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The impact of employee share ownership on the performance of French companies in the SBF 120 index during the crisis period

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Abstract: This paper is primarily devoted to the further development of these new findings in management research. The aim is to empirically test the potential contribution of employee ownership to performance in French listed companies in the SBF 120 index. With this in mind, a review of the management literature will allow us to develop hypotheses about the possible causal effects of the presence of employee stock ownership on firm performance, especially in times of crisis. These hypotheses are then tested on a sample of 120 firms over a three-year period. As the results confirm the positive impact of employee ownership on firm performance, we recommend further research on companies included in indices other than the one we studied.

Keywords: Employee ownership; Performance; Agency theory; Property rights theory; COVID-19.

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1. Introduction

Employee ownership is an important lever for employee motivation and a force for attracting and retaining talent. This is because companies with a strong employee ownership culture seem to value capital more than companies with a very weak culture.

It is time to revive the great Gaullist idea of participation: employees become shareholders in the company, they participate in the profits made by the company, and in addition to their salary, they add purchasing power.

Employee share ownership is directly associated with the most established profiles, which were previously quite distant from the company, especially in large groups. Young people see it as an extra boost that they did not necessarily expect.

This political will is all the more necessary in the current context: employee ownership is a very powerful tool for the resilience of SMEs and SMIs. It allows to accompany the growth of the company by linking the employees to the results. Employee ownership creates a community of interests, but also a community of projects, which has proven to be very powerful, especially in times of crisis.

Employees are co-owners and participate in projects. The stakes of economic recovery and the risk of conflicts in a post-Covid society have put this topic more than ever at the centre of the debate. The undisclosed analysis of the SBF120's performance in the employee ownership panorama of the company truly integrates the mechanism of shared value creation into the company's long-term development strategy.

As a result, our study led us to ask the following question:

Does employee ownership impact the performance of French companies belonging to the SBF 120 index in a period of unprecedented health crisis?

The answer to this problem will allow to reach both theoretical and empirical objectives, such as

- The construction of an empirical model with company performance as explained variable and interest and control as explanatory variable.
- The application of this model to the French context for companies belonging to the SBF 120 index.
- Identifying the factors influencing business performance during the health emergency.

According to our research question, we will first propose a theoretical framework. The research model we have constructed is also presented. The empirical evidence is then presented by means of quantitative research. Finally, we will end our work with a conclusion that will explore some perspectives, limitations and main contributions of the study.

1- Literature review :

1.1 Conceptual framework :

1.1.1 The impact of employee ownership on the performance of French companies :

Created in 2005, the company specialises in employee savings and retirement and employee share ownership, first distributing free shares to its first employees on a discretionary basis and then making them available to all employees through a dedicated FCPE (its capital savings plan).

At present, French legislation stipulates that companies with more than 50 employees and which have made a profit in the previous year must participate, so around 5 million employees are covered by the system - this may involve a share in the company's capital or profits, the government wants to simplify and generalise.

The analysis of the motivations of some French companies' managers to use employee share ownership allows a better understanding of its role in value creation as described above (Hirigoyen, 1997).

The history of the philosophical and economic foundations of employee ownership leads to a distinction between the two approaches: the first one is humanistic and considers employee ownership as "a technique and an instrumental achievement that values the person".

The second approach is productivist and seeks to reconcile the French with their industry in order to increase the company's financial resources.

Managers can use employee ownership for anti-takeover protection. Employee shareholders constitute a stable, constrained and dependent shareholder "customer". Their shares are usually deposited in FCPEs for a fixed period of several years. In such cases, employee shareholder representatives may be subject to direct and/or indirect pressure from management.

It could be argued that the presence of employee shareholder representation (Desbrières, 1997) in a governing body (such as a board of directors or a supervisory board) helps to reconcile the interests of employees with those of other stakeholders.

In the face of such social and economic debates, the introduction of employee ownership seems to have only advantages.

Therefore, holding a small stake is unlikely to trigger an increase in positivity that would lead to additional value creation. In addition, particularly favourable and attractive conditions are offered to employees who wish to acquire shares.

Employee ownership offers many benefits to SMEs, including financing through increased equity and improved financial structure and ratios. Although investment in human capital is often the consensus, it is a different business issue from the approval of decisions by shareholders and management.

Employee ownership creates a team spirit within the company in terms of rewarding collective performance, as opposed to bonuses that reward individual performance. Moreover, the payment of bonuses entails huge costs in terms of social security contributions and taxes.

For the lawyer (Erwan Bordet, 2020) of the law firm Jeausserand Audouard, specialised in assisting company managers, states: "Employee share ownership aligns the interests of the company's managers and employees with those of the shareholders. The more these schemes are deployed, the more the team has an economic incentive. To achieve the company's growth objectives.

According to (Hélène Truffaut, 2020), employee ownership offers many advantages to SMEs, notably through increased equity financing, improved financial structure and ratios, and thus favourable access to debt in the future. Several international studies have shown that bank rates are lower.

Secondly, employee ownership can be an argument to attract and retain the best employees. Finally, employee ownership sends a strong positive signal to financial markets about the growth and financial health of the company, which can enhance the credibility and reputation of the company among stakeholders, as employee share purchases are seen as a sign of confidence in its growth and sustainability.

Employee ownership is indeed a means of financing for SMEs and SMIs, providing them with more equity capital and thus helping them to develop their growth strategies. For those who benefit from it, it is both a potential financial advantage and an additional growth driver for the company and its managers, whose interests are actually more aligned with those of the employees.

According to (Olivier de Fontenay ,2016) focus on Sense of belonging, talent retention, cohesion... The HR virtue of keeping employees in the capital, regularly conducting the SBF 120 study in 2016 This is no longer a secret for Eres, which has worked with AS in secret. 4% of SMEs in operation.
For employees, the expansion of such a system means a significant income advantage. It is also a motivational tool for managers as part of their overall remuneration policy. It is a financial and emotional link to the company's destiny, particularly valuable in times of crisis.

1.1.2 Employee ownership boosted by the COVID-19 crisis :

Employee ownership is a key component of wealth, especially in times of crisis. As the first damages of the Covid-19 pandemic are slowly appearing in the economy, the French government wanted to generalise employee share ownership, measures to increase the purchasing power and motivation of the team.
This topic is gaining momentum as the Covid-19 crisis stimulated employee ownership and was applauded in the post-Covid-19 recovery efforts. It is good for employees from an economic point of view, and it is also good for companies. Many people are attracted to this model, even if it is a medium-sized model. Some experts predict that 100% of small companies will soon be using it.
(Pierre-Emmanuel Sassonia,2020), deputy director of Eres, points out: The year 2020 continues to appeal to companies with high employee participation, especially in a health context that has not favoured the rise in activity, especially with the introduction of teleworking as a worker.
This extension has long been called for by some economists and has been a trend in the press since the beginning of the post-Covid crisis. For example, the liberal economist (Xavier Fontanet, 2020) has defended the deepening of employee ownership. This would be a much better way to strengthen the economy than increasing taxes, and would represent a positive evolution of capitalism, allowing everyone to participate more in the success of a company.

1.2 Agency and property rights theory :

Theories mobilised	Justification
Agency theory (Holmström ,1979)	From the point of view of shareholder governance, employee ownership finds a conceptual justification through agency theory: This concentration reflects the difference in information asymmetries between the interests and differences of the firm's stakeholders, notably shareholders and managers have considerable latitude to define investment policies that do not maximise the value of the firm because of the information asymmetry characterising their relationship with shareholders
Theory of property rights. (Desbrières, 2002)	The implementation of this approach introduces a new source of power for the company, defined by the use of additional shared rights. Employees have the opportunity to attend shareholder meetings and have their say. Their votes. In addition, French legislation provides for employees to have a seat on the board of directors.

	From this point of view, employee ownership is more akin to a punitive role, which helps to strengthen governance systems. The motivation of employees and shareholders to effectively control managers is a function of increasing specific investments in their company, including human capital and sharing. Employee shareholders have strong incentives to invest in control.

2. sample Data and methodology :

In this section, we present the sample selected for our study, the data and the econometric methods used. Our sample consists of French companies that are part of the SBF 120 index during the crisis period. The index groups the 120 largest companies by market capitalisation and trading volume on the Euronext Paris market. Our three-year analysis period (one year before and one year after the crisis) enabled us to build up a substantial panel, enrich the results and improve the estimates and econometric tests. This period marked the introduction of major French governance standards, corresponding to the widespread introduction of employee savings schemes in listed companies.

Initially, we had 120 companies that belonged significantly to the SBF 120 index over the study period. However, financial companies such as banks, insurance companies, investment companies, brokerage firms and portfolio management companies are excluded from the sample. The latter have a specific financial and accounting structure compared to industrial and commercial enterprises. Companies with a large amount of missing data are also removed from the sample, finally the study covered 52 companies.

This manual collection is done by consulting the website of (AMF) and/or the company's annual report available on the company's website. Once the ownership and governance data have been collected, we associate the corresponding financial variables with each company in the sample.

3. Construction and validity of our research model :

The research variables were drawn from previous work by (Thomsen and Pedersen, 2000; Guedri and Hollandts, 2008; Mard et *al.* 2014) which we present below:

3.1. Performance variable :

Explained variable: performance measurement

The first two variables are purely performance accounting variables:

- Return on assets (ROA) from 2019 to 2021: Gross operating surplus / Total assets
- Return on equity (ROE): Net profit/equity.

3.2 Variable of interest :

Employee ownership: 1 if the company adopts an employee ownership structure, otherwise 0

3.3 Control Variable :

Table 1: Factors influencing company performance

Dual structure : This variable is used to reduce the entrenchment of leaders and their behaviour and to maximise supervision.	0 if the company is incorporated as a board of directors. 1 if the company is set up as a supervisory board and management board.
Duality: The governance structure This variable is used to set up the room for manoeuvre for managers	1 if the CEO is also the Chairman of the Board, 0 otherwise
Debt	Debt ratio of the company in the year 2019 to 2021 = Total debt/Total assets
Size	Neperian logarithm of the company's total assets between 2019 and 2021
Company dynamism	Growth in the company's turnover between n and n-1 for each year.
Volatility	Standard deviation of annual stock returns in the year preceding the date from year 2018 to year 2020.
Former public company : French legislation imposes a tax on the dedication of part of the shares to employee shareholders	The value 1 if the company was previously a public company otherwise 0.
Sectors of activity	The sector of activity of the company according to the ICB first level classification 1 and 2

Source: Compiled by us.

All the variables selected allow us to formulate our basic hypothesis:
Employee ownership has a positive effect on the performance of French companies in the SBF 120 index in times of crisis.

4. Results and discussion :

4.1 Econometric model :

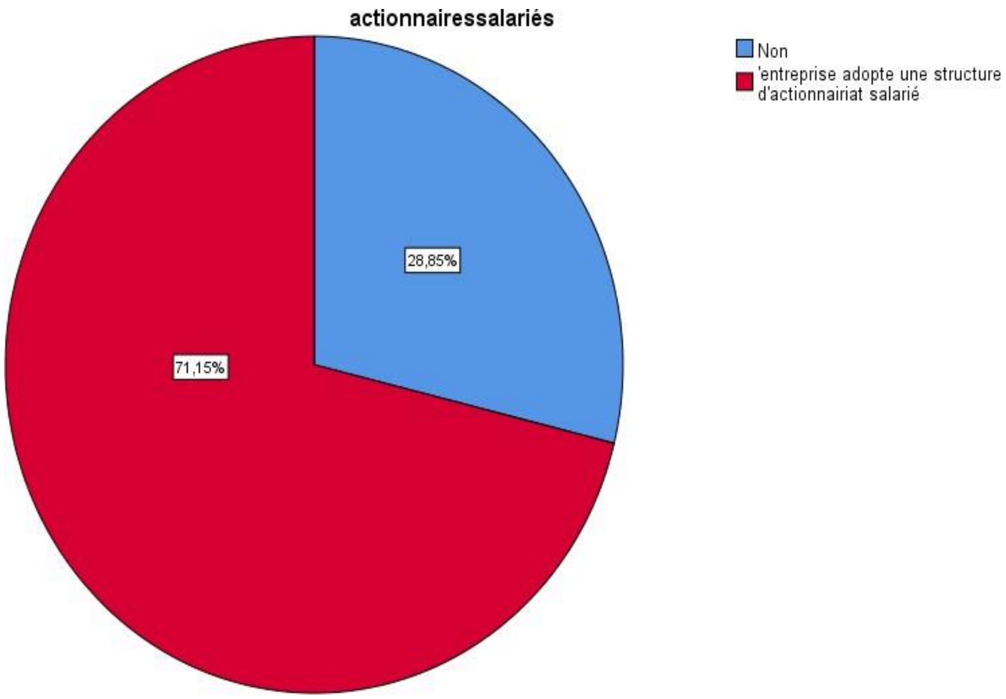
The objective of our study is to examine the link between employee ownership and performance on a 3-year basis of SBF 120 companies. This study period allowed us to use a dynamic regression model. The use of dynamic norms is very important for the accuracy of the result: endogenous employee ownership and performance issues need to be properly addressed. In fact, most studies related to performance and governance variables use ordinary least squares (OLS) estimators (Wintoki et al., 2012).

Therefore, our regression model is as follows:

- $Perf_{it}$ is the selected performance measure (ROA and ROE) of company i at date t.
- $Control_{it}$ is the set of control variables of company i at date t .
- (Act_Sal_{it}) The employee ownership variable.
- ε_i The error term which contains all the factors not taken into account in the model.

4.2 Statistical Results :

Graph 1: Distribution of the employee ownership variable



Graph 1 on page 7 shows the distribution of the employee ownership variable and 71.15% of companies have an employee ownership structure.
We also note that just 28.85% of the companies in the SBF 120 index do not adopt an employee shareholding structure, a steady progression of employee shareholding within the SBF 120.
Source: SPSS output

Econometric results :

The choice of the analysis method is very important because it must allow to establish a relationship between the variables. In order to study the impact of employee ownership on company performance, we proceed by checking the normality of the distribution of our sample. The statistical validation of the overall quality of the models is appreciated by the econometricians and is done on the basis of the expected signs for 2019 , 2020, 2021 .

Table 2 Sample Normality Tests :

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistics	Ddl	Sig.	Statistics	ddl	Sig.
Debt	0,507	156	0,000	0,059	156	0,000
Size	0,079	156	0,019	0,906	156	0,000
Volatility	0,103	156	0,000	0,951	156	0,000

Dynamism	0,290	156	0,000	0,477	156	0,000
ROA	0,376	156	0,000	0,302	156	0,000
EWN	0,472	156	0,000	0,068	156	0,000

Source: SPSS output

According to this table (Table N°2) on page 07/08, there are two tests to test the normality of the distribution, namely: the Kolmogorov-Smirnov test and the Shapiro-Wilk test. Given the size of our sample, we chose the Kolmogorov test for large samples. The results show P values above the 5% threshold. Therefore H0 is plausible and our distribution follows a normal distribution

Table 3: Homogeneity of variances.

ANOVA

		Sum of squares	ddl	Medium square	F	Sig.
Debt	Intergroups	7558,280	2	3779,140	1,079	,343
	Intra-group	536015,991	153	3503,372		
	Total	543574,271	155			
Size	Intergroups	5,526	2	2,763	1,384	,254
	Intra-group	305,358	153	1,996		
	Total	310,884	155			
Volatility	Intergroups	2,245	2	1,123	1,179	,310
	Intra-group	145,727	153	,952		
	Total	147,973	155			
Dynamism	Intergroups	9366101709,901	2	4683050854,951	9,036	,000
	Intra-group	79293287976,922	153	518256784,163		
	Total	88659389686,823	155			
ROA	Intergroups	,732	2	,366	,113	,893
	Intra-group	493,567	153	3,226		
	Total	494,299	155			
EWN	Intergroups	36,992	2	18,496	1,038	,357
	Intra-group	2725,670	153	17,815		
	Total	2762,662	155			

Source: SPSS output

Our test in table 3 on page 08 shows that the plus-value for our variables is higher than 0.05, which confirms the homogeneity of the variances.

After checking the two criteria of the parametric test, namely the normality of the distribution and the homogeneity of the variance. We perform independent sample t-tests to provide answers to our hypotheses.

First, we split the sample into two distinct subgroups: The first subgroup, called group 1, corresponds to firms with adoption frequencies strictly less than two. The second subgroup, called 2, corresponds to companies with an adoption frequency greater than or equal to 2. The following table presents the main results of this study.

Table 4 t-test statistics

Employee shareholders		N	Average	Standard deviation	Mean standard error
ROA	No	45	0,2857	1,22658	0,18285
	Company adopts an employee ownership structure	111	0,6163	1,96470	0,18648
EWN	No	45	1,2820	0,85569	1,17106
	Company adopts an employee ownership structure	111	0,932	7,13778	0,01308

Source: SPSS output

The results in Table 4 on page 09 show that the average ROA is (0.6163) for group 1 adopting an employee ownership structure and (0.932) for the ROE variable.

Table 5: Levene's test for equality of variances

		F	Sig.
ROA	Assumption of equal variances	1,421	0,235
	Assumption of unequal variances		
EWN	Assumption of equal variances	9,637	0,002
	Assumption of unequal variances		

Source: SPSS output.

The table above n°5 on page 10 presents the Test of Equality by comparing the variance of the 2 groups. We notice that the plus-value of the ROA is 0.235 which allows us to conclude that the variance of the 2 groups are equal.

Table 6: t-test for equality of means.

t	Ddl	Sig (bilateral)	Average difference	Difference in standard error	Confidence interval of the difference at 95%.	
					Lower	Superior
-1,048	154	0,296	-0,33053	0,31549	-0,95378	0,29272
-1,266	127,820	0,208	-0,33053	0,26117	-0,84730	0,18624
1,601	154	0,311	1,18880	0,74236	-0,27772	3,65531
1,015	44,011	0,116	1,18880	1,17113	-1,17144	2,54904

Source: SPSS output.

Table 6 of the t-test for equality of means on page 11shows that the surplus value is 0.296 and 0.31 greater than 0.05 for companies adopting an employee ownership structure.

These steps allow us to confirm the impact of employee ownership on the performance of French companies belonging to the SBF 120 index.

Conclusion:

Employee ownership in France involves a mutual commitment between the state, companies, professional formulators (accountants and financial advisors) and trade union sections to establish this fair formula for sharing the value created. In doing so, it activates the instinctive levers of organisational behaviour aimed at improving organisational inclusion, participation and performance.

Employee participation is about generalising, simplifying and extending the results of this article. Paying employees large sums of money instead of symbolic sums. Shortening the time limit for filing a claim and further simplifying the tax system.

Similarly, our study has great managerial interest; environmental, social and governance perspectives will benefit from these mechanisms in financing and business success as the government considers implementing new measures to increase employee ownership of these companies; this is for the private equity player to do and facilitate. Clear obligations. This data will become increasingly important as a major change in corporate governance is accompanied by the obligation to appoint employee directors to the board.

Despite the above contributions, our study is not without limitations. The main limitation is the scarcity and unavailability of AS data for France.

The unavailability of the variable "share of capital held by employees" leads to the use of the variable of adoption or not of the employee ownership structure as a measure of our variable of interest.

In line with our study, we are considering several lines of research:
An analysis of the impact of employee ownership on company performance ;
A comparative analysis of the impact of employee ownership before and after the health crisis
We invite future research to study the subject of the SA from different aspects of experience. Indeed, our work can be complemented by interviews with managers and professional prescribers, an in-depth analysis of its specificities, and a more detailed analysis of the specificities of employee ownership in France.

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