

“The Effects of Employee Ownership in the Context of the Large Multinational : an Attitudinal Cross-Cultural Approach.”

PhD Thesis Summary

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This thesis is organized in two parts containing two chapters each. The first part is about the construction of the research model and hypothesis. In Chapter 1 we have first defined the concept of employee ownership (EO) and showed its practice and development in different developed countries. We have then reviewed the economic and financial literature which has studied the effects of EO on corporate performance. In a second section, we have started building a theoretical model of the attitudinal effects of EO from the social-psychological literature. In Chapter 2, we presented the results of a qualitative study by multi-actors semi-structured interviews. The aim was to explore the EO practice in the context of the large multinationals and to adapt the theoretical framework as well as the measurement instruments to this specific context. The second part of the thesis is about the quantitative study. In Chapter 3, the construction and validation of measurement instruments is presented in detail. In Chapter 4 finally, we present the data analysis, the tests of the research hypothesis and a discussion of the results. In conclusion, the theoretical, methodological and practical contributions are discussed, as well as the limits of the research.

General Introduction

The general introduction starts with a discussion about the empirical research on EO. We show that a body of economic and financial research addresses the relationship between several measures of the concept of EO and several indicators of corporate performance. While the results are somewhat inconsistent, they suggest on average, that EO has a positive effect on corporate performance. Moreover, most of such studies explain those positive effects by changes in employee attitudes and behaviours. This drove us to explore the social-

psychological literature which studies the attitudinal and behavioural effects of EO. The review of this second body of literature suggests that it has been mainly developed by Anglo-Saxon scholars collecting data from Anglo-Saxon companies. Moreover, the large majority of such studies concern small businesses like worker cooperatives and employee buyouts. In France, employee ownership is much more a matter of large multinationals. In our view, such companies represent a specific context since employees generally own a small percentage of capital and because the employee individual contribution has an insignificant impact on corporate performance. Also, large multinationals usually implement a global stock ownership plan, which means that they offer stock to employees from different countries and having different national cultures.

The general problem definition of this study is therefore as follows: *what are the attitudinal effects of employee ownership in the context of the large multinational, and to what extent do cultural values matter?*

This problem definition is subdivided into three research questions:

- Does EO have attitudinal effects in the context of the large multinational?
- If it does, through which processes?
- Do employee cultural values moderate employee emotional reactions to EO?

Part 1: Toward a model of the attitudinal effects of employee ownership in the context of the large multinational.

In this first part, we draw on past research and a qualitative study to generate research hypotheses about the attitudinal effects of EO and on the moderating role of cultural values.

Chapter 1: Employee Ownership, Culture and Attitudes: Literature Review and Proposition of a Theoretical Model.

Section 1: Employee Ownership: Definition, Practices, and Organisational Effects.

We start this first section by showing that EO is a multidimensional concept and that the practice embraces some very different realities. Drawing on Klein (1987), we define EO as the rights related to stock ownership: the mere ownership of stock of one's company (intrinsic

rights), the financial benefits of stock ownership (extrinsic rights) and the rights to share in the company information and decision making (instrumental rights).

We describe then EO in France, the United Kingdom, the United States, Italy, Spain and Belgium. We conclude by suggesting that the practice of EO in these different countries shares several common elements: (1) employees own some stock of the company they work for both directly or through some kind of trust, (2) they come to own this stock at a discount price compared to the market price, (3) they benefit from tax advantages compared to other individual stockholders, (4) they cannot sell their stock within a time frame of 2 to 7 years. Overall, this means that it is possible to compare EO in different countries.

This first section ends with a review of the literature on the effects of EO on corporate governance. We conclude by showing that those effects are often attributed to changes in employee attitudes and behaviors.

Section 2: Towards a Model of the Effects of Employee Ownership: An Integration of the Literature.

In this second section, we chose and defined some variables representing EO and employees attitudes. The two intrinsic variables are the “objective” individual stockholding (“*how many shares do you own?*”) and the “subjective” individual stockholding (“*do you think that you own few-an average amount-a lot of shares?*”). The two extrinsic variables are the financial value of the individual stockholding and the perceived variation of the stock price. Finally, the instrumental variables are the perceived participation in decision making as a consequence of EO, the quality of the information received as a consequence of EO and a second order variable of philosophical commitment toward EO composed of the company’s philosophical commitment and the employee philosophical commitment.

We also chose to measure four work attitudes: work motivation, job satisfaction, affective organizational commitment and turnover intention. These are the most studied employee attitudes in the context of EO. Finally, we also measured the employee tendency to invest in their company’s stock, because of its relevance for companies.

In reviewing the social-psychological literature on EO, we found that there was a lack of theoretical explanations of the attitudinal effects of EO.

In order to fill this theoretical gap, we first analyzed the theories of motivation, satisfaction and commitment, to determine the extent to which EO had the potential to influence such variables in the context of the large multinational. In a subsequent analysis we used the

theories about the effects of ownership, compensation and participation in order to determine the extent to which each element of the EO construct had the potential of influencing motivation, satisfaction and affective organizational commitment.

Overall, this theoretical analysis suggests that EO in large multinationals can have a positive effect on satisfaction and commitment but not on motivation. In fact, according to the expectancy theory (Lawler III, 1971, Vroom 1964) for financial incentives to be effective in terms of motivation, there must be a link between employee individual efforts and the financial return, which is not the case with EO in large multinationals.

Finally, from past empirical research and our theoretical analysis, we proposed a set of relations between the variables describing perceptions of EO and the attitudinal variables.

A last point refers to the relevance of cultural values on the attitudinal effects of management practices.

Since the study's level of analysis is the employee individual level, we defined culture from the psychological point of view, as *“a collective mental programming i.e. that part of our conditioning that we share with other members of our nation, region or group but not with members of other nations, regions or groups.”* (Hofstede 1983).

According to the paradigm for confirmatory cross-cultural research of Lytle and colleagues (Lytle et al. 1995), we selected four cultural dimensions believed to affect the cross-cultural generalizability of the relationships between EO and attitudes. Masculinity was selected because it concerns how people value material possession and money. Individualism was selected because of the study of individual ownership and because EO can be seen as an incentive which is related to group performance. Uncertainty avoidance was chosen because employee preferences for employee ownership can be related to their perception of risk. Finally, Power Distance was selected because past research has shown that it explains the attitudes towards participative management. Some specific research hypotheses were therefore proposed such as: *“the level of masculinity will influence the relationship between the (subjective) individual stock ownership and affective commitment.”*

Chapter 2: Adapting the Research Model to the Context of the Large Multinational: An Exploratory Study on Employee Ownership Professionals and Employee Shareholders.

The aim of Chapter 2 was to complete and contextualize the theoretical framework by adapting it to the real world of EO in the French large multinationals. It was also used to develop measurement instruments adapted to this specific context.

Section 1: Research Design and Data Collection.

Qualitative data were collected by semi-structured interviews. We tried to interview people from as many different functions as possible to get different views. Overall, 32 people were interviewed comprising EO managers (9), specialized consultants (3), EO services managers (2), presidents of associations of employee shareholders (4), trade unions executives (2), presidents of institutions related to EO (3), employee shareholders (10). The interviews were recorded, transcribed and analyzed by the technique of thematic content analysis. Finally, the general theme of the discussions was the relationship between EO and performance.

Section 2: The Results of the Qualitative Study

The results of this study have been organized as follows. We have first shown all the reasons to believe that EO might have a positive effect of corporate performance. People have mentioned social-psychological reasons, as well as financial and tax-related reasons. In a second part, we have presented the arguments suggesting that performance can also determine EO. For example, companies that perform well tend to make employee stock offerings, and employees in such companies tend to prefer investing money in their company's stock.

Section 3: The Contributions to the Quantitative Study

Each research proposition made from the literature has been compared to the results of the qualitative study to propose the final research hypothesis.

Moreover, some measurement instruments used in the second part of the thesis were directly developed from people's interviews. For example, to develop the scale of employee preference for EO, we referred to those situations where employees had to choose between EO and other benefits. The scale of perceived participation as a consequence of EO was also developed by generating items according to the type of participation that people evoked during the interviews.

Part 2: Measurement Instruments, Test of the Model of the Attitudinal Effects of Employee Ownership and Moderating Effects of Cultural Variables.

Chapter 3: Construction and Validation of the Measurement Instruments.

We decided to develop several measurement instruments for different reasons. Concerning the measures of cultural variables, the available scales were composed of too many items or were defined in a way that didn't fit, in our view, with the dominant meaning of the concept. Concerning the variables related to EO, existing scales were not meaningful within the context of the French large multinationals. Moreover, the cross-cultural character of this research, required the use of measurement scales showing measurement equivalence.

When comparing different groups on a latent variable, it is important to ascertain that the measurement instruments operate in an equivalent way across groups, i.e. they measure the same thing in the same way. Otherwise, differences between groups in mean levels or in the pattern of correlation of the measures are potentially artifactual and may be substantively misleading. This is called "measurement equivalence or invariance".

In order to maximize our chances to get equivalent measures for respondents coming from different nationalities, we have integrated the literature about cross-cultural research and the classical literature on scale development to propose a method for developing measurement scales for cross-cultural research.

The most powerful and versatile statistical approach for testing for measurement invariance is multigroup confirmatory factor analysis. In practice, the procedure consists of testing the equivalence of the parameters of the measurement model, with each parameter being considered as a level of equivalence.

In order to keep the questionnaire at an acceptable length, we conducted two data collections by electronic surveys developed in French, Italian, Spanish, British English and American English. The first survey contained only the scales of cultural values and was administered to French, Italian, Spanish, British and American nationals. 1,156 questionnaires were collected. The data was factor analyzed, and coefficient alphas were assessed. Items performing poorly

were deleted. Structural and metric equivalence were assessed at exploratory level. This drove us to correct some translation problems.

The remaining items were added to the measures of employee attitudes and perceptions of EO and a second survey was administered to employee shareholders working in French Large Multinationals. Overall, after dropping some surveys for different reasons, we received 1,517 completed surveys from respondent of 8 different nationalities.

Again, the psychometric properties were assessed and measurement equivalence was evaluated through multigroup confirmatory factor analysis. Overall, the results showed acceptable levels of equivalence for all the scales, suggesting that comparisons were possible.

Chapter 4: Employee Ownership, Attitudes and Cultural Values: Tests of the Research Hypothesis.

Three main groups of research hypothesis were tested:

1. Does employee ownership have positive attitudinal effects in the context of the large multinationals?

In order to test this hypothesis, we needed to compare the attitudes of employee shareholders and non-shareholders working in the same company. This was only possible for the Credit-Agricole-LCL group for which we had 827 employee-shareholders and 100 employee non-shareholders at our disposal. Latent means invariance for motivation, satisfaction, affective commitment and turnover intention were assessed by structural equation modelling.

The results were as follows:

TABLE 1 : Work attitudes, comparison shareholders/non-shareholders.

Constructs	Means Differences	Critical Ratios
Affective Commitment	0.369	3.758
Work Motivation	0.260	2.270
Turnover Intention	- 0.297	- 2.802
Job Satisfaction	0.186	2.176

As shown in table 1, the latent means of affective commitment, work motivation, and job satisfaction were significantly higher for employee shareholders and the latent mean of turnover intention was significantly lower. Those results seem to suggest that EO does have positive attitudinal effects. However, one could question the direction of causality: does EO

affect attitudes, or are motivated, satisfied or committed employees more likely to be willing to purchase stock of their company?

Two other results tend to suggest that EO does affect employee attitudes.

First, none of the four attitudes correlate significantly with employee preferences for employee ownership. Moreover, there is a negative relationship between the perceived positive change in the stock value and turnover intention.

Thus, having provided evidence that EO does affect employee attitudes in the context of the large multinational, the next step was to determine the process by which those effects occurred.

2. Which are the processes by which EO affects employee attitudes?

In order to reply to this question, we have specified a structural model composed of the variables describing EO, the four attitudes and the employee preference for EO.

Figure 1 presents the full model with regression coefficients and significance levels.

The main results can be summarized as follows:

- (1) Unlike most of the existing empirical literature, our results corroborate the intrinsic model in two ways. We therefore suggest that, when employees reach an ownership threshold (i.e., they own a certain amount of shares of their company), they start being aware of their status as stockholders and it is at that moment that EO produces its attitudinal effects. On the contrary, when they have not reached this threshold, they do not personally associate with the financial risk and/or opportunities for financial returns. As a result, they may not feel that the company's problems are their problems too.
- (2) Unlike most of the existing empirical literature, our results also show that the extrinsic variables are not the key elements in the attitudinal effects of EO. VAL 1 and VAL2 only explain turnover intention and employee preference for EO.
- (3) However, in accordance with the social-psychological literature on EO, the instrumental variables seem to be the most relevant in explaining the attitudinal effects of EO. The company's philosophical commitment to EO is a second order factor composed of two factors: the employee's philosophical commitment and the management's philosophical commitment. As shown in Figure 1, the second order factor determines perceived participation, perceived quality of the information related to EO, employee satisfaction and EO preferences. Perceived participation determines

affective commitment, and perceived quality of information determines EO preferences and work motivation.

- (4) Finally, according to our theoretical framework, the results show that EO affects work motivation only indirectly through satisfaction and commitment. In fact, drawing on Herzberg's two factors theory, we suggest that EO-related information is a hygiene factor which can only demotivate the workforce if the quality of information is considered as being poor, but cannot motivate employees if it is perceived as good.

3. Employee Ownership and Attitudes: Do Cultural Values Matter?

Since the mean scores of the cultural variables by nationality did not show sufficient variance, we could only perform our analysis at individual level.

We created two groups for each cultural variable composed respectively of people with a mean score $<$ and $>$ to 2.5 out of 5.

Type I hypotheses, i.e. hypotheses suggesting that culture causes groups to differ in their placement on a specific construct, were tested by latent means invariance analysis.

Type II hypothesis, i.e. hypotheses suggesting that the relationships between constructs differs across cultural groups, were tested by using multigroup tests of invariance of a causal structure by structural equation modelling.

Overall, the main results are as follows:

Individualism moderates the relationship between the subjective individual ownership and affective commitment. The regression coefficient is .05 (n.s.) for the low individualism group and .17 ($p < .001$) for the high individualism group. This indicates that the individual level of ownership affects affective commitment only for individualistic employees.

Power distance moderates the relationship between participation and commitment. The structural regression coefficient of the relation between participation and commitment was .325 ($p < .001$) for the low power distance group and .166 ($p < .05$) for the high power distance group. A test of the structural regression coefficient invariance showed that the difference was significant. This indicates that there is a cross-cultural difference — of degree rather than kind — where participation is considered to be positive for both groups.

Masculinity also moderates the relationship between subjective individual ownership and affective commitment. While the regression coefficients are similar (.12 for the low masculinity group vs. .124 for the high masculinity group) the test of invariance shows that

the difference is significant as a result of sample size differences (respectively N=1031 vs. N=149).

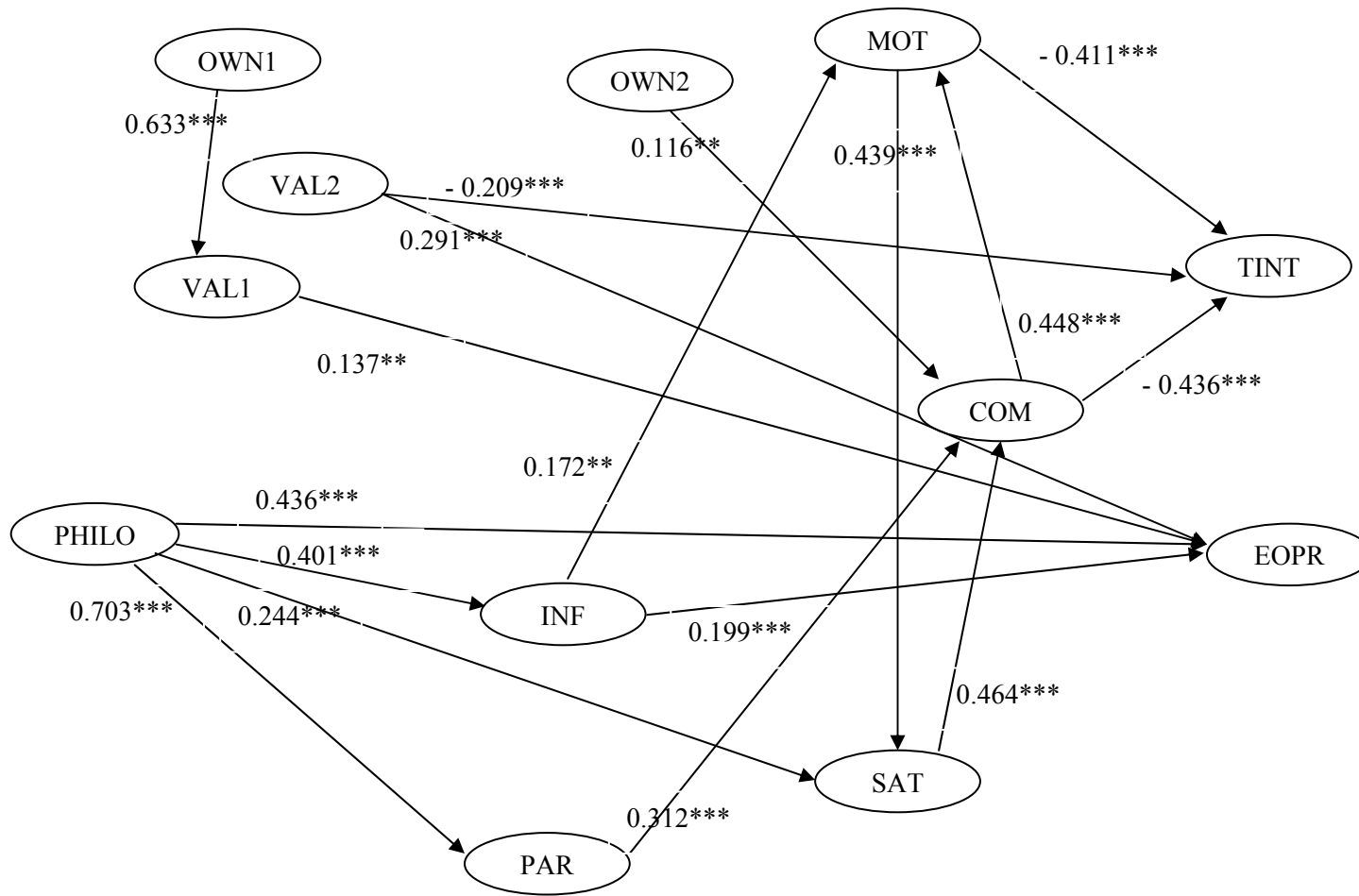


Figure 1 : A General Model of the Attitudinal Effects of Employee Ownership in the Context of the Large Multinational. **p<0.01 ***p<0.001
 N.B.: OWNQ1= Objective Individual ownership, OWNQ2= Subjective Individual Ownership, VAL1= static financial value, VAL2= dynamic financial value, PHILO= company's (management and employee) philosophical commitment to EO, PAR= perceived participation, INF= perceived quality of the information, SAT= job satisfaction, COM= affective organizational commitment, MOT= work motivation, TINT= Turnover Intention, EOPR= Employee preference for EO

Finally, uncertainty avoidance has a negative effect on EO preferences. In this case, it was hypothesized that the employees' financial culture would moderate this relation. In fact, it was believed that employees having a financial culture would act more as rational agents and would tend to diversify their investments. Two groups of employees were formed. Employees working in the financial department of their company formed one group and employees working in other departments formed the other group. While the regression coefficient of the relation between uncertainty avoidance and EO preference was higher for the high financial culture group (-.24 ($p < .01$) vs. -.086 ($p < .05$)), the difference was not significant.

Discussion and Conclusion.

In the last part of the thesis, all the results were discussed in the light of existing literature. The conclusion summarizes the thesis and presents the theoretical, methodological and practical contributions.

The main theoretical contributions are as follows.

First, this research is one of the first to study the attitudinal effects of EO in the specific context of large multinationals. Moreover, it provides a well developed theoretical framework addressing the theoretical gap of past research. We contend that this represents an important step toward more rigorous empirical research on EO. The qualitative study also provides a very rich data set with many concrete examples which allow the reader to clearly visualize the real world of EO in the French multinationals. This research is also one of the few to study the moderating effect of cultural values of employee emotional reactions to EO. Finally, this study contributes to the field of cross-cultural management by providing some multidimensional definitions of some commonly researched cultural dimensions.

The main methodological contributions are as follows.

First, by integrating the literature on cross-cultural quantitative research and the classical psychometric theory, we have proposed some guidelines for developing measurement scales for cross-cultural research. All the steps have been analyzed, from items generation to the statistical tests. Second, we have used and described in depth, different possibilities of structural equation modelling rarely used in the research in management and business.

Finally, this study can serve as a source of information and suggestions for both EO professionals and policy makers. Following are some examples of such contributions evoked in the thesis.

In the qualitative part of this study, we have shown that many EO managers did not believe that EO could have positive attitudinal effects especially in the context of the large multinationals. This study gives some empirical evidence that this view is mistaken. Contemporary trends, both in terms of international competition and in the labour market, indicate that having a loyal and committed workforce is increasingly becoming a key element of competitive advantage. In this context, EO seems to be a particularly interesting management practice because it has demonstrable advantages in terms of financial, tax and HRM terms.

Above these general considerations, we also made some specific suggestions. For example, our results show that employee perception of participation rights as a consequence of EO are a key determinant of the attitudinal effects of EO. Since, in the context of the French multinationals, “participation” concerns essentially representative participation, we suggest that it is important to create a link between employee shareholders and the individuals who represent them on the board of directors or who vote their stock at the general meeting. How to create this link is a matter of discussion because it must fit with each company’s culture, structure, and industry norms. For example, in telecommunications companies, it could be possible to organize an electronic vote of employee shareholders to tell the representatives how to vote their stock. More generally, in order to feel that they participate in the decision making process, employee shareholders must perceive a link between them and their representatives and between the representatives and the board of directors at the general meeting.

Our results about the relevance of participation can also be considered equally important for policy makers. A practical example concerns the new French law for the development of participation and employee ownership which is being discussed in parliament. The FAS – French federation of the associations of employee shareholders – has proposed eight amendments to the law, underlying the need for developing tools to provide employees participation in decision making. For example, the FAS has proposed to develop some councils of direct employee shareholders, in order to create a global entity able to represent them and to give them an opportunity to actually use their voting rights as real tools of participation.