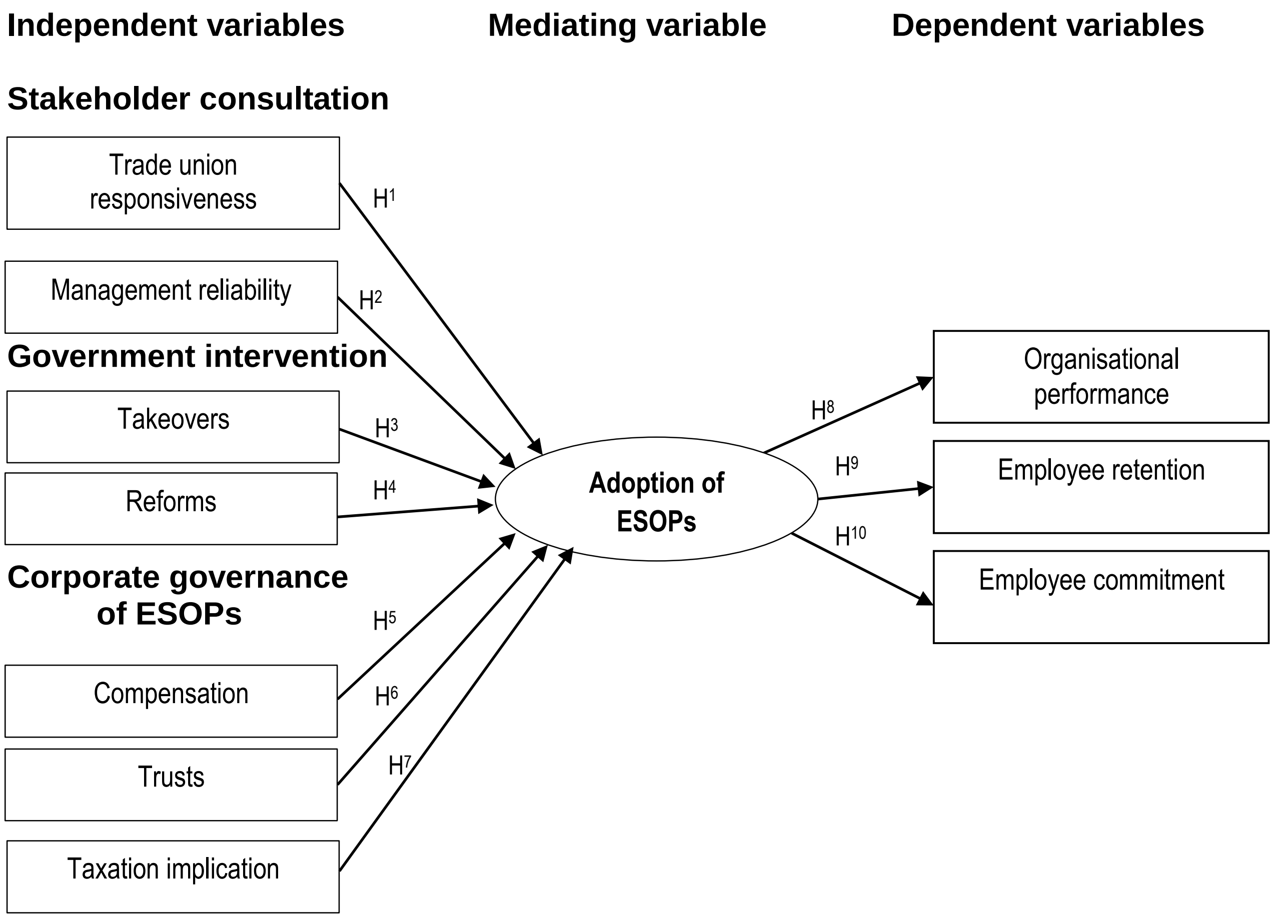
8.2 PRESENTATION OF THE RESEARCH HYPOTHESES AND OBJECTIVES OF THE STUDY

The research hypotheses formulated for this study were assumptions and/or conditional statements taken to be true. The research hypotheses were utilised to draw conclusions regarding the proposed assumptions; they were subjected to various empirical investigations and tests. The research hypotheses for this study provided direction for the accomplishment of the research objectives. The main objective of this study is to investigate the factors influencing the adoption of employee share ownership plans (ESOPs) in Nigeria. In addition, this study intends to investigate whether the adoption of ESOPs will yield the following outcomes: organisational performance, employee retention and employee commitment.

Therefore, in achieving the objectives of the study, the alternate hypotheses were formulated following the theoretical model developed for this study.

Figure 8.1 illustrates the hypothesised model developed for this study. The hypothesised model explains the variables investigated in this study.

Figure 8.1: Hypothesised model of the influences and outcomes of the adoption of ESOPs



Source: Researcher's own construct.

The following hypotheses were identified on the basis of the hypothesised model on the influence and outcomes of the adoption of ESOPs.

H[1]: There is a relationship between trade union responsiveness and the adoption of ESOPs.

H^2: There is a relationship between management reliability and the adoption of ESOPs.

H^3: There is a relationship between takeovers and the adoption of ESOPs.

H^4: There is a relationship between reforms and the adoption of ESOPs.

H^5: There is a relationship between compensation and the adoption of ESOPs.

H^6: There is a relationship between the role of the trusts as a governing body and the adoption of ESOPs.

H^7: There is a relationship between taxation implication and the adoption of ESOPs.

H^8: There is a relationship between the adoption of ESOPs and organisational performance.

H^9: There is a relationship between the adoption of ESOPs and employee retention.

H^{10}: There is a relationship between the adoption of ESOPs and employee commitment.

8.3 DATA ANALYSIS RESULTS

The primary data gathered in this study was coded using Microsoft Excel and was statistically analysed using the Statistica Software (version 12) package. This study analysed its primary data in five steps: calculation of Cronbach's alpha, explanatory factor analysis, descriptive statistics, multiple regression analysis and correlation analysis. The five types of analysis as well as the empirical results from the analysis will be presented accordingly.

Step one: The first step of data analysis was to test the reliability of the measuring instrument. This aimed at ensuring that the measuring instrument was effective consistent in producing similar results when utilised repeatedly. This step of the analysis assessed the reliability of the measuring instrument using the internal consistency reliability. The Cronbach's alpha values was computed and the value considered appropriate for this study was 0.7 and above.

Step two: The second step of data analysis was the exploratory factor analysis (EFA). EFA is a statistical method that allowed the researcher to test the validity of the measuring instrument (questionnaire). Furthermore, EFA reduced the primary data to a smaller set of summarised variables and it uncovered underlying relationships between the variables measured in this study.

Step three: The third step of data analysis was descriptive statistics. Descriptive statistics is a statistical technique that aims to reduce a large set of data in a summarised and meaningful way. The descriptive statistics summarised and described data presented in measures of central tendency (mean and standard deviation). The biographical information of the respondents will be presented in percentages, counts and frequencies as depicted in Table 8.6.

Step four: The fourth stage of analysis was the multiple regression analysis. Multiple regression analysis is a statistical technique that assesses and describes the relationship between the independent and dependent variables. The empirical results from the multiple regression analysis showed how well the independent variables explain or predict the dependent variables in this study.

Step five: The fifth stage of analysis was the correlation analysis. The correlation analysis (Pearson correlation coefficient) was aimed at investigating and measuring the strength of the association between variables in this study.

Furthermore, this study used abbreviations to label the variables utilised in this study. The abbreviations were formed by combining some words from the name of a particular variable. Therefore, abbreviations of each variable are only utilised for identification and labelling purposes. Table 8.1 provides a summary of the abbreviations of all the variables and attributes in this study.

Table 8.1: Abbreviations of variables

Independent variables	**Attributes**	**Abbreviations**
Shareholder consultation	Trade union responsiveness Management reliability	TUR MR
Government Intervention	Takeovers Reforms	TKO REF
Corporate Governance of ESOPs	Compensation Trusts Taxation	COMP TRU TAX
Mediating variable	**Components**	**Abbreviation**
Employee share ownership plans (ESOPs)	Transparency Two-way communication Decision-making Empowerment Awareness of Ownership	ESOPT ESOPC ESOPD ESOPE ESOPA
Dependent variables	**Abbreviations**	
Organisational performance	OP	
Employee retention	ER	
Employee commitment	EC	

Source: Researcher's own construct.

8.3.1 Reliability of the measuring instrument

Brink, Van Der Walt and Rensburg (2006:118) describe reliability as the extent to which a measuring instrument is consistent, stable and provides results that are similar when utilised repeatedly. Reliability was fundamental to this study as it increased the quality and confidence of the measuring instrument and empirical results produced from its measures. In other words, reliability was essential for reducing bias and distortion of the measuring instrument.

The reliability of a measuring instrument can be assessed in several ways, namely, test-retest, inter-rater (inter-observer), equivalent-form (parallel-form) and internal consistency reliability (Bajpai, 2011:50). This study utilised internal consistency reliability to assess the reliability of the measuring instrument. Internal consistency reliability was used to measure the degree of inter-item correlation in the measuring instrument (Klee & Moore, 2013:256). In addition, Cronbach's alpha was used to check for the internal consistency of the number of items and the degree to which these items inter-correlate.

Furthermore, Cronbach's alpha coefficients assume values ranging between zero and one. The values of Cronbach's alpha are utilised to provide a general assessment of the reliability of the measuring instrument. This study considered a Cronbach's alpha coefficient of 0.7 and above as an acceptable level of reliability (Baggio & Klobas, 2011:71). The results in Table 8.2, below, indicate Cronbach alpha values between 0.7 and 0.8. This indicates that all instruments have a fair degree of reliability of 0.7 and above (Zeanah, 2009:243).

Table 8.2: Cronbach's alpha values of measuring instruments: Theoretical model

Measuring instrument	Initial value	Final value
Trade union responsiveness (TUR)	0.80	0.80
Management reliability (MR)	0.77	0.77
Takeovers (TKO)	0.72	0.76
Reforms (REF)	0.84	0.84
Compensation (COMP)	0.84	0.84
Trusts (TRU)	0.73	0.73
Taxation (TAX)	0.79	0.79
Employee share ownership plans (ESOPs)	0.80	0.80
Organisational performance (OP)	0.84	0.84
Employee retention (ER)	0.83	0.83
Employee commitment (EC)	0.74	0.74

Source: Researcher's own construct.

In conclusion, the study retains TUR, MR, TKO, REF, COMP, TRU, TAX, ESOPs, OP, ER and EC, since their Cronbach's alpha values were above the cut-off point.

8.3.2 Validity of the measuring instrument

Validity is crucial to reduce measuring distortion and to ensure the correctness of a measuring instrument. Validity provides proof that the measuring instrument provides results that are true and valid. According to Franklin *et al*. (2014:47), validity provides an indication that the measuring instrument produces findings or results that truly represent the phenomenon being measured. This study assessed the validity of the measuring instrument using face, content, construct, convergent and discriminant validity.

Face validity is the degree to which the items on the measuring instrument appear to capture the construct they are intended to measure (Hilsenroth, Segal & Hersen, 2004:8). Furthermore, face validity is the extent to which the items on the measuring instrument capture the meaning of the construct being measured. This study ensured that all the items in the measuring instrument are a reflection of the constructs that they are intended to measure.

Content validity refers to the extent to which the measuring instrument captures all aspects or the entire scope of the construct that is being measured (Polit & Beck, 2010:378). In other words, content validity ensures that the measuring instrument captures full content and represents every construct that is measured. In order to ensure adequate content validity, the measuring instrument was thoroughly assessed by the research coordinators from the Department of Business Management in Nelson Mandela Metropolitan University.

Construct validity was also used to examine the accuracy and correctness of the measuring instrument in this study. Construct validity refers to the degree to which the measuring instrument captures and reflects the theoretical definition of the construct measured (Goodwin, 2009:132). Therefore, construct validity is achieved when the measuring instrument reflects a link between the operational definition of constructs and the theoretical construct itself.

Discriminant and convergent validity are components of construct validity. In other words, discriminant and convergent validity are procedures utilised to establish construct validity. Goodwin (2009:132) states that discriminant validity is established when the scores of a test measuring some construct are not related to scores on other tests, which are theoretically related to the measured construct. Convergent validity is the opposite of discriminant validity. Convergent validity is achieved when scores of a test measuring some constructs are in fact related to scores on other tests theoretically related to the measured construct (Goodwin, 2009:132).

Furthermore, Krishnan and Ramasamy (2011:1) report that factor analysis is utilised as a procedure to establish the construct and content validity of the measuring instrument. This indicates that factor analysis is a rigorous method of analysis by which construct and content validity is investigated, where relationships amongst variables are not known (Krishnan & Ramasamy, 2011:1).

Everitt and Hothorn (2011:135) specify that EFA is a complex multivariate statistical technique used to identify the underlying structure of a large set of variables. Furthermore, Brown (2015:11) clarifies that EFA is utilised by researchers as a psychometric evaluator to test measuring instruments that contain multiple items. This implies that researchers utilise EFA to uncover the underlying relationships between variables. EFA determines how a single factor accounts for inter-correlations among items and it examines how strongly each item is related to the factor (Brown, 2015:11).

Furthermore, Kline (2014:10) indicates that factors are dimensions that explain the relationship between variables by their factor loadings. In addition, factor loadings assist researchers to interpret factors. According to Munro (2005:324), factors are referred to as those items standing together in a row of an EFA matrix. In addition, factor loadings can also be called regression coefficients. Rubin (2009:263) explains that the EFA matrix contains factor loadings or regression coefficients for every factor in a row. Furthermore, factor loadings may assume values that are higher than the other.

Suen and Ary (2014:186) purport that factor loadings assume values from +1.00 to -1.00. Therefore, researchers must understand and take into consideration the cut-off point of factor loadings that are statistically significant to the study. Furthermore, Asthana and Bhushan (2016:206) and Ostello and Osborne (2005:4-5) explain that 0.30 is considered a minimum loading of an item, 0.40 is considered important and 0.50 and greater is considered to be a practical and significant loading in an EFA matrix. Therefore, the rule of thumb for factor loadings in this study is 0.4 and above.

Table 8.3 illustrates the factor loadings of employees' perceptions of the influence on the adoption of ESOPs.

(a) Perception of employees regarding stakeholder consultation: Trade union responsiveness and management reliability

Table 8.3 provides a summary of the factor loadings for trade union responsiveness as an attribute of shareholder consultation. The factor loadings in Table 8.3 show that employees perceived trade union responsiveness as a one dimensional variable. This implies that all six items (TUR1, TUR2, TUR3, TUR4, TUR5, TUR6) that were intended to measure trade union responsiveness as well as one item (MR1) that was intended to measure 'management reliability' loaded together onto factor one (1). Therefore, employees viewed the seven items as a single construct: 'trade union responsiveness'. The five items (MR2, MR3, MR4, MR5, MR6) that were expected to measure 'management reliability' were deleted from Table 8.3 as they did not load to a significant value of >0.4.

(b) Perception of employees regarding government intervention: Takeovers and reforms

Table 8.3 shows that five (TKO1, TKO2, TKO3, TKO4, TKO5) of the six items that were intended to measure takeovers loaded together onto factor two (2). This indicates that employees perceived of takeovers as a one dimensional construct: 'takeovers'. However, one item (TKO6) that was expected to measure 'takeovers' and six items (REF1, REF2, REF3, REF4, REF5, REF6) that were intended to measure 'reforms' loaded together in factor three (3). Therefore, the seven items were perceived by employees as a single construct measuring 'reforms'.

(c) Perception of employees regarding components of ESOPs: Transparency, two-way communication, decision-making, empowerment and awareness of ownership

Table 8.3 indicates that five (ESOPT1, ESOPT2, ESOPT3, ESOPT4, ESOPT5) of the six items that were intended to measure 'transparency' loaded together onto factor four (4). This implies that employees viewed transparency related to the adoption of ESOPs as a one dimensional construct. Furthermore, one (ESOPT6) of the six items that were expected to measure transparency cross loaded and was deleted. In addition, 'transparency' as a component of 'adoption of ESOPs' is modified and referred to as 'Transparency related to ESOPs' (1).

Table 8.3 further indicates that respondents viewed 'two-way communication' as a single construct. This indicates that all six items (ESOPC1, ESOPC2, ESOPC3, ESOPC4, ESOPC5, ESOPC6) that were intended to measure two-way communication loaded together onto factor five (5). Two-way communication was perceived by respondents as a necessary component for the successful adoption of ESOPs. 'Two-way communication' is referred to as 'Two-way communication related to ESOPs' (2). The six items (ESOPD1, ESOPD2, ESOPD3, ESOPD4, ESOPD5, ESOPD6) that were intended to measure the decision-making process did not demonstrate sufficient validity and did not load to a significant extent ($p < 0.4$). These items were deleted and further excluded for use in this study.

Table 8.3 shows that six items (ESOPE1, ESOPE2, ESOPE3, ESOPE4, ESOPE5, ESOPE6) of 'empowerment' and one item (ESOPA1) that was expected to measure 'awareness of ownership' loaded together onto factor six (6). These items were viewed as a single construct by respondents: 'empowerment'. Employees further perceived empowerment as a component of the adoption of ESOPs. Therefore, 'empowerment' as a component of the 'adoption of ESOPs' is referred to as 'Empowerment related to ESOPs' (3). Furthermore, one (ESOPA2) of the six items of awareness of ownership did not load to a significant extent of >0.4, and was deleted.

(d) Perception of employees regarding corporate governance of ESOPs: Compensation, trust and taxation implication.

Table 8.3 reveals that four (ESOPA3, ESOPA4, ESOPA5, ESOPA6) of the six items that were intended to measure 'awareness of ownership' and six items (Comp1, Comp2, Comp3, Comp4, Comp5, Comp6) of 'compensation' loaded together onto factor seven (7). These items that loaded together onto factor seven (7) were perceived as a one dimensional construct by employees; it is termed 'Awareness of employee benefits'.

Furthermore, Table 8.3 shows that three (TRU4, TRU5, TRU6) of the six items that were intended to measure Trusts loaded together onto factor eight (8). The three items measuring Trusts were viewed by employees as a one dimensional construct. However, three (TRU1, TRU2, TRU3) of the six items of Trusts were deleted and not included in the EFA matrix because they lacked validity. These items did not load to a significant extent ($p < 0.4$). Table 8.3 indicates that five (TAX2, TAX3, TAX4, TAX5, TAX6) of the six items that were intended to measure taxation loaded together onto factor nine (9). These items measuring taxation were perceived by employees as a one dimensional construct. However, one (TAX1) of the six items expected to measure taxation cross loaded and was deleted.

Table 8.3: Factor loadings of employees' perceptions regarding the influence on the adoption of ESOPs

Items	Factor 1 Trade union responsiveness (TUR)	Factor 2 Takeovers (TKO)	Factor 3 Reforms (REF)	Factor 4 Transparency (ESOPT)	Factor 5 Two-way communication (ESOPC)	Factor 6 Empowerment (ESOPE)	Factor 7 Awareness of employee benefits (AOEB)	Factor 8 Trusts (TRU)	Factor 9 Taxation (TAX)
TUR1	**0.669216**	0.069984	0.176059	0.091054	0.084550	0.126118	0.198381	0.000303	0.134954
TUR2	**0.684164**	0.138954	0.103714	0.119069	0.073259	0.160666	0.168875	0.053156	0.119479
TUR3	**0.715392**	0.058362	0.170787	0.067405	0.067402	0.128037	0.139468	0.069743	0.122849
TUR4	**0.563917**	0.181062	0.032844	0.217432	0.031004	0.116819	0.086794	0.206882	0.000660
TUR5	**0.618782**	0.117011	0.185003	-0.043761	0.189622	0.081263	0.099466	0.073739	0.109577
TUR6	**0.527635**	0.250945	0.064401	0.068923	0.090581	0.098025	0.106597	0.086247	0.070409
MR1	**0.407325**	0.225390	-0.015988	0.122236	0.161945	0.150898	0.087096	0.025922	0.166611
TKO1	0.175610	**0.560211**	0.070230	0.091736	0.123214	0.084524	0.149775	0.126247	0.056699
TKO2	0.169108	**0.653345**	0.083900	0.202680	0.119138	0.086152	0.162735	0.179353	0.059827
TKO3	0.187040	**0.675401**	0.163545	0.116788	0.057435	0.116614	0.135688	0.135062	0.110639
TKO4	0.085751	**0.670457**	0.194087	-0.011619	0.086673	0.126825	0.069807	0.114471	0.129084
TKO5	0.069178	**0.620375**	0.124047	-0.007938	0.054666	0.107442	0.091515	-0.054283	0.115237
TKO6	0.218429	0.119611	**0.521692**	0.018698	0.144050	0.151148	0.043265	0.209031	0.172518
REF1	0.206193	0.079940	**0.644366**	0.096487	0.138387	0.168581	0.083891	0.179980	0.111311
REF2	0.197636	0.102399	**0.603391**	0.188697	0.091992	0.183351	0.134263	0.132309	0.095354
REF3	0.152968	0.145341	**0.641859**	0.142594	0.161758	0.123057	0.111791	0.172289	0.086378
REF4	0.091237	0.124592	**0.665459**	0.150350	0.106436	0.138881	0.199882	0.053434	0.123923
REF5	0.039605	0.103383	**0.628990**	0.175386	0.084574	0.100571	0.203436	0.019168	0.071964
REF6	0.047709	0.113166	**0.635575**	0.231031	0.131716	0.054251	0.219508	-0.001561	0.071289
ESOPT1	0.088969	0.097060	0.284051	**0.495000**	0.196651	0.091146	0.191976	0.027026	0.050053
ESOPT2	0.071667	0.141262	0.219410	**0.692137**	0.123932	0.121092	0.184699	0.030071	0.073544
ESOPT3	0.109876	0.138719	0.195784	**0.628616**	0.121615	0.126811	0.159871	0.152358	0.088372
ESOPT4	0.146653	0.034215	0.190399	**0.595984**	0.191995	0.145548	0.122950	0.045902	0.212218
ESOPT5	0.102728	0.017055	0.143104	**0.554748**	0.306192	0.124915	0.101114	0.121021	0.188268
ESOPT6	0.116005	-0.075164	0.144995	**0.399786**	**0.439161**	0.090091	0.118909	0.141062	0.088621
ESOPC1	0.066766	0.003469	0.133803	0.071546	**0.682845**	0.084881	0.128577	0.121815	0.085363
ESOPC2	0.124418	0.044328	0.138490	0.179086	**0.665591**	0.110126	0.114738	0.091459	0.082193

Items	Factor 1 Trade union responsiveness (TUR)	Factor 2 Takeovers (TKO)	Factor 3 Reforms (REF)	Factor 4 Transparency (ESOPT)	Factor 5 Two-way communication (ESOPC)	Factor 6 Empowerment (ESOPE)	Factor 7 Awareness of employee benefits (AOEB)	Factor 8 Trusts (TRU)	Factor 9 Taxation (TAX)
ESOPC3	0.153260	0.077720	0.174382	0.071688	**0.715210**	0.060782	0.162680	0.085927	0.089690
ESOPC4	0.052007	0.157510	0.041222	0.242297	**0.577648**	0.123762	0.106461	0.002145	0.039114
ESOPC5	0.045200	0.201324	0.118045	0.152920	**0.567308**	0.122401	0.160382	0.081950	0.094623
ESOPC6	0.021702	0.248331	0.083889	0.164594	**0.499346**	0.141239	0.152870	-0.035709	0.154581
ESOPE1	0.180638	0.094983	0.104845	0.106201	0.056207	**0.587555**	0.149975	0.068844	0.098810
ESOPE2	0.120357	0.148834	0.088478	0.200793	-0.039485	**0.719115**	0.089449	0.064870	0.042018
ESOPE3	0.194804	0.164536	0.150772	0.091838	0.129371	**0.620160**	0.236696	0.006286	0.042865
ESOPE4	0.103681	0.057260	0.123892	0.125289	0.125088	**0.695698**	0.142385	0.133627	0.037522
ESOPE5	0.110979	0.020135	0.145616	0.042567	0.143526	**0.649166**	0.191441	0.119917	0.118748
ESOPE6	0.070110	0.060869	0.188576	0.021287	0.165818	**0.550712**	0.177913	0.125951	0.181761
ESOPA1	0.029508	0.082642	0.109987	-0.087650	0.245955	**0.510219**	0.122556	0.065619	0.118504
ESOPA3	0.113389	0.155597	0.245788	-0.049563	0.233467	0.202919	**0.435000**	0.141988	0.207345
ESOPA4	0.235846	0.091144	0.276411	-0.028133	0.249848	0.154276	**0.485717**	0.138479	0.133192
ESOPA5	0.152289	0.140285	0.211251	-0.017209	0.200421	0.170159	**0.507983**	0.165640	0.184803
ESOPA6	0.096169	0.164715	0.218182	-0.017747	0.173706	0.124812	**0.538309**	0.219626	0.115688
Comp1	0.157725	0.150561	0.099210	0.137139	0.155495	0.168902	**0.624985**	0.103465	0.101264
Comp2	0.103611	0.075285	0.109313	0.152220	0.106804	0.182582	**0.674523**	0.118317	0.067929
Comp3	0.217242	0.054339	0.147614	0.185516	0.088666	0.123542	**0.651436**	0.091550	0.167575
Comp4	0.081212	0.020118	0.077628	0.227934	0.001767	0.155375	**0.617358**	0.158667	0.109903
Comp5	0.086064	0.149028	0.141997	0.121463	0.131044	0.122838	**0.613038**	0.052950	0.201615
Comp6	0.117778	0.106940	0.143457	0.129242	0.167713	0.112712	**0.578467**	0.043139	0.176273
TRU4	0.018268	0.173767	0.042180	0.062683	0.130232	0.116514	0.183689	**0.691275**	0.045201
TR5	0.101454	0.127859	0.139338	0.060505	0.076455	0.113069	0.112428	**0.781306**	0.061534
TRU6	0.077234	0.022442	0.153528	0.075448	0.062884	0.084620	0.146422	**0.675487**	0.234227
TAX1	0.191329	-0.016118	0.178007	0.168730	0.081405	0.059238	0.120899	**0.392039**	**0.451420**
TAX2	0.146438	0.047225	0.114171	0.190185	0.065766	0.067644	0.194469	0.285664	**0.593964**
TAX3	0.109838	0.077878	0.046848	0.181839	0.005416	0.008938	0.135869	0.225593	**0.620175**
TAX4	0.106276	0.161342	0.104249	0.091605	0.112313	0.110686	0.219067	0.013901	**0.701072**
TAX5	0.103571	0.078479	0.117952	0.040066	0.100558	0.117676	0.102952	0.035843	**0.697140**
TAX6	0.077614	0.104953	0.121355	0.003160	0.154444	0.094925	0.130092	0.011811	**0.625171**
Expl.Var	**3.403894**	**2.817123**	**3.819682**	**2.795423**	**3.465953**	**3.487468**	**4.364667**	**2.444739**	**3.067329**
Prp.Totl	**0.059717**	**0.049423**	**0.067012**	**0.049043**	**0.060806**	**0.061184**	**0.076573**	**0.042890**	**0.053813**

Loadings are significant at >.400000

Table 8.4 provides a summary of the factor loadings of employee perceptions of the outcomes (organisational performance, employee retention and employee commitment) of the adoption of ESOPs.

(e) Perception of employees regarding the outcomes of the adoption of ESOPs

Table 8.4 reveals that the seven items (OP1, OP2, OP3, OP4, OP5, OP6, OP7) that were intended to measure 'organisational performance' loaded together onto factor one (1). This implies that employees perceived organisational performance as a one dimensional construct. Furthermore, Table 8.4 shows that the seven items (ER1, ER2, ER3, ER4, ER5, ER6, ER7) intended to measure 'employee retention' and three (EC1, EC2, EC3) of the seven items intended to measure 'employee commitment' loaded together onto factor two (2). The ten items that loaded together onto factor two (2) were viewed as a single construct and still termed 'employee retention'. Table 8.4 further indicates that four (EC4, EC5, EC6, EC7) of the seven items intended to measure 'employee commitment' loaded together onto factor three (3). Employees viewed the four items of 'employee commitment' that loaded together onto factor three (3) as a single construct.

Table 8.4: Factor loadings of employee perceptions regarding the outcome of the adoption of ESOPs

Items	Factor 1 Organisational performance (OP)	Factor 2 Employee retention (ER)	Factor 3 Employee commitment (EC)
OP1	**0.518192**	0.275232	0.203878
OP2	**0.634703**	0.219983	0.158064
OP3	**0.640171**	0.176971	0.233874
OP4	**0.769290**	0.139182	0.067502
OP5	**0.703817**	0.192378	0.133788
OP6	**0.693720**	0.194165	0.153167
OP7	**0.628426**	0.258003	0.163711
ER1	0.324041	**0.486001**	0.161009
ER2	0.344222	**0.574134**	0.219802
ER3	0.300756	**0.565291**	0.227030
ER4	0.063341	**0.601753**	0.141607
ER5	0.143771	**0.719089**	0.160489
ER6	0.154873	**0.639441**	0.179715
ER7	0.167659	**0.683294**	0.144932
EC1	0.253661	**0.638786**	0.043486
EC2	0.324272	**0.578363**	0.019473
EC3	0.290595	**0.549654**	0.081450
EC4	0.264919	0.217131	**0.631681**
EC5	0.258093	0.160730	**0.735978**
EC6	0.131716	0.144975	**0.794276**
EC7	-0.047500	0.000549	**0.673446**
Expl.Var	**3.845586**	**4.095129**	**2.452850**
Prp.Totl	**0.183123**	**0.195006**	**0.116802**

Loadings are significant at >.400000

(f) Cronbach's alpha values of latent variables in the theoretical model

Exploratory factor analysis (EFA) resulted to the deletion of variable, management reliability (MR). Table 8.5 provides a summary of the Cronbach's alpha of the latent variables based on the exploratory factor analysis. Table 8.5 reveals the variables and items that were retained as a result of the comprehensive exploratory factor analysis (CEFA). The CEFA caused a convergence of items belonging to awareness of ownership and compensation. Due to the convergence, the latent variable was termed awareness of employee benefits (AOEB).

Furthermore, Table 8.5 presents an acceptable level of Cronbach's alpha values (> 0.7) for each variable. This indicates that the measuring instrument (questionnaire) developed for this study demonstrated sufficient and acceptable validity and reliability. Due to the acceptable level of validity and reliability, this study retains TUR, TKO, REF, ESOP-1, ESOP-2, ESOP-3, AOEB, TRU, TAX, OP, ER and EC. The variables retained in this study are therefore subjected to regression and correlation analysis.

Table 8.5: Cronbach's alpha values of final empirical factor structure

Latent variables	Items	Cronbach's alpha
Trade union responsiveness (TUR)	TUR 1-6; MR 1	0.81
Takeovers (TKO)	TKO 1-5	0.77
Reforms (REF)	REF 1-6; TKO 6	0.85
Transparency (ESOP-1)	ESOPT1-5	0.79
Two-way communication (ESOP-2)	ESOPC 1-6	0.81
Empowerment (ESOP-3)	ESOPE 1-6; ESOPA 1	0.82
Awareness of employee benefits (AOEB)	COMP 1-6; ESOPA 3-6	0.88
Trusts (TRU)	TRU 4-6	0.74
Taxation implication (TAX)	TAX 2-6	0.79
Organisational performance (OP)	OP 1-7	0.84
Employee retention (ER)	ER 1-7; EC 1-3	0.86
Employee commitment (EC)	EC 4-7	0.72

Source: Researcher's own construct.

Furthermore, the changes that occurred as a result of the exploratory factor analysis (EFA) resulted in the reformulation of the hypotheses so as to enable the adaption of the theoretical model of the study. Figure 8.2(a), Figure 8.2(b) and Figure 8.2(c) illustrate the adapted model of the relationship between variables based on employee perceptions of the influence and outcomes of the adoption of ESOPs.

Figure 8.2(a): The adapted model of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to transparency

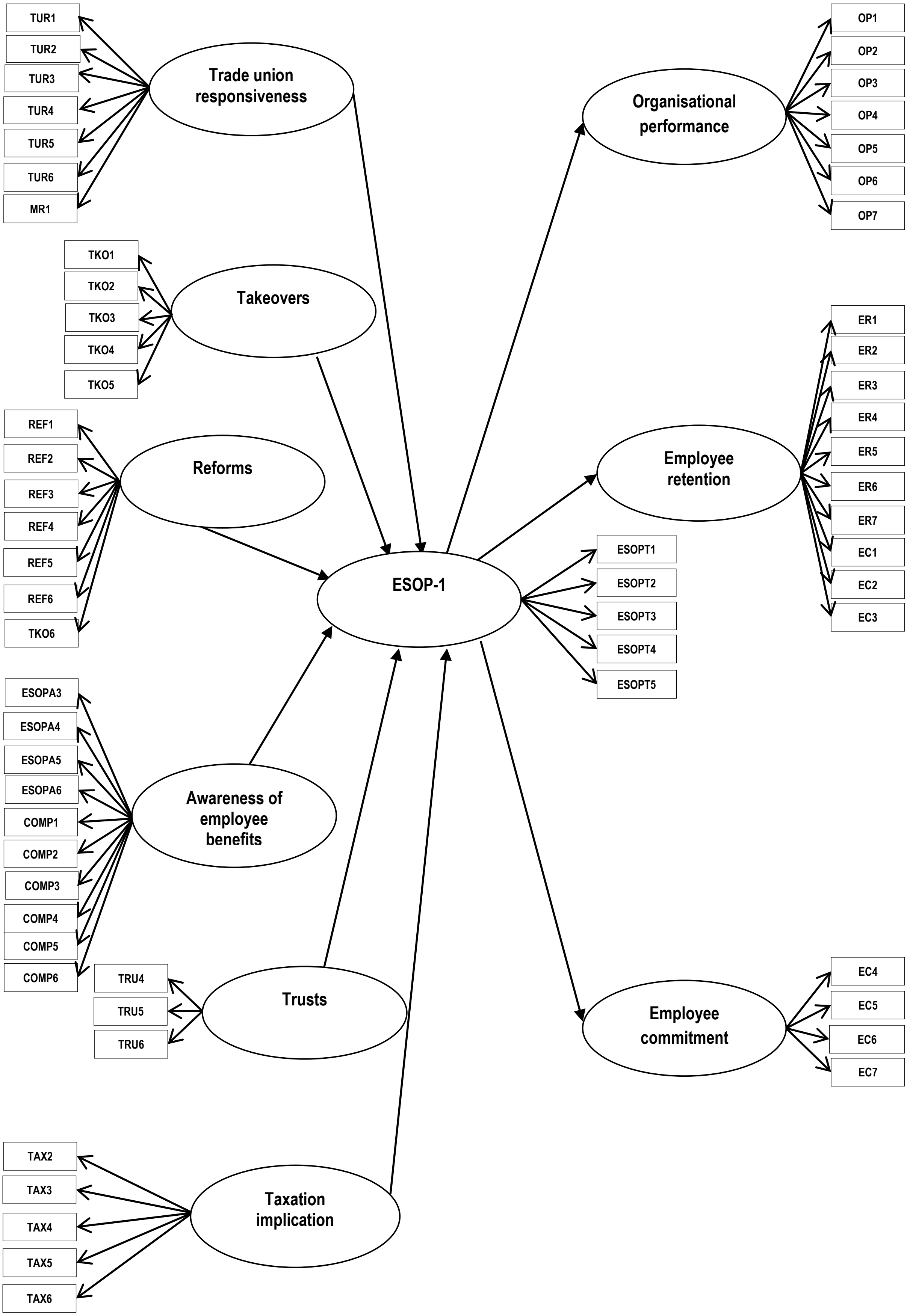


Figure 8.2(b): The adapted model of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to two-way communication

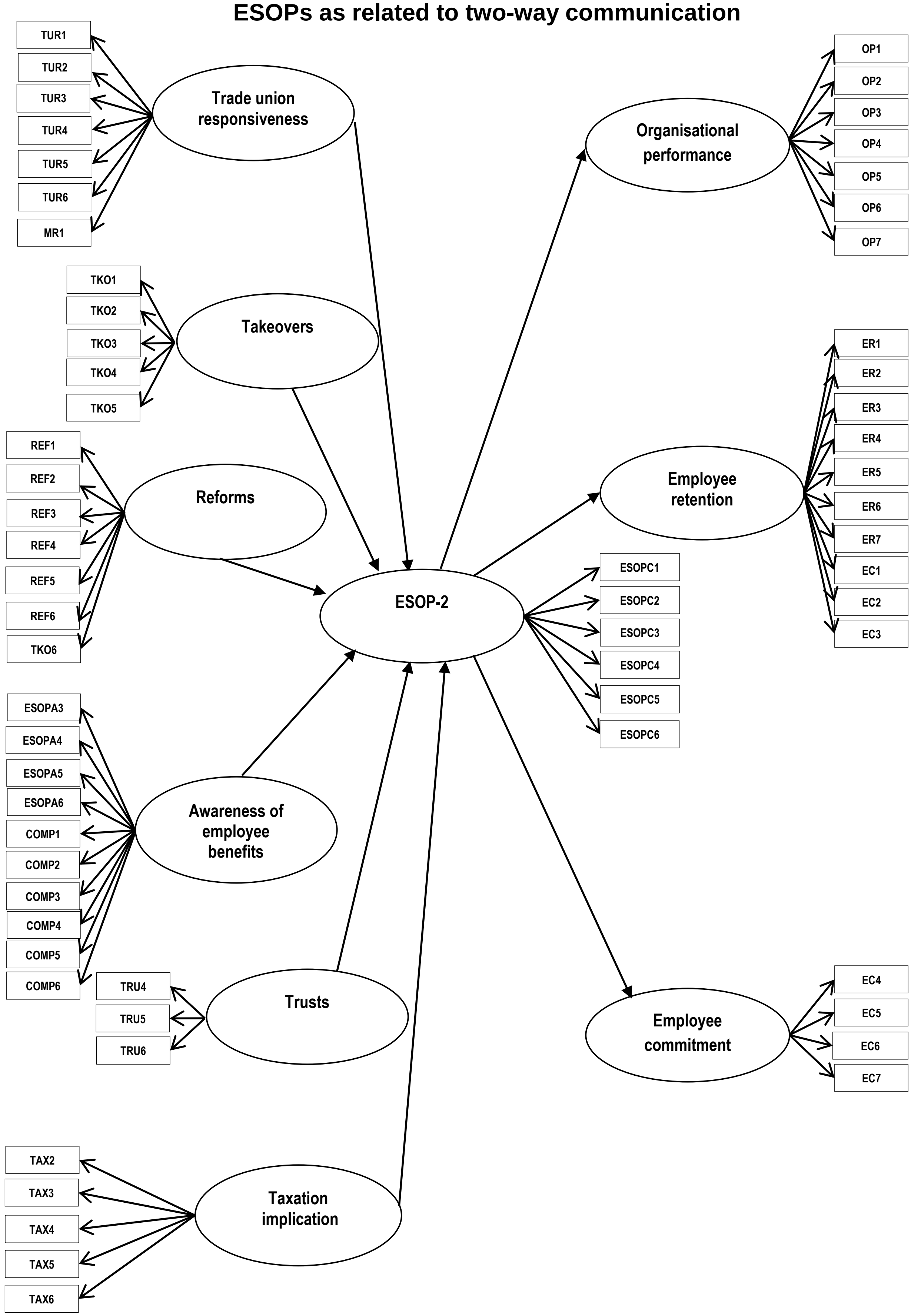


Figure 8.2(c): The adapted model of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to empowerment

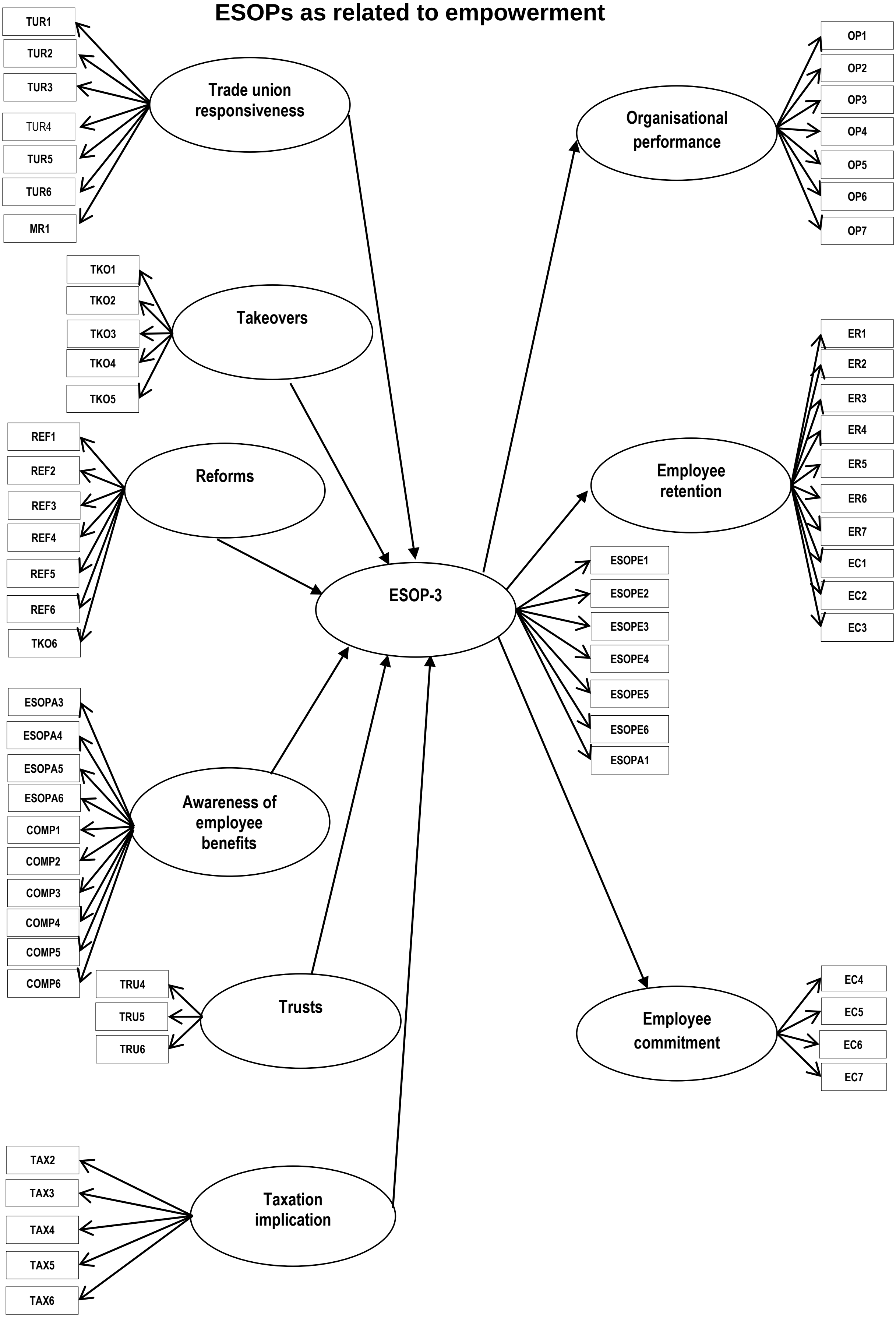


Figure 8.2(a), Figure 8.2(b) and Figure 8.2(c) provide an illustration of the adapted model of the relationship among variables based on the exploratory factor analysis. Figures 8.2 a to c display the items that loaded for each variable after EFA. As a result of the EFA, items belonging to awareness of ownership and compensation converged. This resulted in the creation of a new variable: 'awareness of employee benefits'. In addition, items belonging to management reliability and decision-making did not demonstrate sufficient validity. This resulted in the deletion of these variables.

Therefore, the formulation and deletion of variables resulted to the reformation of the hypotheses and they are adapted to the theoretical model.

H^1: There is a relationship between trade union responsiveness and the adoption of ESOPs.

H^1 is modified to *$H^{1.1}$, $H^{1.2}$ and $H^{1.3$}*

$H^{1.1}$: There is a relationship between trade union responsiveness and the adoption of ESOPs related to transparency.

$H^{1.2}$: There is a relationship between trade union responsiveness and the adoption of ESOPs related to two-way communication.

$H^{1.3}$: There is a relationship between trade union responsiveness and the adoption of ESOPs related to empowerment.

H^3: There is a relationship between takeovers and the adoption of ESOPs.

H^3 is modified to $H^{3.1}$, $^{H3.2}$ and $H^{3.3}$

$H^{3.1}$: There is a relationship between takeovers and the adoption of ESOPs related to transparency.

$H^{3.2}$: There is a relationship between takeovers and the adoption of ESOPs related to two-way communication.

$H^{3.3}$: There is a relationship between takeovers and the adoption of ESOPs related to empowerment.

H^{4}: There is a relationship between reforms and the adoption of ESOPs.

H^{4} is modified to $H^{4.1}$, $H^{4.2}$ and $H^{4.3}$

$H^{4.1}$: There is a relationship between reforms and the adoption of ESOPs related to transparency.

$H^{4.2}$: There is a relationship between reforms and the adoption of ESOPs related to two-way communication.

$H^{4.3}$: There is a relationship between reforms and the adoption of ESOPs related to empowerment.

H^{5}: There is a relationship between compensation and the adoption of ESOPs.

H^{5} is modified to $H^{5.1}$, $H^{5.2}$ and $H^{5.3}$

$H^{5.1}$: There is a relationship between awareness of employee benefits and the adoption of ESOPs related to transparency.

$H^{5.2}$: There is a relationship between awareness of employee benefits and the adoption of ESOPs related to two-way communication.

$H^{5.3}$: There is a relationship between awareness of employee benefits and the adoption of ESOPs related to empowerment.

H^{6}: There is a relationship between the role of the trusts as perceived as a governing body and the adoption of ESOPs.

H^{6} is modified to $H^{6.1}$, $H^{6.2}$ and $H^{6.3}$

$H^{6.1}$: There is a relationship between the role of the trusts as perceived as a governing body and the adoption of ESOPs related to transparency.

$H^{6.2}$: There is a relationship between the role of the trusts as perceived as a governing body and the adoption of ESOPs related to two-way communication.

$H^{6.3}$: There is a relationship between the role of the trusts as perceived as a governing body and the adoption of ESOPs related to empowerment.

H^{7}: There is a relationship between taxation implication and the adoption of ESOPs.

H^{7} is modified to $H^{7.1}$, $H^{7.2}$ and $H^{7.3}$

$H^{7.1}$: There is a relationship between taxation implication and the adoption of ESOPs related to transparency.

$H^{7.2}$: There is a relationship between taxation implication and the adoption of ESOPs related to two-way communication.

$H^{7.3}$: There is a relationship between taxation implication and the adoption of ESOPs related to empowerment.

H^{8}: There is a relationship between the adoption of ESOPs and organisational performance.

H^{8} is modified to $H^{8.1}$, $H^{8.2}$ and $H^{8.3}$

$H^{8.1}$: There is a relationship between the adoption of ESOPs related to transparency and organisational performance.

$H^{8.2}$: There is a relationship between the adoption of ESOPs related to two-way communication and organisational performance.

$H^{8.3}$: There is a relationship between the adoption of ESOPs related to empowerment and organisational performance.

H^{9}: There is a relationship between the adoption of ESOPs and employee retention.

H^{9} is modified to $H^{9.1}$, $H^{9.2}$ and $H^{9.3}$

$H^{9.1}$: There is a relationship between the adoption of ESOPs related to transparency and employee retention.

$H^{9.2}$: There is a relationship between the adoption of ESOPs related to two-way communication and employee retention.

$H^{9.3}$: There is a relationship between the adoption of ESOPs related to empowerment and employee retention.

H^{10}: There is a relationship between the adoption of ESOPs and employee commitment.

H^{10} is modified to $H^{10.1}$, $H^{10.2}$ and $H^{10.3}$

$H^{10.1}$: There is a relationship between the adoption of ESOPs related to transparency and employee commitment.

$H^{10.2}$: There is a relationship between the adoption of ESOPs related to two-way communication and employee commitment.

$H^{10.3}$: There is a relationship between the adoption of ESOPs related to empowerment and employee.

The new hypotheses provided is illustrated in Figure 8.3(a), Figure 8.3(b) and Figure 8.3(c). Furthermore, the new hypotheses will be subjected to further empirical evaluation. Figure 8.3(a), Figure 8.3(b) and Figure 8.3(c) provide a comprehensive illustration of the hypothesised model of employee perceptions regarding the influence and outcomes of the adoption of ESOPs.

Figure 8.3(a): The hypothesised model of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to transparency

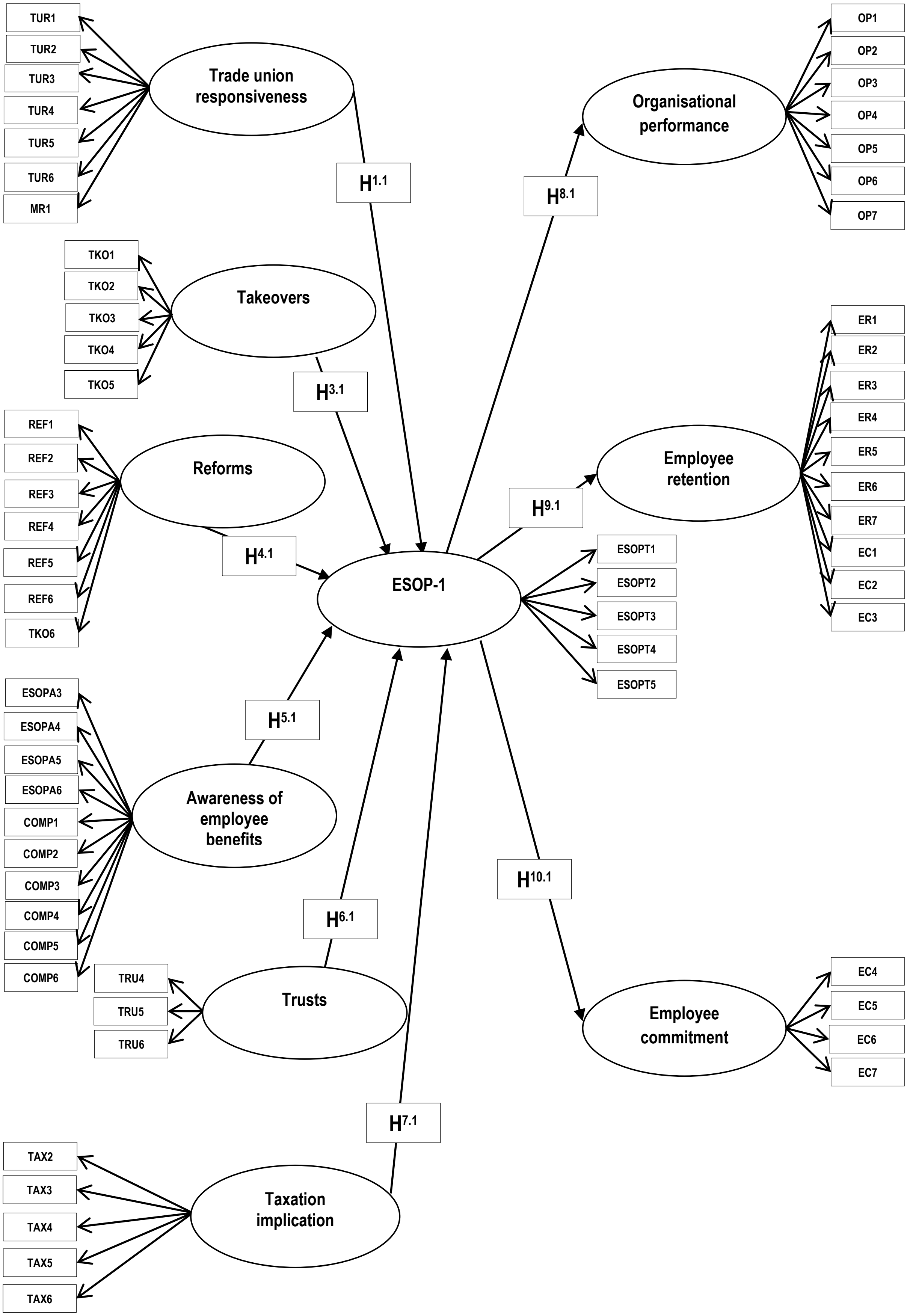


Figure 8.3(b): The hypothesised model of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to two-way communication

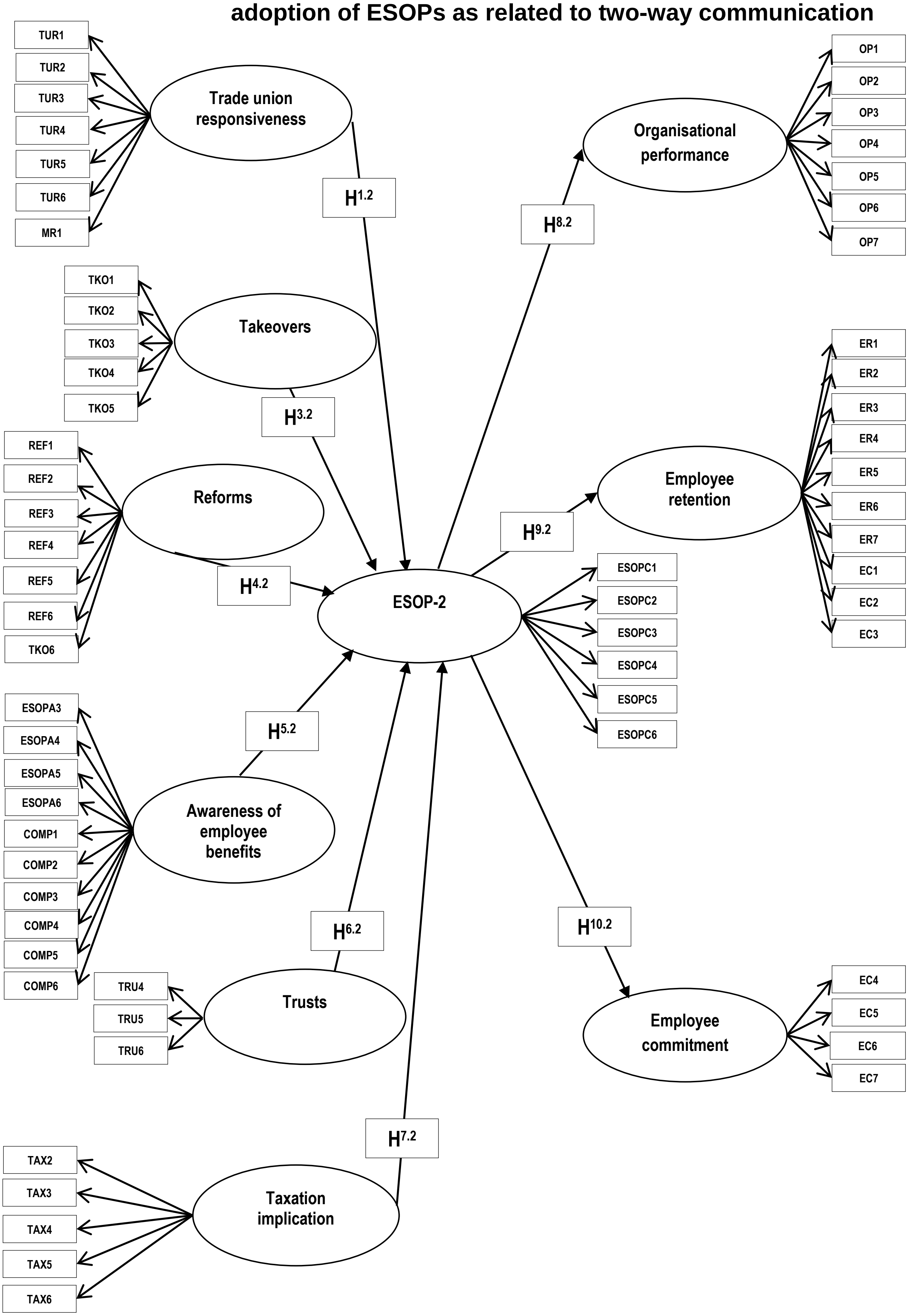
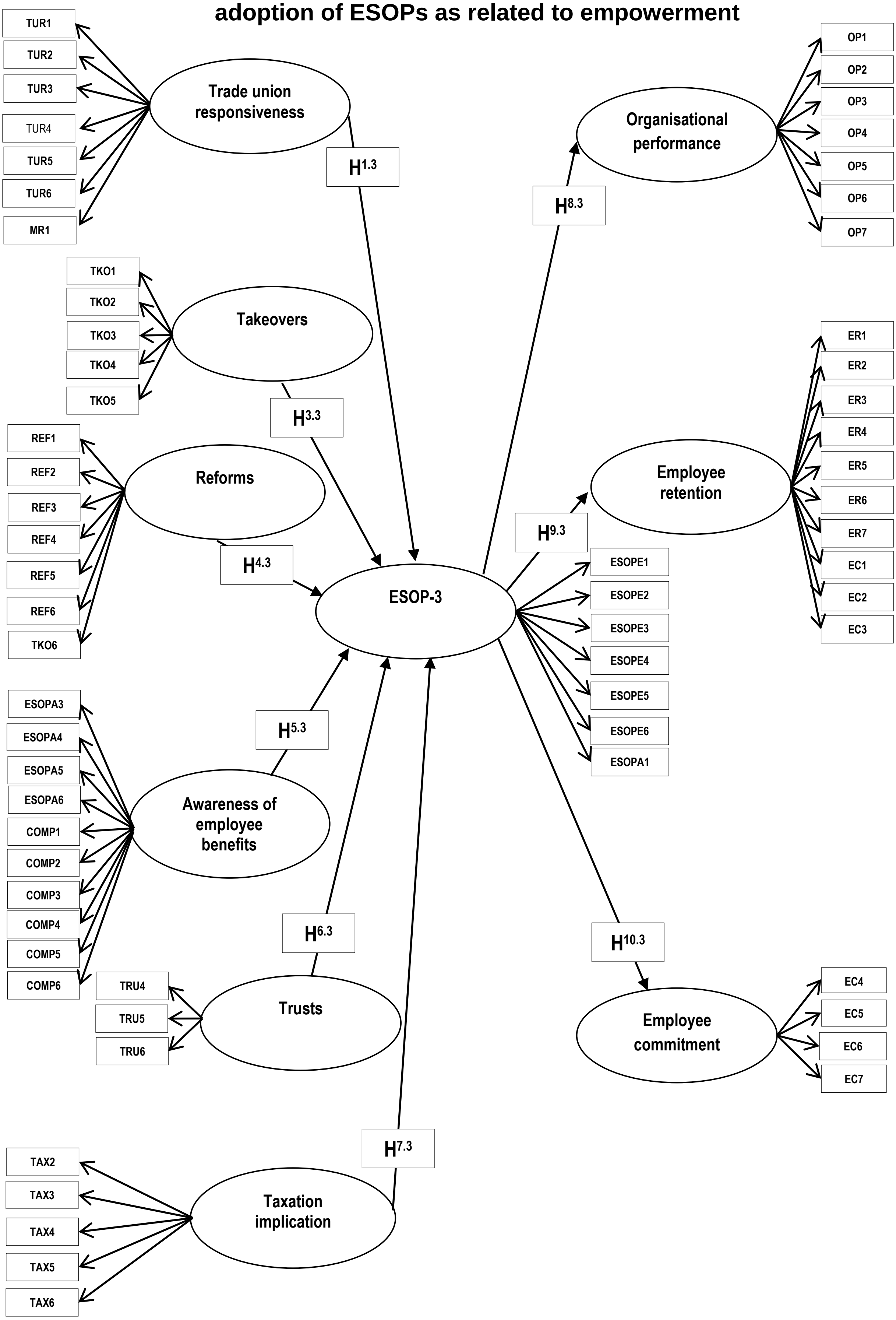


Figure 8.3(c): The hypothesised model of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to empowerment



8.4 DESCRIPTIVE STATISTICS OF VARIABLES

This study employed the use of a 7-point Likert scale (1=strongly disagree, 2=disagree, 3=somewhat disagree, 4=undecided, 5=somewhat agree, 6=agree, 7=strongly agree) to measure the variables in the measuring instrument, as identified by the EFA. Table 8.6 provides a description of the mean score and standard deviation values for each variable, as identified by the EFA, in the study.

Table 8.6: Descriptive statistics of variables

Variables	Mean	Standard Deviation
Trade union responsiveness (TUR)	4.33	1.17
Takeover (TKO)	4.48	1.29
Reforms (REF)	4.34	1.27
Awareness of employee benefits (AOEB)	4.50	1.24
Trusts (TRU)	2.57	0.85
Taxation implication (TAX)	4.38	1.22
Transparency (ESOP-1)	4.36	1.28
Two-way communication (ESOP-2)	4.35	1.19
Empowerment (ESOP-3)	4.38	1.22
Organisational performance (OP)	4.42	1.25
Employee retention (ER)	4.50	1.20
Employee commitment (EC)	4.66	1.37

Source: Researchers' own construct.

Table 8.6 provides a summary of the descriptive analysis (mean score and standard deviation) of the independent and dependent variables in this study. Table 8.6 shows that the majority of the mean score falls between 4.33 and 4.66. The mean score for each variable, with its relationships to the adoption of ESOPs, will be briefly explained below.

Table 8.6 shows that trade union responsiveness (TUR) has a mean score of 4.33. This implies that employees, to some extent, agree that the responsive nature of trade unions regarding their rights and interests will influence their ability to welcome the adoption of ESOPs. Table 8.6 indicates a mean score of 4.48 for takeover (TKO). This mean score implies that employees will somewhat agree to the adoption of ESOPs if government uses ESOPs as a strategic tool to manage takeover as well as to welcome foreign investors who will introduce ESOPs to their organisation.

Furthermore, Table 8.6 shows reforms (REF) as having a mean score of 4.34. This indicates that employees will slightly agree to the adoption of ESOPs if the government will create favourable reforms. These favourable reforms include the employee’s ability to enjoy tax incentives, economic empowerment and shared capitalism. Table 8.6 indicates that employees to some extent agree on the matter of awareness of employee benefits (AOEB) (mean score of 4.50). This implies that employees will likely to consider the adoption of ESOPs if they are aware of all the benefits that the compensation plan offers. Furthermore, Table 8.6 shows that role of trusts (TRU) has a mean score of 2.57. Employees feel that the setting up of a trust to hold organisational shares cannot influence their decision to support the adoption of ESOPs. Rather, employees perceive agree to a certain extent that they will support and welcome the adoption of ESOPs if they can enjoy the benefits of paying lower taxes (taxation implication, (TAX): mean score of 4.38).

Table 8.6 further indicates that, to a certain extent, employees agree that transparency (ESOP-1) (mean score 4.36) is needed for them to welcome and support the adoption of ESOPs. Employees feel that they will support ESOP adoption if management provides them with true and full information regarding the process, benefits and risks of ESOPs. In addition, employees to some degree feel that two-way communication (ESOP-2) (mean score 4.35) between themselves and management is needed for them to support the adoption of ESOPs. In other words, employees feel that they will somewhat consider the adoption of ESOPs if management considers and takes their views and opinions of ESOP adoption seriously. Table 8.6 further shows that empowerment (ESOP-3) has a mean score of 4.38. Employees, to a certain extent, feel that they will support ESOP adoption if their organisation provides them with an opportunity to work without interference and a chance to enhance their skills as well as have the authority to make workplace decisions.

Furthermore, Table 8.6 shows that organisational performance (OP) has a mean score of 4.42. Employees agree, to some extent, that the adoption of ESOPs will be beneficial in improving profitability, service delivery, efficiency, and innovation in their organisation. Employee retention (ER) and employee commitment (EC) in Table 8.6 have mean scores of 4.50 and 4.66, respectively. This implies that employees, to some extent, agree to remain and stay committed to their respective organisations if management adopts an ESOP.

8.5 REGRESSION ANALYSIS

Regression analysis is an advanced statistical technique that investigates and estimates the relationship among variables (independent and dependent variables). In other words, regression analysis is a statistical technique that describes, explains and predicts the relationship and the effect of the relationship among given variables (Seber & Alan, 2012:2). Furthermore, Seber and Alan (2012:2) report that the main purpose of regression analysis is to uncover causes by studying and investigating the relationship among variables. Regression analysis is helpful in uncovering the expectation or outcome of changes that occurred in the dependent variable (response or criterion denoted as y) as a result of the influence of the independent variables (predictor or regressor denoted as x).

Furthermore, simple linear and multiple regression analysis can be utilised by researchers to predict and estimate the relationship among the independent and dependent variables. Simple linear regression predicts and estimates the relationship between single independent and single dependent variable (Aron, *et al*., 2008:95). In addition, the multiple linear regression analysis focuses on investigating, predicting and estimating the relationship between two or more independent variables on one dependent variable. Multiple regression analysis was carried out in this study to predict the unknown value of the dependent variable from the known values of the independent variables (Aron, *et al*., 2008:95).

Furthermore, this study carried out multiple regression analysis in order to understand which of the independent variables are related to the dependent variables. In addition, multiple regression analysis was utilised to explore and estimate the forms of the relationship among the independent and dependent variables. In other words, the researcher investigated whether the independent variables had a considerable influence on the adoption of ESOPs, as measured by transparency, two-way communication and empowerment. Furthermore, the researcher investigated the relationship between the mediating variables and dependent variables (organisational performance, employee retention and employee commitment). The results obtained from the multiple regression analysis are presented in Table 8.7, Table 8.8, Table 8.9, Table 8.10, Table 8.11 and Table 8.12.

8.5.1 The influence of the independent variables on the adoption of ESOPs as measured by transparency

Table 8.7 provides a summary of the influence of trade union responsiveness, takeovers, reforms, awareness of employee benefits, trusts and taxation implication on the adoption of ESOPs, as measured by transparency. Table 8.7 indicates that although trade union responsiveness ($b = 0.101$, $p < 0.011$) has a moderate relationship with transparency, reforms ($b = 0.320$, $p < 0.000$), awareness of employee benefits ($b = 0.212$, $p < 0.000$) and taxation implication ($b = 0.129$, $p < 0.000$) are positively related to transparency as an attribute of the adoption of ESOPs. Table 8.7 further shows that takeovers ($r = 0.043$, NS) and trust ($r = 0.018$, NS) do not exert a significant influence on the adoption of ESOPs. The six variables collectively indicate that 40% of variability in the model explains the transparency in the adoption of ESOPs.

Table 8.7: Relationship between independent variables and the adoption of ESOPs as measured by transparency (ESOP-1)

	Regression summary for dependent variable: ESOP-1.					
N=773	**b***	**Std.Err. of b***	**B**	**Std.Err. of b**	**t(766)**	**p-value**
Intercept			**0.759**	**0.172**	**4.406**	**0.000**
TUR	**0.091**	**0.036**	**0.101**	**0.039**	**2.561**	**0.011**
TKO	0.043	0.034	0.042	0.034	1.245	0.213
REF	**0.317**	**0.037**	**0.320**	**0.037**	**8.642**	**0.000**
AOEB	**0.205**	**0.040**	**0.212**	**0.041**	**5.157**	**0.000**
TRU	0.018	0.033	0.027	0.050	0.537	0.592
TAX	**0.123**	**0.036**	**0.129**	**0.037**	**3.467**	**0.000**

Table 8.7 shows that trade union responsiveness has a moderate impact on the adoption of ESOPs (as measured by transparency) with the lowest t-value of t = 2.561. Table 8.7 further indicates that awareness of employee benefits (t = 5.157) and taxation implication (t = 3.467) have strong and moderate impacts on the adoption of ESOPs, as measured by transparency. Reforms have a stronger impact on transparency with the highest t-value of t = 8.642.

8.5.2 The influence of independent variables on the adoption of ESOPs as measured by two-way communication

Table 8.8 provides a summary of the influence of trade union responsiveness, takeovers, reforms, awareness of employee benefits, trusts and taxation implication on the adoption of ESOPs, as measured by two-way communication. Table 8.8 shows that takeovers ($b = 0.076$, $p < 0.020$) and tax ($b = 0.084$, $p < 0.019$) has a moderate relationship with two-way communication, however, reforms ($b = 0.207$, $p < 0.000$), awareness of employee benefits ($b = 0.263$, $p < 0.000$) and are positively significant to the adoption of ESOPs as measured by two-way communication. Table 8.8 further indicates that trade union responsiveness ($b = 0.075$, $p < 0.047$) is positively related to the adoption of ESOPs, however, the relationship has proven to be weak. Table 8.8 shows that trusts ($r = 0.028$, NS) do not exert a significant influence on the adoption of ESOPs related to two-way communication. In total, the R^2 of .362 shows 36% variability in the model, as explained by two-way communication related to the adoption of ESOPs, as shown in Table 8.8.

Table 8.8: Relationship between independent variables and the adoption of ESOPs as measured by two-way communication (ESOP-2)

	Regression summary for dependent variable: ESOP-2					
N=773	b*	Std.Err. of b*	B	Std.Err. of b	t(766)	p-value
Intercept			**1.133**	**0.165**	**6.847**	**0.000**
TUR	**0.073**	**0.037**	**0.075**	**0.038**	**1.987**	**0.047**
TKO	**0.082**	**0.035**	**0.076**	**0.033**	**2.329**	**0.020**
REF	**0.221**	**0.038**	**0.207**	**0.036**	**5.828**	**0.000**
AOEB	**0.274**	**0.041**	**0.263**	**0.040**	**6.656**	**0.000**
TRU	0.028	0.034	0.040	0.048	0.838	0.403
TAX	**0.086**	**0.037**	**0.084**	**0.036**	**2.348**	**0.019**

The t-values indicated in Table 8.8 show that trade union responsiveness (t = 1.987), takeovers (t = 2.329) and taxation implication (t = 2.348) have a weak impact on the adoption of ESOPs as measured by two-way communication. Furthermore, the t-value indicated in Table 8.8 reports that reforms (t = 5.828) have a strong impact while awareness of employee benefits (t = 6.656) has a stronger impact on the adoption of ESOPs, as measured by two-way communication.

8.5.3 The influence of independent variables on the adoption of ESOPs as measured by empowerment

Table 8.9 provides a summary of the influence of trade union responsiveness, takeovers, reforms, awareness of employee benefits, trusts and taxation implication on the adoption of ESOPs, as measured by empowerment. Table 8.9 indicates that trade union responsiveness (b = 0.163, p < 0.000), reforms (b = 0.165, p < 0.000) and awareness of employee benefits (b = 0.308, p < 0.000) exert a positive influence on the adoption of ESOPs related to empowerment. Takeovers (b = 0.079, p < 0.014) has a moderate and trust (b = 0.086, p < 0.067) has a weak and positive influence on the adoption of ESOPs related to empowerment, except taxation implication (r = 0.016, NS). The six variables collectively explain approximately 40% (R^2 =.403) of the variance in the adoption of ESOPs, as measured by empowerment.

Table 8.9: Relationship between independent variables and the adoption of ESOPs as measured by empowerment (ESOP-3)

	Regression summary for dependent variable: ESOP-3					
N=773	**b***	**Std.Err. of b***	**B**	**Std.Err. of b**	**t(766)**	**p-value**
Intercept			**0.924**	**0.164**	**5.629**	**0.000**
TUR	**0.156**	**0.036**	**0.163**	**0.037**	**4.364**	**0.000**
TKO	**0.084**	**0.034**	**0.079**	**0.032**	**2.451**	**0.014**
REF	**0.172**	**0.037**	**0.165**	**0.035**	**4.664**	**0.000**
AOEB	**0.313**	**0.040**	**0.308**	**0.039**	**7.851**	**0.000**
TRU	**0.060**	**0.033**	**0.086**	**0.047**	**1.829**	**0.067**
TAX	0.016	0.036	0.016	0.036	0.459	0.646

Table 8.9 indicates that t-value of takeovers (t = 2.451) and trusts (t = 1.829) have a weak impact on the adoption of ESOPs, as measured by empowerment.

Furthermore, reforms (t = 4.664) and trade union responsiveness (t = 4.364), respectively, have a strong impact on empowerment. Table 8.9 indicates that awareness of employee benefits has a stronger impact on empowerment with a highest t-value of t = 7.859.

8.5.4 The influence of mediating variables on organisational performance

Table 8.10 shows the influence of the mediating variables (transparency, two-way communication and empowerment) on organisational performance. Table 8.10 further indicates that the R^2 of 0.368 indicates that 37% of the variability in the model is explained by organisational performance. Furthermore, Table 8.10 shows that transparency (b = 0.268, p < 0.000), two-way communication (b = 0.245, p < 0.000) and empowerment (b = 0.249, p < 0.000) in the adoption of ESOPs exert a positive influence on with organisational performance.

Table 8.10: Relationship between mediating variables and organisational performance

	Regression summary for dependent variable: OP					
N=773	**b***	**Std.Err. of b***	**B**	**Std.Err. of b**	**t(769)**	**p-value**
Intercept			**1.093**	**0.162**	**6.767**	**0.000**
ESOP-1	**0.275**	**0.036**	**0.268**	**0.035**	**7.651**	**0.000**
ESOP-2	**0.233**	**0.036**	**0.245**	**0.038**	**6.440**	**0.000**
ESOP-3	**0.242**	**0.033**	**0.249**	**0.034**	**7.293**	**0.000**

Table 8.10 shows that two-way communication (t = 6.440) has a strong impact, empowerment has a stronger impact (t = 7.293) and transparency has the strongest impact on organisational performance with a t-value of t = 7.651.

8.5.5 The influence of mediating variables on employee retention

Table 8.11 shows the influence of the mediating variables (transparency, two-way communication and empowerment in the adoption of ESOPs) on employee retention. Table 8.11 shows that transparency (b = 0. 0.207, p < 0.000), two-way communication (b = 0.216, p < 0.000) and empowerment (b = 0.305, p < 0.000) in the adoption of ESOPs are significantly related to employee retention. The three variables collectively explain approximately 36% (R^2 =.362) of the variance in employee retention, as shown in Table 8.11.

Table 8.11: Relationship between mediating variables and employee retention

N=773	Regression summary for dependent variable: ER					
	b*	Std.Err. of b*	B	Std.Err. of b	t(769)	p-value
Intercept			1.320	0.156	8.488	0.000
ESOP-1	0.222	0.036	0.207	0.034	6.145	0.000
ESOP-2	0.214	0.036	0.216	0.037	5.893	0.000
ESOP-3	0.309	0.033	0.305	0.033	9.297	0.000

The t-value in Table 8.11 indicates that both two-way communication (t = 5.893) and transparency (t = 6.145) have a strong impact on employee retention. Empowerment has a stronger impact on employee retention with the highest t-value of t = 9.297, as indicated in Table 8.11.

8.5.6 The influence of mediating variables on employee commitment

Table 8.12 shows the influence of the mediating variables (empowerment, transparency and two-way communication) on employee commitment. Table 8.12 shows that the R^2 of 0.221 indicates that 22% of the variability in the model is explained by employee commitment. Table 8.12 further indicates that transparency (b = 0. 0.097, p < 0.022) has a moderate relationship, two-way communication (b = 0.240, p < 0.000) and empowerment (b = 0.313, p < 0.000) in the adoption of ESOPs exert a positive influence on employee commitment.

Table 8.12: Relationship between mediating variables and employee commitment

N=773	Regression summary for dependent variable: EC					
	b*	Std.Err. of b*	B	Std.Err. of b	t(769)	p-value
Intercept			1.823	0.197	9.267	0.000
ESOP-1	0.091	0.040	0.097	0.043	2.281	0.022
ESOP-2	0.209	0.040	0.240	0.046	5.197	0.000
ESOP-3	0.277	0.037	0.313	0.042	7.530	0.000

According to Table 8.12, transparency (t =2.281) has a weak impact and two-way communication (t = 5.197) has a strong impact on employee commitment. Table 8.12

further indicates a stronger impact of empowerment on employee commitment, with the highest t-value of t = 7.530.

8.6 CORRELATION ANALYSIS

Correlation and regression analyses share similarities in that they deal with the relationship among variables. Regression analysis investigates and estimates the relationship among variables while correlation analysis studies and determines the direction and strength of the relationship between two variables (Bachman, 2004:84). Furthermore, Page and Patton (2014:49) describe correlation analysis as a statistical technique that provides numerical values that are used in explaining the strength and direction of the relationship between two variables.

Martella *et al*. (2013:220) indicate that Pearson product-moment correlation, Kendall rank and Spearman correlation are several procedures for conducting correlation analysis. This study employed the use of Pearson product-moment correlation to conduct its correlation analysis. The Pearson product-moment correlation (*r*) tells the direction and measures the strength or degree of the linear relationship or association between two variables (*x* and *y*) (Ary *et al*., 2009:129).

The correlation coefficient measures the linear relationship between two variables. The correlation coefficient can assume values between -1.00 to +1.00. A correlation coefficient of -1.00 indicates a negative linear relationship. The negative linear relationship implies that an increase in values for a given variable is associated with a decrease in the values on another variable (Greasley, 2008:77). On the contrary, a correlation coefficient of +1.00 indicates a positive linear relationship. A positive linear relationship implies that an increase in the value for a given variable is associated with an increase in the values for the other variable (Greasley, 2008:77). Table 8.13 provides the results of the correlation analysis between the variables in this study.

Table 8.13:Correlation matrix of variables of the study

Variables	TUR	ESOP-2	TAX	ESOP-3	REF	TKO	AOEB	TRU	ESOP-1	OP	ER	EC
Trade union responsiveness (TUR)	**1.000**	0.642	0.480	0.474	0.576	0.414	0.568	0.361	0.960	0.555	0.510	0.360
Two-way communication (ESOP-2)	0.642	**1.000**	0.419	0.452	0.505	0.400	0.542	0.332	0.568	0.498	0.479	0.385
Taxation implication (TAX)	0.480	0.419	**1.000**	0.400	0.466	0.385	0.557	0.437	0.451	0.575	0.588	0.417
Empowerment (ESOP-3)	0.474	0.452	0.400	**1.000**	0.501	0.416	0.573	0.361	0.440	0.468	0.504	0.411
Reforms (REF)	0.576	0.505	0.466	0.501	**1.000**	0.455	0.584	0.401	0.566	0.516	0.530	0.392
Takeover (TKO)	0.414	0.400	0.385	0.416	0.455	**1.000**	0.481	0.343	0.383	0.444	0.412	0.349
Awareness of employee benefits (AOEB)	0.568	0.542	0.557	0.573	0.584	0.481	**1.000**	0.454	0.536	0.616	0.634	0.482
Trusts (TRU)	0.361	0.332	0.437	0.361	0.401	0.343	0.454	**1.000**	0.338	0.409	0.388	0.312
Transparency (ESOP-1)	0.960	0.568	0.451	0.440	0.566	0.383	0.536	0.338	**1.000**	0.513	0.479	0.331
Organisational performance (OP)	0.555	0.498	0.576	0.468	0.516	0.444	0.616	0.409	0.513	**1.000**	0.629	0.436
Employee retention (ER)	0.510	0.480	0.588	0.504	0.530	0.412	0.634	0.388	0.479	0.629	**1.000**	0.424
Employee commitment (EC)	0.360	0.385	0.417	0.411	0.392	0.349	0.482	0.312	0.331	0.436	0.424	**1.000**

Correlations are significant at $p < .05000$

(a) Correlation results between the independent variables and adoption of ESOPs as measured by transparency

Table 8.13 provides a summary of the correlation between variables. The correlation coefficients in Table 8.13 are significant at $p < .05000$. The results presented in Table 8.13 indicate that there is a positive correlation between trade union responsiveness (coefficient of 0.960), reforms (coefficient of 0.566), awareness of employee benefits (coefficient of 0.536), taxation implication (coefficient of 0.451) and adoption of ESOPs as measured by transparency.

The results displayed in Table 8.13 indicate that the adoption of ESOPs will be successful if trade unions disclose all the details and information regarding ESOP adoption to its members. In addition, ESOPs will be successfully adopted if the government creates favourable reforms and discloses details regarding the reforms made on the adoption of ESOPs to organisations. Furthermore, the results presented in Table 8.13 indicate that ESOPs will be endorsed and adopted by employees if organisations provide employees with comprehensive information that can create awareness on the value and benefits of being an ESOP participant. Taxation implication is significant in aiding the adoption of ESOPs. This implies that organisations and employees will adopt ESOPs if they have access to information that offers detailed description of what they need to know about the tax relief (lower taxes) or incentives of ESOPs.

(b) Correlation results between the independent variables and adoption of ESOPs as measured by two-way communication

Table 8.13 shows a positive correlation between trade union responsiveness (coefficient of 0.642), awareness of employee benefits (coefficient of 0.542), reforms (coefficient of 0.505), taxation implication (coefficient of 0.419), takeovers (coefficient of 0.400) and the adoption of ESOPs, as measured by two-way communication. The results displayed in Table 8.13 indicate that two-way communication between trade unions and their members is needed for the successful adoption of ESOPs. In other words, the adoption of ESOPs will be more successful if the trade union and its members communicate truthfully with one another regarding ESOP adoption matters. Furthermore, ESOPs will be successfully adopted if the government creates favourable reforms and enacts laws that promote ESOPs as a strategic tool to avoid hostile takeover. However, the government must create a platform that allows organisations and employees to contribute and share their views and opinions with them regarding ESOP adoption. In addition, enhanced two-way communication between the revenue department and organisations, regarding ESOP tax incentives, will promote the successful adoption of ESOPs.

(c) Correlation results between independent variables and the adoption of ESOPs, as measured by empowerment

Table 8.13 indicates that awareness of employee benefits (coefficient of 0.573), reforms (coefficient of 0.501), trade union responsiveness (coefficient of 0.474), takeover (coefficient of 0.416) and trusts (0.361) are positively related to the adoption of ESOPs, as measured by empowerment. The correlation results in Table 8.13 indicate that ESOPs will be accepted by employees, and successfully adopted, if trade union heads are responsive by informing members (employees) that they will be empowered by the plan. Furthermore, employees will adopt ESOPs if the government enacts laws that promote ESOPs as anti-takeover tools and create favourable ESOP reforms to support them in gaining economic empowerment. In addition, the adoption of ESOPs will be more successful if employees are aware of their benefits in terms of workplace empowerment. Furthermore, the adoption of ESOPs will be successful and employees will feel empowered if ESOP will help them pay lower taxes.

(d) Correlation results between the mediating variables and organisational performance

The correlation results displayed in Table 8.13 show a positive correlation between organisational performance and transparency (coefficient of 0.513), two-way communication (coefficient of 0.498) and empowerment (coefficient of 0.468). The correlation results shown in Table 8.13 indicate that the adoption of ESOPs will improve organisational performance. Furthermore, organisations will achieve high performance in productivity, profitability, efficiency and innovation if ESOPs are adopted to empower their employees. The adoption of ESOPs will lead to organisational performance if management accepts the opinions and views of employees and is accountable to employees for its actions regarding ESOP adoption.

(e) Correlation results between the mediating variables and employee retention

Furthermore, Table 8.13 indicates that empowerment (coefficient of 0.503), two-way communication (coefficient of 0.480) and transparency (coefficient of 0.479) are positively related to employee retention. The correlation results shown in Table 8.13 imply that the adoption of ESOPs will lead to employee retention. In other words, employees are more likely to retain their employment with the organisation if management adopts an ESOP to empower them. In addition, full and comprehensive disclosure of information with regard to ESOP adoption by management will encourage employees to retain employment with their organisations. Employees are more likely to retain their employment if management accepts and considers employees' the opinions regarding ESOP adoption.

(f) Correlation results between the mediating variables and employee commitment

The results presented in Table 8.13 indicate that there is a positive correlation between employee commitment and empowerment (coefficient of 0.411), two-way communication (coefficient of 0.385) and transparency (coefficient of 0.331). This result implies that employees will be more committed to the organisation if management adopts as a strategy to empower them. Furthermore, full disclosure ESOP information and consideration of employees' views and opinions by management will increase the level of employee commitment to their organisation.

8.7 RESULTS ON HYPOTHESISED RELATIONSHIPS

The results on the hypothesised relationships between the influence of the independent variables and the adoption of ESOPs, as measured by transparency, two-way communication and empowerment are presented in this section of the data findings. In addition, the results on the hypothesised relationships between the mediating variables and dependent variables are also presented herein.

8.7.1 Results on the hypothesised relationship between the influence and outcomes of the adoption of ESOPs as measured by transparency

$H^{1.1}$: There is a relationship between trade union responsiveness and the adoption of ESOPs as measured by transparency.

Table 8.7 reports a statistically significant positive relationship between trade union responsiveness ($b = 0.101$, $p < 0.01$) and the adoption of ESOPs, as measured by transparency. Table 8.13 shows that there is a positive significant correlation between trade union responsiveness (coefficient of 0.960) and the adoption of ESOPs, as measured by transparency. Therefore, $H^{1.1}$ is accepted.

$H^{3.1}$: There is a relationship between takeovers and the adoption of ESOPs as measured by transparency.

Table 8.7 shows that takeovers are not significantly related to the adoption of ESOPs as measured by transparency ($r = 0.043$, NS). This implies that there is no significant correlation between takeovers and the adoption of ESOPs, as measured by transparency. Therefore, $H^{3.1}$ is rejected and the null hypothesis is accepted.

$H^{4.1}$: There is a relationship between reforms and the adoption of ESOPs as measured by transparency.

Table 8.7 reported a statistically significant positive relationship between reforms ($b = 0.320$, $p < 0.000$) and the adoption of ESOPs, as measured by transparency. Table 8.13 further shows that there is a significant positive correlation between reforms (correlation coefficient of 0.566) and the adoption of ESOPs, as measured by transparency. Therefore, $H^{4.1}$ is accepted.

$H^{5.1}$: There is a relationship between awareness of employee benefits and the adoption of ESOPs as measured by transparency.

Table 8.7 reports a significant positive relationship between awareness of employee benefits and the adoption of ESOPs as measured by transparency ($b = 0.212$, $p < 0.000$). Table 8.13 further shows that there is a positive association between awareness of employee benefits and the adoption of ESOPs, as measured by transparency, with a correlation coefficient of 0.536. Therefore, $H^{5.1}$ is accepted.

$H^{6.1}$: There is a relationship between the role of the trust as a governing body and the adoption of ESOPs as measured by transparency.

Table 8.7 reports that trust as governing body ($r = 0.018$, NS) is not significantly related to the adoption of ESOPs, as measured by transparency. This implies that there is no association between the role of trust as governing body and the adoption of ESOPs as measured by transparency. Therefore, $H^{6.1}$ is rejected and the null hypothesis accepted.

$H^{7.1}$: There is a relationship between taxation implication and the adoption of ESOPs as measured by transparency.

Table 8.7 reports that taxation implication ($b = 0.129$, $p < 0.000$) is significantly and positively related to the adoption of ESOPs, as measured by transparency. Table 8.13 further implies that there is a positive association between taxation implication (correlation coefficient of 0.451) and the adoption of ESOPs as measured by transparency. Therefore, $H^{7.1}$ is accepted.

$H^{8.1}$: There is a relationship between the adoption of ESOPs and organisational performance as measured by transparency.

Table 8.10 reports that the adoption of ESOPs, as measured by transparency ($b = 0.268$, $p < 0.000$), has a significant and positive relationship with organisational performance. The correlation results presented in Table 8.13 further reveal a positive association between the adoption of ESOPs as measured by transparency (coefficient of 0.513) and organisational performance. Therefore, $H^{8.1}$ is accepted.

$H^{9.1}$: There is a relationship between the adoption of ESOPs and employee retention as measured by transparency.

Table 8.11 reports a statistically significant positive relationship between the adoption of ESOPs, as measured by transparency ($b = 0.207$, $p < 0.000$), and employee retention. Furthermore, Table 8.13 shows a significant positive association between the adoption of ESOPs as measured by transparency (correlation coefficient of 0.479) and employee retention. Therefore, $H^{9.1}$ is accepted.

$H^{10.1}$: There is a relationship between the adoption of ESOPs and employee commitment as measured by transparency.

Table 8.12 reports a statistically significant moderate relationship or to some extent between the adoption of ESOPs, as measured by transparency ($b = 0.097$, $p < 0.022$), and employee commitment. Although, Table 8.13 reveals a significant moderate association between the adoption of ESOPs, as measured by transparency (correlation coefficient of 0.331), and employee retention, $H^{10.1}$ is accepted.

8.7.2 Results on the hypothesised relationship between the influence and outcomes of the adoption of ESOPs as measured by two-way communication

$H^{1.2}$: There is a relationship between trade union responsiveness and the adoption of ESOPs as measured by two-way communication.

Table 8.8 reports a statistically significant weak relationship between trade union responsiveness ($b = 0.075$, $p < 0.047$) and the adoption of ESOPs, as measured by two-way communication. However, the relationship between trade union responsiveness and the adoption of ESOPs as measured by two-way communication needs to be improved. Table 8.13 shows that there is a positive significant correlation between trade union responsiveness (coefficient of 0.642) and the adoption of ESOPs, as measured by two-way communication. Therefore, $H^{1.2}$ is accepted.

$H^{3.2}$: There is a relationship between takeovers and the adoption of ESOPs as measured by two-way communication.

Table 8.8 reveals a statistically significant moderate relationship between takeovers ($b = 0.076$, $p < 0.020$) and the adoption of ESOPs, as measured by two-way communication. Table 8.13 further reports a positive association between takeovers (correlation coefficient of 0.400) and the adoption of ESOPs, as measured by two-way communication. Therefore, $H^{3.2}$ is accepted.

$H^{4.2}$: There is a relationship between reforms and the adoption of ESOPs as measured by two-way communication.

Table 8.8 indicates that reforms ($b = 0.207$, $p < 0.000$) have a significant and positive relationship with the adoption of ESOPs as measured by two-way communication. In addition, Table 8.13 reports that a positive correlation exists between reforms (coefficient of 0.505) and the adoption of ESOPs as measured by two-way communication. Therefore, $H^{4.2}$ is accepted.

$H^{5.2}$: There is a relationship between awareness of employee benefits and the adoption of ESOPs as measured by two-way communication.

Table 8.8 reports a significant positive relationship between awareness of employee benefits ($b = 0.263$, $p < 0.000$) and the adoption of ESOPs as measured by two-way communication. This implies that there is a positive correlation between awareness of employee benefits (coefficient of 0.542) and the adoption of ESOPs as measured by two-way communication. Therefore, $H^{5.2}$ is accepted.

$H^{6.2}$: There is a relationship between the role of the trust as a governing body and the adoption of ESOPs as measured by two-way communication.

Table 8.8 shows that trust as a governing body ($r = 0.028$, NS) does not exert a significant influence on the adoption of ESOPs, as measured by two-way communication. Table 8.13 further confirms that trust as governing body is not associated with the adoption of ESOPs, as measured by two-way communication. Therefore, $H^{6.2}$ is rejected and the null hypothesis accepted.

$H^{7.2}$: There is a relationship between taxation implication and the adoption of ESOPs as measured by two-way communication.

Table 8.8 reports a significant moderate relationship between taxation implication ($b = 0.084$, $p < 0.019$) and the adoption of ESOPs, as measured by two-way communication. This implies that there is a positive correlation between awareness of employee benefits (coefficient of 0.419) and the adoption of ESOPs as measured by two-way communication. Therefore, $H^{7.2}$ is accepted.

$H^{8.2}$: There is a relationship between the adoption of ESOPs and organisational performance as measured by two-way communication.

Table 8.10 reports a statistically significant positive relationship between the adoption of ESOPs, as measured by two-way communication ($b = 0.245$, $p < 0.000$), and organisational performance. Furthermore, Table 8.13 shows a significant positive association between the adoption of ESOPs, as measured by two-way communication (correlation coefficient of 0.498), and two-way communication. Therefore, $H^{8.2}$ is accepted.

$H^{9.2}$: There is a relationship between the adoption of ESOPs and employee retention as measured by two-way communication.

Table 8.11 indicates that the adoption of ESOPs, as measured by two-way communication ($b = 0.216$, $p < 0.000$), is statistically significant and positively related to employee retention. Table 8.13 indicates that the adoption of an ESOP, as measured by two-way communication (correlation coefficient of 0.480), is associated with employee retention. Therefore, $H^{9.2}$ is accepted.

$H^{10.2}$: There is a relationship between the adoption of ESOPs and employee commitment as measured by two-way communication.

Table 8.12 reveals a statistically significant positive relationship between the adoption of ESOPs as measured by two-way communication ($b = 0.240$, $p < 0.000$) and employee commitment. The results displayed in Table 8.13 indicate that there is a positive correlation between the adoption of ESOPs, as measured by two-way communication (coefficient of 0.385), and employee commitment. Therefore, $H^{10.2}$ is accepted.

8.7.3 Results on the hypothesised relationship between the influence and outcomes of the adoption of ESOPs as measured by empowerment

$H^{1.3}$: There is a relationship between trade union responsiveness and the adoption of ESOPs as measured by empowerment.

Table 8.9 reports a significant positive relationship between trade union responsiveness ($b = 0.163$, $p < 0.000$) and the adoption of ESOPs, as measured by empowerment. Table 8.13 shows that there is a positive association between trade union responsiveness and the adoption of ESOPs, as measured by empowerment, with a correlation coefficient of 0.474. Therefore, $H^{1.3}$ is accepted.

$H^{3.3}$: There is a relationship between takeovers and the adoption of ESOPs as measured by empowerment.

Table 8.9 reports that takeovers ($b = 0.079$, $p < 0.014$) are statistically significant and related to the adoption of ESOPs, as measured by empowerment. Furthermore, the correlation results displayed in Table 8.13 show a positive association between takeovers (coefficient of 0.416) and the adoption of ESOPs, as measured by empowerment. Therefore, $H^{3.3}$ is accepted.

$H^{4.3}$: There is a relationship between reforms and the adoption of ESOPs as measured by empowerment.

Table 8.9 indicates that reforms ($b = 0.165$, $p < 0.000$) have a significant and positive relationship with the adoption of ESOPs, as measured by empowerment. In addition, Table 8.13 reports that a positive correlation exists between reforms (coefficient of 0.501) and the adoption of ESOPs, as measured by empowerment. Therefore, $H^{4.3}$ is accepted.

$H^{5.3}$: There is a relationship between awareness of employee benefits and the adoption of ESOPs as measured by empowerment.

Table 8.9 indicates that awareness of employee benefits ($b = 0.308$, $p < 0.000$) is statistically significant and positively related to the adoption of ESOPs, as measured by empowerment. Table 8.13 confirms that a positive correlation exits between awareness of employee benefits (coefficient of 0.573) and the adoption of ESOPs, as measured by empowerment. Therefore, $H^{5.3}$ is accepted.

$H^{6.3}$: There is a relationship between the role of the trust as a governing body and the adoption of ESOPs as measured by empowerment.

Table 8.9 reports a statistically significant weak relationship between trust ($b = 0.086$, $p < 0.067$) and the adoption of ESOPs, as measured by empowerment. The correlation results shown in Table 8.13 reveal a weak association between trust (0.361) and the adoption of ESOPs, as measured by empowerment. Therefore, $H^{6.3}$ is accepted.

$H^{7.3}$: There is a relationship between taxation implication and the adoption of ESOPs as measured by empowerment.

Table 8.9 shows that taxation implication ($r = 0.016$, NS) does not exert any significant influence on the adoption of ESOPs, as measured by empowerment. The correlation results presented in Table 8.13 reveal that there is no association between taxation implication and the adoption of ESOPs, as measured by empowerment. Therefore, $H^{7.3}$ is rejected and the null hypothesis accepted.

$H^{8.3}$: There is a relationship between the adoption of ESOPs as measured by empowerment and organisational performance.

Table 8.10 shows that the adoption of ESOPs, as measured by empowerment ($b = 0.249$, $p < 0.000$), has a significant and positive relationship with organisational performance. The correlation results displayed in Table 8.13 indicate a positive association between organisational performance and the adoption of ESOPs, as measured by empowerment (correlation coefficient of 0.468). Therefore, $H^{8.3}$ is accepted.

$H^{9.3}$: There is a relationship between the adoption of ESOPs as measured by empowerment and employee retention.

Table 8.11 reveals that the adoption of ESOPs, as measured by empowerment ($b = 0.305$, $p < 0.000$), is significantly and positively related to employee retention. Furthermore, Table 8.13 indicates that the adoption of ESOPs, as measured by empowerment (correlation coefficient of 0.503), is positively associated with employee retention. Therefore, $H^{9.3}$ is accepted.

$H^{10.3}$: There is a relationship between the adoption of ESOPs as measured by empowerment and employee commitment.

Table 8.12 reveals that the adoption of ESOPs, as measured by empowerment ($b = 0.313$, $p < 0.000$), has a significant and positive relationship with employee commitment. In addition, Table 8.13 indicates that there is a positive correlation between the adoption of ESOPs, as measured by empowerment (coefficient of 0.411), and employee commitment. Therefore, $H^{10.3}$ is accepted.

The hypothesised results of the relationship between variables, based on employee perceptions of the adoption of ESOPs, are illustrated in Figure 8.4(a), (b) and (c).

Figure 8.4(a): The hypothesised result of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to transparency

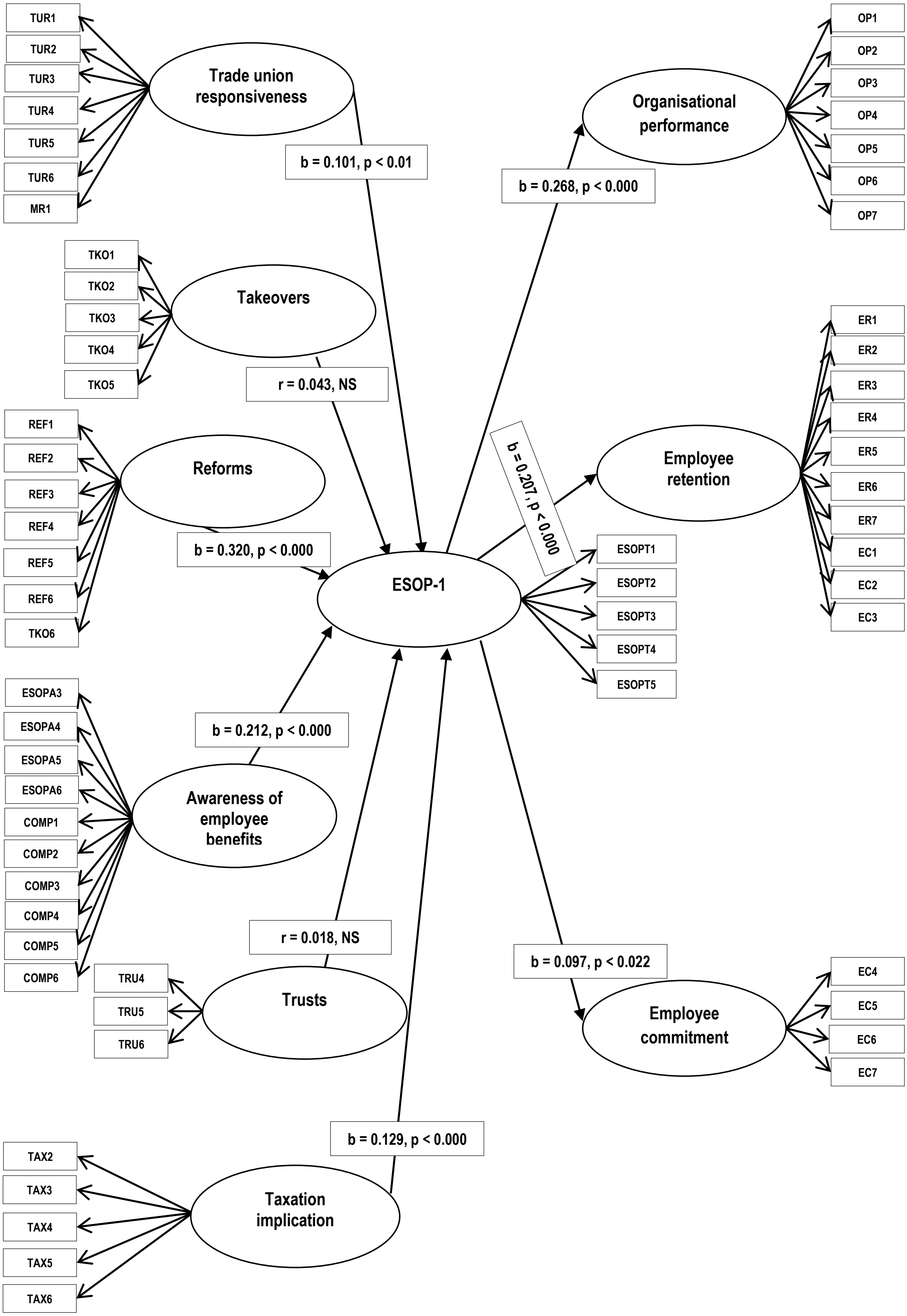


Figure 8.4(b): The hypothesised result of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to two-way communication

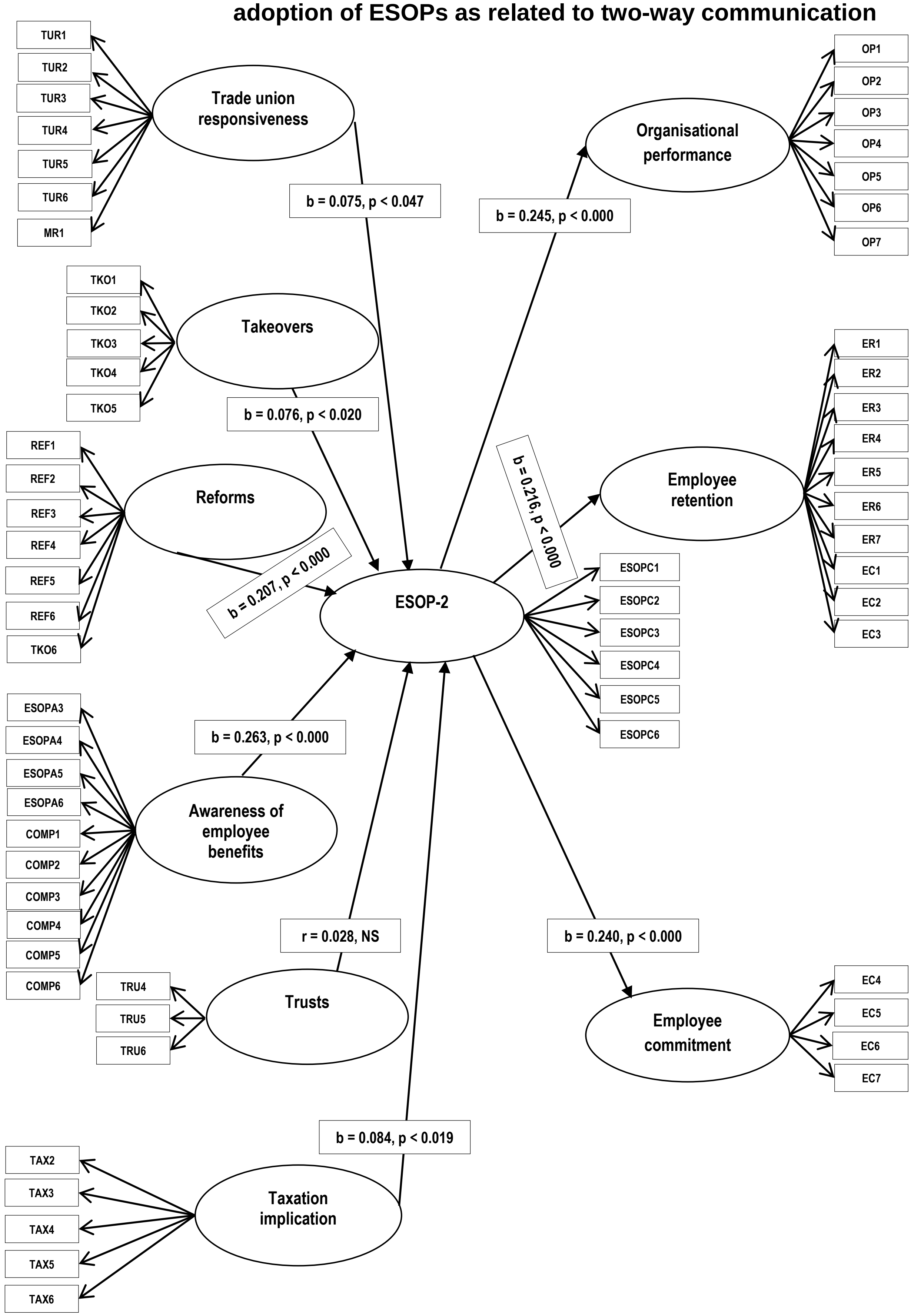
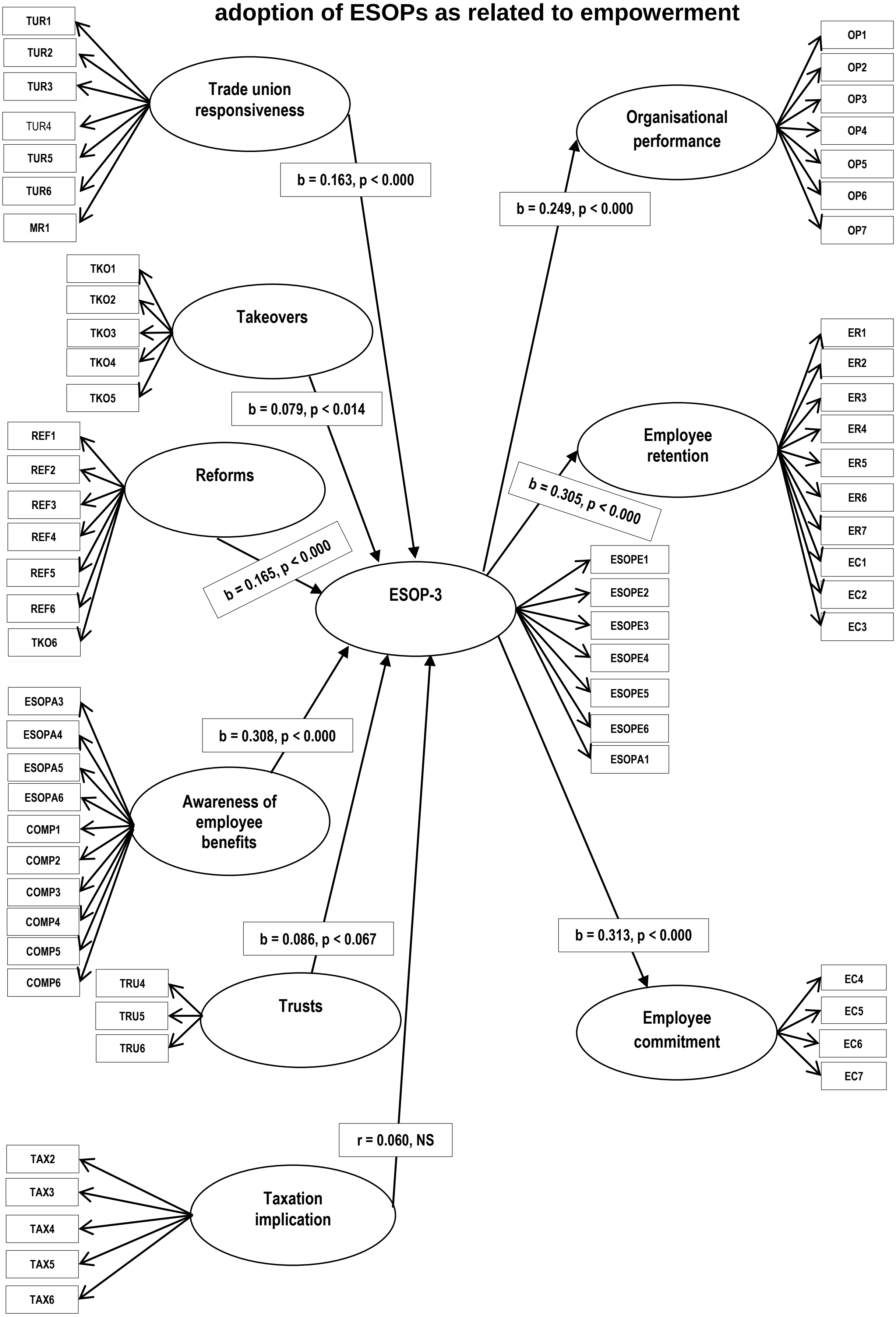


Figure 8.4(c): The hypothesised result of the relationship between variables based on employee perceptions regarding the adoption of ESOPs as related to empowerment



8.8 SUMMARY

This chapter provided the empirical results of, and discussions relevant to, the analysis of the primary data. This chapter provided information that shows that the data was coded using Microsoft Excel and analysed using Statistica (version 12). The primary data was analysed and discussed according to these five stages of analysis: exploratory factor analysis (EFA), reliability, descriptive statistics, multiple regression and correlation analysis.

Due to the EFA, variables such as management reliability and decision-making were deleted. These variables lacked sufficient validity and were therefore deleted. Furthermore, items belonging to awareness of ownership and compensation displayed convergent validity. These variables were perceived by respondents as a one dimensional construct. As a result, these variables were termed awareness of employee benefits. Furthermore, employees perceived the attributes of management of ESOPs as attributes of the adoption of ESOPs. The analysis from the EFA allowed this study to retain the independent variables: trade union responsiveness, takeover, reforms, awareness of employee benefits, trusts, taxation implication mediating variables: transparency, two-way communication and empowerment dependent variables: organisational performance, employee retention and employee commitment. All variables retained in this study displayed sufficient and acceptable reliability. The Cronbach's alpha values of all latent variables were above 0.7.

The latent variables were subjected to further analysis. This chapter presented the results of the descriptive statistics of the latent variables. Furthermore, the results from the regression and correlation analysis were presented in this chapter. The results from the regression and correlation analysis were utilised as the basis for accepting and rejecting the hypothesis. According to the regression and correlation analysis, variables such as trade union responsiveness, reforms, awareness of employee benefits and taxation implication had a significant and positive relationship with the adoption of ESOPs, as measured by transparency. Therefore, their hypotheses were accepted. In addition, trade union responsiveness, takeover, reforms, awareness of employee benefits and taxation implication were significantly and positively related to the adoption of ESOPs as measured by two-way communication. Therefore, their hypotheses were accepted.

Furthermore, Trade union responsiveness, takeovers, reforms, AOEB and TRU were all significantly related to the adoption of ESOPs as measured by empowerment. The mediating variables (transparency, two-way communication and empowerment) showed a significant and positive relationship with organisational performance, employee retention and employee commitment. Therefore, their hypotheses were accepted. The next chapter, Chapter Nine, provides answers to the research questions and problems. Furthermore, the following chapter provides a summary of the research findings, and presents the managerial implications, recommendations, limitations, contributions and conclusions drawn from the study.

CHAPTER NINE
SUMMARY, CONCLUSIONS, MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

9.1 INTRODUCTION

The previous chapter presented an empirical evaluation and the results of the data analysed in this study. The five stages of analysis indicated for use in this study were performed on the primary data. Chapter Eight presented and discussed the results on the validity of the measuring instrument after an exploratory factor analysis was conducted. In addition, the results on the reliability of the measuring instrument were provided and discussed in the chapter. Chapter Eight further provided a series of discussions on the variables that were retained as a result of the exploratory factor analysis. The hypotheses were reformulated and a hypothetical model was illustrated to explain the modification of the hypotheses.

Chapter Eight presented and discussed the results of the descriptive analysis. Furthermore, the variables retained were subjected to regression and correlation analyses. The results of the regression and correlation analyses were revealed and discussed. Chapter Eight also provided a discussion of the results of the hypothesized relationships between the influences of the variables in the study. In other words, the hypotheses that were accepted or rejected were presented.

This chapter, Chapter Nine, provides the summary, conclusions, managerial implications, recommendations and limitations of the study. The chapter also serves to conclude the study.

9.2 SUMMARY OF CHAPTERS OF THE STUDY

Chapter One of this study provided information regarding the introduction and background to the study. The problem statements for the study were identified and discussed. Furthermore, the purpose for conducting this study was presented herein. Identifying the purpose of this study led to the formulation and presentation of the primary and secondary objectives of the study. Moreover, Chapter One presented the research questions and hypotheses in order to provide a sense of direction for the study. A brief literature review on the topic of the discourse was presented in order to provide clarity into what is to be studied. In other words, an overview and clarification of the variables involved in the study were defined and discussed. The theoretical model developed for this study was also introduced in Chapter One, as were the research design and methodology used in the study. The delimitations, contribution, scope and timeframe of the study were also presented in Chapter One.

Chapter Two of this study provided a broad discussion of incentive schemes that are utilised by organisations. The definitions, purpose and incentive theory of motivation were presented and discussed in this chapter. Furthermore, Chapter Two focused on providing an explanation of the two types of incentive schemes, namely, non-financial and financial incentive schemes; the definitions, nature and classification or categories of these incentive schemes were highlighted and discussed. Chapter Two also provided an overview of the extant literature on the benefits, challenges and contemporary issues related to incentive schemes.

Chapter Three focused on providing comprehensive information on one type of financial incentive scheme. In other words, Chapter Three focused on providing an overview of Employee Share Ownership Plans (ESOPs). The nature and scope of ESOPs were discussed, as well as the history and theory of ESOPs. In order to enhance the readers' understanding, Chapter Three provided clarification on a wide range of terminologies that are associated with describing and understanding ESOPs. Furthermore, Chapter Three provided information on the reasons why ESOPs should be adopted. The various types – leveraged and unleveraged – of ESOPs were introduced and briefly discussed in this chapter. The advantages and disadvantages of ESOPs were also discussed in Chapter Three. Chapter Three focused on providing a series of discussions on the roles and responsibilities of ESOP participants and those involved in managing (ESOP fiduciaries) the affairs of ESOPs.

Chapter Four provided an overview of the implementation of ESOPs. The prerequisites and requirements for implementing ESOPs were highlighted and discussed in this chapter. In addition, Chapter Four provided extensive discussions on the two types of ESOPs (leveraged and non-leveraged) that can be implemented in an organisation. The procedures that can be followed in implementing leveraged and non-leveraged ESOPs were illustrated in diagrams and explained in words. Furthermore, Chapter Four highlighted and discussed the ten steps involved in the implementation of ESOPs; moreover, the operational activities, recordkeeping and tax implications of ESOPs were discussed herein. Chapter Four provided a brief discussion of the Nigerian Stock Exchange (NSE) in order for readers to be acquainted with the activities of the stock market. The challenges and benefits of implementing and operating ESOPs were also discussed in Chapter Four.

Chapter Five of this study focused on providing information on the success stories of countries (United States of America, United Kingdom, Ireland, Egypt and South Africa) that have implemented ESOPs. Chapter Five also provided a brief literature review on the history of the adoption of ESOPs in these countries. The successes experienced as a result of ESOP adoption were provided. Furthermore, Chapter Five provided extant literature on how to operate ESOPs successfully.

Chapter Six provided information and discussions on the modeled influence and outcomes of the adoption of ESOPs. The model depicted in Chapter Six provides an illustration of the variables and attributes of the study. Chapter Six provided a review of extant literatures and study findings that support each hypothesis. Chapter Six provided a review of extant literature and findings that affirm that a relationship exists between the adoption of ESOPs and the following variables: trade union responsiveness (H^1); management reliability (H^2); takeovers (H^3); reforms (H^4); compensation (H^5); trusts (H^6) and taxation implication (H^7). Furthermore, Chapter Six provided literature and findings that support that the adoption of ESOPs is related to three dependent variables: organisational performance (H^8); employee retention (H^9) and employee commitment (H^{10}).

Chapter Seven provides extensive information on the research design and methodology employed in this study. The paradigm of the research was discussed at length in this chapter. Furthermore, Chapter Seven highlighted and discussed the three types of research methods: qualitative, quantitative and mixed methods. Chapter Seven highlighted that the quantitative research method was utilised to conduct the entire study. In addition, discussions on sampling and steps in the sampling process were discussed. Furthermore, Chapter Seven provided descriptive information on the demographic profile of the 773 respondents involved in the study. Moreover, information on the data collection method (secondary and primary); research instrument (questionnaire); questionnaire design, structure and measuring instrument scale was provided in this chapter. Chapter Seven also focused on providing comprehensive information on the level of measurement, reliability and validity of the research instrument and the types of data analysis employed in this study.

Chapter Eight of this study provided a series of discussions on the empirical evaluation and results of the influence and outcome of the adoption of ESOPs. The research hypotheses and objectives of the study were presented in this chapter, in order to remind the reader of what the study intends to achieve from the various analyses. Furthermore, the chapter provides a brief outline and discussion of the five steps of data analysis used in this study. Chapter Eight presented the evaluation and results of the data analyses, using exploratory factor analysis, reliability, descriptive, regression and correlation analysis. Furthermore, Chapter Eight provided information on the results of the hypothesised relationships between the influences of the variables in the study.

9.3 PRESENTATION AND CONCLUSIONS OF THE RESEARCH PROBLEM OF THE STUDY

The research problem identified in this study was areas of concern that require meaningful understanding. The conclusions provided the means by which the research problem was answered. Furthermore, the extant literature and empirical studies of numerous researchers were consulted to proffer solutions to the research problem. This section presents the solutions to the research problem of the study:

The gap exists in the Nigerian literature in respect of the awareness and adoption of ESOPs.

This study performed an extensive investigation and provided a comprehensive literature review on ESOPs. Chapters Three, Four and Five focused on providing relevant information on ESOPs. The information provided from the extant literature on ESOPs includes the history, nature and scope of ESOPs, types of ESOPs, the management of ESOPs, the implementation of ESOPs, and the benefits and challenges of ESOPs. Furthermore, the secondary data collected by the researcher helped in discovering the influence of the adoption of ESOPs.

In addition, the focus of Chapter Six of the study is to provide empirical literature and results from past studies that showing relationship between ESOP adoption and trade union responsiveness, management reliability, takeovers, reforms, transparency, two-way communication, decision-making, empowerment, awareness of ownership, compensation, trusts and taxation implication. Furthermore, Chapter Six provided results that revealed the influence of ESOP adoption on organisational performance, employee retention and employee commitment.

The extensive investigation revealed that Nigerian organisations focused on utilising non-financial and financial incentive schemes other than ESOPs. In addition, numerous researchers in Nigeria have performed studies on non-financial and financial incentive schemes other than ESOPs. This implies that ESOPs have not been adopted in Nigeria and researchers have not conducted any academic study on the adoption of ESOPs in Nigeria. This view is in line with the findings of UK Essays (2013:5).

Furthermore, the secondary data gathered in this study provided information that indicates that awareness of ESOPs is the most identified constraint to ESOP adoption and implementation. BIS (2012:30-31) and Landau *et al*. (2007:4) support this notion. The lack of awareness of ESOPs by organisations, management and employees negatively impacted the adoption of ESOPs in Nigeria. The empirical findings of Landau *et al*. (2007:4) reveal that organisations will adopt ESOPs if they are aware of ESOPs.

However, the literature and empirical results of this study were able to bridge the gap that exists in the Nigerian literature, in respect of the awareness and adoption of ESOPs. Therefore, the collection of primary data from major cities in Nigeria enlightened employees and created widespread awareness of ESOPs amongst employees. Furthermore, this research and the empirical results from data gathered in Nigeria successfully provided answers to the first research problem identified in this study.

The need for improving the existing incentive schemes in Nigeria.

The literature review in Chapter Two provided a broad discussion of incentive schemes. The purpose, incentive theory of motivation, categories, definitions and nature of incentive schemes were presented and discussed herein. Chapter Two further provided information on the types of incentive schemes as well as the contemporary issues facing incentive schemes utilised in Nigeria. This study provides a review of literature that shows that organisations in Nigeria utilise and understand the importance of the utilisation of both non-financial and financial incentive schemes. This implies that organisations in Nigeria have utilised non-financial and financial incentive schemes to attain organisational goals and objectives. This notion is in line with the results of Abdulsalam *et al*. (2012:1196), Ehimen and Ojeifo (2014:90) and Olugbenga (2011:40).

Furthermore, this study provides a series of discussions that explain the benefits of the incentive schemes utilised in Nigeria. The benefits include achieving the desired organisational outcomes and enhancing employee effectiveness. However, the financial incentives utilised in Nigeria lack the ability to retain and attract employees, plan and save for employee retirement, and align employee goals and interests with that of their employers. Furthermore, the literature review shows that the incentive schemes utilised in Nigeria are insufficient to enhance employee morale and commitment to organisational culture, goals and objectives. Freeman (2007:1) supports this view.

Furthermore, this study provides a literature review proving that ESOPs, as a financial incentive scheme, are beneficial to organisations, employees and the economy. Numerous organisations around the world utilise ESOPs as an improved, smarter and better way of creating a win-win situation for employees and organisations. This study further provided a literature review showing that the governments of numerous countries have and are still endorsing ESOPs as a strategy to empower employees, broaden and share capitalism, increase economic prosperity and promote organisational success. This notion is in line with the findings of Kaarsemaker *et al*. (2009:3), KPMG (2011:3), Naegele (2010:1-2) and NBIF (2006:12).

In addition, extant literature review provided in Chapters Two, Three and Four showed that, amongst other incentive schemes, ESOP is by far the most suitable and improved way of achieving the goals and objectives of both employees and organisations. Moreover, amongst other incentive schemes, ESOP is the most suitable for utilisation by the government as a strategy to improve economic prosperity. This study provided a literature review and empirical results that reveal the importance of incorporating ESOPs as part of the existing incentive schemes in Nigeria. Therefore, the second research question is answered, as there is a need to incorporate and adopt ESOPs as part of the existing incentive schemes in Nigeria.

The need for managing the implications of the adoption of ESOPs within the Nigerian setting.

Chapters Four and Six of this study provided an extensive discussion of how ESOPs can be managed in order to be beneficial to both the employee and employer. One of the major goals of the adoption of an ESOP is to create beneficial opportunities for management and employees. However, an ESOP can lead to negative implications for the organisation if its adoption and operations are not effectively managed. This study provides a review of the extant literature affirming that a strong managerial team is needed to manage the operations of an ESOP. This view is line with the results of Chase Commercial Bank (2015:2) and Deyhle (2013:4).

Furthermore, Chapters Four and Six of this study provide discussions that show that the implications of an ESOP can either be negative or positive. This indicates that ESOPs can lead to positive and beneficial outcomes with the support of all parties (management, employees and shareholders) involved. Furthermore, ESOPs will have positive implications if management effectively communicates the plan and enhances transparency, collaborative decision-making and employee empowerment. This view is concurred by Logue and Yates (2015:285-307), Phillips and Jensen (2015:234) and Yukl and Becker (2006:215-216).

Furthermore, the negative implications of ESOPs are experienced when management lacks an understanding of how to manage and operate ESOPs and is unwilling to share ownership with employees. Furthermore, this study shows that negative consequences will arise from ESOP adoption if the organisation has a weak cash flow, history of low sales and profits, heavy leverage, low shareholder equity, less than ten full-time employees and does not generate a taxable income. Chase Commercial Bank (2015:2), Menke (2015:1) and Rosen (2016:1-2) support this view.

In order to provide answers to the third research problem, this study provided useful information on the requirements for ESOP adoption, steps and strategies for successful implementation, strategies for managing the operations of ESOPs, and strategies for achieving the most benefits from ESOPs. This study also explained the roles and responsibilities of those involved in managing and operating an ESOP. The empirical result of this study provided strategies by which the implications of ESOPs can be managed. In order to manage the implications of the adoption of ESOPs, the empirical result of this study revealed that management must pay attention to three key factors namely, transparency, two-way communication and empowerment. Therefore, the need for managing the implications of the adoption of ESOPs in the Nigerian setting was established through the provision of the literature review presented in this study.

9.3.1 Presentation and conclusion of the research questions

The research questions provided insights into the study. This section presents answers to the research questions, from extant literature:

RQ1: Does stakeholder consultation (trade union responsiveness and management reliability) influence the adoption of ESOPs?
Research result on trade union responsiveness: Prior research shows that trade unions play a crucial role in protecting the rights and privileges of employees as well as influencing governmental and organisational policies. In relation to ESOPs, the literature shows that trade unions are significant in promoting the adoption and implementation of ESOPs. Trade unions influence the adoption of ESOPs by being responsive to their members. This implies that trade union leadership should support and represent their members, on ESOP issues, and they provide feedback regarding ESOP related information with their members. This approach by union leaders reduces or eliminates the fears and skepticism that members (employees) have about the plan, thus promoting ESOP adoption. Furthermore, employees tend to have a positive perception of and attitude towards the adoption of ESOPs when trade unions endorse ESOPs as a beneficial financial incentive scheme. This notion is in line with the findings of Mazibuko and Boshoff (2003:40), Sinha *et al*. (2004:1) and Sverke *et al*. (2004:124-125).
Research result on management reliability: Management reliability is an important characteristic required for the successful adoption and implementation of ESOPs. The extant literature suggests that employees will depend upon and trust the actions and decisions of management, if they perceive management to be reliable in their dealings with the employees. Therefore, employees will support the adoption of ESOPs if management is trustworthy, truthful, fair, transparent, and openly communicate the intricacies, benefits and risks of ESOPs. The research findings reveal that when management is reliable, employee trust, participation, competence and benevolence are increased towards the plan. Therefore, trust, honesty, fairness and transparency shown by a reliable management team can enhance trade union and employee interest in and acceptance of ESOP adoption and implementation. Krot and Lewicka (2012:228), Tzafrir (2005:1613-1614) and Schnackenberg and Tomlinson (2014:1-12) concur this view.
RQ2: Does government intervention (takeovers and reforms) influence the adoption of ESOPs?
Research result on takeovers: Takeovers in the business environment are usually perceived as negative. Hostile takeovers can be negative when an organisation forcefully acquires another organisation. A hostile takeover occurs when an

organisation gains controlling interest of another organisation that they are interested in acquiring. This hostile situation can be blocked or even dismissed by the adoption of ESOPs. The increasing popularity of the adoption of ESOPs is attributed to the fact that target organisations utilise ESOPs as an anti-takeover defence mechanism. Organisations that are at risk of being acquired grant ownership of shares to employees, managers and other affiliated block holders to reduce the attempt of a takeover by an acquiring organisation. The combined holding of shares in an ESOP prevents an acquiring organisation from reaching the 85% ownership necessary for a takeover. This notion is in line with the findings of Gaughan (2010:381), Jansen (2009:316) and Rauh (2006:383).
Research result on reforms: The extant literature reviewed in this study indicates that favourable reforms on policies and laws made by the government are strategic approaches that can bring positive change and improvement in the economy. Contrarily, a country's economy can be in recession as a result of the decisions and policies created by policy makers. ESOPs have been discovered to bring growth and positive change to an economy and, as a result, several governments have created reforms in laws and policies to promote their adoption. The governments of the USA, the UK, Ireland, Egypt, and South Africa have created reforms in policies to encourage the adoption of ESOPs. These policies have helped to promote and attract the interest of numerous organisations and employees in support of the adoption of ESOPs. Kurland *et al*. (2004:13), Lowitzsch *et al*. (2014:125-127), Rosen (2013:1) and the South African Government (2016:1) affirm this notion.
RQ3: Does transparency, two-way communication, decision-making, empowerment and awareness of ownership enhance the adoption of ESOP?
Research result on transparency: Numerous researchers affirm that transparency is a fundamental aspect of any organisation. Research findings show that all organisations are required to consider transparency as a priority in promoting the adoption of ESOPs. Transparency in the adoption of ESOPs means that management will be open and available to the full disclosure of information regarding ESOPs, and in a manner that can be understood by all employees. Furthermore, management will have to be accountable to all employees for its actions regarding ESOP adoption. The research reveals that transparency on the part of management leads to greater employee trust and participation in ESOPs, improved relationships between management and employees, increased

information sharing between management and employees as well as an improvement in governance. Lies and false information from management will negatively impact on the adoption of ESOPs. Therefore, the adoption of ESOPs should be built on transparency between management and all parties (employees, shareholders and key stakeholders) affected by the adoption. The empirical result of this study reveals that transparency of management and trade union leaders is needed for the successful adoption and implementation of ESOPs. This implies that management must provide employees with full information regarding ESOPs, ESOPs information must be presented in languages understood by employees and employees should be able to review ESOPs information at any time. This notion is in line with the findings of Al-Mahayreh and Abedel-qader (2015:101), Murthy (2012:14) and Phillips and Jensen (2015:234).
Research result on two-way communication: Transparency alone is not sufficient to promote the adoption of ESOPs. Two-way communication between management and employees is also needed for the adoption of ESOPs. The literature review in this study showed that employees will tend to support ESOP adoption if management welcomes their view regarding the plan and provides realistic feedback and answers to their questions. Prior research also indicates that two-way communication eliminates employee fears and unrealistic expectations (quick riches) of the plan, creates true partnership and stimulates trust between employees and management. In addition, empirical research reveals that two-way communication improves performance, obtains strong support from employees and provides information for better decision-making. Furthermore, this research reveals that the success of the adoption of ESOPs is dependent on how well management communicates with and trains its employees. The empirical result of this study reveals a relationship between the adoption of ESOPs and two-way communication. The empirical result of this study indicates that two-way communication is an important characteristic needed for the successful adoption of ESOP. Chen and Zhang (2009:448), Logue and Yates (2015:285-307) and Philips and Jensen (2015:51) concur this view.
Research result on decision-making: This study provided evidence to affirm that decision-making influences the adoption of ESOPs. In order to adopt and implement ESOPs, researchers indicate that it is pertinent for management to

interact, work together and make joint decisions with employees. The purpose of collaborative decision-making between management and employees is to achieve a common goal geared towards organisational success. Empirical research shows that employees are likely to feel ignored, unimportant, alienated and not part of the adoption of ESOPs when management fails to share decision-making authority with them. Contrarily, management will gain the support of employees with regard to ESOP adoption if they share decision-making authority with them. Furthermore, prior research indicates that the effectiveness of ESOP adoption will be realised if it is combined with employee involvement and decision-making regarding the plan. The success of ESOPs in the improvement of performance will be achieved when employees participate in decision-making affecting their work. Buxton and Gilbert (2005:3), Deyhle (2013:6), Mazibuko and Boshoff (2003:36) and the NCEO (2012:4) concur this view.
Research result on empowerment: The research findings in this study reveal that empowerment of employees is fundamental for the successful adoption of ESOPs. Management empowers employees by transferring some decision-making authority to them, as well as responsibility for tasks and liberty to work without a supervisor's interference. In addition, management empowers employees by granting them shares in the organisation. Research indicates that employees who are well informed and have the ability to make effective decisions are more likely to pursue activities, programmes and plans in the best interests of shareholders and the organisation. This indicates that the effect of empowerment will become evident when employees make informed and favourable decisions regarding the adoption of ESOPs. The adoption of ESOPs will be successful if organisations promote empowerment. Previous research results reveal that empowerment has a positive influence on employee satisfaction, involvement and commitment in ESOP organisations. The empirical results of this study reveal that employees will be empowered by the adoption of ESOPs. The empirical results of this study also reveal that empowered employees will trust the actions and decisions, related to ESOPs, made by management. This view is in line with the findings of Gamble *et al*. (2002:9) and Yukl and Becker (2006:215-216).
Research result on awareness of ownership: Prior research indicates that a lack of awareness of ownership is the most highlighted barrier to the adoption of ESOPs.

Researchers suggest that numerous employees and organisations are unaware and not knowledgeable of the existence and the benefits of ESOPs. This indicates that ESOPs would not be adopted and implemented if the government, organisations and employees are unaware of the plan. Extant empirical literature in this study shows that numerous governments have taken their time to promote the awareness of ESOPs through the enactment of favourable laws and the establishment of institutes to advise employers and employees on ESOPs. These governments understand the negative impact that unawareness has on the adoption of ESOPs. Therefore, creating and raising awareness of ESOPs is crucial for promoting the adoption thereof in countries and organisations where ESOPs are unknown. The empirical results of this study reveal that awareness of ESOPs as employee benefits is necessary to promote the adoption and implementation of ESOPs. The lack of awareness of ESOP by the government, organisations and employees is a threat that could make the adoption of ESOPs impossible. Therefore, the adoption of ESOPs will be successful if employers and employees have knowledge of ESOPs and how it benefits them. This notion is in line with the findings of BIS (2012:14-15), Landau *et al*. (2007:4) and Mathews (2015:1).
RQ4: Does the typology of corporate governance regarding compensation, trusts, and taxation implication influence the adoption of ESOPs
Research result on compensation: The results of this study provide evidence to substantiate the notion that compensation can influence the adoption of ESOPs. Compensation involves all monetary and non-monetary benefits utilised by Human Resource Management (HRM) to achieve employee and organisational goals and objectives. In addition, organisations search for and utilise attractive and strategic compensation packages that create a win-win situation for both employers and employees. ESOPs are an attractive and strategic financial compensation strategy that has been widely accepted, promoted and adopted globally. The utilisation of an ESOP as compensation is capable of enhancing organisational productivity and performance. The popularity of, and growth in, the adoption of ESOPs is attributed to the benefits that this compensation plan offers to the economy, employers and employees. Therefore, an ESOP as a strategic compensation plan positively influences the adoption of ESOPs. Brill (2012:1-2) and NBIF (2006:3) concur this notion.

Research result on trusts: The extant literature and research results in this study trusts is necessary for organisations that want to adopt ESOP, however it does not influence the adoption of ESOPs. The setting up of a trust is integral to fully adopting and operating an ESOP. The ESOP trust refers to an entity that is responsible for holding and distributing the shares contributed by the sponsoring organisation to its employees. The extant literature explains that an ESOP trust is an entity that is legal and separate from the sponsoring organisation. Furthermore, the regulatory framework and policies developed by the government can aid the establishment of ESOP trusts and the adoption of an ESOP. The empirical result of this study reveals that the trust as a governing body does not influence the adoption of ESOPs. Furthermore, the empirical result of this study reveals that the successful adoption of ESOP is not dependent on Trusts as an independent governing body. Trust as an independent governing body is only required to hold and distribute its shares. Therefore, it is argued that the establishment of trusts does not influence the adoption of ESOPs. This notion is in line with the findings of ESOP Direct (2014:2).
Research result on taxation implication: This study reveals that taxation implication influences the adoption of ESOPs. This implies that organisations adopt ESOPs as a result of the advantageous tax benefits employers and employees will enjoy. Government and policy makers, in countries where ESOPs are adopted, have created reforms and enacted advantageous tax laws to promote ESOP adoption. ESOP organisations and their employees enjoy the benefits of paying lower taxes on dividends, shares and cash contributions as well as lower income or capital gain tax. Gamble's (1998:529) findings reveal that taxation implication is one of the reasons why organisations adopt ESOPs and improve financially. In addition, the research of Beatty (1994:313) further found that taxation incentives and the incentive characteristics of ESOPs are significantly related to the adoption of ESOPs. The empirical result of this study reveal a relationship between taxation implication and the adoption of ESOPs. This implies that the adoption and implementation of ESOPs will be successful if management are transparent and allow communication and feedback on taxation implication of ESOP with employees.

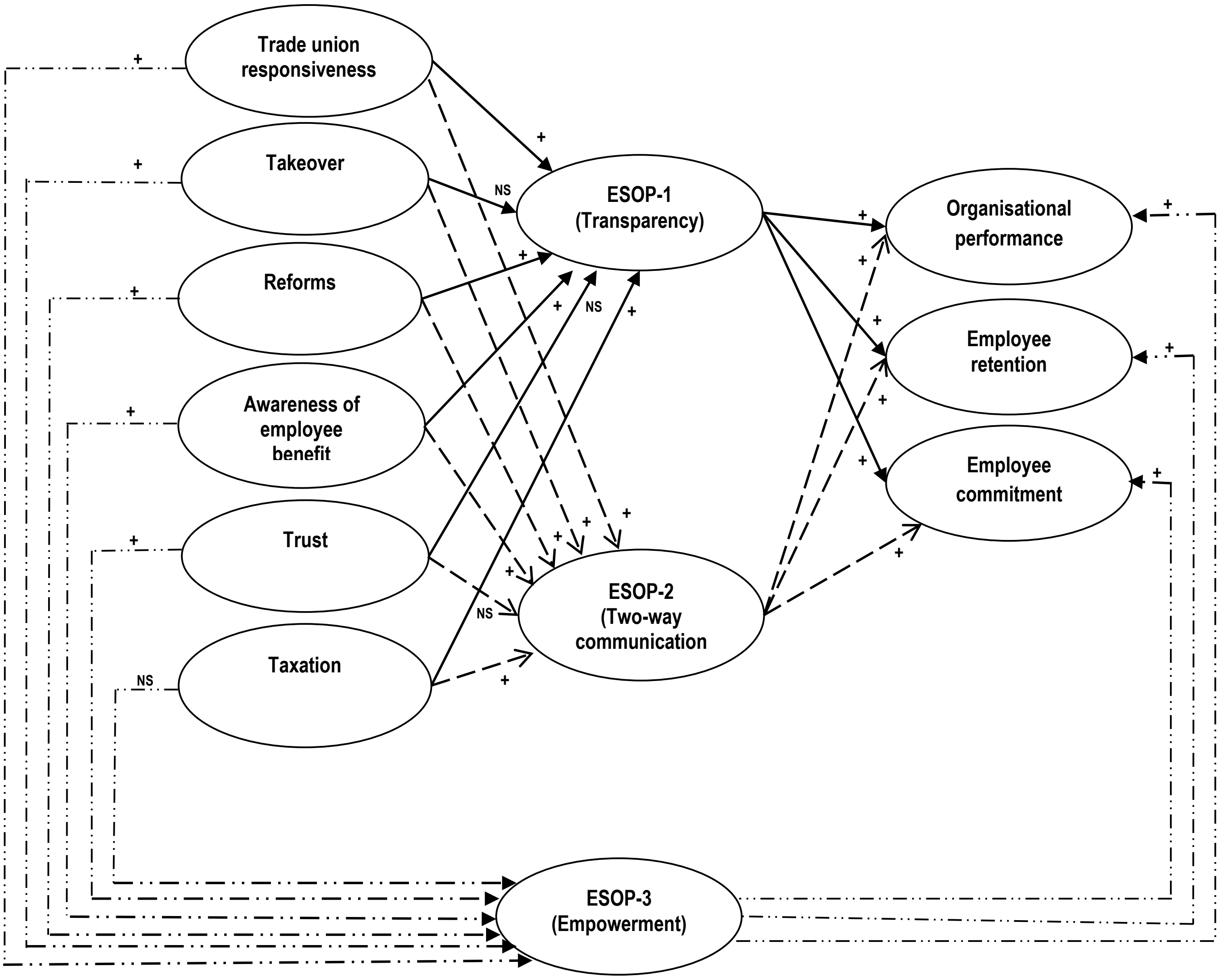
RQ5: Does the adoption of ESOPs yield to organisational performance, employee retention and employee commitment?
Research result on organisational performance, employee retention and commitment: This study provided a literature review and empirical results that reveal the positive influence of the adoption of ESOPs on desired organisational outcomes. Linnoinen (2013:11) postulates that the reason why numerous organisations adopt ESOPs is to positively influence financial, practical and philosophical issues. This implies that organisations adopt ESOPs to enhance productivity and performance, enhance equality and social justice, align the interests of employees with those of management, reduce takeovers and increase employee commitment and retention. Kaarsemaker *et al*. (2009:17) support that organisations adopt ESOPs to influence the attitudes and behaviours of employees. The research findings of Kramer (2010:449), Kruse *et al*. (2011:15) and McConville *et al*. (2012:4-7) reveal a positive relationship between ESOPs and employee attitudes and organisational outcomes. Therefore, the adoption of ESOPs enhances organisational performance and profitability, improves employee loyalty, participation and cooperation with management and decreases employee turnover and absenteeism. Furthermore, the research of Kaarsemaker *et al*. (2009:17) reveal a positive relationship between the adoption of ESOPs and organisational performance, employee retention, commitment, participation, satisfaction and innovation. The empirical result in this study reveal that the adoption of ESOPs will improve organisational performance, employee retention and employee commitment.

9.4 EMPIRICAL RESULTS AND MANAGERIAL IMPLICATIONS OF THE STUDY

Figure 9.1 below, illustrates the empirical evaluation of employee perceptions of the influence and outcomes of the adoption of ESOPs. Figure 9.1 shows that the independent variables (trade union responsiveness, reforms, awareness of employee benefits, taxation implication, organisational performance, employee retention and employee commitment) have a significant relationship with the adoption of ESOPs, as measured by ESOP-1 (transparency). Takeovers and trust does not have a significant influence on the adoption of ESOPs, as measured by transparency.

Furthermore, Figure 9.1 illustrates that trade union responsiveness, takeovers, reforms, awareness of employee benefits, taxation implication, organisational performance, employee retention and employee commitment are significantly related to the adoption of ESOPs, as measured by ESOP-2 (two-way communication). Figure 9.1 indicates a significant relationship between all independent and dependent variables and the adoption of ESOPs, as measured by ESOP-3 (empowerment). Trusts do not have any significant influence on the adoption of ESOPs, as measured by transparency and two-way communication. In addition, taxation implication is not significantly related to the adoption of ESOPs, as measured by empowerment. Figure 9.1 empirical illustrates the empirical evaluation of the proposed influence and outcomes of the adoption of ESOPs.

Figure 9.1: Empirical evaluation of the proposed influence and outcomes of the adoption of ESOPs



Source: Researcher's own construct.

9.4.1 The empirical results and implications of employee perceptions of trade union responsiveness on the adoption of ESOPs (transparency, two-way communication and empowerment)

Trade union responsiveness, for the purpose of this study refers to the characteristics of receptiveness and approachability as exhibited by trade union leaders towards their members, in relation to ESOP issues. The empirical investigation of this study reveals that trade union responsiveness has a positive and significant relationship with the adoption of ESOP-1 (transparency), ESOP-2 (two-way communication) and ESOP-3 (empowerment).

The empirical results indicate that employees feel that if an ESOP is adopted, trade union leaders will act in their best interests and provide them with feedback regarding the ESOP decisions made by their organisations. The empirical results show that employees believe that if an ESOP is adopted, trade union leaders will carefully negotiate the ESOP terms and conditions with management on their behalf. Sverke *et al*. (2004:124-125) concur these findings.

Furthermore, employees feel that their trade unions will encourage them to communicate their views and have different opinions on all ESOP adoption matters. The empirical results show that employees feel that management will fulfill the promises made to them and their trade unions regarding ESOP adoption. Due to the commitment of management, employees believe that trade union heads will take immediate action to solve problems faced by employees regarding the plan. These results are in line with the findings of Sverke *et al*. (2004:124-125).

9.4.2 The empirical results and implications of employee perceptions of takeovers on the adoption of ESOPs (two-way communication and empowerment)

For the purpose of this study, takeovers refer to the purchase or acquisition of an organisation (target) by another organisation (acquirer) in a hostile or friendly manner. The empirical results of this study reveal that significant relationships exist between takeovers and the adoption of ESOP-2 (two-way communication) and ESOP-3 (empowerment). The implication of this result is that employees feel that the government will support the adoption and utilisation of ESOPs as a tool to avoid hostile takeovers. Employees feel that the government is interested in their employment in the organisation and will therefore adopt ESOPs to protect them from unwanted takeovers. Rauh (2006:383) supports this notion. In the event of a friendly takeover, employees believe that the government will adopt ESOPs as a strategic tool to manage takeovers, so as to ensure long-term business sustainability in the country. Seely (2015:15-29) concurs these findings.

The empirical results of this study reveal that employees believe that the government will be willing to welcome the inward investment of foreign organisations that will grant ESOPs to employees. Employees further feel that the government will protect their organisation when engaging with foreign investors or organisations when introducing ESOPs. These findings are in line with the findings of Seely (2015:15-29).

9.4.3 The empirical results and implications of employee perceptions of reforms on the adoption of ESOPs (transparency, two-way communication and empowerment)

Reforms, in this study, refer to government intervention through the enactment of laws, policies or legislative bills to support the adoption of ESOPs, thereby causing transformation or an improvement in a system of practice. The empirical results of this study reveal significantly positive relationships between reforms and the adoption of ESOP-1 (transparency), ESOP-2 (two-way communication) and ESOP-3 (empowerment). The implications of these results are that employees believe that the government will create reforms for ESOP adoption to promote a sense of ownership for employees and shared capitalism. The empirical findings further reveal that employees believe that the government will create reforms for ESOP adoption to enable them to gain economic empowerment and tax incentives.

Furthermore, the implications of these results are that employees believe reforms will be created for ESOP adoption by the government in order to enable organisations to gain tax incentives and increase the level of productivity in the economy. Employees feel that the government will create reforms to identify takeover bids, which will result in large share premiums that create affordability for ESOP adoption.

9.4.4 The empirical results and implications of employee perceptions of awareness of employee benefits on the adoption of ESOPs (transparency, two-way communication and empowerment)

Awareness, in this study, refers to employees' awareness, knowledge and understanding of the existence and benefits of ESOPs. The empirical results of this study reveal that awareness of employee benefits is significantly and positively related to the adoption of ESOP-1 (transparency), ESOP-2 (two-way communication) and ESOP-3 (empowerment).

The empirical results reveal that employees will consider the adoption of ESOPs if they have more knowledge of how ESOPs benefit them. Therefore, employees feel they will consider the adoption of ESOPs if they know that it can assist them in saving for retirement and can provide financial security for themselves and their family. The empirical results show that employees expect to have knowledge about the establishment of a trust as a governing body to manage ESOP affairs before they can consider ESOP adoption. Furthermore, employees feel that they will consider the adoption of ESOPs if it grants them valuable and increased financial proceeds that can cater for all their financial needs in future. Furthermore, the empirical results show that employees expect to have more knowledge on how ESOPs encourage employee shareholding and business sense before they can support its adoption. BIS (2012:14-31) and Landau *et al*. (2007a:4) support these results.

9.4.5 The empirical results and implications of employee perceptions of taxation implication on the adoption of ESOPs (transparency and two-way communication)

For the purpose of this study, taxation implication refers to the advantageous tax incentives provided by the government to employees and organisations that have adopted and implemented ESOPs. Therefore, organisations and employees who have adopted and implemented ESOPs enjoy the benefits of deferring taxes and paying lower or no taxes on shares and dividends from shares acquired via ESOPs.

The empirical results of this study reveal that taxation implication is significantly and positively related to the adoption of ESOP-1 (transparency) and ESOP-2 (two-way communication). The implication of these results is that employees believe that, when an ESOP is adopted, they will enjoy an increased sum in their retirement savings to cover their income tax. Employees feel that, if an ESOP grants them tax incentives, they will accept tax charges from ESOP dividends, accept their civic responsibility to pay their taxes continuously and declare all additional income they receive. Furthermore, the empirical results reveal that employees believe that the adoption of ESOPs will help the revenue department to deal with tax evaders. Beatty (1994:299-300) and Freeman (2007:3) support these findings.

9.4.6 The empirical results and implications of employee views on the adoption of ESOPs

Transparency (ESOP-1), two-way commitment (ESOP-2) and empowerment (ESOP-3) are components of the adoption of ESOPs. This section provides the empirical results and managerial implications based on employee perceptions of the components of the adoption of ESOPs.

9.4.6.1 The empirical results and implications of employee perceptions of the adoption of ESOP-1 (transparency)

Transparency in this study refers to the extent to which management is open, fair, honest, accountable and not secretive, while providing relevant, timely and comprehensible information to employees and trade unions about the adoption of ESOPs. In other words, transparency refers to the absence of secrets and the openness of precise and true information to all stockholders and stakeholders.

The empirical results of this study reveal a significant and positive relationship between the independent variables (trade union responsiveness, reforms, awareness of employee benefits, taxation implication) and ESOP-1 (transparency). Furthermore, the empirical investigation reports a statistically significant positive relationship between ESOP-1 (transparency) and the dependent variables (organisational performance, employee retention and employee commitment). The empirical results reveal that employees feel that, for ESOPs to be successfully adopted in the organisation, management must provide them with full information regarding ESOP adoption. In addition, employees feel that ESOPs will be successfully adopted if management provides them with ESOP adoption information in a language that they understand.

Furthermore, the empirical investigation found that the adoption of ESOPs will be successful if management is accountable to all employees for its actions regarding ESOP adoption. Employees believe that the adoption of ESOPs will be successful if they can review information regarding ESOP adoption at any time and if management discloses details regarding the financial aspects of ESOP adoption. Murthy (2012:14), Oge (2016:42), Phillips and Jensen (2015:234) and Ura (2015:1) concur these results.

9.4.6.2 The empirical results and implications of employee perceptions of the adoption of ESOP-2 (two-way communication)

In this study, two-way communication refers to a process whereby management shares full and accurate information on the adoption of ESOPs to employees,

employees interact with management through questions and management provides answers and feedback to employees' questions.

The empirical results of this study reveal significant and positive relationships between the independent variables (trade union responsiveness, takeovers, reforms, awareness of employee benefits and taxation implication) and ESOP-2 (two-way communication). Furthermore, the empirical results reveal that significant and positive relationships exist between ESOP-2 (two-way communication) and the dependent variables (organisational performance, employee retention and employee commitment).

The implications of these results are that employees feel that ESOP adoption will be successful if management makes them feel that their opinions regarding ESOP adoption is important. Employees further believe that the adoption of ESOPs will be a success if management accept and considers their different opinions regarding ESOP adoption. The empirical results reveal that employees will support the adoption of ESOPs if they are allowed to disagree with management's opinions regarding ESOP adoption. Employees feel that ESOP adoption will be a success if their recommendations are heard and seriously considered by all levels of management. The empirical results show that the adoption of ESOPs will be successful if all parties (employees and management) engage in open and candid interactions regarding ESOP adoption. Logue and Yates (2015:285-307), NCEO 2012:10) and Philips and Jensen (2015:51) affirm these results.

9.4.6.3 The empirical results and implications of employee perceptions of the adoption of ESOP-3 (empowerment)

For the purpose of this study, employee empowerment is the ability of management to collaborate with employees by sharing full ESOP information, decision-making authority and responsibility. In other words, employee empowerment refers to the ability of management to give employees the authority for decision-making and to allow employees to accept responsibility for their decisions, actions and tasks performed.

The empirical results of this study reveal that there is significant and positive relationships between trade union responsiveness, takeovers, reforms, awareness of employee benefits and adoption of ESOP based on empowerment. Furthermore, the empirical results of this study reveal that ESOP based on empowerment has statistically significant and positive relationships with the dependent variables (organisational performance, employee retention and employee commitment).

The empirical results show that employees believe that, if an ESOP is adopted, management will empower them through the distribution of the organisation's shares at no cost. The implication of these results is that employees feel the adoption of ESOPs will be successful if management grants them the authority to make decisions at work and gives them the opportunity to work without being supervised. Furthermore, employees feel that, if ESOPs are adopted, they will improve their skills and abilities in their job, enhance their competence to work effectively and accept full responsibility for the tasks assigned to them. The empirical results also show that employees believe that the adoption of ESOPs will grant them the opportunity to solve work-related challenges. Gamble *et al*. (2002:9) affirm these results.

9.4.7 The empirical results and implications of the adoption of ESOPs on organisational performance

Organisational performance in this study is a broad term used to describe how well organisations achieve their stated goals and objectives. In other words, organisational performance is defined as the degree of success in the attainment of organisational goals and objectives

The empirical results of this study show that statistically significant positive relationships exist between the adoption of ESOP-1 (transparency), ESOP-2 (two-way communication), ESOP-3 (empowerment) and organisational performance. The results imply that the adoption of ESOPs will positively improve the performance of the organisation. The results show that employees believe that the adoption of ESOPs will enhance the service delivery of employees and improve organisational efficiency through high productivity. Employees further feel that the adoption of

ESOPs will enhance corporate governance through better management practices. These results are affirmed by Caramelli (2015:177) and Freeman (2007:10).

Furthermore, the empirical results show that employees believe that the adoption of ESOPs will make their organisation a cost effective leader and a leader in the development of human capital in the industry. Employees further feel that the adoption of ESOPs will increase the profitability of the organisation, thereby sustaining its long-term survival. The empirical results indicate that employees believe that the adoption of ESOPs will increase organisational creativity and innovation in order to meet and satisfy customer demands. Caramelli (2015:177) and Freeman (2007:10) support concur results.

9.4.8 The empirical results and implications of the adoption of ESOPs and employee retention

For the purpose of this study, employee retention refers to the ability of management to adopt and utilise strategies in encouraging skilled and talented employees to remain employed in the organisation. In addition, employee retention refers to an obligation made by employees to remain employed in the organisation for which they work.

The empirical investigation of this study reveals that there is a significant and positive relationship between the adoption of ESOP-1 (transparency), ESOP-2 (two-way communication), ESOP-3 (empowerment) and employee retention. This implies that the adoption of ESOPs will act as an effective strategy to encourage employees to stay employed in their respective organisations. O’Halloran (2012:657) affirms these results. The implication of the empirical results is that employees desire the adoption of ESOPs in their organisations because it offers them financial rewards and it gives them a sense of ownership. Employees feel that the adoption of ESOPs will give them an opportunity to work until retirement, and staying with their organisations will be more of a desire than a necessity. These results are in line with the discussions of DePamphilis (2015:27) and Wang (2006:40).

Furthermore, the empirical results show that employees want ESOPs to be adopted because their job gives me them satisfaction and they have a high sense of belonging with their organisation. The research results indicate that employees feel that, if ESOPs are adopted, they will prefer their current employment over attractive job offers from other organisations. Furthermore, employees feel that the adoption of ESOPs will cause their jobs to have personal meaning for them; will increase their morale to perform better; and they will pursue career growth within the organisation. Pierce and Rodgers (2004:589) concur these results.

9.4.9 The empirical results and implications of the adoption of ESOPs and employee commitment

Employee commitment in this study is an act of dedication, loyalty, emotional attachment or allegiance to a cause, seeing that it is paramount to the success of the organisation and more significant than any other activities or targets. The empirical results of this study reveal that significant and positive relationships exist between the adoption of ESOP-1 (transparency), ESOP-2 (two-way communication), ESOP-3 (empowerment) and employee commitment. This indicates that the adoption of ESOPs will lead to employee commitment to their organisation.

The empirical results reveal that employees feel that ESOPs will enable them to be more committed because they care about the fate of their organisation. Furthermore, employees believe that the adoption of ESOPs will enhance their inspiration to perform their duties. The empirical results reveal that employees feel that ESOP adoption will enable them to stay with their organisation regardless of the job given to them. Employees further feel that the adoption of ESOPs will encourage them to align their values to complement those of the organisation. These results are in line with the findings of Brill (2012:2) and Freeman (2007:7).

9.5 RECOMMENDATIONS FOR THE SUCCESSFUL ADOPTION AND IMPLEMENTATION OF ESOPs

The empirical result of this study indicates that trade union responsiveness, takeovers, reforms, awareness of employee benefits, and taxation implication influence the adoption of ESOPs. Furthermore, the empirical results showed that these variables are important features that can be a driving force for the foundation of ESOPs adoption. This section provides recommendations on how management can successfully implement and adopt ESOPs in their organisations.

9.5.1 Trade union responsiveness

Trade unions are organisations established for the principle aim of protecting and advancing the economic interests of their members (employees) within the organisation. Trade unions maintain and protect the rights and privileges of their members through collective action and dialogues with management. The power inherent in the trade union as a collective body grants them the capability to influence the actions and decisions of management through protest and strikes. In order to successfully adopt ESOPs, and address issues relating to ESOP adoption, it is recommended that the following strategies are adhered to:

Strategic collaboration between trade union and management: The adoption and implementation of ESOP will be promoted if trade union perceives no foul play from management. Therefore, there should be a strategic collaboration between management and trade unions. Organisations are required to consult trade unions and inform them of the intention to adopt and implement ESOPs. During dialogues (bargaining and negotiating ESOP terms and conditions), management is advised to share true and concise information regarding ESOP adoption to the trade unions. This will assist to create trust relationship and alleviate the skepticism that trade unions have toward ESOPs. Trade unions will have confidence in the plan if they have knowledge of its process and an understanding of its benefits to their members (employees). Furthermore, trade unions are more likely to have a positive response to ESOP adoption if there is collaborative decision-making between themselves and management. Therefore, trade unions will support, endorse and promote the adoption of ESOPs if management consults them regarding ESOP adoption.

Strategic collaboration between trade union and employees: The relationship between trade union leaders and members (employees) is crucial in promoting the adoption of ESOPs. The duties of trade union heads include representing employees and negotiating the terms and conditions of the ESOP with management, on behalf of employees. Furthermore, trade union leaders are charged with the duty of providing employees with feedback on their deliberations with management. During the deliberation process and the provision of feedback, trade union leaders are required to be responsive to their members. This implies that trade union leaders should represent employees and act in their best interests. Furthermore, trade union leaders should provide their members with quick answers and feedback regarding ESOP-related decisions made by management. This will enlighten members on the subject of ESOP adoption and increase their trust of management in and endorsement of its adoption.

Furthermore, trade union heads should be responsive in creating a good relationship with their members. Trade union heads should encourage members to communicate their views with them by asking questions and sharing opinions on all matters related to ESOPs. Members' trust regarding the plan will increase if trade union heads ensure that management fulfills their promises regarding ESOP adoption. In addition, trade union heads should be responsive to their members by taking immediate action to solve the problems faced by employees regarding the plan. In addition, the adoption of ESOPs will be successful if a safe and favourable space is created for all three parties (management, trade union leaders and employees) to discuss and reflect on challenges and valuable information regarding adoption of ESOPs. Therefore, two-way communication between management, trade union leaders and employees in ESOPs adoption meetings will help in discussing and resolving issues related to ESOPs adoption. A good management team and strong support from shareholders, trade unions and employees are necessary for the successful adoption and operation of an ESOP.

9.5.2 Takeovers

ESOPs can be utilised as an anti-takeover defence mechanism, by target organisations, to block unwanted threats from and hostile takeovers by acquiring organisations. In order for an ESOP to be utilised as an effective mechanism that significantly reduces the probability of a takeover, the government has to intervene. Therefore, it is recommended that the government intervenes by applying the following strategies:

Enactment of takeover laws: The government should enact new policies and laws that will increase the protection of and encourage target organisations to adopt ESOPs as a tool to avoid takeovers. The enactment of constitutional policies and laws regarding takeovers will encourage numerous target organisations to utilise ESOPs to block unwanted takeovers. Furthermore, favourable takeover policies and laws will encourage target organisations to share ownership (ESOP) with employees, so as to prevent acquiring organisations from reaching the 85% share threshold necessary for a takeover. The government should create awareness of ESOP takeover policies and laws, in order to enlighten organisations that ESOPs can manage takeovers, promote stability and create long-term business sustainability.

Welcoming foreign investors: Numerous foreign investors and organisations that have adopted ESOPs should be welcomed, by the government, to have investments in the country. The government should give greater recognition to employee interests by engaging in an agreement with these foreign investors and organisations to introduce and share ownership with employees. The government should also ensure that they increase the protection of employee interests in the event of the foreign organisation divesting its shares, and withdraw from the country.

9.5.3 Reforms

The successful adoption of ESOPs is dependent on government intervention through the creation of reforms in policies and laws. The enactment and amendment of policies and laws by the government is fundamental to bringing positive change to organisations and the economy. Therefore, to ensure the successful adoption of ESOPs, the government should consider the following recommendations:

Reformed laws on tax policies: The adoption of ESOPs will be successful if the government creates reforms in the relevant laws, specifically those which determine how taxes are paid by organisations and employees. In other words, the government should enhance the attraction of and encourage ESOP adoption by introducing advantageous tax reforms. The reform on tax (tax incentives) should be specific and meant for organisations and employees who are willing to adopt and implement ESOPs in their organisations. These government reforms on taxes should also be aimed at simplifying tax rules and encouraging the growth of the adoption of ESOPs.

Reformed laws on shared capitalism: The adoption of ESOPs will be successful if the government creates reforms in laws focused on promoting shared capitalism and the economic empowerment of employees. In other words, the government should ensure that it supports lower income employees by creating reforms in laws that encourage a broader spread of ownership. The reformed policies and laws should specify and explain the process by which organisations can distribute and transfer shares to employees' trust accounts. The government should also create reforms in laws and policies that will simplify tax rules and grant tax incentives to lower income employees. The advantage of creating laws on shared capitalism is that they will promote a sense of ownership for employees, increase organisational success and boost economic growth.

9.5.4 Awareness of employee benefits

Awareness of employee benefits is crucial for promoting the adoption of ESOPs. The lack of awareness of ESOPs is the primary barrier to ESOP adoption. The ignorance of organisations, employees and trade unions regarding ESOPs will allow them to be skeptical of the plan, thus rejecting participation and involvement in it. Therefore, it is possible that organisations and employees will show interest and are likely to adopt ESOPs if they are familiar with the concept. In order to create awareness and promote ESOP adoption, it is recommended that the following should be applied:

Promote ESOPs through media: This refers to the utilisation of media as a strategic medium for boosting the awareness of ESOPs. The government and organisations should resort to utilising advertisement tools to create ESOP awareness and attract the attention of a large number of people. The government and public organisations should create awareness ESOPs by utilising media such as, TV and radio, hand-bills, billboards and internet advertisement tools to create awareness of ESOPs. Furthermore, ESOPs can be promoted by the government and public organisations through the utilisation of cell phone sms, car wraps, social media and pay-per-click (PPC) advertisements. Private organisations can utilise media such as internal notice boards, newsletters, emails, mails to create awareness of ESOPs within the organisation. The government and organisations should focus on informing employees about the benefits of ESOPs. The information on the benefits of ESOPs should include how ESOPs can assist employees to save for retirement and provide financial security, as well as how it can improve organisational performance and boost economic growth. The utilisation of media will promote widespread awareness and consequently boost the interest of employees. Therefore, the promotion of ESOPs via media should be the starting point for creating awareness of ESOPs.

Promote ESOPs through the establishment of agencies: The establishment of ESOP agencies is another step in creating awareness of ESOPs. Management, employees and citizens would want to get more information on what ESOPs are and how they work; furthermore, management, employees and citizens would want to know if they are eligible for participation and what ESOPs can do for them. Therefore, the government should set up agencies that will perform advisory roles and grant services to organisations that wish to adopt and implement ESOPs. The advisory role should include information on the requirements for the adoption of ESOPs. Furthermore, through these ESOP agencies, the government should organize public lectures, seminars or conferences aimed at promoting awareness and the adoption of ESOPs to the general public. The establishment of ESOP agencies by the government will assist in creating greater awareness on employee shareholding (ESOP) and business sense amongst employees, thus promoting ESOP adoption.

9.5.5 Taxation implication

Numerous organisations and employees are burdened by the increase in and payment of high taxes. Organisations and employees evade paying taxes, primarily, due to the high tax rate. Therefore, it is recommended that the government solves the problem of tax evasion by adopting and promoting ESOPs through the creation of tax incentives. Therefore, taxation implication is fundamental to dealing with tax evasion and the promotion and adoption of ESOPs.

Taxation is a complex and major part of ESOPs and ESOP organisations, and employees are not exempted from paying tax. However, the government should promote the adoption of ESOPs by enacting favourable laws on ESOP taxes. This implies that organisations and employees who have adopted ESOPs should enjoy receiving tax incentives. Furthermore, the government should encourage and promote the adoption of ESOPs by allowing employees to defer their income taxes. The enactment and reforms of laws regarding taxes (tax incentives) will increase the attractiveness, adoption and implementation of ESOPs. The federal taxation incentive is one of the major reasons why organisations adopt ESOPs and why ESOP organisations improve financially. This is in line with the discussions of Gamble (1998:529).

9.5.6 Adoption of ESOPs

The success and effectiveness of an ESOP in an organisation depends on how transparent management is with employees regarding the plan, how management communicates the plan and how the ESOP is utilised to empower employees. The research result showed that transparency, two-way communication and empowerment are the mechanisms that form a strong foundation of ESOPs adoption. This implies that transparency, two-way communication and empowerment are effective components of the successful adoption of ESOPs. Management is required to develop strategies around the three mechanisms (transparency, two-way communication and empowerment) to aid the successful adoption of ESOPs. The following section provides recommendations on how management can utilise these components to achieve success in the adoption, management and operations of ESOPs.

9.5.6.1 Transparency

Transparency is an important component in the adoption of ESOPs. Employees expect management to be transparent in their dealings with them regarding ESOP adoption. The failure of management in the area of transparency in ESOP adoption will lead to employees developing doubts and fears related to the plan. Therefore, in order to successfully adopt, manage and operate ESOPs, management is required to consider the following recommendations:

Disclosure of information: The successful adoption of ESOPs depends on how management discloses information to employees and stockholders. Transparency in the disclosure of information implies that management should always provide true, timely, relevant and full information about their actions and activities, in terms of ESOP adoption, to all employees. Management should avoid secrecy regarding the processes, operations, financing and management of ESOP adoption. Furthermore, management should ensure that they disclose full information regarding ESOP adoption, and that they ensure it is understood by all employees. In addition, management should go the extra mile by presenting information on ESOP adoption in languages that are understood by all employees. The purpose of disclosing full, true and relevant information is to enlighten employees and promote trust as well as to foster collaboration between management and employees.

Access to information: Transparency in the adoption of ESOPs also extends to employee rights to access to information regarding all they need to know about ESOPs. In order to ensure that transparency is a key driver of ESOP adoption, management should ensure that it makes available different information sources that can be used by employees in order to gain access to information. Management should make available multiple information sources (newsletters, organisational websites, mails, ESOP brochures and magazines) that can be accessed by employees in order to grow their understanding of ESOPs. Employees should be able to access information sources and review any information regarding ESOPs at any time.

Accountability: ESOPs will be successfully adopted in an organisation if management is committed to performing its duties and is accountable for its actions regarding ESOP adoption. A high level of transparency in the form of accountability is effective in preventing the failure of ESOPs. Management should ensure that they are true to their word and put into action what has been promised. Therefore, the promises and actions of management regarding ESOP adoption must match one another. Management should not make promises they cannot fulfill with regards to ESOP. Management should precisely communicate the benefits of ESOP to dismiss employee's unrealistic expectations (quick riches) of the plan.

9.5.6.2 Two-way communication

The success in the adoption, management and operations of an ESOP depends on how well management communicates the plan to employees. Management will achieve collaboration and support from employees if they effectively communicate and provide the necessary ESOP information to their employees. Furthermore, information regarding ESOP adoption will provide a sense of direction within the workplace. Through two-way communication, employees will understand the change in the organisational structure. Two-way communication will enhance information sharing (knowledge management) which is needed for ESOP decision-making and the improvement of employee participation in the plan. In addition, two-way communication on ESOP adoption will help to eliminate barriers, confusion and errors, as well as to resolve problems, build stronger relationships with employees and create serenity in the workplace. Management should apply the following recommendations on two-way communication, so as to ensure the successful adoption and operation of ESOPs:

Effective downward communication: The sharing of information regarding ESOP adoption should flow from top to bottom; thus, downward communication regarding ESOP adoption should flow from top management to lower level employees. The success and survival of an ESOP depends on the level of communication provided by ESOP advisors, employers and management. Employees need to understand how an ESOP works in order for the plan to operate successfully. Therefore, management should create an effective communication programme by setting up an ESOP communications committee. Management and the ESOP communication committee should devise an orientation programme that will allow employees to have a refresher course or information on the plan. ESOP handbooks that are easily read and understood should be provided in these classes in order to enhance employees' understanding of the plan.

Furthermore, management should ensure that it sets up frequent meetings with employees and sends regular information on all issues related to the progress of the ESOP. Top management is required to transfer all necessary ESOP information and messages to all subordinate employees by utilising multiple communication tools. Management should utilise effective communication material such as source material, internet, blogs, internal bulletin boards, emails, mails, helpline, frequently asked question (FAQs), surveys and newsletters. Effective and frequent communication from top management to bottom employees will solve the challenges associated with employee doubt, fears and participation in ESOPs.

Objective upward communication: Information, messages, feedback, opinions and questions related to ESOP adoption are expected to flow from lower level employees to top management. Management should expect employees to communicate and ask confusing and unrealistic questions about the plan. Management should never act in an imposing manner or be frustrated with employees' lack of knowledge and the slow process of understanding ESOP adoption and its operations. However, management should be patient and provide true and realistic answers to employees' questions and solicit employee input and feedback. Top management's quick response to employees' upward communication is advantageous in eliminating unrealistic expectations, creating true partnership and stimulating trust between employees and management.

In addition, management should allow employees to freely express their feelings, opinions and suggestions concerning ESOP adoption. Management should consider, and attach high importance to, the opinions of all employees regarding ESOP adoption. Furthermore, management should listen with concern and take the recommendations provided by employees seriously. Management should also expect employees to disagree with them concerning certain issues regarding the adoption procedures. However, management should not hold grievances against employees who act in a disagreeable manner; rather, management should act responsibly in managing employee grievances. Failure to act responsibly in dealing with employee grievances may cause a disruptive chaos in the ESOP adoption process.

9.5.6.3 Empowerment

The utilisation of ESOPs is means to empower employees. Employees feel empowered when they become shareholders of the organisation for which they work. Empowerment is fundamental to promoting the successful adoption of ESOPs. An ESOP that is employee-empowering and financially rewarding creates positive employee behaviour within the organisation. In other words, employee empowerment through the utilisation of ESOPs will enhance employee retention, commitment, interest, collaboration with management and participation in organisational activities. However, management will achieve the benefits of empowerment via ESOPs and get the best out of employees if they consider the recommendations made below.

Devolution of responsibility: The employee sense of ownership will increase if management and supervisors transfer a certain degree of rights and authority to employees. In order to operate successfully ESOPs, management should grant employees the right to perform their duties and the authority to make decisions at work. In order to transfer responsibility to employees, management must first detect employees who are capable and willing to take up new responsibilities. In other words, talented, capable and underutilised employees who want to do more should be empowered. Management will achieve the full potential of highly capable and talented employees when they are utilised and empowered.

In order to boost employee morale, management should show employees that they trust and believe in the ability of employees to make sound decisions and perform their duties. Management should trust employees by allowing them to work without interference and supervision. Employee perceptions of trust from management will allow employees to gain confidence and act without fear in performing their duties. Furthermore, management should encourage capable and willing employees to take on added responsibility and be accountable for the duties they perform. A feeling of ownership will be instilled in employees if they take up new responsibilities and are held accountable for decisions regarding the tasks assigned to them. Management must not rebuke empowered employees but counsel, advise and allow employees to learn from their mistakes. ESOPs will be successfully adopted, operated and managed if employees perform duties and make work decisions independently from their supervisors and management.

Participative decision-making: Employees will feel empowered if management encourages and allows them to participate in decision-making regarding the adoption and operations of ESOPs. Management should urge empowered employees to contribute ideas and share opinions regarding ESOP adoption. Furthermore, to encourage participative decision-making, management should share ESOP related information that is needed for decision-making to employees. Management should also grant empowered employees access to any ESOP related information. Employees will utilise the information presented to them by management to make well-informed decisions. In addition, employees will utilise the information gained from management to contribute ideas and offer guidance required for decision-making and problem-solving. The lack of information will allow employees to make incorrect decisions that might have a negative impact on the actualisation of organisational goals.

People-oriented leadership style: ESOPs will be successfully adopted, operated and managed if management encourages self-managed teams. Management should encourage and assign employees as team leaders, to solve work-related challenges. Management should promote a people-oriented leadership style so as to energise team-members. A people-oriented leadership style will help promote team spirit, openness, and collaboration/cooperation as well as employee enablement. Furthermore, employees (team-members) will be geared to work harder knowing that their combined efforts will have a positive impact on organisational success.

Employee training and skill development: Employee training and skill development is fundamental for the achievement of success in ESOPs. Training and skill development will ensure that employees are properly equipped with the skills, abilities and competence required to achieve success in the operations and management of ESOPs. Management should ensure that they set up a training programme aimed at teaching employees how to understand the financial, managerial and operational aspects of the organisation and ESOPs. Management should also train employees on how the goals and objectives of the organisation and the ESOP will be met. Furthermore, management should arrange or encourage employees to register for courses that will develop their skills in the job. Skill development will ensure the growth and future performance of employees.

9.5.7 Organisational performance

The increased performance of an organisation is critical to its long-term sustainability and survival. Organisations that are short of human capital and are underperforming in sales, productivity and profitability are likely to declare bankruptcy and close their business. Organisations seek and adopt strategies that will enable them to achieve success in their stated goals and objectives. Numerous authors have singled out ESOPs as an effective strategy that can raise the performance of an organisation. The empirical results of this study also confirm that the adoption of ESOPs is linked to improved performance, profitability, productivity, employee retention and commitment. Therefore, ESOPs have a positive influence on the attitudes of employees and the performance of the organisation. In order for ESOPs to positively influence the performance of organisations, management should consider the recommendations presented below.

Development of human capital: Organisations are seen as high performers if they are leaders in the development of human capital in the industry. The human capital in a given organisation consists of all the employees who work for that organisation and upon whom the success of the business depends. However, the development of human capital in the organisation is required for a high level of organisational performance. This implies that the nature of employees recruited and the level of training and skill development provided to them will have an impact on organisational performance. Therefore, to achieve success in ESOP organisations, HRM should ensure that they recruit knowledgeable, skilled and talented employees who will be capable of achieving organisational goals and objectives. Furthermore, HRM should ensure that they support, develop and invest in their human capital through training, coaching, mentoring, education and internships. These programmes should aim to develop the skills, knowledge, competence, ability and careers of employees. The advantage of the development of human capital is increased organisational competitiveness and attractiveness as well as employee productivity, innovation, creativity, competence and problem-solving ability.

Improvement of organisational effectiveness: Organisations will enhance their performance if they improve their effectiveness. Organisational effectiveness refers to how effective and prudent organisations are in utilising their resources to achieve their goals and objectives. In order to improve organisational performance, organisations should be prudent in utilising human, capital and technological resources in producing outcomes. In the area of productivity, management should ensure that they improve the reliability, speed and quality of productions to fit the demands of the market. Furthermore, management must strategise and seek areas for improving production. This implies manufacturing quality products through the utilisation of advanced technology and the minimisation of waste, expenditure, time, and money, as well as human and material resources. In addition, organisations should improve their effectiveness by focusing on areas such as leadership, work processes, systems, decision-making, structure and culture. Organisations will enjoy maximum profitability and performance, as well as a competitive advantage, if they are highly effective and efficient in achieving their goals and objectives.

Improvement of creativity and innovation: The continuous improvement in creativity and innovation is necessary to meet the ever-changing demands of customers. In order to enhance performance, organisations must innovate and create unique products or brands that are distinguished from that of their competitors. Organisations should foster a creative and innovative environment that promotes the generation of new ideas. Management should create teams and manage the creative process of each team through interactions, the sharing of ideas and giving rewards and bonuses. Management should improve the creativity and innovation of products by organising talent innovation competitions for high schools and undergraduate students. Organisations may discover groundbreaking ideas from these scholars and students. Management should solicit ratings and reviews from customers, particularly in terms of how they are better able to improve their products. Management can gain valuable insights into how they can improve creativity and innovation of products from the reviews provided by customers. Organisations that are creative and innovative will enjoy a high level of admiration and competition from rival organisations and gain a favourable position in the market. They will be a threat to potential entrants and competitors, and their unique products will be highly imitated by rival organisations.

Improvement of service delivery: The performance of an organisation can be improved by delivering excellent customer service. Delivering excellent customer service improves the relationship between an organisation and its customers. Customers are likely to be loyal and satisfied when they are provided with exceptional services by organisations. Therefore, to improve service delivery, management should carefully consider the right employees for the job. All frontline employees should be competent, friendly and have a solution-focused personality.

Furthermore, HRM should focus on training employees on how they should treat customers. Employees should receive training on communication, empathy, politeness, respect, dealing with difficult customers, giving apologies, and delivering a quick response to customer needs and problems. In addition, organisations must be customer focused; this implies keeping promises made and having the ability to meet the needs and expectations of their customers.

Corporate governance: Corporate governance in ESOPs is fundamental for enhancing organisational success and performance. Corporate governance refers to the process by which duties and authority are allocated amongst shareholders, the board of directors, trustees and management of the organisation. Success in the operations of ESOPs and the organisation lies in the availability of a strong corporate governance system. Therefore, the organisation should have a strong team of skilled and knowledgeable shareholders and directors in place to elect and hire the best candidates required for the operations of ESOP organisation. Furthermore, the duties and responsibilities of all those involved in the management of the ESOP organisation must be properly outlined. This will help avoid a conflict in roles and duties, which might attract litigation from the DOL and the IRS. The development of a strategy and strong leadership (board of directors, trustees and management) amongst the governing bodies is an effective value driver. The right ESOP trustees, CEO/president, committee and management will effectively support the actualisation of the long-term objectives and goals of the organisation.

9.5.8 Employee retention

Retaining skilled and talented employees is fundamental to gaining a competitive edge, generating innovative ideas, enhancing performance and productivity as well as achieving goals and objectives. Numerous organisations suffer from a high employee turnover rate. Organisations lose their skilled and talented employees to rival organisations. Employees quit and resign from their organisations for many reasons that may be known or unknown to HRM. In order to avoid extensive employee turnover, HRM are required to create and adopt strategies to retain the workforce needed for organisational success. Numerous researchers claim that ESOPs are an effective strategy used in retaining skilled and talented employees. The empirical results of this study confirm this notion. However, to maximise the effect of ESOPs on employee retention, organisations should apply the retention strategies outlined below:

Employee training and mentoring: HRM should ensure that they set up a training programme that is aimed at reinforcing and aligning employees' values with those of the organisation. Training will equip employees with the knowledge, skills, competence and abilities needed for goal achievement. Employees will have a high sense of belonging if they view themselves as part of the bigger picture and as a valuable contributor to organisational success. Management and HRM should also start up a mentoring programme that will enhance the relationship between managers and employees. The mentoring programme should be thoughtfully planned and it should promote sustained commitment from the participants in the programme. The mentors should provide expert advice and learning, as well as solicit questions and provide performance feedback, in order to follow up with participants and to ensure that they reach their defined goals.

Employee appreciation: HRM should appreciate and recognise employee performance with rewards and incentives. Salary increases and bonuses should be used by HRM to secretly reward employees for their exceptional performance. Rewards provide financial or physical benefits for employees. Furthermore, HRM should utilise non-financial tools and ceremonial actions to publicise the exceptional performance and efforts of employees. This implies sending positive messages or showing appreciation (thank you, pat on the back, gifts, awards) for a job well done. This approach has a psychological impact on employees. HRM should also use non-financial and financial incentives to induce employees to act towards the achievement of targets, goals and objectives. Financial incentives such as ESOPs encourage employee retention, productivity and performance.

Employee communication: Management should ensure a flow of communication (two-way communication) between themselves and all employees. Management should ensure that they effectively communicate the goals, objectives, vision, mission and target to employees. Employees cannot operate in a vacuum, therefore, management should provide them with concise information required for goal achievement. Employees are likely to be satisfied when they utilise information to achieve goals and objectives. Management should also accept and consider the views, opinions and advice of all employees. Constant feedback to employees' suggestions and questions should be provided by management, in order to allay employees' fears. Employees will have a sense of worthiness; this will boost their morale and cause them to perform their jobs better if they perceive that their input is considered by management. The effective flow of communication ensures that management and employees have common purpose and interest in goal achievement.

Instill a positive culture and working environment: Employees will feel good and happy about coming to work if their working environment is positive. Therefore, management should instill and foster a positive culture and working environment that promotes mutual respect for culture, gender, race, age and sexuality. Furthermore, management should encourage honesty, teamwork, unity, transparency, positive attitudes and excellence. Management should also ensure that the working environment is fun-filled and conducive to the needs of all employees.

Employee career and growth opportunities: HRM should engage in conversations with employees to discuss their personal goals regarding career growth. HRM should create opportunities of growth and inform employees that there is a possibility for them to grow in the organisation. HRM should pay for and encourage employees to take up new educational courses. HRM should provide internal career development and advancement training, and provide opportunities for employee promotion.

Employee work-life balance: Management should create policies, procedures, services and programmes that will help employees to create a balanced life on the job, and outside thereof. These policies will support employees to balance the changing demands and to manage multiple responsibilities arising from their personal life, work and society. Management should provide flexible working arrangements (leave of absence or employee autonomy over their hours), employee assistance programmes, family oriented policies (emergency child care parental assistance, parental leave) and a family-friendly organisational culture; these are all examples of work-life balance policies that recognise the needs of employees outside work. An employee’s job will have a personal meaning to them and they will prefer their current job above an attractive job offer from another organisation, if they have a work-life balance. These policies will help lower the stress of employees, increase productivity and support staff retention.

9.5.9 Employee commitment

The goals and objectives of organisations cannot be actualised unless the workforce is committed. Employees who are committed have a sense of connection to and a bond with their organisation. The degree of connection and the bond that employees have with their organisation allows them to understand the goals and objectives that need to be achieved in the organisation. ESOPs increase the commitment of employees in their organisation. The results of this study show that the adoption of ESOPs will result in employee commitment to their organisation. In order to maximise the effect of ESOPs on employee commitment, the aforementioned strategies on retention should be applied to commitment, given the fact that both practices are essentially the same.

In summarising the strategies, management should clearly define responsibilities, goals and objectives to employees. Employees should know what is expected of them and to whom they report. The clarity of goals and objectives will help employees make well-informed decisions, which are necessary for the achievement of tasks. In addition, employees' values will complement that of the organisation, if the organisation is clear about its goals and objectives.

Furthermore, management should effectively and regularly communicate and provide information on the progress of the organisation to all employees. Employees will be loyal and trust management if they perceive credibility in the information provided to them. Suggestions, ideas and questions should be solicited from employees. Management should provide regular and constructive feedback to the questions and suggestions received from employees. Training and career development, as well as an orientation programme, should be arranged by management. This should focus on developing the skills, knowledge, competence and abilities of employees. Employees will be inspired to perform their job when they know that they have the skills for it.

In addition, management should enhance employee commitment by providing a fair and competitive salary. Management should enhance employee commitment by providing genuine recognition for employee achievement, through the utilisation of rewards and incentives. Management should ensure that it provides a positive culture and good working environment for employees. Management should foster a working environment of unity, respect and teamwork. This strategy will allow employees to be inspired to come to work and perform their duties well. Management should create work-life balance policies that recognise the needs of employees outside of work. Employees will be committed to staying with their organisation if management recognises and meets their internal and external needs.

9.6 CONTRIBUTION OF THE STUDY

This study contributed to the body of knowledge on ESOPs as it created awareness, in Nigeria, on the benefits associated with using ESOPs as part of a financial incentive scheme. Through this study, management, trade unions and employees had a better understanding of the benefits and implications of adopting ESOPs. The literature of this study added to the existing literature on ESOPs globally and in Nigeria. This study contributed to the body of knowledge by building on literature that can be utilised by organisations and the government to start up ESOPs. The literature provided in this study can be used by organisations and government to learn the steps in the adoption and implementation of ESOPs.

This study investigated and identified a number of incentive schemes utilised in Nigeria. Through empirical investigation, it was seen that the incentive schemes utilised in Nigeria provide limited advantages to organisations and their employees. Therefore, this study contributes to the existing body of knowledge as it shed light on possibilities for the improvement of existing incentive schemes in Nigeria. Therefore, this study created awareness and introduced ESOPs as an effective strategic and incentive to create a win-win situation for both organisations and their employees. This study showed that ESOPs are an improved and smarter way of enhancing desired organisational outcomes and creating financial security for employees.

Furthermore, the ESOP, as an incentive scheme, was unknown in Nigeria and research on it has never been conducted in the country. This study is the first academic research on ESOPs performed in Nigeria. The study significantly contributes to academia as it fills the gap that existed in Nigerian literature in terms of creating awareness and the adoption of ESOPs. In addition, one of the major limitations of this study was the lack of existent literature on the subject of discourse. Therefore, this study is significant as it expands the existent literature and knowledge on ESOPs, globally.

This study made a meaningful contribution to the body of knowledge by developing a theoretical framework that identified factors influencing the adoption of ESOPs. The theoretical model can be utilised by future academics and researchers to test new theories and study new situations relating to ESOPs. In addition, the theoretical model and empirical results can be applied by academics and researchers to gain a greater understanding and knowledge of ESOP adoption, and of the factors that influence its adoption. One of the most important contributions of this study is the provision of solutions to the problems identified in this study. The empirical results of the study can be applied by the government and the relevant organisations to solve issues related to poverty, retirement benefits, organisational performance and survival, as well as employee commitment and retention.

The theoretical model of ESOPs developed in this study is a significant contribution to the body of knowledge on the subject. Organisations and the government can utilise the theoretical model developed to understand and learn how to setup ESOPs. The theoretical model can assist the government to understand how they can financially help organisations setup trust as the governing body of ESOPs. The government can utilise the literature and theoretical model to understand how to create reforms on tax laws and enact laws supporting the establishment of a trust to hold the shares. The theoretical model developed in this study can also guide government on how to bring sources that can help with the foundation of ESOPs for the benefits of organisations and employees. Academics, scholars and future researchers can utilise the theoretical model and apply the empirical results of this study to understand, identify and solve issues pertaining to factors that influence the adoption of ESOPs.

This study contributed to the body of knowledge by identifying underlying reinforcers or attributes that can be used as a strategy in the adoption of ESOPs. In other words, the empirical results showed that important features such as trade union responsiveness, takeovers, reforms, awareness of employee benefits, trusts and taxation implication are strategies that can influence the successful adoption of ESOPs. Furthermore, this study significantly contributes to academia by expanding the current understanding of the adoption of ESOPs and the factors influencing their adoption. This study identified that mechanisms such as, transparency, two-way communication and empowerment are strategies that will bring benefits (organisational performance, employee retention and employee commitment) to the organisations and employees. Therefore, transparency, two-way communication and empowerment are critical factors to be considered by management when adopting and operating ESOPs. The underlying features and mechanism of ESOPs identified in this study will allow organisations to promote ESOPs and enjoy the numerous benefits of ESOPs. However, the benefits of ESOPs will not be enjoyed if organisations fail to put into practice or apply the underlying features and mechanism needed for ESOPs adoption, implementation and operations.

9.7 LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

The limitations of this study are the influential factors and shortcomings that were not controlled by the researcher. The limitations of this study include factors such as time constraints, sparse literature on ESOPs, lack of awareness by respondents and incomplete questionnaires. The time frame of this study was limited to a period of two years; in order to complete this study, the researcher was required to work within the stipulated time frame.

Furthermore, literature concerning the subject matter (ESOP) was sparse. Therefore, the researcher experienced problems gathering secondary data on the subject matter, as a result of the dearth of extant literature on ESOPs. The lack of respondents' awareness of ESOPs was a major limitation of the study. The respondents were not familiar with the subject matter and this resulted in slow completion of, poorly completed and/or incomplete questionnaires. This problem increased the number of rejected questionnaires and increased the costs required for printing additional questionnaires.

This study recommends that future researchers and academics apply the theoretical model and empirical results in investigating new situations and testing new theories related to ESOPs. In addition, future researchers should conduct more empirical studies on ESOPs in order to create widespread awareness. Research that focuses on strategies to overcome negative factors influencing the adoption of ESOPs should also be explored in future.

9.8 CONCLUSION

This study set out to investigate factors that influence the adoption of ESOPs in Nigeria. Furthermore, the study investigated the influence of ESOPs on organisational performance, employee retention and employee commitment. The existing literature on incentive schemes and ESOPs was extensively consulted in order to understand and gain knowledge of the topic of discourse. This study gathered primary data through the utilisation of a questionnaire to get answers to the research questions and problems, and to test the hypotheses.

The study results reveal that trade union responsiveness, reforms, awareness of employee benefits and taxation implication reinforce the adoption of ESOPs based on transparency. The study results further reveal that trade union responsiveness, takeovers, reforms, awareness of employee benefits and taxation implication effectively influence the adoption of ESOPs based on two-way communication. In addition, the study results reveal that trade union responsiveness, takeovers, reforms, awareness of employee benefits and trust positively influence the adoption of ESOPs based on empowerment.

The study further reveals that adoption of ESOPs based on transparency, two-way communication and empowerment leads to organisational performance, employee retention and employee commitment. The empirical findings from the reviewed literature and the empirical results of this study affirm that ESOPs are strategies that can be utilised by organisations and the government to enhance organisational effectiveness and the economy. ESOPs can also be used to satisfy the financial and retirement needs of employees.

Finally, the significance of this study cannot be overemphasised. This study, being the first of its kind in Nigeria, filled the gap that existed in the Nigerian literature in respect of the awareness and adoption of ESOPs. Furthermore, the study resolved the need to improve incentive schemes in Nigeria. Through its empirical findings, this study reveals that ESOPs can boost the economy, enhance desired organisational outcomes and meet the financial and retirement needs of employees.

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Annexure A:
Cover Letter

DEPARTMENT OF BUSINESS MANAGEMENT
Summerstrand South Campus
Tel. +27 (0)41 504 2031; Fax. +27 (0)41 504 4840

July 2016

Dear Respondents

I am a student of the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa. I am currently studying towards a PhD in the Faculty of Business and Economics Sciences. I am conducting research on the adoption of Employee Share Ownership Plans (ESOPs) in Nigeria. ESOP is a financial incentive that allows employers to share capital ownership with employees through the granting of an organisation's shares at no cost. Employers create a trust with the main purpose of holding the organisation's shares for the benefit of its employees. The employer contributes newly issued shares to the trust, which is further allocated to the accounts of individual employees participating in ESOPs. Through participation in ESOPs, employees become full or partial owners of the organisation for which they work. Furthermore, employees participating in ESOPs are allowed to sell back the free shares, that they have accumulated over time, to their organisation or in a stock exchange market.

ESOPs allow employees to accumulate wealth over the long term and they help employees save money for retirement. The adoption and utilisation of ESOPs is beneficial for employers as it increases productivity, performance, resilience and survival. This study aims to identify factors that influence the adoption of ESOPs in Nigeria. Empirical investigation on the influential factors of ESOPs will help the researcher provide recommendations regarding the adoption of ESOPs in Nigeria. The aim of this study is to seek and promote various means by which organisations can utilise ESOPs as a financial incentive to achieve both employee and organisational goals and objectives.

It would be greatly appreciated if you could assist with the completion of this questionnaire, so as to make this study a success. Please note that the information provided will be treated as strictly confidential and will be used solely for research purposes.

Kind regards

Prof NE Mazibuko and Dr J Krüger
Research Coordinators

Ms VB Akponah
Researcher

Annexure B:
Questionnaire

Section A

This questionnaire comprises of two sections. Section A investigates perceptions regarding ESOPs on a seven-point scale (1 = strongly disagree, 2 = disagree, 3 = disagree somewhat, 4 = undecided, 5 = agree somewhat, 6 = agree, 7 = strongly agree). Please indicate the extent to which you agree with these statements by means of a cross (X) in the appropriate block.

		Strongly disagree	**Disagree**	**Disagree somewhat**	**Undecided**	**Agree somewhat**	**Agree**	**Strongly agree**
	If ESOPs is adopted in my organisation, I believe that the trade union will…							
1	provide its members with feedback regarding ESOP decisions made by organisations.	1	2	3	4	5	6	7
2	act in my best interest in matters related to ESOP decisions.	1	2	3	4	5	6	7
3	take action quickly, in order to solve problems faced by employees regarding the plan.	1	2	3	4	5	6	7
4	allow employees to have different opinions on all ESOP matters.	1	2	3	4	5	6	7
5	negotiate the ESOP terms and conditions with management on employees' behalf.	1	2	3	4	5	6	7
6	encourage employees to communicate their views on all ESOP adoption matters.	1	2	3	4	5	6	7
	In my organisation, I believe that…							
7	management will fulfil their promises regarding ESOP adoption.	1	2	3	4	5	6	7
8	the motives and intentions of management on ESOP adoption will be beneficial to me.	1	2	3	4	5	6	7
9	management will share true ESOP adoption information with me.	1	2	3	4	5	6	7
10	management will take their time to explain changes within organisational structure as a result of ESOP adoption.	1	2	3	4	5	6	7
11	management will consider me eligible to be granted shares	1	2	3	4	5	6	7
12	I will go along with management's ideas in order to support the adoption of ESOPs.	1	2	3	4	5	6	7
	I believe that government will …							
13	welcome the inward investment of foreign ownership when ESOP is adopted.	1	2	3	4	5	6	7
14	support ESOP adoption as a strategic tool to avoid hostile takeover.	1	2	3	4	5	6	7
15	increase protection for my organisation when engaging with foreign partners to introduce ESOPs.	1	2	3	4	5	6	7
16	give greater recognition to employee interests regarding the adoption of ESOPs.	1	2	3	4	5	6	7
17	accept ESOPs as a strategic tool that promotes stability to manage takeovers for long term business sustainability in the country.	1	2	3	4	5	6	7
18	identify takeover bids that will result in large share premiums that create affordability of ESOP adoption.	1	2	3	4	5	6	7

	I believe that the government creates reforms for ESOP adoption…							
19	to increase the level of productivity in the economy.	1	2	3	4	5	6	7
20	to promote shared capitalism amongst employees.	1	2	3	4	5	6	7
21	to financially support lower income employees by providing tax incentives.	1	2	3	4	5	6	7
22	to promote a sense of ownership for employees.	1	2	3	4	5	6	7
23	to enable my organisation to gain tax incentives.	1	2	3	4	5	6	7
24	to support employees to gain economic empowerment.	1	2	3	4	5	6	7
	In my organisation, management will…							
25	find it is necessary to disclose details regarding the financing of ESOP adoption.	1	2	3	4	5	6	7
26	be accountable to all employees for its actions regarding ESOP adoption.	1	2	3	4	5	6	7
27	present me with ESOP adoption information in a language I understand.	1	2	3	4	5	6	7
28	provide me with information that fully encompasses what I want to know about ESOP adoption.	1	2	3	4	5	6	7
29	enable me to review information regarding ESOP adoption at any time.	1	2	3	4	5	6	7
30	a favourable environment will be created for me to communicate ESOP adoption opinions with management, without fear of dismissal.	1	2	3	4	5	6	7
	In my organisation…							
31	management will make me feel that my opinions regarding ESOP adoption are important.	1	2	3	4	5	6	7
32	management will be willing to accept different opinions from employees regarding ESOP adoption.	1	2	3	4	5	6	7
33	management will be willing to consider employees' views regarding ESOP adoption.	1	2	3	4	5	6	7
34	I will be allowed to disagree with management opinions regarding ESOP adoption.	1	2	3	4	5	6	7
35	employees will be encouraged to be open and candid with each other regarding ESOP adoption matters.	1	2	3	4	5	6	7
36	I expect that the recommendations that I make regarding ESOP adoption will be heard and seriously considered by all levels of management.	1	2	3	4	5	6	7
	In my organisation…							
37	management will be available to discuss my suggestions regarding ESOP adoption.	1	2	3	4	5	6	7
38	decisions regarding ESOP adoption will be made through consultation with all employees.	1	2	3	4	5	6	7
39	management will consider my opinions as to why they should adopt ESOP.	1	2	3	4	5	6	7
40	all the decisions that affect the adoption of ESOPs will be taken after the participation of all employees.	1	2	3	4	5	6	7
41	employees will have regular meetings with management to discuss how ESOP adoption can improve their performance.	1	2	3	4	5	6	7
42	Before the adoption of ESOPs, management will give employees the opportunity to air their views.	1	2	3	4	5	6	7
	If ESOPs can be adopted in my organisation, I							

	will…							
43	be assigned as a team leader to solve work related challenges.	1	2	3	4	5	6	7
44	work without interference from management and supervisors.	1	2	3	4	5	6	7
45	improve my skills and abilities in my job.	1	2	3	4	5	6	7
46	have the authority to make decisions at work.	1	2	3	4	5	6	7
47	accept full responsibility regarding tasks assigned to me in my job.	1	2	3	4	5	6	7
48	have the competence to work effectively.	1	2	3	4	5	6	7
49	I believe that ESOP adoption will allow my organisation to grant me shares at no cost.	1	2	3	4	5	6	7
50	I understand that the Revenue Dept. has the power to receive certain information about my participation in ESOP.	1	2	3	4	5	6	7
51	I understand that ESOPs encourage employee shareholding.	1	2	3	4	5	6	7
52	I believe that ESOPs create business sense amongst employees.	1	2	3	4	5	6	7
53	I know that ESOPs provide some source of retirement incentive.	1	2	3	4	5	6	7
54	I know that ESOP adoption requires an establishment of a trust to manage its affairs.	1	2	3	4	5	6	7
	In my organisation I will consider the adoption of ESOPs, if it will…							
55	offer employee incentives that are valuable to me.	1	2	3	4	5	6	7
56	exceed the financial proceeds currently offered in my incentives.	1	2	3	4	5	6	7
57	offer me financial incentives that will benefit me in the future.	1	2	3	4	5	6	7
58	offer employee incentives that cater for all my financial needs.	1	2	3	4	5	6	7
59	assist me to save more for retirement.	1	2	3	4	5	6	7
60	provide financial security for me and my family.	1	2	3	4	5	6	7
	I believe that for an ESOP trust to be established my organisation…							
61	has shareholder(s) who will be willing to sell all their shares to the trust.	1	2	3	4	5	6	7
62	has shareholder(s) who will be willing to sell part of their shares to the trust.	1	2	3	4	5	6	7
63	will be willing to contribute the organisation shares for the benefit of its employees.	1	2	3	4	5	6	7
64	will be willing to get a loan to contribute its own shares for the benefit of the employees.	1	2	3	4	5	6	7
65	will be willing to ask ESOP trustees to use loan proceeds to purchase employer stock from selling shareholder(s).	1	2	3	4	5	6	7
66	will allow ESOP trustees to manage assets held in the trust for the benefit of the employees.	1	2	3	4	5	6	7
	If ESOPs are adopted, I believe that…							
67	the amount of tax I will have to pay will be reasonable considering the benefits received.	1	2	3	4	5	6	7
68	my retirement savings will increase to cover my	1	2	3	4	5	6	7

	income tax.							
69	the Revenue Dept. will be successful in dealing with tax evaders.	1	2	3	4	5	6	7
70	I will be willing to accept my civic responsibility to pay taxes correctly.	1	2	3	4	5	6	7
71	I will have to declare all additional income to reduce the amount of tax I pay.	1	2	3	4	5	6	7
72	I will be willing to accept tax charges for collecting ESOP proceeds before the due date.	1	2	3	4	5	6	7
	If ESOP is adopted, my organisation will…							
73	be regarded as being a cost effective leader in the industry.	1	2	3	4	5	6	7
74	be regarded as a leader in the development of human capital in the industry.	1	2	3	4	5	6	7
75	ensure that it remains profitable to sustain the organisation's long-term survival.	1	2	3	4	5	6	7
76	improve the service delivery of employees.	1	2	3	4	5	6	7
77	improve organisational efficiency through high productivity levels.	1	2	3	4	5	6	7
78	improve its corporate governance through better management practices.	1	2	3	4	5	6	7
79	become more creative and innovative in meeting customers' demands.	1	2	3	4	5	6	7
	I want ESOPs to be adopted in my organisation because…							
80	my work gives me satisfaction.	1	2	3	4	5	6	7
81	I see a future for my career growth within my job.	1	2	3	4	5	6	7
82	it gives me an opportunity to work until retirement.	1	2	3	4	5	6	7
83	I would prefer my current job above an attractive job offer from another organisation.	1	2	3	4	5	6	7
84	it offers me financial rewards.	1	2	3	4	5	6	7
85	it gives me a sense of ownership.	1	2	3	4	5	6	7
86	I have a sense of worthiness that boosts my morale to do my job even better.	1	2	3	4	5	6	7
	I want ESOPs to be adopted because…							
87	I have a high sense of belonging with my organisation.	1	2	3	4	5	6	7
88	my job will have personal meaning to me.	1	2	3	4	5	6	7
89	I feel staying with my organisation is more of a desire than a necessity.	1	2	3	4	5	6	7
90	I care about the fate of my organisation.	1	2	3	4	5	6	7
91	I continuously ensure that my values complement that of the organisation.	1	2	3	4	5	6	7
92	I am inspired to do my job in this organisation.	1	2	3	4	5	6	7
93	I will stay with my organisation regardless of any job given to me.	1	2	3	4	5	6	7

SECTION B

Section B seeks to solicit biographical information from respondents. Please indicate your response to the options provided by making a cross (X) in the appropriate block.

1. Please indicate your gender

Male	1	Female	2

2. Please indicate your age

20-29	1	30-39	2	40-49	3	50-59	4	60+YRS	5

3. Please indicate your level of education

1	2	3	4	5	6	7	8
No formal education	Primary school	Junior secondary school	Secondary school	Diploma	Bachelor's degree	Post graduate degree	Other

4. Please indicate your organisational sector

Manufacturing	1	Retailing	2	Wholesaling	3	Services	4	Other	5

5. Please indicate your employment level

1	2	3	4	5	6
General employee	Supervisor	Admin secretary	Assistant manager	Manager	CEO/General Manager

6. Please indicate the length of your current (tenure) employment

1	2	3	4	5
1-5 years	6-10 years	11-15 years	16-20 years	21 years +

7. Please indicate if you belong to a trade union

Yes	1	No	2

8. Please indicate if your organisation is listed on the stock exchange market

Yes	1	No	2

Thank you for your time and cooperation

Annexure C:
Language Editing Letter

13 December 2016

To Whom it May Concern

I herewith conform that I have proofread the following thesis:

Title of Study:	***THE ADOPTION OF EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs) IN NIGERIA***
Student Name:	**Voke Akponah**
Student Number:	**212385240**
Institution:	**Nelson Mandela Metropolitan University (NMMU)**
Qualification:	**PhD Business Management**

I suggested relevant changes, where I saw fit, using the "Track Changes" function in MSWord; the student could thus either accept or reject the suggested changes at her own discretion.

I trust that this is in order.

Kind regards,

Nancy Morkel
MA English (NMMU), PGDHET (UFH), BA Hons English (UPE), BA MCC (UPE) Editing Methodology (SU), Editing Practice (SU)
Nancy.morkel@nmmu.ac.za

Annexure D:
Ethics Clearance

ETHICS CLEARANCE FOR TREATISES/DISSERTATIONS/THESES

Please type or complete in black ink

FACULTY: Business and Economic Sciences

SCHOOL/DEPARTMENT: Business Management

I, **Mazibuko N.E.** the supervisor for **Akponah V. B.** (212385240) a candidate for the degree of Doctor of Philosophy, Business Management with a thesis entitled:

The Adoption of Employee Share Ownership Plans (ESOPs) in Nigeria

considered the following ethics criteria *(please tick the appropriate block):*

	YES	NO
1. Is there any risk of harm, embarrassment of offence, however slight or temporary, to the participant, third parties or to the communities at large?		X
2. Is the study based on a research population defined as 'vulnerable' in terms of age, physical characteristics and/or disease status?		X
2.1 Are subjects/participants/respondents of your study:		
(a) Children under the age of 18?		X
(b) NMMU staff?		X
(c) NMMU students?		X
(d) The elderly/persons over the age of 60?		X
(e) A sample from an institution (e.g. hospital/school)?		X
(f) Handicapped (e.g. mentally or physically)?		X
3. Does the data that will be collected require consent of an institutional authority for this study? (An institutional authority refers to an organisation that is established by government to protect vulnerable people)		X
3.1 Are you intending to access participant data from an existing, stored repository (e.g. school, institutional or university records)?		X

4. Will the participant's privacy, anonymity or confidentiality be compromised?		X
4.1 Are you administering a questionnaire/survey that:		
(a) Collects sensitive/identifiable data from participants?		X
(b) Does not guarantee the anonymity of the participant?		X
(c) Does not guarantee the confidentiality of the participant and the data?		X
(d) Will offer an incentive to respondents to participate, i.e. a lucky draw or any other prize?		X
(e) Will create doubt whether sample control measures are in place?		X
(f) Will be distributed electronically via email (and requesting an email response)? Note: • If your questionnaire **DOES NOT** request respondents' identification, is distributed electronically and you request respondents to return it *manually* (print out and deliver/mail); **AND** respondent anonymity can be guaranteed, your answer will be NO. • If your questionnaire **DOES NOT** request respondents' identification, is *distributed via an email link and works through a web response system (e.g. the university survey system); **AND*** respondent anonymity can be guaranteed, your answer will be NO.		X

*Please note that if **ANY** of the questions above have been answered in the affirmative **(YES)** the student will need to complete the full ethics clearance form (REC-H application) and submit it with the relevant documentation to the Faculty RECH (Ethics) representative.*

and hereby certify that the student has given his/her research ethical consideration and full ethics approval is not required.

_________________________ _________________

SUPERVISOR(S) **DATE**

_________________________ _________________

HEAD OF DEPARTMENT **DATE**

_________________________ _________________

STUDENT(S) **DATE**

Please ensure that the research methodology section from the proposal is attached to this form.