Employee Stock Bonus and Financial Performance: Evidence from Taiwan's Electronic Industry

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INTRODUCTION

The issue of employee stock ownership has received substantial attention among academicians and practitioners in the past decades. However, the results of the performance effects of employee stock ownership are not conclusive. Some researchers have argued that employee stock ownership is an important incentive mechanism for enhancing firm performance. By granting stock ownership to employees, employee stock ownership makes employees become co-owners in a firm that, in turn, aligns the interests of employees with those of shareholders (Jensen and Meckling, 1976; Chen and Huang, 2006). Employee-owners become profit-minded and tend to operate the company more effectively and efficiently that leads to enhanced firm performance and market value (Chang, 1990; Fryes, 2004; Chen, 2007).

On the other hand, some researchers have argued that employee stock ownership provides employees voting rights that may promote management entrenchment because employees with a large block of voting stock are generally aligned with the management for job security. As a result, the excessive perk consumption by managers and employees impairs firm performance and shareholder wealth (Livingston and Henry, 1980; Chen, 2003).

Aside from the disagreement regarding the impact of employee stock ownership, previous research on this relevant issue tends to mainly focus on the United States (U.S.) and the European markets. Little research reports the efficacy of employee stock ownership in the emerging markets. Therefore, this paper aims to clarify *how* employee stock bonus; one form of employee stock ownership influences financial performance by using a data set of Taiwanese electronic firms.

Taiwan's electronic industry provides an interesting source to investigate the effects of employee stock ownership on firm performance for three main reasons. First, Taiwan electronic industry is an important investment target from the perspective of many international investors. Taiwan's competitiveness primarily comes from the electronic industry. During 2004, Taiwan enjoyed the highest share of the global market for over 30 IT products, including notebook and IC products.[1] Foreign investors have invested heavily in these Taiwanese IT firms. Additionally, according to Yiannis Mostrous, editor of the Silk Road Investor, "Taiwan could be the biggest out-of-consensus investment story — along with Japan — as the first decade of the 21st century comes to a close". Mostrous also ranks Taiwan fourth in what he calls Fresh Money Buys, behind Russia, Hong Kong and India.[2] Therefore, the results in this research will be of particular interest to international investors.

Second, Taiwanese electronic firms have distributed stock bonus to employees significantly in the past years. For example, the percentages of publicly held electronic firms distributing employee stock bonus are around two-thirds in the sample period 1996-2001. The high ratio of the employee stock bonus distribution provides an excellent opportunity to investigate the influence of this incentive mechanism.

Finally, the impact of the employee stock ownership is controversial among practitioners. Some executives consider the employee stock bonus as an important incentive for enhancing firm performance. For instance, Stan Shih, the chairman of Acer Inc., suggests that employee stock bonus can motivate employees, increase work efficiency, and lead to positive impact on both organizational development and shareholders.[3] However; others have criticized the employee stock bonus as an excessive benefit to employees but only at the expense of shareholders.

In brief, this paper examines the effect of employee stock bonus on financial performance for electronic firms listed on the Taiwan Stock Exchange (TSE) over the sample period 1996-2001. The plan of this paper is as follows. Section 2 discusses the institutional background of employee stock bonus and industry characteristics of electronic industry in Taiwan. Section 3 reviews literatures and develops hypotheses. Section 4 outlines the sample and the methodology used in this paper. Section 5 reports the empirical results. Section 6 contains a conclusion.

INSTITUTIONAL BACKGROUND

Employee Stock Bonus in Taiwan

There is a surge in the number of Taiwan electronic firms awarding stock ownership to their employees in recent years. One important factor for the proliferation of employee stock bonus is that it is important for electronic firms to attract talented high-tech professionals. With the property of very short product life cycle, electronic industry is a highly competitive

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Table 1: Distribution of Taiwan Listed Electronic Firms by Employee Stock Bonus over the Sample Period 1996-2001

Employee Stock Bonus\Year	1996	1997	1998	1999	2000	2001
Non-Employee-Bonus Firms	19 (31.2%)	17 (25.0%)	29 (35.8%)	30 (31.6%)	35 (25.7%)	65 (35.7%)
Employee-Bonus Firms	42 (68.8%)	51 (75.0%)	52 (64.2%)	65 (68.4%)	101 (74.3%)	117 (64.3%)
Total	61 (100%)	68 (100%)	81 (100%)	95 (100%)	136 (100%)	182 (100%)

industry and starves for talented high-tech professionals to work hard on innovation. Thus, employee stock bonus is used as a mean to recruit, retain and motivate qualified personnel in order to enhance the efficiency of business operations.

Table 1 displays the distribution of TSE-listed electronic firms by employee stock bonus over the sample period 1996-2001. The percentages of TSE-listed electronic firms awarding stock bonus to their employees are around two-thirds in the sample period 1996-2001. The high percentage of firms distributing employee stock bonus indicates that it is an important incentive mechanism for electronic firms to attract, retain and motivate talented personnel.

Employee stock bonus in Taiwan posses several unique features different from those in the U.S. employee stock ownership plan (ESOPs).[4] First, for the U.S. ESOPs, annual contributions of the stock to the employees are held in an ESOP trust and allocated to individual employee accounts. However, in Taiwan, shares are distributed to employees directly without holding them in any trust and/or employee account. Second, employees of U.S. ESOPs receive the stock upon leaving or retiring. In contrast, employees in Taiwan receive the stock bonus the next year, and may sell their shares upon receiving stock ownership. Thus, employee stock bonus in Taiwan is a relatively short-term incentive mechanism. That is, Taiwanese firms reward stock ownership to their employees based on the profitability of the previous year. Third, perhaps the most important feature of the U.S. ESOPs is that the distribution to an ESOP provides the tax deductibility for the employers. In contrast, for Taiwanese firms, the distribution of stock to employees is considered as a distribution of after-tax earnings, which are not tax deductible. Thus, without tax benefit, employee stock bonus is mainly an incentive mechanism for attracting able individuals for Taiwanese firms.

THE ELECTRONIC INDUSTRY IN TAIWAN AND THE EMPLOYEE STOCK BONUS

The electronic industry in Taiwan is contributed mainly by the strategic focus of the government in the past two decades. To promote the research and development in the high-tech industry in Taiwan, the government established the Hsinchu Science Park (HSP) in 1980. Since then, the government has contributed more than one billion US dollars to the development of the HSP. Moreover, the HSP is close to two major universities in Taiwan, namely, the Chiao Tung University, and the Tsing Hua University, which provide research support for the corporations in the HSP.

Currently, the HSP has around 370 firms, of which 321 firms are domestic firms and 49 are foreign firms. These high-tech firms focus on integrated circuits (151 firms), computers/peripherals (58 firms), telecommunication (57 firms), optoelectronics (59 firms), and others (45 firms). Of these park firms, 90 firms are listed on the Taiwan Stock Exchange or Over-the-Counter Markets as of 2003. Several of the park companies, including Taiwan Semiconductor Manufacturing Co. (TSMC), and United Microelectronics Corp. (UMC), are also listed on the New York Stock Exchange. The HSP is estimated to hire more than 100,000 employees, of which around 67% are college graduates.

From the perspective of global integration, Taiwanese electronic firms mainly focus on Original Equipment Manufacturing (OEM) and Own Designing and Manufacturing (ODM). To succeed in OEM and ODM, flexibility and efficiency improvement in the manufacturing process is crucial. Thus, a successful electronic firm requires much employee attention and commitment to enhance corporate performance.

Table 2 reports the market share of main IT products manufactured by Taiwanese electronic firms in the global market over the sample period 1996-2001. The global market share of IT products produced by Taiwanese electronic firms shows an upward trend in the sample period. For example, the market share of notebook PC increases from 32% in 1996 to 56% in 2001.

Table 2: Market Shares of Main IT Products of Taiwanese Electronic Firms in the Global Market over the Sample Period 1996-2001 (Unit: %)

Products\Year	1996	1997	1998	1999	2000	2001
Scanner	52	70	84	91	92.5	95
Motherboard	74	60	61	64	70.2	71
Notebook PC	32	32	40	49	52.5	56
Desktop PC	-	-	17	19	24.5	24
Monitor	53	55	58	58	53.7	58
Case	-	72	75	75	77	-

Sources: IT DataBank Annual Report (Year 1997-2002)

Aside from manufacturing efficiency, the electronic industry requires intensive capital investment. The intensive capital commitment tends to result in higher operating leverage and greater business risk. This is especially true when the electronic industry, characterized by an increasing shorter product life cycle, must adjust instantly to the challenge of fluctuating market demand. To maintain a stable overall corporate risk, a successful electronic firm must strive to balance the high operating leverage by controlling the financial leverage within an acceptable level. Thus, a successful electronic firm must have appropriate risk management when they attempt to attain manufacturing efficiency.

LITERATURE REVIEW

Two hypotheses are plausible regarding the effect of employee stock bonus on firm performance. The alignment of interest hypothesis proposes that employee stock bonus is positively related to firm performance. On the other hand, the management entrenchment hypothesis suggests that employee stock bonus benefits employees only at the expense of shareholders.

The Alignment of Interest Hypothesis

According to the alignment of interest hypothesis, employee stock bonus may enhance corporate performance due to the reduction of conflicts between employees and shareholders (McDaniel, Madura and Wiant, 1995). By providing ownership to employees, the interests of employees become aligned with those of shareholders. Consequently, the loyalty of employees to the firm is higher, which leads to higher firm performance (Chen, 2003; Fryes, 2004; Chen, 2007).

Wagner and Rosen (1985) report that, compared to non-ESOP firms, ESOP firms have higher return on equity and growth in book value per share. Similarly, using a sample of 232 U.S. firms over the period of 1979-1989, Park and Song (1995) find an increase in return on assets following the ESOP establishment. Likewise, Pugh, Oawald and Jahera (2000) report a higher return on asset and return on equity for 183 U.S. sample firms following adoption of ESOPs.

Wagner and Rosen (1985), Rosen and Quarrey (1987), Pugh, Oawald and Jahera (2000), among others, report that firms adopting ESOPs are associated with higher sales growth and higher operating margin. Similarly, Davidson and Worrell (1994) find that ESOP firms have large increases in their asset turnover ratios in the first year following ESOP adoption. More relevantly, Ang, Chen and Lin (2005) find that that bonus can motivate employees to better cost control, efficient asset utilization and higher productivity.

Other researchers document lower financial risk for firms adopting ESOPs. Some employee stock ownerships involve the issuance of new stocks, which result in an increase in capital and a decrease in debt-to-equity ratio (D/E ratio). Davidson and Worrell (1994) suggest that the lower debt to asset ratio of ESOP firms is associated with the issuance of new stock for ESOPs.

The Management Entrenchment Hypothesis

According to the management entrenchment hypothesis, employee stock ownership may benefit managers and employees but may hurt other shareholders. Employee stock ownership provides employees with voting rights. Moreover, employees tend to exercise their voting rights in a way that coincides with managerial objectives for job security purpose. Thus, through receiving employee stock bonus, managers and employees tend to gain larger control of the corporations. As a result, managers and employees would be inclined to maximize their own consumption of perk that may impair firm value.

Jensen and Ruback (1983), for example, indicate that managers tend to use corporate resources in a takeover defense. Gordon and Pound (1989, 1990) find that when ESOPs are adopted as part of the takeover defense, a significant negative market reaction is in existence. Similarly, using a sample of 51 ESOP firms and 51 non-ESOP firms during the 1967-1976 period, Livingston and Henry (1980) find that ESOP firms significantly underperform non-ESOP firms on all nine profitability ratios.

SAMPLE AND METHODOLOGY

Sample

To examine the effect of employee stock bonus on financial performance, the sample includes TSE-listed electronic firms over the sample period 1996-2001 as reported in Table 1. The number of listed electronic firms ranges from 61 in 1996 to 182 in 2001. The employee-bonus group contains firms that distribute stock bonuses to their employees, and the non-employee-bonus group includes firms without any stock bonus distribution to their employees. Over the sample period, the employee-bonus firms account for about two-thirds of the sample firms. In 2001, for example, 117 firms (64%) have granted employee stock bonus while the remaining 65 firms (36%) do not grant employee stock bonus.

Methodology

To examine the impact of employee stock ownership on financial performance, return on equity is estimated for the employee-bonus group and non-employee-bonus group. Moreover, financial performance is examined for the quintiles of the employee-bonus group ranked by the market value of stock bonus distributed to each employee of each firm. The market value of stock bonus for each employee for year t are estimated by multiplying the shares of stock distributed to employees by the ex-right price in year t+1, and divided by the number of employees in year t.[5]

Table 3 reports the average market value of stock bonus distributed to each employee over the sample period 1996-2001. The average market value of stock bonus per employee ranges from NT$ (New Taiwan Dollar)[6] $35,400 for the smallest quintile to NT$1,603,200 for the largest quintile during the 1996-2001 sample period.

Return on equity, measured by the ratio of after-tax net income to equity, is used as a proxy for financial performance. An alternative measure of corporate financial performance would be to use a market-value-based index such as the market-to-

Table 3: Average Market Value of Stock Bonus Per Employee over the Sample Period 1996-2001 (Unit: NT$1,000)

Year	Non-Employee-Bonus Firms			Employee-Bonus Firms		All Employee-Bonus Firms	
	Firms	Quintile 1 (Smallest)	Quintile 2	Quintile 3	Quintile 4	Quintile 5 (Largest)	
1996	0	33.8	75.7	191.6	381.4	1,493.1	459.0
1997	0	49.5	131.0	231.1	330.3	988.4	358.6
1998	0	31.8	97.8	186.1	419.6	1,510.9	469.1
1999	0	52.6	206.0	407.6	641.4	2,575.5	776.6
2000	0	23.2	62.4	133.6	347.0	1,292.5	380.9
2001	0	21.3	59.4	133.6	312.5	1,758.8	467.0
Avg	0	35.4	105.4	213.9	405.4	1603.2	485.2

*Note: Average Market Value of Stock Bonus per Employee (t) = Shares Distributed to Employees (t+1) * Ex-Right Price (t+1) / the Number of Employees (t)*

book ratio. The return on equity is adopted in this research to allow comparison with previous research.

Moreover, the return on equity is further decomposed into the three measures of profitability measure, asset management efficiency, and financial leverage based on the Du Pont formula. Specifically, the measures of profitability, asset management, and financial leverage are the ratio of net income to sales (Net Income/Sales), the ratio of sales to total assets (Sales/Total Assets), and the ratio of total assets to equity (Total Assets/Equity) respectively.

Table 4: Average Return on Equity for Non-Employee-Bonus Firms and Employee-Bonus Firms over the Sample Period 1996-2001 (in %)

Year	Non-Employee-Bonus Firms(1)	Employee-Bonus Firms(2)	t-Value(2)-(1)
1996	5.68	19.67	3.52***
1997	3.45	19.24	3.37*
1998	-14.75	18.06	5.99***
1999	-7.87	18.32	5.58***
2000	-0.41	17.28	6.54***
2001	-13.38	13.57	8.24***
1996-2001	-7.08	16.98	13.57***

*Note: *P < 0.05 **P < 0.01 ***P < 0.001*

EMPIRICAL RESULTS

Table 4 reports the average return on equity for the employee-bonus firms and non-employee-bonus firms over the sample period 1996-2001. The results indicate that the average return on equity is significantly higher for the employee-bonus firms than that for the non-employee-bonus firms. The average return on equity is 16.98% for the employee-bonus firms, which is significantly higher than the corresponding –7.08% for the non-employee-bonus firms over the sample period 1996-2001. When individual yearly data are examined, the return on equity of employee-bonus firms is higher than that of non-employee-bonus firms in each year.

Table 5 reports the average profit margin, total assets turnover, and equity multiplier for the non-employee-bonus firms and employee-bonus firms over the sample period 1996-2001. Panel A of Table 5 indicates that the profit margin is significantly higher for the employee-bonus firms than that for the non-employee-bonus firms. The average profit margin is 13.83% for the employee-bonus firms, which is significantly higher than the –8.49% for the non-employee-bonus firms. Similarly, Panel B of Table 5 indicates that the total assets turnover is significantly higher for the employee-bonus firms than that for the non-employee-bonus firms. The average total assets turnover is 1.07 for the employee-bonus firms, which is significantly higher than the 0.78 for the non-employee-bonus firms. Finally, Panel C of Table 5 indicates that the financial leverage is significantly lower for the employee-bonus firms than that for the non-employee-bonus firms. The average equity multiplier is 1.63 for the employee-bonus firms, which is significantly lower than the 2.01 for the non-employee-bonus firms.

Table 6 reports average return on equity for quintiles of employee-bonus firms ranked by the market value of stock bonus distributed to each employee. The results indicate a positive relationship between return on equity and market value of stock distribution. The average return on equity increases from 9.03% for the smallest quintile to 27.01% for the largest quintile over the sample period 1996-2001. Moreover, when yearly data are examined, the pattern of a positive association between return on equity and market value of stock distribution remains unchanged. The smallest quintile continues to earn the lowest return on equity in each year while the largest quintile continues to earn the highest return on equity in most sample years.

Table 7 reports the average profit margin, total assets turnover, and equity multiplier for quintiles of employee-bonus firms.

Table 5: Average Profit Margin, Total Assets Turnover, and Equity Multiplier for Non-Employee-Bonus Firms and Employee-Bonus Firms over the Sample Period 1996-2001

Year	Non-employee-Bonus Firms(1)	Employee-Bonus Firms(2)	t-Value(2)-(1)
Panel A. Profit Margin: Net Income/Sales (in %)			
1996	1.68	14.16	3.37**
1997	4.52	16.06	2.49*
1998	-9.59	13.34	6.03***
1999	-7.67	14.83	7.70***
2000	-0.61	14.00	6.69***
2001	-19.00	12.26	5.10***
1996-2001	-8.49	13.83	9.45***
Panel B. Total Assets Turnover: Sales/Total Assets			
1996	0.90	1.27	2.18*
1997	0.80	1.13	1.82
1998	0.83	1.16	2.37*
1999	0.95	1.07	0.80
2000	0.90	1.05	1.28
2001	0.59	0.94	4.96***
1996-2001	0.78	1.07	5.70***
Panel C. Equity Multiplier: Total Assets/Equity			
1996	1.84	1.77	0.51
1997	1.95	1.72	1.00
1998	2.07	1.57	3.08**
1999	2.03	1.62	2.97**
2000	2.06	1.62	3.10**
2001	2.02	1.58	3.35**
1996-2001	2.01	1.63	5.96***

*Note: *P < 0.05 **P < 0.01 ***P < 0.001*

Panel A of Table 7 indicates a positive relationship between profit margin and market value of stock distribution. The average profit margin increases from 7.11% for the smallest quintile to 21.12% for the largest quintile over the sample period 1996-2001. Similarly, Panel B of Table 7 indicates a positive relationship between total assets turnover and market value of stock distribution. The average total assets turnover increases from 0.92 for the smallest quintile to 1.15 for the largest quintile over the 6-year sample period. Thus, the greater the market value of stock distribution for the employee-bonus firms is, the higher the profit margin and total assets turnover will be. Finally, Panel C of Table 7 indicates a negative relationship between financial leverage and market value of stock distribution. The equity multiplier decreases from 1.77 for the smallest quintile to 1.54 for the largest quintile. Thus, as the market value of stock distribution for employee-bonus firms increases, the financial leverage decreases as well.

Table 6: Average Return on Equity for Quintiles of Employee-Bonus Firms (Unit: %)

Year	Employee-Bonus Firms				
	Quintile 1) (Smallest)	**Quintile 2**	**Quintile 3**	**Quintile 4**	**Quintile 5** (Largest)
1996	10.29	13.39	16.17	18.87	37.48
1997	10.56	16.95	15.95	22.14	29.55
1998	8.55	15.43	12.48	20.23	32.01
1999	8.84	16.79	19.49	26.35	20.11
2000	11.65	12.47	13.93	19.39	28.39
2001	5.98	10.28	13.00	15.95	22.16
1996-2001	9.03	13.51	14.82	19.85	27.01

The results of higher return on equity, profit margin and total assets turnover, and lower financial leverage for firms distributing higher degree of stock distribution is consistent with the alignment of interest hypothesis which predicts a positive association between employee stock ownership and financial performance. The results are also consistent with those documented in Wagner and Rosen (1985), Rosen and Quarrey (1987), Pugh, Oawald and Jahera (2000), Ang, Chen and Lin (2005), Chen (2007), among others.

CONCLUSION

This paper examines how employee stock ownership influences financial performance for TSE-listed electronic firms over

Table 7: Average Profit Margin, Total Assets Turnover, and Equity Multiplier for Quintiles of Employee-Bonus Firms

Year	Employee-Bonus Firms				
	Quintile 1 (Smallest)	**Quintile 2**	**Quintile 3**	**Quintile 4**	**Quintile 5** (Largest)
A. Profit Margin: Net Income/Sales (in %)					
1996	4.13	8.53	9.96	19.19	26.77
1997	6.71	8.46	9.76	27.37	26.92
1998	8.25	12.82	14.29	16.25	14.68
1999	6.98	14.55	18.56	12.20	21.88
2000	9.22	11.18	11.70	13.20	24.20
2001	6.07	10.69	13.39	14.71	16.18
1996-2001	7.11	11.19	13.14	16.10	21.12
B. Total Assets Turnover: Sales/Total Assets					
1996	1.38	1.08	1.65	0.98	1.27
1997	1.06	1.43	1.20	1.01	0.95
1998	0.82	1.01	1.00	1.09	1.85
1999	0.90	0.90	1.14	1.07	0.79
2000	0.91	1.00	0.98	1.24	1.14
2001	0.75	0.75	0.98	1.12	1.07
1996-2001	0.92	0.98	1.10	1.19	1.15
C. Equity Multiplier: Total Assets/Equity					
1996	2.08	1.73	1.93	1.60	1.54
1997	1.93	1.84	1.78	1.57	1.51
1998	1.61	1.55	1.56	1.50	1.64
1999	1.71	1.74	1.51	1.68	1.45
2000	1.78	1.63	1.64	1.53	1.53
2001	1.68	1.50	1.54	1.60	1.59
1996-2001	1.77	1.64	1.63	1.58	1.54

the sample period 1996-2001. The empirical results indicate that firms awarding employee stock bonus significantly outperform those not adopting such incentive mechanism in all performance measures. When sample firms are grouped according to the distribution of employee stock bonus, the average return on equity of 16.98% for the firms distributing employee stock bonus is significantly higher than the corresponding –7.08% for firms not adopting the ownership incentive. Moreover, when employee-bonus firms are sorted into quintiles by market value of stock bonus distributed to each employee, the average return on equity increases from 9.03% for the smallest quintile to 19.85% for the largest quintile. Moreover, the profit margin increases from 7.11% for the smallest quintile to 21.12% for the largest quintile. The total assets turnover increases from 0.92 for the smallest quintile to 1.15 for the largest quintile. In contrast, the equity multiplier decreases from 1.77 for the smallest quintile to 1.54 for the largest quintile. The results are consistent with the alignment of interest hypothesis that predicts a positive association of employee stock ownership and corporate financial performance.

This paper makes two major contributions. First, most of previous studies mainly focus on ESOPs, employee stock options (ESOs), restricted stock plans and other various equity-based compensation plans. Little research reports on how employee stock bonus impacts firm performance. When ESOPs or ESOs are absent or not prevalent in some countries, such as Taiwan, employee stock bonus is the primary component of compensation directly linking to firm performance. Therefore, this paper extends the compensation-performance research by considering the stock bonus effect on firm performance. Second, previous research on the compensation-performance relationship tends to mainly focus on the United States and the European markets. Little research reports the efficacy of employee stock ownership in the emerging markets. By using a data set of electronic firms in Taiwan, one fast growing economy of the emerging markets, the empirical findings will be of particular interest to international investors.

Notes

[1]Development of Investment Services of Ministry of Economic Affairs, R.O.C. reported that until 2005 Taiwan was the second biggest computer-hardware producer.

[2]www.ChinaPost.com.tw

[3]Shih, Stan, 1/8/2002, The significance and value of employee stock bonus, Economic Times.

[4]There are many different types of ESOPs in U.S. For instance, employee benefit plan, leveraged buyout, wage concession and takeover defense.

[5]The results are qualitatively identical if unadjusted year-end closing prices and adjusted year-end closing prices are used for computing the market value of stock bonus.

[6]The average exchange rates between US dollars and NT dollars for the sample period 1996-2001 are as follows:

Year	1996	1997	1998	1999	2000	2001
US$1 =	NT$27.46	NT$28.66	NT$33.44	NT$32.27	NT$31.23	NT$33.80

Sources: Central Bank of China

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framework. NABARD's exemplary leadership in furthering the movement since its inception in 1992 demands special mention. To encourage banks to lend to SHGs, NABARD had made available subsidized refinancing and undertook capacity building and promotional initiatives. Moreover, banks were also allowed by the RBI to count SHG lending towards their priority sector obligations. But despite the commendable 'numeric' achievements of the linkage programme, the issues discussed here need to be addressed on a priority basis before we attempt any further up-scaling of the programme. After all, trading off 'quality' and longer term sustainability for 'numbers' may seriously undermine the actual purpose behind the SHG movement, namely that of financial inclusion and empowerment.

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