

**EFFECTS OF EMPLOYEE SHARE OWNERSHIP PLAN ON EARNING PER SHARE  
OF COMMERCIAL BANKS IN KENYA**

**BY**

**ASAPH GATUNDU WANJIKU**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS OF AWARD OF THE DEGREE OF MASTERS OF SCIENCE IN  
FINANCE, SCHOOL OF BUSINESS OF THE UNIVERSITY OF NAIROBI**

**DECEMBER, 2017**

## **DECLARATION**

This project is my original work and has not been presented for award of any degree in any University.

Signature \_\_\_\_\_ Date: \_\_\_\_\_

**ASAPH GATUNDU WANJIKU**

**D63/85652/2016**

### **Supervisor**

This project has been submitted for examination with my approval as University of Nairobi supervisor.

Signature \_\_\_\_\_ Date: \_\_\_\_\_

Mr. Nganga James Mburu

Lecturer Department of Finance & Accounting

School of Business

University of Nairobi

## **ACKNOWLEDGEMENTS**

I wish to express my sincere gratitude to the Almighty God for taking me through my academic years in the University and the completion of my study. A special thanks to my supervisor Mr. Nganga James Mburu for his countless hours of reflecting, reading, encouraging, and most of all patience throughout the entire process. I would like to thank the Finance and Accounting department of University of Nairobi for their great support.

## **DEDICATION**

I dedicate this project to my Mother Esther Wanjiku. A special feeling of gratitude to my loving Mum whose words of encouragement and support has seen me this far for overwhelming support and encouragement. I also dedicate this project to Amos Ndungu Mwangi and Nahashon Kariuki Njugi and all my friends for the word of encouragement and support throughout the process.

## **LIST OF ACRONYMS AND ABBREVIATIONS**

CMA:	Capital Markets Authority
EPS:	Earnings Per Share
ESO:	Employee Share Ownership
ESOP:	Employee Share Ownership Plan
I&M:	Investment and Mortgage
IAS:	International Accounting Standard
KCB:	Kenya Commercial Bank
NSE:	Nairobi Securities Exchange

## ABSTRACT

(ESOP) is a type of worker budgetary cooperation that gives on workers the privilege to partake in abundance of organization and, in principle at any rate, the privilege to practice some level of control over organization issues. The objective of this study was to analyse the effects of employee share ownership plan on earning per share of commercial banks in Kenya. This study was guided by the following theories; Principal-Agent Theory, Incentive Contract Theory and Equity Theory. Target populace for this study was all the 44 commercial banks operating in Kenya. Review carried a comparative analysis between the banks that have approved ESOPs against those that have not. Those with approved ESOPs include; Equity Bank, Kenya Commercial Bank, Investments and Mortgage Bank and Housing Finance. The secondary data was collected from the banks audited financial statements for the years 2012-2016. The data collected included; banks net income, outstanding shares, number of ESOPs and total number of shares. Being that the study was descriptive in nature, both quantitative analysis and inferential analysis was used as data analysis technique. The data collected was run through various regression model so as to clearly bring out the impacts of change in ESOPs on earning per share. The study found out that there were several factors influencing the earning per share of commercial banks, which are ESOPs, company size, number of branches and number of employees. All the variables influenced earning per share positively. The four independent variables that were studied (ESOPs, company size, number of branches and number of employees) explain 87.5% of earning per share as represented by the average  $R^2$ . From the findings, it can be observed that ESOPs affects earning per share positively but not to a very great extent. The study concludes that ESOPs have a positive influence on the earning per share. ESOPs are used for many reasons, including providing for a tax-favored, flexible transition of ownership in closely held companies and as a means of providing an additional benefit that ties employee and company interests together. The study recommends that commercial banks should concentrate on those policies which encourage the adoption of the ESOPs among banks since they may be helpful in enhancing earning per share of the banks and therefore achievement of robust economic growth. It is essential to have someone in the company who knows ESOPs well who is charged with working with a qualified ESOP plan administrator. The banks management should put in place and implement corporate policies that better align the interest of employees and employers so as to promote employee engagement and productivity. This can be achieved by encouraging employees to take up the ESOPs and by having a high-involvement and open culture necessary for an ESOP to thrive. Due to positive relationship of ESOPs and earning per share, public policy recommendation should be formulated by the Government of Kenya to promote broad based ESOP which in turn enhances national saving and facilitate as well as encouraging the development of small to medium, privately owned enterprises including startup companies.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

(ESOP) is a type of representative money related cooperation that presents on workers privilege to partake in the abundance of organization and, in principle at any rate, the privilege to practice some level of control over organization undertakings (Ramsay& Marshall, 2012). Representative offer proprietorship is currently a far reaching type of worker support in many industrialized countries. It is the place representatives procure value partakes in their manager with the goal that they move toward becoming investors. As of late governments in North America, Europe, Australasia, and Asia have advanced different types of representative offer proprietorship, however the rate of plans and the level of worker cooperation shifts impressively between nations (Elhayek, 2015).

Agency hypothesis has been utilized as a hypothetical structure in investigations of monetary support. It is contended that organization costs emerge because of unique interests amongst workers and different partners in the organization. Supervisors may look to improve these organization costs through straightforwardly observing representatives as well as through receiving motivating force based types of compensation. Worker share proprietorship is one such impetus system by which to lessen expenses to organization through more firmly adjusting the interests of representatives to those of different partners in the organization (Landau & O'Connell, 2007).

On a fundamental level, representative possession gives workers extra rights to those ordinarily expected by workers: a privilege to partake in organization's benefits, access to data on organization accounts and operations, and rights to take an interest in the administration of organization (Ramsay, 2013). These may realize central changes in worker states of mind and conduct, which may thus be reflected in a scope of organization level results, for example, profitability, budgetary execution and gaining per share. Worker share proprietorship takes an assortment of structures, some of which may have more noteworthy noteworthiness and impacts than others. Offers might be held separately or all things considered. Cooperation in the offer

proprietorship design might be constrained to only a couple of people, commonly senior chiefs, or open to the whole workforce (Odumbe, 2010).

### **1.1.1 Employee Share Ownership Plan**

(ESOPs) have been defined differently by several writers. ESOP is a qualified retirement scheme which is accompanied by a qualified trust (Parks, 2011). Specifically, he defined ESOP as a defined contribution plan that is a stock bonus plan or a qualified stock bonus money purchase plan that must invest primarily in qualifying employer securities. An ESOP is an arrangement between an employer and worker in which the worker is granted privilege to own defined quantity of shares in the firm, usually discounted and upon attainment of agreed key performance indicators (KPIs) (George, 2016). There are two types of ESOPs; Leveraged and unleveraged. In leveraged, the ESOPs sources for funds to buy stocks and the stock is kept into an employee stock ownership trust, having overall oversee up to when the borrowed money is repaid while in latter employees buy shares with money from their own sources. Both of these forms may be started by employers or the owners (Bartkus, 2013). There are various forms of ESOPs; Non-Qualified Stock Option Plans can be owned by anyone be it employees, directors or partners.

Points of view on hugeness of worker share possession likewise fluctuate generally (Haugen, 2011). Policymakers in a few nations have distinguished motivating force impacts from adjusting specialists interests with those of the firm and its investors. Some go further and consider it to be proclaiming a critical change in the idea of work in cutting edge mechanical social orders by obscuring customary limits amongst laborers and proprietors (Pendleton, 2015). A type of monetary majority rules system might be made whereby workers accomplish a more noteworthy offer of the advantages of financial movement, up to this point concentrated among the few (Yeo, 2010).

Many investigations have discovered that ESOPs or comparable plans were related with more elevated amounts of efficiency in US organizations ( Jones and Kato (1995) utilized board information to appraise generation works and revealed the presentation of worker proprietorship by and large prompted a 4-5% expansion in profitability in Japanese firms. In the US and numerous other created nations, ESOPs fill in as option annuity designs and include complex



administration issues and once in a while assess reasonings, however China's ESOPs were presented exclusively as worker impetus plans. Because of China's institutional structure, advantages of China's ESOPs are not blended with or changed by impacts of expense enactment or ESOP benefits programs, so these outcomes might be viewed as confined, unadulterated consequences of the ESOPs themselves (Sengupta, 2013).

ESOPs adoption offers employees an opportunity to participate in the ownership and also participation in decision-making as noted by Hallock (2013). Mathieu and Zajac (2010) and Meyer et al. (2012) concur that firm affiliation and attachment is inversely related to turnover or even nonexistent in employees highly attached to the firm they work for. Workers who show great attachment and affiliation towards the company they work for have their needs in tandem to those of the employer hence the agency cost attributable to company worker is minimized (Brown, 2011). ESOPs satisfy a couple of company motives amongst others providing corporations with beneficial deductions like tax (Pugh, 2010).

Douglas Kruse and Joseph Blasi (2013) concurred that ESOPs adoption give rise to sales and employment. They further observed that, firms that have adopted ESOPs have a high probability of being in business a couple of years afterwards. In Africa, specifically South Africa, ESOPs have been used over time as employee benefit schemes and to promote staff empowerment programs. Locally in Kenya, ESOPs are becoming increasingly popular as investment vehicles in the local market as schemes to provide employees with the opportunity to acquire or purchase shares in the company.

### **1.1.2 Earnings per Share**

EPS is one of the investment tools to evaluate a company's performance either in short term or long term, (Gordon, 2011). Key stock assessment spins essentially around income an organization produces for its investors. Income, obviously, speak to what organization makes through its operations over a specific timeframe. While littler, more current organizations may have negative income as they set up themselves, their stock costs will reflect future profit desires. Bigger organizations are judged mostly on income measure. Diminished income for these organizations are probably going to adversely affect their stock costs. The shareholders portion on the earnings of the company is represented by Earnings Per Share (EPS) which can be

considered as the portion in the earnings of a company that can be allocated per every equity share held. The (IASB) in Accounting Standard No 33 (IAS No 33) defines earnings per share as the company's profit or loss attributable to ordinary equity holders (Ramsay & Marshall, 2012).

### **1.1.3 Effects of Employee share ownership plan on Earning Per Share**

Some studies have indicated a positive impact while others have indicated a negative or nearly no relationship (Onyango, 2014). The general conclusions however of the major empirical review have examined relation between adoption of ESOs and earning per share, firm productivity and stock performance indicates that the impact of adoption of ESOs on the earning per share appears weak, but a positive association does exist. ESOs adoption boost employee morale and may also strengthen motivations for administration to settle on choices in the worker / owner's best interest, leading to improved gainfulness through increases in labor profitability or reduction of labor costs (Elhayek, 2015).

Ownership interest motivates representatives by adjusting their interests to those of investors and laborers may expand measures of administration productivity, for example, resource turnover and profitability. Obiyathulla (2010) also noted that ESO adoption would enhance firm performance through self and peer monitoring and establishment of reciprocal agency between employees and managers. Other writers have however indicated that ESOs impede the efficient transfer of corporate control leading to the shareholders loss of potential takeover premium and also excessive consumption of firm resources by entrenched managers, thus leading to less than optimal performance by the firms.

### **1.1.4 Commercial Banks in Kenya**

Banks form a significant part of business sector worldwide that plays a crucial role in global economies. Banks in Kenya are financial intermediaries that act as financial resource mobilization points in the economy. This is by way of channeling of much needed funds by business and households from surplus spending sectors to deficit spending sectors in the economy. A well-developed and efficient banking sector is an important requirement to facilitate rapid economic growth in any given economy. There are forty-three banks as categorized by Central Bank of Kenya and members of the clearing house. Majority of these banks are either small to medium sized, and are locally owned. Of the 43 banks, eleven are listed on the Nairobi

Securities Exchange. Listed companies are those whose shares are traded freely in the financial markets, because the shares are not subject to restrictions that limit their transferability. Listed banks employ various legal forms to govern their systems and usually undergo many challenges including financial and governance issues. In order to enhance depositor's confidence, there is need to introduce effective employee incentive strategies which will ensure competitive advantage in their businesses that eventually impacts performance and earning per share positively.

## **1.2 Research Problem**

Employee share proprietorship is generally perceived as a compelling methods for enhancing corporate execution by empowering representatives to take an interest in creation and sharing of riches they make in an association. The basis is that Employee Share Ownership Plans adjust singular objectives to corporate objectives and enable organizations to hold staff, to draw in ability, propel workers and empower them to share long haul development of organization. Be that as it may, to be financially suitable, ESOPs must enhance profitability, firm execution and eventually earning per share through greater employee involvement, morale and satisfaction. Previous empirical studies provide contradictory conclusion with some indicating that ESOPs enhance company performance and earning per share and others arguing that just like stock options, ESOPs have a net negative effect on performance of a company in the long run.

There are numerous methods of reasoning offered to help representative offer possession, educated by an assortment of belief systems and goals. A few defenses are centered around undertaking level, though others consider ESO to be a piece of a more extensive social or full scale monetary venture. Representative offer possession is recognized as a methods for upgrading venture execution through advancing specialist profitability. The hypothetical reason for this justification is for most part situated in office hypothesis. Investors and chiefs may have unique premiums and investors may think that its troublesome and costly to screen administration, especially where they hold little stakes in a wide range of firms. Office hypothesis has additionally been utilized as a hypothetical structure in investigations of money related the adoption of ESOs has continued to grow globally especially in the developed world. The dramatic growth has been attributed to various factors such as tax benefits and employee benefits and employee motivational tool (Dhiman, 2008).

Research discoveries are for the most part very positive; Blasi et al (2013) assert an intersection of good results among almost all observational research thinks about on representative proprietorship. Financial experts stay suspicious if not inside and out contemptuous, and research distributed outside the little gathering of worker possession specialists; generally by fund researchers (Gordon and Pound, 1990; Lisa and Zwirlein, 1995) underscores issues identified with ESOP selection and recommends that ESOPs have not prompted noteworthy increments in corporate winning per share. Despite fact that amount and combined discoveries of research on representative possession might be great, absence of engagement with commentators implies that the exploration and the possibility of worker proprietorship have constrained effect in the bigger universe of information and thoughts, and leaves questions about the declarations.

Locally, Maina (2013) did a study on the determinants of stock market development: the case for the Nairobi Stock Exchange, Odielo, (2014) did a study on the factors influencing long term debt decisions by companies quoted at Nairobi Stock Exchange while Muli (2010) did a survey of the potential benefits of demutualization of Nairobi Stock Exchange. None of these local and international studies have focused on the impacts of employee share ownership plans on earning per share of Kenyan commercial banks. Review therefore sought answer to the question: What is the effects of employee share ownership plan on earning per share of commercial banks in Kenya?

### **1.3 Objective of the Study**

It was to analyse the effects of employee share ownership plan on earning per share of Kenyan commercial banks.

### **1.4 Value of the Study**

Review is important to various stakeholders including retail and institutional investors, market regulator namely the CMA, listed companies adopting ESOPS and those seeking to have them, research institutions and the Government.

The market regulator namely the CMA would gain knowledge on how to handle employee share ownership plans in regard to regulations and making of policies. Due to making sound regulations and policies, this would result into improved confidence in investors in investing in the stock market.

The study would give guidelines to retail and institutional investors to enhance their understanding of the determination of the companies to invest in. This would assist the investors in making viable decisions while investing in the stock market. Review would be useful to financial specialists in taking levelheaded choice like where to contribute, how to contribute, and what portfolio ought to be made to get greatest benefits from their speculation base on whether the companies have employee stock ownership plans.

Listed companies and those companies seeking to list their shares on the NSE will be able to appreciate effect of employee share ownership plans, and this would assist them in making sound decisions whether to have employee share ownership plans. They would make viable decisions when making strategic decisions.

The information so obtained would be useful to research institutions and the Government who need to propel learning and writing on worker stock proprietorship designs. It would likewise include to writing subject as reference material and fortify further research in territory.. In this sense, studies focusing on the emerging markets employee share ownership plans become essentially indispensable.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Part covered both hypothetical and exact writing on the analyse the effect of employee share ownership plan on earning per share in commercial banks in Kenya. It concluded with an overview of literature highlighting the research gap that review sought to fill.

#### **2.2 Theoretical Review**

Review utilized following theories; Principal-Agent Theory, Incentive Contract Theory and Equity Theory.

##### **2.2.1 Principal-Agent Theory**

Many backers of representative possession have concentrated on how they can fill in as aggregate motivating forces to enhance working environment co-operation and execution (Nalbantian, 2011). This is established most fundamentally on possibility that laborer inspiration is enhanced by giving specialists an immediate stake in results, through tying remuneration as well as riches all the more nearly to specialist execution. While there are an assortment of courses in which managers can endeavor to guarantee ideal execution of laborers (e.g., close supervision, piece rates, conceded pay, proficiency compensation), aggregate motivators can supplement or substitute for these strategies under specific conditions. Piece rates, for instance, might be hard to actualize and dishearten development and co-operation, and brought together observing might be costlier and less viable than level checking done by associates. This might be particularly valid in current measured group creation settings (Applebaum and Berg, 2010).

Hypothetical protest to positive efficiency impacts of representative proprietorship concerns administrative motivations to direct specialists. The protest is that, by diminishing offer of financial surplus going to proprietors, proprietors (their specialists, administrators) will have weaker impetuses for successful checking of laborers, prompting lower execution (Demsetz, 2012). Putterman and Skillman (2011) take note of that the contention depends on impetuses to screen yet not on the capacity to watch precisely and such diminished capacity can balance the estimated higher motivating forces for administration checking. Nalbantian brings up that representatives occupied with the normal everyday satisfaction of an errand are more often than

not in a position to distinguish wasteful aspects in operations that lessen profitability. They are additionally prone to obtain imperative data concerning the real profitable commitments of their associates. The data got from such movement is conceivably exceptionally profitable to the firm as a contribution to generation. However such data exchanges won't be actuated under an individual execution based prizes framework since it doesn't influence their own particular execution measure.

The proficiency of representative proprietorship game plans is likewise addressed by Hansmann (2010). He contends that aggregate activity issues emerge in any undertaking that is mutually claimed by different people, and administration courses of action will be more proficient if control rights are constrained to a solitary class of people with genuinely homogeneous interests. Specifically, it is regularly recommended that gathering motivating force plans should be organized to draw upon extra specialist abilities and data about work procedure (Berg, 2010).

Such abilities and data may wind up noticeably accessible if there are projects to empower representative contribution in working environment choices, open new channels both to give representatives more data and request thoughts from representatives, and guarantee specialists that any profitability upgrades won't bring about cutbacks or lessened employer stability. Such changes in a working environment may join with representative possessed stock to help make a feeling of organization/proprietorship with higher worker responsibility and inspiration.

### **2.2.2 Incentive Contract Theory**

The inquiry by impetus contract hypothesis is: the reason do representatives buckle down when their work can't be flawlessly observed, and how might they be roused to give efficiency upgrading thoughts when they know about the creation procedure which administration does not have? (Lazear, 1986). There are an unending number of various structures and sorts of motivating force contracts which businesses can look over and some have more proficient results than others. One of the essential reasons these motivation contracts are fundamental is on account of representatives approach profitability improving data. These inquiries of how to most adequately screen and propel representatives are particularly related now in light of the more prominent levels of private data which dwell with workers (Levine and Tyson, 2010).

It has for quite some time been perceived that data asymmetries exist in associations and representatives have private data from which administration could profit. Given expanding instructive fulfillment, more organization preparing and data innovation, observing might be progressively troublesome which contends for the adequacy of objective adjusting motivating force frameworks. Roberts (2012) demonstrate idea of proprietorship, joined with statutory property rights, are crucial intends to give a motivator to make and build up an advantage. The two crucial parts of proprietorship incorporate; initially, the privileges of leftover privileges of control, which is privilege to settle on choices concerning utilization of an advantage; furthermore, privilege to remaining returns which is privilege to incomes left finished after the sum total of what commitments have been met.

As indicated by Milgrom (2012), it is mix of these two rights which gives individual impetus impacts of proprietorship. Mix supposedly is most effective motivating force because of the way that the individual settling on the choice bears the money related consequences of their choice. Milgrom and Roberts (2012) likewise express that these impacts are most proficient when these property rights are transferable or can be allocated to individual who is most appropriate to be in control. Additionally building up idea of sharing privileges of possession are Ben-Ner and Jones (2015). Ben-Ner (2015) build up a hypothetical system which consolidates these two parts of proprietorship, control and return, and propose conceivable firm execution results related with exchanging these rights from proprietors to non-proprietor representatives. They fight that best productivity results exist when both these rights are exchanged from proprietors to non-proprietors.

### **2.2.3 Equity Theory**

As per equity hypothesis of Adams (1965), how much workers see that they are decently remunerated for their execution may impact their states of mind toward association. A representative who sees that ESOP framework depends on value may additionally see a satisfaction of legally binding commitments with respect to business and a feeling of commitment to add to hierarchical objectives (Westwood, 2011).



## **2.3 Determinants on Earnings Per Share**

It has been seen that record value valuation undertaking applies look into in the field of utilizing data. As of late, as Pushpa Bhatt (2012) portrayed earning per share impact on value advertise estimation of offer with generation of crucial duties in regards to top 50 Indian associations. Sanjeet Sharma (2011) in his examination induced that winning per share is most grounded determinant of market an incentive in a helpful track. In this way, financial specialists deal with income per shares variable in to account before putting resources into any organization.

Tuli, Nishi and Mittal (2011) fulfilled that income per share were seen to be crucial in choosing offer Price. Dechow, P.A. Hutton and R. Sloan, (2011) inspected some portion of waiting a motivating force for esteem valuation. Collins and Kothari, (2012) focus on stock esteem change associated with unexpected variances of benefit. It is maintained on cross-sectional between common data. Collins, Pincus and Xier, (2013) considered piece of significant worth book a motivator in esteem valuation.

Buzzel and Gale (2011) proceed to express that, wanders that have finished a staggering offer of business divisions give through and through extra useful than their tinier offer opponents. This association between bit of pie and profitability has been standard by corporate executives and pros, and it is unmistakably settled in outcomes of our examination in course of late years. They coordinated a cross sectional examination by considering pay extent of 105 associations for period 1989-93. Malhotra (2013) assumed that learning per share had helpful and gigantic wave accessible estimation of significant worth offers. His concentrated on masses was the four zones of organizations general building, cotton material, sustenance things and paper meeting a period of four years from 1982 to 1985.

### **2.3.1 Employee Share Ownership plan**

A survey of Ryterband (2011) and Pugh (2010) postulated that firms that had ESOs showed that firms' employees recorded various perceptions towards ESOPs including morale boosting, ultimately saving on taxes, surge in employee productivity, reduction in employee severance with the company and capital source to the firm. Adoption of ESOPs encourages employee attachment and retention which influences job contentment, encouragement and reduces

absenteeism (Becker, 2011). Daniel (2011) observed that good perceptions of employees results into satisfaction of customers, profitability and earning per share improvement. In addition, adoption of ESOP is expected to lead to increased employee motivation and productivity. This could be attributed to ownership benefits of the ESOP to the participating employees.

Buchko, (2012) in Bartkus (2013) indicated in their study that employees who coupled up as owners of the firm and viewed ESOPs as gateway for them to a greater say in running of the company and in decision making made them more attached to the company, felt more contented and they were more actively involved in their work. This is consistent with the agency theory, which indicated that providing ownership interest spurs interest in employees by taking into consideration their interest in the same wavelength as that of other shareholders (Chen & Kensinger, 2011).

### **2.3.2 Size**

Data asymmetries and checking are said to wind up plainly costlier as firm size, and administrative pecking orders, increments. Thus, measure is broadly anticipated to be related with selection and utilization of offer designs, and without a doubt many investigations observe this to be situation (Landau, 2013). Representative offer possession has all the earmarks of being a vast firm wonder and it appears to be likely that high settled expenses related with organization of offer proprietorship designs may likewise be vital in clarifying conveyance of offer plans. In any case, issue with this finding is that organization measure is probably going to be conversely identified with motivating force impacts of offer proprietorship, on account of free-rider impact.

### **2.3.3 Growth**

(EPS) is by and large thought to be most huge variable in characterizing share cost. It is a strong marker of a company's development. (EPS) is a piece of an organization's salary that is allotted to each extraordinary offer of basic stock, filling in as a marker of the association's gainfulness and growth. As such, commercial banks are important to the financial segment, particularly in developing economies where capital markets are not well developed and strong. In economies where the capital markets are still are developing, banking institutions serve as a vital source of finances for enterprises (Ntow & Laryea, 2012). Therefore, good performance of the bank is

usually measured as per its growth levels and has been essential to shareholders, customers as well as for banks continued survival and expansion (Nkegbe & Yazidu, 2015).

#### **2.3.4 Branches**

Bank branches is a critical monetary measure used to speak to the volume of bank. The quantity of branches speaks to extent of bank and can be measured from numerous points of view, for instance, through turnover, paid-up capital, capital utilized, add up to resources, net deals, advertise capitalization, etc. According to Almunani (2014) bank branches is positively related to earning per share. Huge bank offers better keeping money administrations chances to clients and borrower than the littler ones and also larger ones dominate stock market and their shares largely traded.. Chandra (1981) indicated that bank branches has significant positive impact on earnings per share.

#### **2.3.5 Number of Employees**

Employees number is vital for development of organizations (Hallberg & Schaufeli, 2013). A portion of the critical HR hones incorporate enlistment of staff, choice methods, showcase arranged preparing, execution improvement, sufficient trade framework, government managed savings examinations and arranged key needs. Associations, along these lines, need to outline its human asset administration in ways that fit into association's structure as this it will influence associations to accomplish their objectives and targets.

### **2.4 Empirical Review**

Park and Song (2011) examined long haul execution of ESOP firms and discovered huge change in their year-end execution. This finding upheld constructive outcomes of ESOPs on execution of firm general. Review speculated that execution of ESOP relies upon the productivity of proprietorship structure of firm as an observing component. Confirmation was reliable with theory in normal long haul firm execution. Cin and Smith (2011) examined employee stock ownership plans in South Korea. The study noted that Korean workers don't take an interest in ESOPs either fiscally or in basic leadership to degree they could under law. Econometric evaluations proposed that an expansion in a normal ESOP from 2% to 3% of aggregate offers would prompt an expansion in yield of 2.6%. Strategy investigation reasoned that ESOPs in Korea are not appropriate for annuities; that it isn't in representative premiums to buy all offers

through IPOs and SEOs; that motivations for longer stock holding periods might be proper; that change in basic leadership cooperation is alluring; and that adjustments in reimbursement strategies could make it more appealing for workers to buy shares.

Hallock, Salazar and Venneman (2010) recognized statistic and attitudinal corresponds of representative fulfillment with an ESOP. Relationship and relapse comes about showed that workers saw effect on basic leadership, saw pay value and saw impact on stock execution, when analyzed independently, were each critical corresponds of ESOP fulfillment. At the point when joined with demonstrated worker socioeconomics in a stepwise relapse display, just representatives saw effect on stock execution, saw impact on basic leadership and age clarified a factually noteworthy measure of fluctuation in ESOP fulfillment.

Park, Kruse and Sesil (2014) utilized information on all U.S. open organizations starting at 2001, completing them 2004 to look at how worker proprietorship is identified with survival. Estimation utilizing Weibull survival models demonstrated that organizations with worker proprietorship stakes of at least 5% were just 76% as likely as firms without representative possession to vanish in this period, contrasted both with all other open organizations and to a firmly coordinated specimen without representative possession. The analysts contended that while representative possession is related with higher profitability, the more noteworthy survival rate of these organizations isn't clarified by higher efficiency, budgetary quality, or remuneration adaptability. Or maybe, the higher survival is connected to their more prominent work strength, recommending that representative proprietorship organizations may give more prominent business security as a component of a push to assemble a more agreeable culture, which can build worker duty, preparing, and readiness to influence alterations when financial troubles to happen. These outcomes demonstrate that worker proprietorship may have a vital part to play in expanding employment and salary security, and diminishing levels of joblessness. Given worker support, firm execution and survival propels in the financial examination of participatory and work oversight firms, the principal significance of these issues for monetary prosperity, additionally inquire about on the part of representative proprietorship would be particularly profitable.

Elhayek and Petrovic-Lazarevic (2015) examined the findings on ESOP influence on organisational performance among Australian firms. The study discovered firms with lower

ESOP participation rates had better organisational performance across many financial areas. This group of organizations exhibited higher profitability and superior share related performance. The findings in this study are opposed to the common understanding among academicians and business people that ESOP significantly contributes to an improved organisational performance.

McHugh, et al., (2015) analyzed part of three worker proprietor characteristics (that is, the level of representative impact in basic leadership, the measure of Employee Stock Ownership Plan (ESOP) data given to worker proprietors, and the degree to which the ESOP configuration furnishes representative proprietors with value ownership) in foreseeing change in administrative view of ESOP firm execution. Study reactions from administration at ESOP firms in United States were examined. Using various leveled relapse investigation, examination found that worker impact in operational choices and data imparting to representative proprietors positively affects administrative view of firm execution. Value ownership gave off an impression of being just huge when ESOP data sharing is low.

Jones, Kalmi, and Makinen (2016) utilized another, long, and rich board informational collection comprising of all Finnish traded on an open market firms to think about how firm attributes and securities exchange improvements impact the appropriation and focusing of investment opportunity remuneration. Investment opportunity selection was observed to be a procyclical marvel. Discoveries include: (I) firms with higher market esteem per representative will probably utilize investment opportunity remuneration; (ii) share comes back from previous year influence appropriation of focused investment opportunities, however not wide 17 based plans; (iii) the outcomes were predictable with the theory that specific and wide based plans emerge as answers for contrasting checking challenges.

Chen and Hsu (2013) analyzed whether organizations in Taiwan have diverse money related exhibitions while embracing representative stock proprietorship designs (ESOP). Creators additionally broke down responses of stock returns when executive meeting declares to receive worker stock proprietorship designs. Outcomes demonstrated that electronic and non-electronic industry have huge contrasts on ROE, overall revenue and value multiplier amid pre-and post-occasion periods. The non-electronic industry, be that as it may, had no huge contrast amid pre-

and post-occasion periods on add up to resource turnover rate. Predating responses toward data were seen before occasion happened in market and electronic business made most huge response. In addition, they found that there were negative relations between total unusual yearly returns and firm size, and positive relations with market to book proportion and obligation proportion.

Kramer (2011) sought to establish employee ownership and participation effects on firm outcomes. A board of more than 300 greater part worker possessed (EO) firms in United States, in different enterprises and of an extensive variety of sizes, was built up, and a board of customarily claimed (KO) firms firmly coordinating the EO firms in size and industry got. All EO firms, and almost all KO firms, were secretly held; main profitability information accessible were deals per representative, and this measure was utilized. Utilizing a coordinated match contrasts test, deals per worker was generously and essentially higher for representative claimed gathering of firms. This representative claimed advantagel was fundamentally more noteworthy among littler firms, and (holding firm size consistent) enhanced as dollar estimation of normal workers proprietorship stake in firm stock went up. Holding both firm size and representative stake consistent, worker possessed preferred standpoint was considerably (however not fundamentally) more noteworthy in substantial gathering of firms which are 100% claimed by their ESOP Trusts.

Dhiman (2013) sought to outline impact of worker investment opportunity design (ESOP) on corporate profitability in perspective of regularly extending contention among associations to hold and attract qualified and gifted work in India. In light of efficiency qualities in pre-ESOP reception period (one year), examination paper contemplated ESOP effect on corporate profitability in a three-year post appropriation period for an example of 202 recorded Indian organizations. About portion of these organizations (99 organizations) were characterized into control gathering (non-ESOP organizations) and others (103 organizations) were classified as test gathering (ESOP organizations). Resource turnover proportion (ATO), in view of comprehensive writing overview, was distinguished and considered selective efficiency parameter in this examination. The importance of efficiency differentials among control and test bunches were tried utilizing the Wilcoxon Signed Rank test.

Dauda and Akingbade (2010) examined the relationship between employees earnings and banks profitability in Nigeria. Review also investigated impact of stock proprietorship on representative's investment in administration. Three invalid theories were expressed to test connection between representative shareholding and laborers support in administration; between worker impetuses and representative execution and between worker shareholding/motivation and representative responsibility. Fifteen inquiries were hypothesized to test different speculations and 392 polls were conveyed to 18 chose bank representatives out of 24 banks, out of which 324 were gathered. Discoveries uncover that representative money related interest and shareholding rehearses improve execution of laborer and association that utilization them and between development protection and worker support in possession.

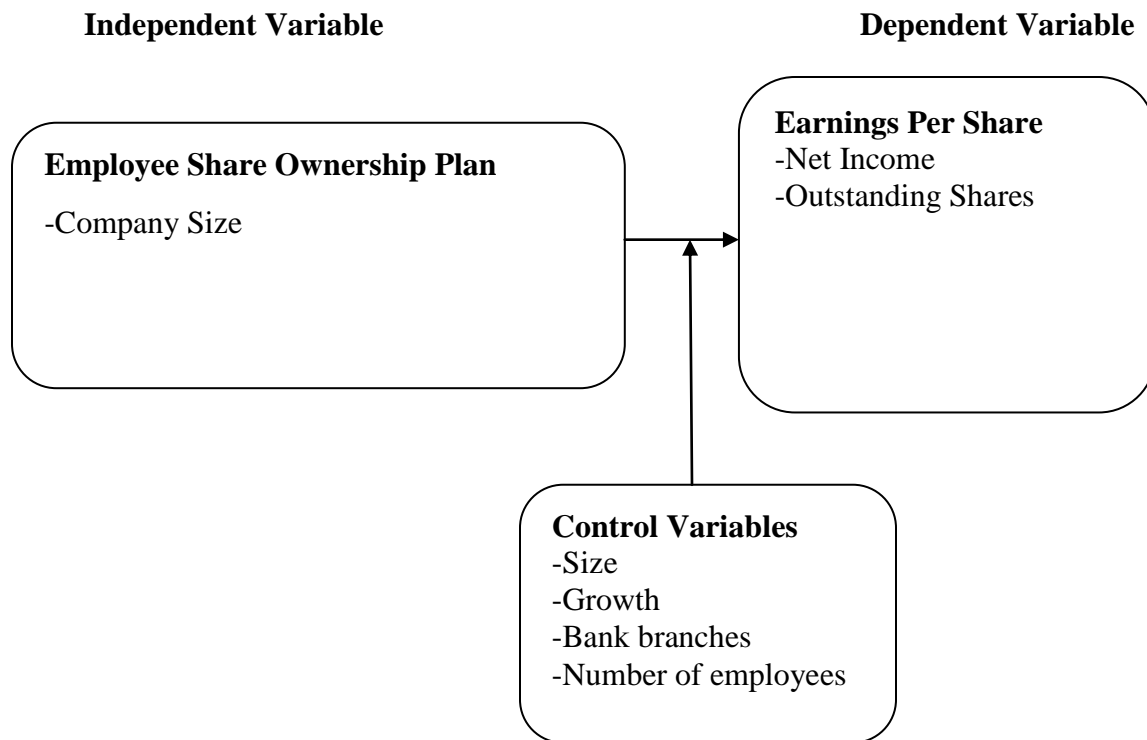
Ivanov and Zaima (2011) also carried out a study to look at whether representative stock possession designs (ESOPs) include or annihilate an incentive from another point of view by inspecting connection of reception of ESOP and organization cost of capital. The capital resource evaluating model was utilized to appraise organization's cost of value capital, and cost of obligation was assessed utilizing security yield spreads. (WACC) was ascertained as weighted level of the firm financed by value, favored stock, and obligation increased by individual expenses of capital. Univariate and multivariate investigations were directed around occasion of selection to decide whether cost of capital changes after appropriation of ESOP. Outcomes from univariate examination demonstrated that organizations embracing utilized and also non-utilized ESOP designs encounter diminishes in expenses of value and obligation capital and in addition diminishes in their WACC. In this manner, ESOPs advantage from diminished cost of capital identified with capacity to build obligation limit with respect to firm and in addition current duty special medications of ESOP designs.

Kim and Ouimet (2011) investigated in the case of embracing a wide based representative stock proprietorship design upgrades efficiency by enhancing group motivations and co-observing. Study noticed that adjustments in wages and firm esteem following ESOP selections are identified with the ESOP measure. When it is little (under 5% of exceptional offers), both mean wages and firm esteems increment. Huge ESOPs effectsly affect wages and investor esteem, demonstrating profitability picks up no more noteworthy than estimation of ESOP shares allowed. Some extensive ESOPs appear to be roused by reasons inconsequential to enhancing

bunch motivating forces and co-checking: money protection by little and youthful firms, prompting wage cuts, and specialist administration cooperation to frustrate takeover dangers, causing wage expands irrelevant to efficiency picks up.

Kamau (2014), in his study of the financial returns of public ESOP companies: investor effects vs. manager effects. noted that monetary returns of open organizations that support ESOPs circular segment considerably and fundamentally higher than those of similar non-ESOP organizations. In the examination of pre-and post-adoption return of ESOP supporting organizations, it proposed that appropriation of ESOP really diminishes money related returns. In this study, the control was maintained for financial risk and company size, which were noted to have independent effects on financial performance. The study comprised of 20 companies listed in Nairobi Security Exchange and financial data obtained from companies published accounts. The data for analysis included information such as monetary returns, use, market capitalization, number of workers, regardless of whether organization supported an ESOP in the year, quantity of representative members, and estimation of support stock ESOP held. Discoveries for this examination noticed that ESOP selection impact is minimal and unimportant for little organizations yet negative and huge for extensive organizations.

## 2.5 Conceptual Framework





### **Figure 2.1: Conceptual Framework**

Above figure shows relation between study variables. Dependent variable is earnings per share which is influenced by employee share ownership plan. The control variables will include size, growth, bank branches and the number of employees.

### **2.6 Summary and Research Gap**

Summary of Literature Review Most offer possession designs don't appear to on a very basic level change performance and earning per share. This is on account of, by and large, measure of value going to representatives is relatively little, and there is little desire with respect to those included that offer possession will change way organization is run. In any case, there are exemptions, particularly where there is considerable representative proprietorship. Be that as it may, notwithstanding concentrating on minority possession there is considerable proof of attitudinal and behavioral effects in specific conditions.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Part shows populace, sample and sampling technique, data collection method and instruments and data analysis.

#### **3.2 Research Design**

Review adopted a descriptive survey design. Being the present oriented research that seeks to accurately describe the situation like it is and collection of data for the hypothesis to be tested. Descriptive research design was chosen because it encompasses collection of data, describing episodes and putting them into tabulations to enumerate collection of data. Description was used as mechanism for data analyzing to facilitate pattern establishment for drawing analysis. Through descriptive this data is reduced into manageable forms (Glass & Hopkins, 2011).

#### **3.3 Target Population**

As per Cooper and Schindler (2003) target populace is whole section or party that interests researcher. Review target populace was all the 44 commercial banks operating in Kenya.

#### **3.4 Sample**

Sampling frame is said to be important by Ngechu (2004). Study carried a comparative analysis between the banks that have approved ESOPs against those that have not. Those with approved ESOPs include; Equity Bank, Kenya Commercial Bank, Investments and Mortgage Bank and Housing Finance.

#### **3.5 Data Collection**

Secondary data collection method was utilized in review. It was obtained from banks audited financial statements for the years 2012-2016. The data collected included; banks net income, outstanding shares, number of ESOPS and total number of shares

#### **3.6 Data Analysis Methods**

(SPSS Version 21.0) program analyzed data.

### 3.6.1 Diagnostic Tests

Further the study carried diagnostic tests for collinearity among autonomous factors utilizing resistance and (VIF) measurements, normality test and test for heteroscedasticity.

### 3.6.2 Analytical Model

Linear regression analysis was utilized to evaluate coefficients of a direct condition and Independent factors that test anticipate estimation of reliant variable.

The conceptual model below, which was used by previous scholar such as Kramer (2008), will be tested:

$$\text{EPS} = f(\text{ESOPs}) \dots\dots\dots (1)$$

The empirical model based on the variables above was:

$$\text{EPS} = \beta_0 + \beta_1 \text{ESOPS} + \beta_2 \text{Size} + \beta_3 \text{Bank branches} + \beta_4 \text{Number of employees} + \varepsilon \dots\dots\dots (2)$$

Where: Y = Earnings Per Share (Net Income/Outstanding Shares)

$\beta_0$  = Constant Term;

$\beta_1$ , = Beta coefficient;

X1= ESOPS (measured by Number of ESOPS/Total number of shares)

X2= Size (measured as the natural logarithm of total assets)

X3= Bank branches

X4= Number of employees

$\varepsilon$  = Error term

### 3.6.3 Test of Significance

From regression display, trial of importance at 5% huge level was led on different factors of this examination utilizing coefficient of assurance (R<sup>2</sup>), relationship coefficient (R), F-test and ANOVA table so as to check the noteworthy of information broke down.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

Part shows review outcomes. The results are based on an analysis of on banks that have approved ESOPs against those that have not. Those with approved ESOPs include; Equity Bank, Kenya Commercial Bank, Investments and Mortgage Bank and Housing Finance. This chapter is organized as follows. First, diagnostic tests are presented in section. This is followed by a presentation on inferential analysis in section 4.3 followed by a discussion of findings in section 4.4.

#### 4.2 Diagnostic Tests

This section analyses the diagnostic tests conducted for the data collected in the study. They include the Multicollinearity Test, Normality Test and Test for Heteroscedasticity.

##### 4.2.1 Multicollinearity Test

Review looked to discover collinearity among autonomous factors utilizing resistance and (VIF) insights of the indicator builds.

**Table 4.1: Tolerance and VIF Measures**

<b>Collinearity Measures</b>	<b>Tolerance</b>	<b>VIF</b>
ESOPS	0.785	1.227
Size	0.847	1.248
Bank branches	0.811	1.322
Number of employees	0.798	1.312

a. Dependent Variable: Earning per share

The study adopted the Menard (2012) threshold value who stated that variance inflation factor of 4.0 to represent high multicollinearity status. From Table 4.1 ESOPS had a VIF of 1.227, Size had a VIF of 1.248, bank branches had a VIF of 1.322 while number of employees had a VIF 1.312. Discoveries demonstrate that all autonomous factors achieved a high resilience esteem, which is a reasonable sign that the beta estimations of relapse condition of free factor would be steady with low standard mistake terms. Resilience is viewed as a component of denominator in

figuring as far as possible on incomplete relapse coefficient. As per writing by Porter (2009), VIF of autonomous factors that surpass 10 as a dependable guideline is viewed as collinear..

#### 4.2.2 Normality Test

This test tried to discover typical dissemination for earning per share which was tried for Gaussian circulation utilizing numerical and graphical strategies. As indicated by Indiana (2011) numerous information investigation techniques, for example, t-test, ANOVA and relapse examination depends on suspicion that information were inspected from a Gaussian conveyance.

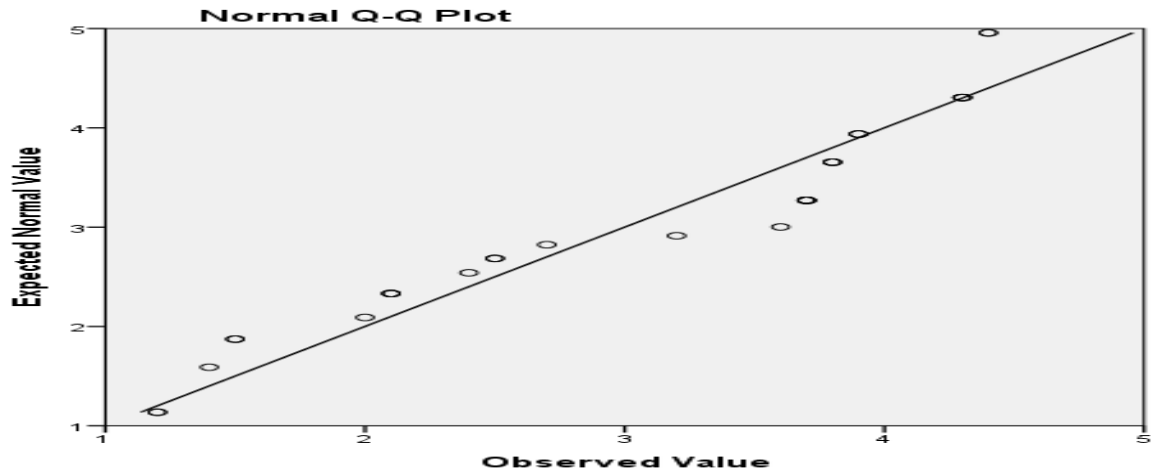
**Table 4.2: Kolmogorov-Smirnov and Shapiro-Wilk tests for Earning Per Share**

	Kolmogorov-Smirnov <sup>a</sup>		Shapiro-Wilk		
	Df	Stats Sig	Dif	Sig	Statistics
Earnings per share	42	0.088	42	.200*	.956

*a. Lilliefors Significance Correction*

*\* Lower bound of true significance*

The processed estimations of Kolmogorov-Smirnov and Shapiro-Wilk test demonstrate irrelevant insights with p-estimation of 0.200 which suggests that earning per share is regularly circulated. By and by, on generally speaking, dissemination shows up typically dispersed. All the more along these lines, on premise of ascertained unimportant test measurements, ordinariness of needy variable was kept up. As indicated by the discoveries by Shelvin and Miles (2010), noteworthiness test result for such information is viewed as genuinely exact.



**Figure 4.2: Normal Curve Plot**

Further, figure 4.1 demonstrates envisioned dispersion of irregular factors of contrast between an exact appropriation and hypothetical dissemination of earning per share. At low estimations of variable, some insignificant deviation from ordinariness is viewed as ordinary.

#### 4.2.3 Test for Heteroscedasticity

The research also aimed to test for the heteroscedasticity using the Breusch-Pagan/Cook-Weisberg test. Outcomes are below are as follows;

**Table 4.3: Breusch-Pagan/Cook-Weisberg test Results**

<b>Breusch-Pagan / Cook-Weisberg test for heteroscedasticity</b>	
Ho: Constant variance	
Variables: fitted values of earning per share	
Chi <sup>2</sup> (1)	= 0.22
Prob > chi <sup>2</sup>	= 0.7134

From discoveries, chi-square esteem was little, demonstrating heteroscedasticity was not an issue. Additionally, it was uncovered that p estimation of 0.7134 was more prominent than 0.05 critical levels inferring there was no infringement of homoscedasticity. One of important assumptions of linear regression is that, there should be no heteroscedasticity of residuals (Shelvin & Miles, 2010). The results above indicated that the variance of the errors was constant across observations.

### 4.3 Correlations Analysis

A correlation is a solitary number that depicts level of connection between two factors. In this review relation was utilized to evaluate a conceivable two-way direct relation between two constant factors of investigation. Correlation is measured by a measurement called the connection coefficient.

**Table 4.4 Correlation Table**

Correlation		Earnings per share	ESOPs	Size	Bank branches	Number of employees
Earnings per share	Pearson Correlation	1	.989**	.991**	.961**	.905*
	Sig. (2-tailed)		.000	.000	.002	.003
	N	43	43	43	43	43
ESOPs	Pearson Correlation	.989**	1	.981**	.975**	.842*
	Sig. (2-tailed)	.000		.001	.001	.036
	N	43	43	43	43	43
Size	Pearson Correlation	.991**	.981**	1	.975**	.875*
	Sig. (2-tailed)	.000	.001		.001	.022
	N	43	43	43	43	43
Bank branches	Pearson Correlation	.961**	.975**	.975**	1	.783
	Sig. (2-tailed)	.002	.001	.001		.065
	N	43	43	43	43	43
Number of employees	Pearson Correlation	.905*	.842*	.875*	.783	1
	Sig. (2-tailed)	.003	.036	.022	.065	
	N	43	43	43	43	43

**Source:(2017)**

On connection of investigation factors, specialist led a Pearson Product Moment relationship. From discoveries on relation investigation between earnings per share and four study variables, the study discovered strong positive correlation coefficient between earnings per share and

ESOPs as depicted by correlation factor of 0.989. Review further revealed a positive correlation between earnings per share and size as shown by correlation coefficient of 0.991, association between earnings per share and bank branches was found to have positive relation as shown by correlation coefficient of 0.961. Finally, it was established that earnings per share had a strong positive relationship with the number of employees as shown by a coefficient of 0.905.

#### 4.4 Regression Model for banks without ESOPs

This study developed a model for commercial banks which did not have ESOPs. The model was based on the three control variables which included bank size, number of bank branches and number of employees.

##### 4.4.1 Summary Model

Balanced R squared is coefficient of confirmation which uncovers to us assortment in dependent variable on account of changes in self-governing variable.

**Table 4.5 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.988 <sup>a</sup>	.977	.906	.06984

From the findings, the estimation of balanced R squared was 0.906 a sign that there was variety of 90.6% on earning per share due to changes in size, bank branches and number of employees, at 95% confidence interval. It indicates 90.6% changes on earning per share could be explained for by changes in size, bank branches and number of employees.

**Table 4.4 Analysis of Variance (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.136	2	0.068	13.887	0.02a
	Residual	0.185	37	0.005		
	Total	0.321	39			

From ANOVA insights, prepared data, which is people parameters, had an importance level of 0.02 which exhibits data is ideal for making a conclusion on masses' parameter as estimation of criticalness (p-esteem) is under 5%. Ascertained esteem was more noteworthy than basic esteem (2.84<13.887) a sign that size, bank branches and number of employees affect earnings per share.



**Table 4.6 Table of Coefficient**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.154	0.303		3.808	0.018
Size	1.774	0.545	0.281	3.25	0.019
Branches	0.876	0.154	0.052	5.68	0.042
Number of employees	0.641	0.135	0.305	4.74	0.043

From table above, when all other factors are held constant, the Earning per share will be 1.154. A-unit increase in bank size will translate to a 1.774 improvement in the earning per share. A unit increase in the bank branches will increase earnings per share by 0.876. Finally, a unit increase in number of employees will increase earnings per share by a factor 0. 641.All the study variables were significant since the values were less than 5%.

#### 4.5 Model with Inclusion of ESOPs

This section developed a model with the inclusion of ESOPs as one of the key variable. The commercial banks with approved ESOPs included; Equity Bank, Kenya Commercial Bank, Investments and Mortgage Bank and Housing Finance.

##### 4.5.1 Model Summary

This model summary demonstrates R squared, balanced R squared and standard blunder of gauge. R-squared is a genuine measure of how closed data are to the fitted backslide line. It is generally called coefficient of confirmation, or coefficient of various judgments for different backslides.

**Table 4.7 Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999 <sup>a</sup>	.899	.875	.018

**Source:(2017)**

Balanced R squared is coefficient of confirmation which uncovers to us assortment in dependent variable as a result of changes in self-ruling variable, from disclosures in table above estimation of balanced R squared was 0.875 a sign that there was variety of 87.5% on the earning per share

due to changes in ESOPs, size, bank branches and number of employees at 95% certainty level. R is connection coefficient which demonstrates connection between examination factors, from discoveries appeared in table above there was a solid positive connection between investigation factors as appeared by 0.999.

#### 4.5.2 Analysis of Variance (ANOVA)

In this ANOVA analysis, the dependent variable is earning per share. There are significant relation between dependent and independent variables such as ESOPs, size, bank branches and number of employees.

**Table 4.8 ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.081	1	0.081	4.01235	.048 <sup>b</sup>
	Residual	0.65	2	0.325		
	Total	0.732	3			

**Source:(2017)**

From ANOVA statics above, prepared data, which is people parameters, had a significance level of 0.048 which exhibits that data is ideal for making a conclusion on masses' parameter as estimation of noteworthiness (p-esteem) is under 5%.

#### 4.5.3 Table of Coefficient

The table gives the coefficients of each variable and the extent to which it influences dependent variable and which in this case is earning per share. Table also includes the significance level of each variable in the study.

**Table 4.9: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	1.176	0.317		3.70	0.0092
ESOPs	0.117	0.096	0.046	2.54	0.001
Size	0.996	0.143	0.670	6.96	0.001

Bank branches	0.569	0.118	0.394	4.82	0.034
Number of employees	0.492	0.122	0.113	4.03	0.003

SPSS generated results gave, the equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$ ) becomes:

$$Y = 1.176 + 0.117X_1 + 0.996X_2 + 0.569X_3 + 0.492X_4$$

From the relapse demonstrate got over, a unit increment in ESOPs would prompt an expansion in earnings per share by a factor of 0.117; a unit change in bank size would build income per share by a factor of 0.996, a unit increment in bank offices would prompt an expansion in earnings per share by a factor of 0.569 and a unit change in number of workers would prompt an increment in income per share by a factor of 0.492 and the other way around. Analysis was embraced at 5% centrality level. Criteria for differentiating whether pointer factors were essential in show was through taking a gander at the got probability regard and  $\alpha=0.05$ .

#### 4.6 Discussion and Summary of Findings

From above regression models for five years, the study found out that there were several factors influencing the earning per share of commercial banks, which are (ESOPS), bank size, number of branches and number of employees. The variables influenced earning per share positively. This study established that ESOPS positively influenced earning per share though with the least coefficients as compared to the other review variables.

The four independent variables that were studied (ESOPS, size, bank branches and number of employees) explain 87.5% of earning per share as shown by average adjusted  $R^2$  (0.875). Therefore 87.5% of earning per share decision are contributed by the four variables while other factors not studied in this research contributes 12.5% of earning per share of commercial banks in Kenya. Review concludes ESOPS have a positive influence on earning per share of commercial banks in Kenya. Review results are consistent with prior research by Pugh et al. (2010) who observed that ESOPS are being utilized by corporate chiefs to take exploit tax breaks, help here and now benefits, or erect takeover barriers. Further, worker stock possession is generally perceived as a compelling apparatus of enhancing corporate execution and gaining per share by empowering representatives to take an interest in creation and sharing of riches they make in an organization (Earl, 2013).

The study deduced that although the overall relationship between ESOPS and earning per share is positive, the coefficient showing the strength is quite low as compared to the other variables. Thus, the relationship between ESOPS and earning per share remains a controversial. This is in line with earlier studies that showed mixed results about the relationship between ESOPS and earning per-share with few predicting a negative relationship (Gordon & Pound, 2010; Lisa & Zwirlein, 2013).

From the findings, it can be observed that ESOPS affects earning per share positively but not to a very great extent. At any time, a company issues ESOPS the employees and management will feel a form of ownership and will be more committed to their work leading to increased performance, profitability and improved earnings per share.

## CHAPTER FIVE

### CHAPTER FIVE SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

Part shows conclusions, findings, review limitation and subsequent recommendations. Conclusions provide a basis for the policy recommendations that are offered. In addition, suggestions are provided for further studies given the limitations that were encountered in the study.

#### 5.2 Summary

5 year secondary data was utilized. Study populace comprised of all commercial banks operating in Kenya during review period. Review objective was analysing the effects of employee share ownership plan on earning per share of commercial banks in Kenya. Review discovered there were several factors influencing the earning per share of commercial banks, which are ESOPS, company size, number of branches and number of employees. All the variables influenced earning per share positively.

The four independent variables that were studied (ESOPS, company size, number of branches and number of employees) explain 87.5% of earning per share as represented by the average  $R^2$ . From the findings, it can be observed that ESOPS affects earning per share positively but not to a very great extent. The findings are in line with those of Lisa & Zwirlein, (2013) who found a positive relation between employee ownership and earning per share, other studies reported no relation between employee ownership and earning per share.

#### 5.3 Conclusions

Review investigates effects of employee share ownership plan on earning per share of Kenyan commercial banks. The study concludes that ESOPs have a positive influence on the earning per share. ESOPs are used for many reasons, including providing for a tax-favored, flexible transition of ownership in closely held companies and as a means of providing an additional benefit that ties employee and company interests together. Representatives, given a possession stake in the organization, would have the motivation to build its profitability and execution.

ESOPs are utilized by corporate administrators to exploit tax breaks, support here and now benefits, improve earnings per share or erect takeover defenses. The study deduced that although the overall relationship between ESOPs and earning per share is positive, the coefficient showing the strength is quite low as compared to the other variables. Thus, the relationship between ESOPs and earning per share remains a controversial. This also point on the existence of a nonlinear relationship between these two variables. Since value shares under an ESOP are normally apportioned to countless, such plans are probably going to bring about a genuine free-rider issue and henceforth are ineffectual in propelling representatives. Apparent advantages of an ESOP might be feasible just with an authoritative frame in which motivation profitability execution interface is all the more effortlessly recognizable by the taking an interest representatives.

#### **5.4 Recommendations for Policy and Practice**

Since review established that ESOP have a significant influence on the earning per share, commercial banks should concentrate on those policies which encourage the adoption of the ESOPs among banks since they may be helpful in enhancing earning per share of the banks and therefore achievement of robust economic growth. It is essential to have someone in the company who knows ESOPs well who is charged with working with a qualified ESOP plan administrator.

Since the study deduced that ESOP generally affects the earning per share of commercial banks positively, the researcher recommends that the banks management should put in place and implement corporate policies that better align interest of employees and employers so as to promote employee engagement and productivity. This can be achieved by encouraging employees to take up the ESOPs and by having a high-involvement and open culture necessary for an ESOP to thrive.

Due to positive relationship of ESOPs and earning per share, public policy recommendation should be formulated by the Government of Kenya to promote broad based ESOP which in turn enhances national saving and facilitate as well as encouraging the development of small to medium, privately owned enterprises including startup companies. The study also recommends that a public policy formulation encouraging investors and entrepreneurs to promote broad based

ESOPs in their investments and enterprises. The policy also should facilitate employee buyouts scheme and business succession, a successful alternative to selling the company to an external buyer.

### **5.5 Limitations of the Study**

While analysis outcomes are interesting, there are a few confinements which must be recognized. To start with, since all information (both free and ward factors) were gathered from licensed commercial banks in Kenya's, it is indistinct to what degree outcomes experience the ill effects of normal technique change. Further, the data was tedious to collect and compute as it was in very raw form.

Further, the model may not be reliable due to some shortcoming of the regression models. Due to the shortcomings of regression models, different models can be utilized to clarify the different connections between factors. In addition, the researcher was unfit to gather data with respect to the historical backdrop of each bank, which might be a critical effect on ESOP properties important in relationship to earning per share.

### **5.6 Suggestions for Further Research**

Paper examined effects of employee share ownership plan on earning per share of Kenyan commercial banks. Review also recommends that a similar study to be done on firms listed in the NSE. This is because listed companies have different approach to their operations following the CMA guidelines which affect their earning per share. Further studies should also be done on the various aspects of ESOP valuation, including the repurchase obligation and selecting an appraiser and how they affect the financial performance of the companies listed in the NSE.

## REFERENCES

- Adams, J. (1965). Inequity in social exchange. *Advances in Experimental Social Psychology*.  
<http://www.emeraldinsight.com>
- Alchian, A. & Demsetz, H. (2012). Production, information costs and economic organization. *American Economic Review*, 62, 777-795.
- Applebaum, E., & Berg, P. (2010) High-Performance Work Systems: The Historical Context. in Blair, Margaret M., and Thomas A. Kochan (eds) *The New Relationship: Human Capital in the American Corporation*, The Brookings Institution: Washington, DC.
- Ball, C. & Brown, P. (2014), "An Empirical valuation of Accounting income Numbers", *Journal of Accounting Research*, Vol. 6, No. 2, pp. 157-178.
- Ben-Ner, A., & Jones, D. (2015). Employee Participation, Ownership, and Productivity: a Theoretical Framework. *Industrial Relations*, 34(4): 532-53.
- Buzzel, R. & Gale, B. (2011). *The PIMS Principles: Linking Strategy to Performance*. New York: The Free Press, p. 8, 70.
- Cantoni, C. (1997). Learn to manage pay and performance like an entrepreneur. *Compensation and Benefits Review*, 29(1), 52-8.
- Chen, W. & Hsu, C. (2013). Corporation financial performance and market reaction to ESOP: evidence from Taiwan. *Investment Management and Financial Innovations*, 5(1), pp. 41-50.
- Cin, B.& Smith, S. (2011), Employee Stock Ownership and Participation in South Korea: Incidence, Productivity Effects, and Prospects. *Review of Development Economics*, 6: 263–283.
- Collins, D. & Xie, H. (2012), 'Equity valuation and negative earnings: The role of book value of equity'.
- Dauda, Y. & Akingbade, W. (2010). Employee Incentive Management and Financial Participation in the Nigerian Banking Industry: Problems and Prospects. *European Journal of Economics, Finance and Administrative Sciences*. Issue 24.
- Dechow, P., Hutton, R. & Sloan, T. (2011), 'An Empirical assessment of Residual income valuation model', *Journal of Accounting and Economics* 26, (1-3) 1-34
- Dhiman, R. (2013). The elusive employee stock option plan-productivity link: evidence from India. *International Journal of Productivity and Performance Management*, 58(6), 542 – 563.
- Elhayek, H. & Petrovic-Lazarevic, S. (2015). Are Employee Share Ownership Programs Really Improving Organisational Performance. Working Paper 12/05, Department of Management, Monash University, March 2005.



- Elhayek, H. & Petrovic-Lazarevic, S. (2015). Are Employee Share Ownership Programs Really Improving Organisational Performance. Working Paper 12/05, Department of Management, Monash University, March 2005.
- Gordon, A. (2011), "Dividends, Earnings, and Stock Prices" *The Review of Economics and Statistics*, Vol. 41, No. 2, Part 1, pp. 99-105.
- Hansmann, H. (2010). *The Ownership of Enterprise*, Harvard University Press: Cambridge, MA.
- Haugen, R. & Lemma, W. (2011). Resolving the agency problems of external capital through options. *Journal of Finance*, 36, 629-648.
- Jones, D., Kalmi, P., & Mäkinen, M., (2016). The determinants of stock option compensation: evidence from Finland. *Industrial Relations: A Journal of Economy and Society*, 45(3), 437-468.
- Kothari, S., (1989), "An Analysis of the Cross-sectional and Intertemporal Determinants of Earnings Response Coefficients", *Journal of Accounting and Economics* 11, 143-181.
- Kramer, B. (2011). Employee ownership and participation effects on firm outcomes. Unpublished PhD Thesis, City University of New York Graduate Center.
- Lazear, E. (1986). Salaries and piece rates. *Journal of Business*, 59: 405-31.
- Levine, D. & Tyson, L. (2010). Participation, productivity and the firm's environment , in Alan S. Blinder (ed.) *Paying for Productivity: A Look at the Evidence*, The Brookings Institution: Washington, DC.
- Malakar, B. & Gupta, R. (2012), "Determinants of share price – A system approach: Modified Model" Vol 16, No 4, pp. 1409-1418.
- Malhotra, V. (2013), "Determinants of Equity Prices in India", Ph.D. Thesis, Himachal University, Shimla
- McHugh, P. (2015). Examining structure and process in ESOP firms. *Personnel Review*, 34(3), 277 – 293.
- Mohammed, H. (2010), "Effects of the Earnings Announcement on the Stock Prices of Companies Listed at the Nairobi Stock Exchange". MBA Project, University of Nairobi
- Mugenda, O., & Mugenda, G. (2003) *Research Methods: Quantitative and Qualitative approaches*. ACTS, Nairobi Kenya.
- Nalbantian, H. (2011). Incentive compensation in perspective, in Haig R. Nalbantian, ed., *Incentives, Cooperation, and Risk Sharing: Economic and Psychological Perspectives on Employment Contracts*. Rowman & Littlefield: Totowa.

- Obiyathulla, I., Sharifah-Raihan, S., Mohd-Eskandar, S. & Azhar, M. (2009). Granting Employee Stock Options (ESOs), Market Reaction and Financial Performance. *Asian Academy of Management Journal of Accounting and Finance*, 5(1), 117-138.
- Odumbe, K. (2010), "An Empirical Investigation of the information Content of Bonus Share Announcements for Companies Quoted at the Nairobi Stock Exchange" MBA Project, University of Nairobi
- Onyango, P. (2014). "Stock Price Responses to Earnings Announcements: evidence from the Nairobi Stock Exchange", MBA Project, University of Nairobi
- Park, S. & Song, M. (2011). Employee stock ownership plans, firm performance, and monitoring by outside block holders. *Financial Management*.
- Pendleton, A. & Andrew, R. (2010). Employee Stock Ownership, Involvement, and Productivity: An Interaction Based Approach. *Industrial and Labor Relations Review*, 64(1), 23-35.
- Piatroski, D. (2014), "The Influence of Analysts, Institutional Investors, and insiders on the Incorporation of Market, Industry, and Firm – Specific information into stock prices", *The Accounting Review*, Vol. 79, No. 4, pp. 1119-1151.
- Pushpa Bhatt, P. & Sumangala, J. (2012). "Impact of Earnings per share on Market Value of an equity share: An Empirical study in Indian Capital Market". *Journal of Finance, Accounting & Management*, 3(2).
- Putterman, L. & Skillman, G. (2011). The incentive effects of monitoring under alternative compensation schemes. *International Journal of Industrial Organization*, March: 109-119. 48
- Ramsay, I., & Marshall, S. (2012). Broadbased employee share ownership in Australian listed companies: survey report. University of Melbourne Legal Studies Research Paper No. 412.
- Sengupta S., Whitfield, K. & McNabb, B. (2013). Employee share ownership and performance: golden path or golden handcuffs? *International Journal of Human Resource Management*, 18(8), 1507-1538.
- Tuli, N. & Mittal, R. (2011), "Determinants of Price-Earnings Ratio, *Finance India*, Vol.15, No.4, December 2001, pp. 1235-1250.
- Wachira, J. (2010), "A Survey of the determinants of the success of initial Public Offerings (IPOS) among companies listed at the Nairobi Stock Exchange ", MBA Project, University of Nairobi.
- Westwood, R. (2011). Challenges to the psychological contract in Hong Kong. *International Journal of Human Resource Management*, 12(4), 621- 51.
- Yeo, G. (2010). Effects of Executive Stock Options on Shareholder Wealth and Firm Performance: The Singapore Evidence. *The Financial Review*, 34, 1-20.

## APPENDICES

### Appendix i: List of Commercial Banks Listed

#### Commercial Banks with Approved ESOPs

1. Equity Bank
2. Kenya Commercial Bank
3. Investments and Mortgage Bank
4. Housing Finance

#### Commercial Banks with no ESOPs

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. Chase Bank Kenya
7. Citibank
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of Kenya
11. Credit Bank
12. Development Bank of Kenya
13. Diamond Trust Bank
14. Dubai Islamic Bank
15. Ecobank Kenya
16. Family Bank
17. First Community Bank
18. Giro Commercial Bank
19. Guaranty Trust Bank Kenya
20. Guardian Bank
21. Gulf African Bank
22. Habib Bank AG Zurich
23. Jamii Bora Bank
24. Mayfair Bank
25. Middle East Bank Kenya
26. National Bank of Kenya
27. NIC Bank
28. Oriental Commercial Bank
29. Paramount Universal Bank
30. Prime Bank (Kenya)

- 31.SBM Bank Kenya Limited
- 32.Sidian Bank
- 33.Spire Bank
- 34.Stanbic Bank Kenya
- 35.Standard Chartered Kenya
- 36.Trans National Bank Kenya
- 37.United Bank for Africa
- 38.Victoria Commercial Bank

**Appendix ii: Data of commercial banks with approved ESOPs**

<b>Banks with ESOPs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Equity Bank</b>					
ESOPs	142,866,900	138,534,200	143,865,900	143,729,900	122,581,800
EPS	3.43	3.59	4.63	4.65	4.61
Size (total assets)	273,170,000,000	273,197,317,000.00	354,235,564,000.00	428,067,516,000.00	473,713,133,000.00
Bank branches	145.00	150.00	173.00	200.00	200.00
Number of employees	5,500.00	5,500.00	5,800.00	6,000.00	6,000.00
<b>Kenya Commercial Bank</b>					
ESOPS	18,486,338	suspended	suspended	suspended	suspended
EPS	3.72	4.82	5.63	6.49	6.46
Size (total assets)	368,018,785,000	390,851,579,000	490,338,324,000	558,094,154,000	595,987,345,000
Bank branches	200	200	200	234	250
Number of employees	7000	7200	7200	7500	7500
<b>Investments and Mortgage Bank</b>					
ESOPs	9234545	9243780	9253023	9262276	9271539
EPS	1.69	1.88	178.35	204.85	220.21
Size (total assets)	119,233,345,032	141,200,544,937	137,196,446,000	147,846,339,000	150234456000
Bank branches	18	20	20	24	24
Number of employees	700	780	780	780	800
<b>Housing Finance</b>					
ESOPs	12,234,456	12,234,456	13,345,234	13,543,287	13,678,345
EPS	3.22	3.12	2.98	3.11	3.34
Size (total assets)	64,456,345,000	65,789,965,000	68,456,210,000	71,659,434,000	71,930,140,000
Bank branches	17	22	22	24	25
Number of employees	800	850	850	900	930

**Appendix iii: cumulative Data of commercial banks without ESOPs**

<b>Other banks Cumulative value</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
EPS	1.18	1.12	1.24	1.54	1.63
Size (total assets in trillions)	2,330,335	2,703,394	2,784,496	2,868,031	2,954,072
Bank branches	1,385.00	1,400.00	1443	1,523	1,600
Number of employees	31,636	34,059	36,923	36,212	34,083