

**EFFECTS OF EMPLOYEE SHARE OWNERSHIP PLAN ADOPTION ON
FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA**

BY

NYAMBANE, PETER KAMANDAH

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF
NAIROBI**

2011

DECLARATION

This research project is my original work and has not been submitted for examination in any other University.

Signature:

Date:

NYAMBANE, PETER KAMANDAH

D61/71893/2008

This research project has been submitted for examination with my approval as a university supervisor.

Signature:

Date:

DR. SIFUNJO, KISAKA

DEPARTMENT OF ACCOUNTING & FINANCE,

SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENT

I thank God for giving me the wisdom and courage and for guiding me throughout my life for without Him I would not have come this far. I would also like to acknowledge the following for their contributions which facilitated the completion of this project.

I thank my supervisor Mr. Sifunjo Kisaka, for providing unlimited, invaluable and active guidance throughout the study. His immense command and knowledge of the subject matter enabled me to shape this research project to the product that it is now.

I thank all staff and management of the Capital Markets Authority and the Nairobi Stock exchange for helping me gather the financial data which was instrumental in this paper.

I also thank my family for letting me steal their invaluable family time to work on this project. It is my hope that their sacrifice has finally paid off.

Finally, I owe my gratitude to a number of other people who in one way or another contributed towards completion of this project especially my fellow colleagues at work and students. To all of you, I say *Asante Sana!*

DEDICATION

I dedicate this research work to my wife without whose caring support it would not have been possible, to my parents who always advised of the fruits of education, and most of all to the Almighty God who gives me strength and good health.

ABSTRACT

There is still no consensus on the impact of ESOPs on performance of companies. While some authors propose that the existence of an ESOP will add to firm value by aligning the incentives of employees with those of the shareholders, others argue that ESOP participants will use their ownership voice to push for increasing wages and benefits, to the detriment of the shareholders. The differences in results could be due to the methodologies adopted as researchers have used various methods to carry out the same. The environments in which these studies are carried out are also varied hence the variations in results. These conflicting results, coupled with the fact that little had been done on ESOPs in Kenya offers a gap in literature that the present study sought to address. The objective of this study was to assess the effect of ESOPs on the financial performance of companies listed on the Nairobi Stock Exchange.

This study adopted a descriptive survey design. The population of this study was all the 56 firms listed on the Nairobi Stock Exchange. A sample size of 18 firms was selected where 9 ESOP firms were matched with 9 non-ESOP firms. Secondary data on ESOPS, total assets, cash flows, sales, and net income were collected from the annual reports from the CMA, NSE, company premises and websites. This was collected for the period 2008-2010. Data was analysed using descriptive analysis, univariate analysis, correlation analysis, and multiple regression analysis using the SPSS. The results were presented in tables.

The study found that 16% of the firms listed on the NSE have ESOPS. Through the use of t-tests, the study failed to ascertain a statistically significance difference between the performance of ESOP firms and non-ESOP firms. The regression results showed that ESOPS

did not significantly influence performance of firms when ESOP was measured as a dummy variable. However, when ESOP was measured as a percentage of total shares, it had a significant positive effect on net profit margin ($R=0.875$, $p=0.022$) while it remained statistically insignificant with the rest of the performance measures ($p>0.05$). Consistent with prior studies in this area, the study concludes that ESOP firms' performances are not significantly different from those of non-ESOP firms. The study also concludes that ESOPs do not significantly influence performance per se except for when the shares form a substantial proportion of the total shares in which case they mostly affect the net profit margin of a firm. The study recommends that given that there is a potential for ESOPs to significantly influence performance in terms of net profit margin, firms adopting the same need to substantially offer more shares to all employees.

TABLE OF CONTENTS

DECLARATION.....	i
ACKNOWLEDGEMENT.....	ii
DEDICATION.....	iii
ABSTRACT.....	iv
LIST OF TABLES.....	viii
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Problem Statement.....	4
1.3 Objective of the Study.....	5
1.4 Importance of the Study.....	6
CHAPTER TWO.....	7
LITERATURE REVIEW.....	7
2.1 Introduction.....	7
2.2 Theoretical Review.....	7
2.3 Empirical Review.....	13
2.4 Summary and Research Gap.....	25
CHAPTER THREE.....	26
RESEARCH METHODOLOGY.....	26
3.1 Introduction.....	26
3.2 Research Design.....	26
3.3 Population.....	26
3.4 Sample.....	26
3.5 Data Collection.....	27
3.6 Data Analysis.....	29

CHAPTER FOUR.....	30
DATA ANALYSIS, RESULTS AND DISCUSSION.....	30
4.1 Introduction	30
4.2 Descriptive Statistics	30
4.3 Independent Samples T-Test.....	32
4.4 Effect of ESOP Adoption on Firm Performance.....	33
4.5 Discussion and Summary of Findings.....	37
CHAPTER FIVE	38
SUMMARY, CONCLUSION AND RECOMMENDATIONS	38
5.1 Introduction	38
5.2 Summary of the Study.....	38
5.3 Conclusion.....	39
5.4 Policy Implications.....	39
5.5 Limitations of the Study	40
5.6 Suggestions for Further Research	40
REFERENCES.....	41
APPENDICES	49
Appendix A: Companies Listed at the Nairobi Stock Exchange	49
Appendix B: Past Studies on ESOP, Productivity, and Performance	53

LIST OF TABLES

Table 1:	Industry Composition of Firms Listed on the NSE	30
Table 2:	Summary Statistics	31
Table 3:	Independent Samples T-test.....	32
Table 4:	Correlation Analysis	34
Table 5:	Correlation for ESOP vs. Performance.....	35
Table 6:	Effect of ESOP adoption on Firm Performance	36

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The recent economic crisis has stimulated much interest amongst researchers and policy makers concerning the possibilities of alternative ways to structure economic organizations. One option is shared capitalism, characterized by a variety of financial participation programs (such as profit sharing, gain sharing, employee ownership, and broad-based stock options), all of which make workers significant stakeholders of the firm (Kruse, Freeman and Blasi, 2010). With the rising use and interest in such employee financial participation schemes, many studies have examined their effects on enterprise performance in industrialized countries (Kato, Lee, and Ryu, 2010). Most prior studies consider either Profit Sharing Plans (PSPs) in which at least part of the compensation for non executive employees is dependent on firm performance or Employee Stock Ownership Plans (ESOPs) through which the firm forms an ESOP trust consisting of its non-executive employees and promotes ownership of its own shares by the trust (Kato et al., 2010).

The ESOP is a qualified defined contribution employee pension plan similar to other well-known retirement plans (Ivanov and Zaima, 2011). There are two types of ESOP plans: leveraged and non-leveraged ESOP plans. A leveraged ESOP plan is recognized when a loan is obtained to set up an ESOP trust and as the debt is repaid using employer contributions and dividends shares, funds are distributed into the employee accounts. A non-leveraged ESOP is established when the sponsoring firm contributes cash or stock (newly issued or treasury

stock) to the plan. The authors note that the adoption of a non-leveraged or a leveraged ESOP can increase or decrease the company's cost of capital.

1.1.1 Influence of ESOPs on Financial Performance

ESOPs originally were created with the idea that employees, given an ownership stake in the company, would have the incentive to increase its productivity and performance (Borstadt and Zwirlein, 1995). Improvements in morale and job satisfaction were expected to promote the overall productivity and competitiveness of an industry. A study by Borsdat and Zwirlein (1995) found no evidence of any productivity gains or performance improvements following ESOP adoption. McCarthy, Reeves and Turner (2010) study found only a limited impact of ESOPs on employee attitudes and behaviour and this translates to limited influence on employee productivity and overall firm performance. On the other hand, Gamble, Culpepper and Blubaugh (2002) found positive linkages between some aspects of employee ownership and ESOP satisfaction, job satisfaction and job involvement. These results should be extended to mean that the positive employee attitudes should translate to improved employee productivity and overall firm performance.

Kruse and Blasi (1997) summarize eleven studies evaluating comparison of (a) performance before and after adoption of the ESOP, (b) ESOP to non-ESOP firms, and (c) post-adoption performance to matched non-ESOP firms. Most of the studies find small positive, but statistically insignificant effects. Only two of the studies – on post-adoption performance (Kumbhaker & Dunbar 1993; Mitchell et al., 1990) – find significant differences. Park and Song (1995), additionally, find significantly better post-adoption performance, but only in firms with outside blockholders (possibly due to greater monitoring of management).

Conducting meta-analytic statistical tests on all eleven studies, however, Kruse and Blasi (1997) are able to conclude that on average in all the performance categories, ESOP companies do better per year than non-ESOP companies and that companies do better post-adoption than pre-adoption. They estimate the average effect across tests and across studies to be approximately 4% annually.

1.1.2 The Nairobi Stock Exchange and ESOP Firms

Nairobi Stock Exchange (NSE) is categorized into three market segments; Main Investment Market Segment (MIMS); Alternative Investment Market Segment (AIMS); and Fixed Income Market Segment (FIMS). The MIMS is the main quotation market. Companies listed under this segment are further categorized in four sectors that describe the nature of their business, namely: agricultural; industrial and allied; finance and investment; and commercial and services. The AIMS provides an alternative method of raising capital to small, medium sized and young companies that find it difficult to meet the more stringent listing requirements of the MIMS. The AIMS is geared towards responding to the changing needs of issuers; facilitates the liquidity of companies with a large shareholder base through ‘introduction’, that is, listing of existing shares for marketability and not for raising capital; and offers investment opportunities to institutional investors and individuals who want to diversify their portfolios and to have access to sectors of the economy that are experiencing growth. The FIMS, on the other hand, provides an independent market for fixed income securities such as treasury bonds, corporate bonds, preference shares and debenture stocks, as well as short-term financial instruments such as treasury bills and commercial papers (NSE Handbook, 2009).

There are a few companies in Kenya that have adopted ESOPs as this is still a new practice in Kenya. Examples of such companies include Kenya Commercial Bank, KenoKobil, Equity Bank, East Africa Breweries, Safaricom, Housing Finance, Access Kenya and Scangroup Ltd. This offers an opportunity to study the effects, if any, of these ESOPs on the employee productivity and overall firm performance. The NSE has been selected as a focus of this study given the availability of secondary data for all the firms listed on the NSE hence it will be easier to collect the data and the data will also be very reliable.

1.2 Problem Statement

There is still no consensus on the impact of ESOPs on performance of companies. While some authors propose that the existence of an ESOP will add to firm value by aligning the incentives of employees with those of the shareholders, others argue that ESOP participants will use their ownership voice to push for increasing wages and benefits, to the detriment of the shareholders (Stretcher, Henry, and Kavanaugh, 2006). Most of the available empirical studies report mixed results. Studies that show positive effects of ESOPs include for instance McDaniel, Madura, and Wiant (1995) found that firms experienced favorable long-term valuation effects following the creation of new ESOPs. Pugh, Oswald and Jahera (2000) concluded that ESOPs provide, at best, only a short-term boost to corporate performance. Cin and Smith (2002) suggested that an increase in an average ESOP from 2% to 3% of total shares would lead to an increase in output of 2.6%. Stretcher, et al. (2006) discovered significant differences in operating performance generally favoring the ESOP firms. Wu, Su, and Lee (2008) found that intrinsic motivation *ex ante* for employee ownership can cultivate

innovative behaviour *ex post*, whereas extrinsic motivation yields the similar effect only in the presence of a climate of self-determination and the absence of environmental hostility.

The studies that show negative or no significant effects of ESOPs include for instance Sengupta, Whitfield, and McNabb (2007) who in their study suggested that the presence of employee share ownership at a workplace was not significantly associated with employee commitment to the organization. The study showed that there was evidence of a significant negative relationship between share ownership and workplace turnover, which explains part of the positive share ownership/performance relationship. Meng, Ning, Zhou, and Zhu (2010) found little difference in performance between ESOP firms and non-ESOP firms. Kato, Lee and Ryu (2010) reported no evidence of an increase in productivity was found for ESOPs.

The differences in results could be due to the methodologies adopted as researchers have used various methods to carry out the same. The environments in which these studies are carried out are also varied hence the variations in results. These conflicting results, coupled with the fact that little had been done on ESOPs in Kenya offers a gap in literature that the present study sought to address. The study thus poses the question: what effect does the introduction of ESOP have on firm performance of listed companies in Kenya? This is done by comparing the performance of ESOP firms with those of non-ESOP firms.

1.3 Objective of the Study

The objective of this study was to assess the effect of ESOPs on the financial performance of companies listed on the Nairobi Stock Exchange.

1.4 Importance of the Study

This study is important to various stakeholders. First, the study will be useful to the ESOP firms on the Nairobi Stock Exchange as it will show what kind of relationship exists between ESOPs and firm performance.

The study is important to non-ESOP firms as the relationship envisaged here will inform their future decisions regarding ESOP adoption or not. This is true for the non-ESOP firms listed on the NSE as well as the peer firms not listed on the NSE.

The regulators will also find this study a useful source as regards the value of ESOPs on firm performance and will help them in instituting legislations that will guide ESOP adoption in firms.

Lastly, the study will be invaluable to researchers and academicians on the value of ESOPs in firms in Kenya as well as in developing countries. The areas suggested for further studies will guide future research on the same.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review. First, a theoretical review is provided focusing on the theories related to ESOP adoption in firms in section 2.2. Secondly, the empirical review of the studies done on ESOP and its subsequent influence firm performance in firms is shown in section 2.3. The summary of chapter as well as the research gap is provided in section 2.4.

2.2 Theoretical Review

The theories discussed in this section are social exchange theory, principal-agent theory, incentive contract theory, and equity theory.

2.2.1 Social Exchange Theory

According to social-exchange theory, the more valuable the activity of another is to a person, the more valuable the approval he gives in return (Homans, 1958). This view implies that firms offering more voluntary compensation should have a better chance of attracting or retaining good workers to contribute their skills and knowledge. A lot of studies contend that benefits are a useful means to motivate, retain and attract qualified employees (Kurlander and Barton, 2003). Also, many firms provide benefit programs concerning employee-skills development in the belief that such investments will strengthen their work forces (Cantoni, 1997).

Since employee benefits help firms recruit and retain high-quality employees that are seen as strategic resources in achieving competitive advantage (Horwitz et al., 2003), one can expect that overall attractiveness of organizations can be enhanced through benefit offerings and that employees will then be influenced to feel greater satisfaction and loyalty. As a result, this should lead to greater effort and productivity. In short, higher benefits may increase firm productivity by attracting or retaining labor of better quality. Lipold's (2002) case study confirmed this argument. In other words, benefits may be a moderating role and enhance the positive effect of labour input on firm output through the retention and recruitment of competent employees.

2.2.2 Principal-Agent Theory

Many advocates of employee ownership have focused on how they can serve as collective incentives to improve workplace co-operation and performance. This is founded most basically on the idea that worker motivation is improved by giving workers a direct stake in outcomes, through tying compensation and/or wealth more closely to worker performance. While there are a variety of ways in which employers can try to ensure optimum performance of workers (e.g., close supervision, piece rates, deferred compensation, efficiency wages), collective incentives can complement or substitute for these methods under certain conditions. Piece rates, for example, may be difficult to implement and discourage innovation and co-operation, and centralized monitoring may be more costly and less effective than 'horizontal monitoring' done by co-workers (Nalbantian, 1987). This may be especially true in current modular team production settings (Applebaum and Berg, 2000).

A theoretical objection to the positive productivity effects of employee ownership concerns managerial incentives to supervise workers. The objection is that, by decreasing the share of economic surplus going to owners, the owners (and their agents, the managers) will have weaker incentives for effective monitoring of workers, leading to lower performance (Alchian and Demsetz, 1972). This argument relies on several assumptions, including that there are no principal-agent problems between owners and managers, and that the decrease in monitoring by management will not be accompanied by an increase in workers monitoring each other.

Putterman and Skillman (1988) note that the argument is based on ‘incentives to monitor but not on the ability to observe accurately’, and such decreased ability can offset the theorized higher incentives for management monitoring. Nalbantian points out that employees engaged in the routine day-to-day fulfillment of a task are usually in a position to detect inefficiencies in operations that diminish productivity. They are also likely to acquire important information concerning the actual productive contributions of their co-workers. The information derived from such activity is potentially very valuable to the firm as an input to production. Yet such information transfers will not be induced under an individual performance-based rewards system since it does not affect their own performance measure. But under the group system, the appropriate incentives are much more likely to be present. If there are indeed positive externalities associated with these information inputs and all the relevant group members are subject to the same incentives, then there is reason for the employee to identify his own interests with those of the firm and to furnish the inputs requisite to the firm's success.

In analyzing the theory that optimal monitoring requires concentrated residual rights, Putterman and Skillman (1988) conclude that ‘closing the story which says that a particular assignment of residual rights will best elicit the desired monitoring effort remains a difficult challenge, especially if monitoring is itself difficult to observe and there are reasons why the monitor or monitors might want to misrepresent their information’. It is possible for management monitoring costs to be lower in employee owned or firms with shared ownership if employees have a consensus to monitor each other and are more willing to share information with the company.

The efficiency of employee ownership arrangements is also questioned by Hansmann (1996). He argues that collective action problems arise in any enterprise that is jointly owned by multiple individuals, and governance arrangements will be more efficient if control rights are limited to a single class of individuals with fairly homogeneous interests. This generally favours ownership by financial investors, since they have a common interest in the highest profits, but he notes that ‘in practice it appears that, when the employees involved are highly homogeneous, employee ownership is more efficient than investor ownership.’ With a heterogeneous workforce, however, he says that ‘direct employee control of the firm brings substantial costs—costs that are generally large enough to outweigh the benefits that employee ownership otherwise offers’. One of the often cited drawbacks of group incentive schemes is that the connection between individual performance and reward grows weaker as the number of covered employees grows larger. This is commonly referred to as the ‘1/N problem’: with N employees in a company, each employee will get on average only 1/N of any extra surplus generated by his or her better performance. This problem may be theoretically solved by the establishment and enforcement of a co-operative solution, in

which each employee agrees to higher work norms (rather than being a ‘free rider’ off the efforts of others) and all benefit as a result of better performance. What it takes in practice, however, to establish such a solution and convince employees to participate is not specified by theory, however.

In such a situation, to get higher performance through group incentive schemes ‘something more may be needed—something akin to developing a corporate culture that emphasizes company spirit, promotes group co-operation, encourages social enforcement mechanisms, and so forth’ (Weitzman and Kruse, 1990). The firm’s decision making structure, other human resource policies, and managerial approach to workers may be large elements in the ‘something more’ that is needed for employee ownership to produce better performance. In particular, it is often suggested that group incentive schemes need to be structured to draw upon additional worker skills and information about the work process (Applebaum and Berg, 2000). Such skills and information may become available if there are programmes to encourage employee involvement in workplace decisions, open new channels both to provide employees with more information and solicit ideas from employees, and assure workers that any productivity improvements will not result in layoffs or reduced job security. Such changes in a workplace may combine with employee-owned stock to help create a sense of partnership/ownership with higher employee commitment and motivation. There is some speculation that transferring property rights in the form of residual return rights (Applebaum and Berg, 2000) and control rights may go some way towards addressing finding a ‘co-operative’ solution.

2.2.3 Incentive Contract Theory

The question asked by incentive contract theory is: why do employees work hard when their work cannot be perfectly monitored, and how can they be motivated to provide productivity enhancing ideas when they have knowledge of the production process which management does not have? (Lazear, 1986). There are an infinite number of different forms and types of incentive contracts which employers can choose from and some have more efficient outcomes than others. One of the primary reasons these incentive contracts are necessary is because employees have access to productivity enhancing information.

These questions of how to most effectively monitor and motivate employees are especially pertinent now because of the greater levels of private information which reside with employees (Levine and Tyson, 1990). It has long been recognized that information asymmetries exist in organizations and employees have private information from which management could benefit. Given the increasing educational attainment, more company training and information technology, monitoring may be increasingly difficult which argues for the efficacy of goal aligning incentive systems. Milgrom and Roberts (1992) indicate that, the concept of ownership, combined with statutory property rights, are the fundamental means to provide an incentive to create and develop an asset. The two fundamental aspects of ownership include; firstly, the rights of 'residual rights of control', which is the right to make decisions concerning the use of an asset; secondly, the right to 'residual returns' which is the right to revenues left over after all obligations have been met.

According to Milgrom and Roberts (1992), it is the combination of these two rights which provides the individual incentive effects of ownership. The combination is seen to be the

most powerful incentive due to the fact that the person making the decision bears the financial results of their decision. Milgrom and Roberts (1992) also state that these effects are most efficient when these property rights are ‘transferable’, or are able to be assigned to the person who is best suited to be in charge. Further developing the notion of sharing the rights of ownership are Ben-Ner and Jones (1995). Ben-Ner and Jones develop a theoretical framework which combines these two aspects of ownership, control and return, and suggest possible firm performance outcomes associated with transferring these rights from owners to non-owner employees. They contend that the greatest efficiency outcomes exist when both these rights are transferred from owners to non-owners.

2.2.4 Equity Theory

According to equity theory (Adams, 1965), the degree to which employees perceive that they are fairly rewarded for their performance may influence their attitudes toward the organization. An employee who perceives that the ESOP system is based on equity may further perceive a fulfillment of contractual obligations on the part of the employer and a sense of obligation to contribute to organizational goals (Pierce et al., 2001; Westwood et al., 2001).

2.3 Empirical Review

The empirical review is divided into three sections. The first shows studies that relate ESOP to firm performance. The second part shows studies that relate ESOPs to employee attitudes, motivation and behaviour. .

2.3.1 Influence of ESOPs on Firm Performance

Park and Song (1995) examined long-term performance of ESOP firms and found significant improvement in their year-end performance. This finding supported the positive effects of ESOPs on the performance of the firm overall. The study hypothesized that the performance of the ESOP depends on the efficiency of the ownership structure of the firm as a monitoring mechanism. The evidence was consistent with the hypothesis in the average long-term firm performance.

Cin and Smith (2001) examined employee stock ownership plans in South Korea. The study noted that Korean employees do not participate in ESOPs either financially or in decision-making to the extent they could under the law. Econometric estimates suggested that an increase in an average ESOP from 2% to 3% of total shares would lead to an increase in output of 2.6%. The policy analysis concluded that ESOPs in Korea are not suitable for pensions; that it is not in employee interests to purchase all shares through IPOs and SEOs; that incentives for longer stock holding periods may be appropriate; that improvement in decision-making participation is desirable; and that changes in repayment methods could make it more attractive for employees to purchase shares.

Hallock, Salazar and Venneman (2004) identified the demographic and attitudinal correlates of employee satisfaction with an ESOP. Correlation and regression results indicated that employees' perceived influence on decision-making, perceived pay equity and perceived influence on stock performance, when examined separately, were each significant correlates of ESOP satisfaction. When combined with the modeled employee demographics in a step-wise regression model, only employees' perceived influence on stock performance, perceived

influence on decision-making and age explained a statistically significant amount of variance in ESOP satisfaction.

Park, Kruse and Sesil (2004) used data on all U.S. public companies as of 1988, following them through 2001 to examine how employee ownership is related to survival. Estimation using Weibull survival models showed that companies with employee ownership stakes of 5% or more were only 76% as likely as firms without employee ownership to disappear in this period, compared both to all other public companies and to a closely matched sample without employee ownership. The researchers argued that while employee ownership is associated with higher productivity, the greater survival rate of these companies is not explained by higher productivity, financial strength, or compensation flexibility. Rather, the higher survival is linked to their greater employment stability, suggesting that employee ownership companies may provide greater employment security as part of an effort to build a more cooperative culture, which can increase employee commitment, training, and willingness to make adjustments when economic difficulties occur. These results indicate that employee ownership may have an important role to play in increasing job and income security, and decreasing levels of unemployment. Given employee participation, firm performance and survival advances in the economic analysis of participatory and labor-managed firms, the fundamental importance of these issues for economic well being, further research on the role of employee ownership would be especially valuable.

Elhayek and Petrovic-Lazarevic (2005) examined the findings on ESOP influence on organisational performance among Australian firms. This was a quantitative study that explored links between employee share ownership participation and organisational

performance among Australian firms. The study found that 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., (2005) examined the role of three employee-owner attributes (that is, the level of employee influence in decision making, the amount of Employee Stock Ownership Plan (ESOP) information given to employee-owners, and the extent to which the ESOP design provides employee-owners with equity possession) in predicting variance in managerial perceptions of ESOP firm performance. Survey responses from management at 61 ESOP firms in the United States were analyzed. Utilizing hierarchical regression analysis, the study found that employee influence in operational decisions and information sharing with employee-owners has a positive impact on managerial perceptions of firm performance. Equity possession appeared to be only significant when ESOP information sharing is low.

Jones, Kalmi, and Makinen (2006) used a new, long, and rich panel data set consisting of all Finnish publicly traded firms to study how firm characteristics and stock market developments influence the adoption and targeting of stock option compensation. Stock option adoption was found to be a procyclical phenomenon. Findings include: (i) firms with higher market value per employee are more likely to use stock option compensation; (ii) share returns from the past year affect the adoption of targeted stock options, but not broad-

based plans; (iii) the results were consistent with the hypothesis that selective and broad-based plans arise as solutions to differing monitoring difficulties

Sengupta, Pendleton and Whitfield (2007) investigated the mechanisms linking ESOPs to performance using the new measure for ESOPs by drawing on the WERS 2004 dataset. It was expected that a more refined measure of ESOPs in WERS 2004 data set would provide a stronger test of the causal mechanisms linking ESOPs to organisational performance. In so doing, they attempted to validate the findings based on the WERS 98 dataset that advocated the golden handcuff thesis rather than golden path thesis in explaining the mechanisms linking ESO schemes and performance. Overall, they set out to refine the analysis and advance the ongoing debate on whether different types of ESOPs are likely to impact upon performance by enhancing affective commitment or lowering employee turnover.

Chen and Hsu (2008) examined whether companies in Taiwan have different financial performances when adopting employee stock ownership plans (ESOP). The authors also analyzed the reactions of the stock returns when the board meeting announces to adopt employee stock ownership plans. The results indicated that the electronic and non- electronic industry have significant differences on ROE, profit margin and equity multiplier during the pre- and post-event periods. The non-electronic industry, however, had no significant difference during the pre- and post-event periods on total asset turnover rate. Antedating reactions toward the information were observed before the event occurred in the market and the electronic industry made the most significant reaction. Moreover, they found that there were negative relations between the cumulative abnormal annual returns and firm size, and positive relations with market to book ratio and debt ratio.

Kramer (2008) sought to establish employee ownership and participation effects on firm outcomes. A panel of over 300 majority-employee-owned (EO) firms in the United States, in various industries and of a wide range of sizes, was established, and a panel of traditionally-owned (KO) firms closely matching the EO firms in size and industry obtained. All the EO firms, and nearly all the KO firms, were privately held; the only “productivity” data available were sales per employee, and this measure was used. Using a matched-pair differences test, sales per employee was substantially and significantly higher for the employee-owned group of firms. This “employee-owned advantage” was significantly greater among smaller firms, and (holding firm size constant) improved as the dollar value of the average employees’ ownership stake in firm stock went up. Holding both firm size and employee stake constant, the employee-owned advantage was substantially (though not significantly) greater in the large group of firms which are 100% owned by their ESOP Trusts.

Dhiman (2009) sought to delineate the effect of employee stock option plan (ESOP) on the corporate productivity in view of ever increasing competition among the firms to retain and attract qualified and competent manpower in India. Based on productivity characteristics in pre-ESOP adoption period (one year), the research paper studied the ESOP impact on corporate productivity in a three year post adoption period for a sample of 202 listed Indian companies. Nearly half of these companies (99 companies) were classified into control group (non-ESOP companies) and the others (103 companies) were categorized as experimental group (ESOP companies). Asset turnover ratio (ATO), based on the exhaustive literature survey, was identified and considered exclusive productivity parameter in this research. The significance of productivity differentials among the control and experimental groups were tested using the Wilcoxon Signed Rank test. The empirical evidence supports the hypothesis

that ESOP does not improve the productivity performance of Indian corporate sector in short-run. Furthermore, the variation of the two respective variables was not significant at any level of risk against the alternate hypothesis for 103 ESOP companies.

Meng et al., (2010) sought to establish whether ESOPs enhance firm performance. The study provides the first evidence from Chinese firms on the performance-ESOP relation. After examining a variety of performance measures, including ROA, ROE, Tobin's q, and productivity, the study found little difference in performance between ESOP firms and non-ESOP firms.

Dauda and Akingbade (2010) examined the relationship between employees' earnings and banks profitability in Nigeria. The study also examined the effect of stock ownership on employees participation in management. Three null hypotheses were stated to test the relationship between employee share holding and workers participation in management; between employee incentives and employee performance and between employee share holding/incentive and employee commitment. Fifteen questions were postulated to test the various hypotheses and 392 questionnaires were distributed to 18 selected bank employees out of 24 banks, out of which 324 were collected. Findings reveal that employee financial participation and share holding practices enhance the performance of worker and organization that use them and between growth insurance and employee participation in ownership.

Dhiman and Gupta (2010) measured the post-financial performance of pharmaceutical corporate sector considering sample size $n = 10$ of top pharma units adopted ESOP during 1st April, 2000 to 31st December, 2005 using financial performance measures for six years after

following the employee stock option plan. The study found that the post- financial performance of Suven Life Science Ltd. has reduced as compared to the industry average. However the financial performance of Ranbaxy Ltd. had statistically improved as compared to the group average value for all financial measures under consideration by the study.

Ivanov and Zaima (2011) also carried out a study to examine whether employee stock ownership plans (ESOPs) add or destroy value from a new perspective by examining the relation of the adoption of ESOP and the company cost of capital. The capital asset pricing model was used to estimate the company's cost of equity capital, and the cost of debt was estimated using bond yield spreads. The weighted average cost of capital (WACC) was calculated as the weighted percentage of the firm funded by equity, preferred stock, and debt multiplied by the individual costs of capital. Univariate and multivariate analyses were conducted around the event of adoption to determine if the cost of capital changes after the adoption of ESOP. The results from the univariate analysis showed that firms adopting leveraged as well as non-leveraged ESOP plans experience decreases in costs of equity and debt capital as well as decreases in their WACC. However, the multivariate analysis demonstrated that only the non-leveraged common ESOPs were negatively correlated to cost of equity, cost of debt, and WACC. Robustness tests confirmed that the reduction in the cost of equity capital drove the decline in WACC. Thus, ESOPs benefit from decreased cost of capital related to the ability to increase debt capacity for the firm as well as the existing tax preferential treatments of ESOP plans.

Kim and Ouimet (2011) investigated whether adopting a broad-based employee stock ownership plan enhances productivity by improving team incentives and co-monitoring. The

study noted that changes in wages and firm value following ESOP adoptions are related to the ESOP size. When it is small (less than 5% of outstanding shares), both mean wages and firm values increase. Since shareholders and employees are the two main claimants of firm surplus, these changes suggest small ESOPs increase productivity. Importantly, employees gain more and shareholder gain less when employee job mobility increases after ESOP initiations, implying the productivity gains are shared between employees and shareholders according to their bargaining power. Large ESOPs have neutral effects on wages and shareholder value, indicating productivity gains no greater than the value of ESOP shares granted. Some large ESOPs seem to be motivated by reasons unrelated to improving group incentives and co-monitoring: cash conservation by small and young firms, leading to wage cuts, and worker-management alliance to thwart takeover threats, causing wage increases unrelated to productivity gains.

2.3.2 ESOPs and Employee Attitudes, Motivation and Behaviour

Sesil, Kruse and Blasi (2001) summarized the findings from over 50 large-sample empirical studies that had been done on employee ownership and broad-based stock option plans in the past 25 years, covering studies on plan adoption, employee attitudes and behaviours, firm performance, and employee wages and wealth. The results from these studies indicated that employee ownership is linked to better outcomes on average but employee ownership clearly does not automatically improve worker and firm outcomes given that there are both positive and neutral findings.

Kruse et al., (2003) analyzed the role of human resource policies in the performance of employee ownership companies, using employee survey data from 14 companies and a

national sample of employee-owners. Between-firm comparisons of 11 ESOP firms showed that an index of human resource policies, nominally controlled by management, was positively related to employee reports of co-worker performance and other good workplace outcomes (including perceptions of fairness, good supervision, and worker input and influence). Within-firm comparisons in three ESOP firms, and exploratory results from a national survey, showed that employee-owners who participated in employee involvement committees were more likely to exert peer pressure on shirking co-workers.

Blasi et al., (2008) used data from NBER surveys of over 40,000 employees in hundreds of facilities in 14 firms and from employees on the 2002 and 2006 General Social Surveys to explore how shared compensation affects turnover, absenteeism, loyalty, worker effort, and other outcomes affecting workplace performance. The empirical analysis showed that shared capitalism had beneficial effects on all outcomes save for absenteeism and that it had its strongest effects on turnover, loyalty, and worker effort when it is combined with: a) high-performance work policies (employee involvement, training, and job security), b) low levels of supervision, and c) fixed wages that were at or above market level. Most workers reported that cash incentives, stock options and ESOP stock participation motivated them to work harder.

Buchele, Kruse, Rodgers, and Scharf (2009) examined the effect of a variety of employee ownership programs on employees' holdings of their employers' stock, their earnings and their wealth. Two major datasets were employed: the NBER Shared Capitalism Research Project employee survey dataset and the 2002 and 2006 national General Social Surveys (GSS). The GSS national survey showed that 29% of permanent, full-time employees with at

least one year on the job own their employers' stock, compared to the unsurprisingly higher 87% of employees in the NBER "shared capitalist" firms. They found no evidence – either between datasets or between employee-owners and non-owners within datasets – of substitution of company stock ownership for pay or benefits. Moreover their analysis suggested that company stock ownership substantially raises total employee wealth, though it appears to have little effect on the overall distribution of wealth. These results suggest that employee ownership tends to raise both ownership stakes and economic resources of workers across the economic spectrum.

Landau et al., (2009) presented findings from a survey of employee share ownership practice in Australian listed companies. Key findings as to company practice include: (1) approximately 57 percent of companies responding to the survey had at least one broad-based employee share ownership plan; (2) significantly more companies reported having a broad-based plan than a narrow-based plan; (3) the three most popular reasons for implementing a plan were 'showing employees the company values them'; 'sharing financial success with employees'; and 'aligning employee interests with shareholder interests'; (4) over three quarters of companies that had a broad-based plan had adopted their plan since 2000; (5) the most common type of broad-based ESOP was a plan structured to take advantage of the tax exemption in Division 13A of the Income Tax Assessment Act. Three structural characteristics were found to have a significant and positive association with the presence of an employee share ownership plan. These were the presence of a centralised human resource function; company growth over the preceding 12 months (measured by the number of employees); and the composition of the workforce (the proportion of full-time to part-time and casual employees). The study also found that companies with broad-based

ESOPs were significantly more likely to have structures for communicating directly with employees.

Mcarthy, Reeves and Turner (2010) examined the outcomes of a substantial broad-based employee share-ownership scheme for employee attitudes and behaviour in a privatised firm. The results were based on a survey of 711 employees in Eircom, an Irish telecommunications firm, which is 35 percent employee-owned. The results showed that ESOP had created sizable financial returns and had had extensive influence in firm governance at the strategic level. However, the findings showed only a limited impact on employee attitudes and behaviour. This was attributed to a failure in creating a sense of employee participation and line of sight between employee performance and reward. These findings highlight a need to provide employees with a sense of ownership and control and also question the assumption that where employees have a substantial shareholding; they will focus on securing the long-term prospects of the firm.

Kurtulus, Kruse and Blasi (2011) used the NBER shared capitalism database comprising of over 40,000 employee surveys from 14 firms, to investigate worker preferences for employee ownership, profit sharing, and variable pay. Specifically, their study used detailed survey questions on preferences over profit sharing, forms of employee ownership like company stock and stock option ownership, as well as preferences over variable pay in general, to explore how preferences for these different types of output-contingent pay vary with worker risk aversion, residual control, and views of co-workers and management. The key results showed that, on average, workers want at least a part of their compensation to be performance-related, with stronger preferences for output-contingent pay schemes among

workers who have lower levels of risk aversion, greater residual control over the work process, and greater trust of co-workers and management.

2.4 Summary and Research Gap

The review in this chapter has vividly shown the mixed results from various researchers in various economies on the link between ESOPs and firm performance. Further, there is no research done on the Kenyan context despite the rising number of firms offering ESOPs in Kenya. These provide a gap in literature that the present study seeks to bridge. A summary of the literature review is shown in Appendix B.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods that were used to carry out the study. It contains research design to be used in the study (section 3.2), the target population (section 3.3), sample size and sampling method (section 3.4), data collection and analysis methods and tools (section 3.5).

3.2 Research Design

This study adopted a descriptive survey design. A descriptive survey is present-oriented research that seeks to accurately describe the situation as it is. Descriptive research is defined as a process of data collection to test the hypothesis or answer questions concerning the current status of the subject study (Mugenda and Mugenda, 2003). This method was selected because it enabled the researcher to meet the objectives of the study.

3.3 Population

The population of this study was the firms listed on the Nairobi Stock Exchange. Currently, there are 56 firms listed on the NSE and the list is provided as appendix A. The 56 firms will be the target population.

3.4 Sample

The sample size was composed of two groups. The first group was ESOP firms. According to the Kenya Gazette Notice No. 4937, there were nine approved employee share ownership plans (ESOPs) in Kenya. The second group was non-ESOP firms. Nine other firms that

closely matched the nine ESOP firms in terms of size and industry were selected to form the group. Thus, the total sample was eighteen (18) firms listed on the NSE. The basis for matching was to show whether there were differences in the performance of ESOP firms and non-ESOP firms. This method was used by Park et al (2004) and Kramer (2008) among other scholars.

3.5 Data Collection

Secondary data was used in this study. The data was collected from the annual financial statements of the companies sampled. These were collected from the Capital Markets Authority, respective company premises or their websites, and also from a website dedicated to publishing annual reports for listed companies in Africa: www.africanfinancials.com. Data on firm performance were sought from the annual financial reports. The data covered a period of 3 years from 2008-2010. The following performance measures were used:

TATO This is a firm productivity variable called total asset turnover. It is defined as sales divided by the average of the current and past years' total book assets. This ratio measures the firm's ability to use assets productively.

CFL This is the cash flow. It is measured by net income before extraordinary items plus depreciation and amortization.

CFL/SALES This measures the ratio of cash flows to sales. It is cash flow divided by sales.

ROA This is the return on assets and is measured by net income before extraordinary items divided by total assets. This ratio measures how effectively the firm generates after-tax income from available assets.

NPM This is the net profit margin which is measured by net income divided by sales. This ratio measures the percentage of each sales dollar remaining after all expenses have been covered.

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

$$FP = f(ESOP) \dots\dots\dots (1)$$

The empirical model based on the variables above is:

$$FP = \alpha + \beta_1 ESOP + \beta_2 SIZE + \beta_3 INDU + \mu \dots\dots\dots (2)$$

Where α , β , and μ are constants.

FP = Firm performance

ESOP = is a dummy variable that takes a value of 1 for firms with ESOPs and 0 otherwise. This was done for all the firms. For firms with information on the number of ESOP shares, it was calculated as the proportion of total shares.

SIZE measured as the natural logarithm of total assets.

INDU is the industry dummy measured by values 1-6.

3.6 Data Analysis

The data was organized using MS Spreadsheets and entered into the SPSS version 19. This was done for both ESOP firms as well as for non-ESOP firms. Then, the differences in means performances for ESOP and non-ESOP firms were compared for the period under review using the independent samples t-test. The significance was tested at 5% level.

Further, Ordinary Least Squares (OLS) method was employed to test the relationship between ESOPs and firm performance. For performance and ESOP relationship (model 2), the firm performance (measured by TATO, CFL, CFL/SALES, and ROA) were the dependent variables while ESOP (dummy variable of 1 for ESOP firm and 0 for non-ESOP firm) formed the independent variable. This was controlled for size and industry. Another correlation was run with ESOP measured as a percentage of total shares.

The results of the regression and correlation analyses were interpreted using Pearson correlation, r , R^2 , coefficients (standardised beta values), significance of F-statistic, and p-values for each of the independent variables. The results are presented in tables in chapter 4.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study. The results are based on an analysis of 9 ESOP firms and 9 non-ESOP firms. This chapter is organized as follows. First, the descriptive results are presented in section 4.2. This is followed by a presentation on inferential analysis involving independent sample t-tests in section 4.3. Then the regression and correlation results are shown in section 4.4 followed by a discussion of the findings in section 4.5.

4.2 Descriptive Statistics

The results in Table 1 show the industry composition of firms listed on the Nairobi Stock Exchange.

Table 1: Industry Composition of Firms Listed on the NSE

Industry	ESOP firms	Non-ESOP firms	Total
Banking	3 (33%)	7 (77%)	10
Energy and petroleum	1 (25%)	3 (75%)	4
Manufacturing and allied	1 (11%)	8 (89%)	9
Telecommunication and technology	2 (100%)	0 (0%)	2
Commercial and services	1 (13%)	7 (87%)	8
Construction and allied	1 (20%)	4 (80%)	5

Source: Research Data (2011)

As shown, there are only 9 firms on the NSE which have adopted ESOPs. This represents only 16% of the firms listed on the NSE. The results show that 33% of the firms in the banking industry have ESOPs while 77% do not. 25% of the firms in the energy and petroleum industry have ESOPs while 89% do not. 11% of the firms in manufacturing and allied industry have ESOPs while 89% do not. All the firms in the telecommunication and

technology industry have ESOPs. 13% of the firms in the commercial and services industry have ESOPs while 87% do not. Finally, 20% of the firms in the construction and allied industry have ESOPs while 80% do not. It should also be pointed out here that only 6 industries out of the 12 industries in which firms listed on the NSE have some firms adopting ESOPs. This means that 84% of the firms listed on the NSE do not have ESOPs.

Table 2 shows a summary of statistics. The table shows the mean, median and standard deviations for sales, total assets, cash flows, and net income. This is done first for all the 18 firms and separately for ESOP firms and also for non-ESOP firms.

Table 2: Summary Statistics

	Mean	Median	Std. Dev	Mean Diff	Sig.
Total Sample					
Sales (Ksh '000)	25,674,642	9,852,772	31,227,811	7,291,729	0.369
Total Assets (Ksh '000)	50,654,895	30,807,847	55,399,419	17,923,862	0.509
Cash flow (Ksh '000)	3,759,095	2,921,467	4,551,223	2,751,143	0.209
Net Income (Ksh '000)	2,964,579	1,359,427	3,568,250	2,015,079	0.242
Paired Sample					
<i>ESOP Firms</i>					
Sales (Ksh '000)	29,324,503	10,848,667	37,969,514		
Total Assets (Ksh '000)	59,616,826	30,404,693	70,498,878		
Cash flow (Ksh '000)	5,134,666	4,495,138	4,627,957		
Net Income (Ksh '000)	3,972,119	1,408,821	4,635,684		
<i>Non-ESOP Firms</i>					
Sales (Ksh '000)	22,024,781	8,856,877	24,506,979		
Total Assets (Ksh '000)	41,692,963	31,211,000	37,027,354		
Cash flow (Ksh '000)	2,383,523	2,722,667	4,282,644		
Net Income (Ksh '000)	1,957,039	1,310,033	1,811,834		

Source: Research Data (2011)

From Table 2, it can be noted that there are very slight differences in terms of sales, assets, cash flows or income between the ESOP and non-ESOP firms. The mean differences in these measures were statistically insignificant at 95% confidence level since the p-values of the mean differences were more than 0.05.

4.3 Independent Samples T-Test

The independent samples t-tests are performed and the results presented in Table 3 for both ESOP and non-ESOP firms surveyed.

Table 3: Independent Samples T-test

Variable	ESOP firms	Non-ESOP Firms	Mean Dif.	Sig.	T-statistic
TATO	1.09	0.93	0.16	0.769	0.299
CFL	5,134,666	2,383,523	2,751,143	0.209	1.309
CFL/SALES	0.51	0.41	0.10	0.764	0.305
ROA	0.08	0.09	-0.01	0.736	-0.345
NPM	0.18	0.19	-0.01	0.852	-0.190

Source: Research Data (2011)

Table 3 shows the mean for the performance measures used in the study and the differences in the mean between ESOP and non-ESOP firms. In fact in some cases like ROA and NPM, non-ESOP firms perform better generally. ESOP firms only perform better on TATO, CFL, and CFL/SALES.

The results show that the differences in mean performance measures are not statistically significant as none of the differences as measured by the p-value is less than 0.05. Thus, the

study fails to ascertain a statistically significance difference between the performance of ESOP firms and non-ESOP firms.

4.4 Effect of ESOP Adoption on Firm Performance

A correlation analysis was performed for all the variables in the model to test the correlations between them. The results are shown in Table 4. The results show significant correlations between some of the variables. For instance, total assets turnover had significant negative correlations with cash flows, cash flow/sales, and net profit margin. Cash flows also had significant correlations with cash flow/sales, net profit margin, and size. Cash flow/sales had significant correlations with cash flow/sales, net profit margin, and size. Cash flow/sales had significant correlations with return on assets and industry while return on assets had significant correlation with industry. Further, industry had significant correlation with size. None of the correlations with ESOP was significant. A multicollinearity problem exists between industry and size since both are independent variables. Since these two variables were included in the model as control variables, they can be removed to eliminate multicollinearity without affecting the outcome of the study.

Table 4: Correlation Analysis

		TATO	CFL	CFL/SALES	ROA	NPM	INDUSTRY	SIZE	ESOP
TATO	Pearson Correlation	1							
	Sig. (2-tailed)								
	N	18							
CFL	Pearson Correlation	-.502*	1						
	Sig. (2-tailed)	.034							
	N	18	18						
CFL/SALES	Pearson Correlation	-.523*	.567*	1					
	Sig. (2-tailed)	.026	.014						
	N	18	18	18					
ROA	Pearson Correlation	.126	-.040	-.470*	1				
	Sig. (2-tailed)	.617	.875	.049					
	N	18	18	18	18				
NPM	Pearson Correlation	-.619**	.611**	.399	-.144	1			
	Sig. (2-tailed)	.006	.007	.101	.567				
	N	18	18	18	18	18			
INDUSTRY	Pearson Correlation	.174	-.423	-.639**	.525*	-.533*	1		
	Sig. (2-tailed)	.490	.080	.004	.025	.023			
	N	18	18	18	18	18	18		
SIZE	Pearson Correlation	-.278	.677**	.337	-.168	.612**	-.567*	1	
	Sig. (2-tailed)	.264	.002	.171	.506	.007	.014		
	N	18	18	18	18	18	18	18	
ESOP	Pearson Correlation	.074	.311	.076	-.086	-.047	-.060	-.017	1
	Sig. (2-tailed)	.769	.209	.764	.736	.852	.813	.947	
	N	18	18	18	18	18	18	18	18

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data (2011)

A further correlation analysis was performed where only ESOP firms were included and ESOP measured as a ratio of employee shares to total issued shares. Of the nine firms, only six had data on the number of ESOP shares for the three year period hence the six companies results were analysed. The results are summarized in Table 5.

Table 5: Correlation for ESOP vs. Performance

		ESOP	Industry	Size
TATO	Pearson Correlation	-.677	-.214	-.169
	Sig. (2-tailed)	.140	.685	.748
	N	6	6	6
CFL	Pearson Correlation	.654	-.718	.924**
	Sig. (2-tailed)	.159	.108	.008
	N	6	6	6
CFL/SALES	Pearson Correlation	.650	-.629	.661
	Sig. (2-tailed)	.162	.181	.153
	N	6	6	6
ROA	Pearson Correlation	-.058	.560	-.108
	Sig. (2-tailed)	.913	.248	.838
	N	6	6	6
NPM	Pearson Correlation	.875*	-.380	.748
	Sig. (2-tailed)	.022	.457	.088
	N	6	6	6

Source: Research Data (2011)

As shown in Table 5, when measured as percentage of total shares, ESOP has a significant positive effect on NPM ($R=0.875$, $p=0.022$) while it remained statistically insignificant with the rest of the performance measures ($p>0.05$).

The regression results are summarized and presented in Table 6 for all the five firm performance measures (dependent variables) and ESOP as the independent variable. The control variables used are firm size measured as the natural logarithm of total assets and

industry which is a dummy variable for the six industries surveyed. The standardized beta values for the independent variables are presented alongside their p-values (in parentheses). Significant correlations are flagged off with * or **. The table also shows the Pearson correlation coefficient R, the coefficient of determination R² and the F-statistic (with p-values in parentheses). The number of observations is also shown.

Table 6: Effect of ESOP adoption on Firm Performance

	TATO	CFL	CFL/SALES	ROA	NPM
ESOP	0.072	0.321	0.036	-0.045	-0.057
p-values	(.784)	(.092)**	(.863)	(.845)	(.784)
Size	-0.259	0.668	-0.034	0.188	0.453
p-value	(.419)	(.008)*	(.864)	(.499)	(.087)**
Industry	0.031	-0.025	-2.623	0.630	-0.280
p-value	(.922)	(.908)	(.020)*	(.036)*	(.274)
R	0.288	0.750	0.641	0.55	0.655
R ²	0.083	0.563	0.410	0.303	0.429
F	0.422 (.740)	6.002 (.008)*	3.246 (.054)**	2.029 (.156)	3.506 (.044)*
N	54	54	54	54	54

* Indicate statistical significance at 5%

** Indicate statistical significance at 10%

Source: Research Data (2011)

The results in Table 6 show that ESOP did not significantly influence performance in terms of total asset turnover, cash flow/sales, return on assets, and net profit margin. The only significant effect of ESOP (at 10%) was on cash flow. The models that were best predictors of the relationship were cash flow and net profit margin (at 5%) and cash flow/sales (at 10%). Size of the industry was significant in cash flow (at 5%) and net profit margin (at 10%) while industry was significant in cash flow/sales and return on assets (both at 5%).

4.5 Discussion and Summary of Findings

Jones and Kato (1995) suggest that the ESOP effect is likely to show up in the third year after adopting an ESOP. Given that the study focused on three current years for all the firms, if there is a positive effect, it should be evident for at least the year studied. These results do not apparently support this empirical regularity. The results are however consistent with the results of a number of studies such as Elhayek and Petrovic-Lazarevic (2005) in Australia, Meng et al. (2010) in China, and Borstadt and Zwirlein (1995) in the US. These findings support the view that due to a free-rider problem, highly diffused equity ownership among employees does not effectively change employee incentives and thus firm performance.

The finding has a direct implication for employee stock option plans, which, by allowing diffused stock option holdings by employees, are also likely to suffer from a free-rider problem. Since the 1990s, stock options have become a popular form of compensation to ordinary employees as well as to managers (Hall and Murphy, 2003). Proponents of this compensation practice applaud the stock-option role in tying the long-term interests of employees and the firm. But the evidence to date for the performance effect of employee stock options is scarce. However, this is not totally unexpected because an employee stock option plan usually allocates less than 10% of the firm's shares in options to its employees. By calibrating US data, Oyer and Schaefer (2005) reach a similar conclusion. Hall and Murphy even consider this problem a troubling factor for employee stock options.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings in section 5.2, conclusion of the study in section 5.3, recommendations for policy and practice in section 5.4, limitations of the study in section 5.5, and suggestions for further research in section 5.6.

5.2 Summary of the Study

This study was designed to establish the impact of ESOPs on firm performance. Nine ESOP firms were matched with nine other closely related firms listed on the NSE. Only 9 (or 16%) of the listed firms have registered ESOPs currently. Of these, 33% are in banking, 22% in telecommunication and technology while 11% are in energy and petroleum, manufacturing and allied, commercial and services, and construction and allied respectively.

The study noted that there were very slight differences in terms of sales, assets, cash flows or income between the ESOP and non-ESOP firms. The independent samples t-tests showed that the mean differences in performance were not statistically significant as none of the differences had a p-value less than 0.05. Therefore, the study failed to ascertain a statistically significance difference between the performance of ESOP firms and non-ESOP firms.

The regression results showed that ESOPs did not significantly influence performance of firms when ESOP was measured as a dummy variable. However, when ESOP was measured as a percentage of total shares, it had a significant positive effect on net profit margin ($R=0.875$, $p=0.022$) while it remained statistically insignificant with the rest of the performance measures ($p>0.05$).

5.3 Conclusion

Consistent with prior studies in this area, the study concludes that ESOP firms' performances are not significantly different from those of non-ESOP firms. The study also concludes that ESOPs do not significantly influence performance per se except for when the shares form a substantial proportion of the total shares in which case they mostly affect the net profit margin of a firm. These findings support the prediction of contract theory that highly diffused ownership does not induce meaningful work incentives. Because equity shares under an ESOP are typically allocated to a large number of employees, such plans are likely to incur a serious free-rider problem and hence are ineffective in motivating employees.

5.4 Policy Implications

The study recommends the need for firms to re-visit the need for ESOPs if their adoption does not directly lead to improved financial performance of companies. If meaningful influence of ESOPs is to be felt, then the proportion of shares offered to the employees should form a substantial proportion of total shares. Secondly, firms need to include more employees in their ESOPs as most of the ESOPs are only meant for the managers and not all employees take a stake in them.

Given that there is a potential for ESOPs to significantly influence performance in terms of net profit margin, firms adopting the same need to substantially offer more shares to all employees. Those that have not adopted the same should also take note of the potential benefits such efforts may have on their net profit margin.

5.5 Limitations of the Study

The study faced a number of limitations. First, the sample size was very small compared to earlier studies. For instance, Ning et al., (2010) studied 750 (250 ESOPs) firms in China while Ivanov and Zaima (2011) studied 245 firms in the US. The results and conclusions of this study should therefore be interpreted with care in other countries.

Secondly, data on the ESOP shares offered were missing for 3 out of the 9 ESOP firms (or 33.3%) surveyed and were therefore impossible to calculate the proportion of shares owned by employees. This may limit the applicability of these findings in which ESOP was calculated as a percentage of total shares.

5.6 Suggestions for Further Research

There is need for more research on ESOPs in Kenya especially studies that relate ESOP to productivity, employee outcomes such as job satisfaction, behaviour, and on other performance measures such as Tobin's q, ROE, among other measures. Further qualitative studies are also needed to understand why firms adopt ESOPs while others do not.

REFERENCES

- Adams, J.S. (1965). Inequity in social exchange. *Advances in Experimental Social Psychology*. <http://www.emeraldinsight.com>
- Alchian, A.A., and Demsetz, H. (1972). Production, information costs and economic organization. *American Economic Review*, 62, 777-795.
- Applebaum, E., and Berg, P. (2000) 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.
- Ben-Ner, A., and Jones, D. (1995). Employee Participation, Ownership, and Productivity: a Theoretical Framework. *Industrial Relations*, 34(4): 532-53.
- Blasi, J.R., Freeman, R.B., Mackin, C., and Kruse, D.L. (2008). Creating a Bigger Pie? the Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance. *NBER Working Paper Series*, Vol. w14230. Available at SSRN: <http://ssrn.com/abstract=1231685>
- Borstadt, L.F., Zwirlein, T.J. (1995). ESOPs in publicly held companies: evidence on productivity and firm performance. *Journal of Financial and Strategic Decisions*, 8(1), 1-13.

- Buchele, R., Kruse, D., Rogers, L., and Scarf, A. (2009). Show me the money: does shared capitalism share the wealth? *NBER Working Paper 14830*. Available <http://www.nber.org/papers/w14830>
- Cantoni, C.J. (1997). Learn to manage pay and performance like an entrepreneur. *Compensation and Benefits Review*, 29(1), 52-8.
- Chen, W.N. and Hsu, C.Y. (2008). Corporation financial performance and market reaction to ESOP: evidence from Taiwan. *Investment Management and Financial Innovations*, 5(1), pp. 41-50.
- Cin, B.C. and Smith, S.C. (2002), Employee Stock Ownership and Participation in South Korea: Incidence, Productivity Effects, and Prospects. *Review of Development Economics*, 6: 263–283.
- Dauda, Y.A., and Akingbade, W.A. (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. Available www.eurojournals.com/ejefas_24_10.pdf
- Dhiman, R.K. (2009). The elusive employee stock option plan-productivity link: evidence from India. *International Journal of Productivity and Performance Management*, 58(6), 542 – 563.
- Dhiman, R.K. and Gupta, S.K. (2010). Post - financial performance: a study of Indian ESOP pharmaceutical corporate sector. *International Journal of Business Economics & Management Research*, 1(1), pp. 180-191.

- Elhayek, H. and Petrovic-Lazarevic, S. (2005). Are Employee Share Ownership Programs Really Improving Organisational Performance. *Working Paper 12/05*, Department of Management, Monash University, March 2005.
- Gamble, J.E., Culpepper, R. and Blubaugh, M.G. (2002). ESOPs and Employee Attitudes: The Importance of Empowerment and Financial Value. *Personnel Review*, 31(1–2): 9–26.
- Hallock, D.E., Salazar, R.J. and Venneman, S. (2004). Demographic and attitudinal correlates of employee satisfaction with an ESOP. *British Journal of Management*, 15(4): 321-333.
- Hansmann, Henry (1996). *The Ownership of Enterprise*, Harvard University Press: Cambridge, MA.
- Homans, G.C. (1958). Social behavior as exchange. *American Journal of Sociology*, 63(6), 597-606.
- Horwitz, F.M., Heng, C.T. and Quazi, H.A. (2003). Finders, keepers? Attracting, motivating and retaining knowledge workers. *Human Resource Management Journal*, 13(4), 23-32.
- Ivanov, S.I., and Zaima, J.K. (2011). Analysis of the effects of ESOP adoption on the company cost of capital. *Managerial Finance*, 37(2), 173 – 188

- Jones, D.C., Kalmi, P., and Mäkinen, M., (2006). The determinants of stock option compensation: evidence from Finland. *Industrial Relations: A Journal of Economy and Society*, 45(3), 437-468. Available at SSRN: <http://ssrn.com/abstract=909324>
- Kato, T., Lee, J.H., and Ryu, J.S. (2010). The productivity effects of profit sharing, employee ownership, stock option and team incentive plans: evidence from Korean panel data. *IZA Discussion Paper No. 5111*. Available at SSRN: <http://ssrn.com/abstract=1663131>
- Kim, E.H., and Ouimet, P.P. (2011). *Employee Stock Ownership Plans: Employee Compensation and Firm Value*. Available at SSRN: <http://ssrn.com/abstract=1823745>
- Kramer, B. (2008). Employee ownership and participation effects on firm outcomes. *Unpublished PhD Thesis*, City University of New York Graduate Center. Available www.community-wealth.org/pdfs/articles.../paper-kramer.pdf
- Kruse, D.L., and Blasi, J. (1997). Employee ownership, employee attitudes, and firm performance: a review of the evidence. In *The Human Resources Management Handbook, Part 1*. Edited by David Lewin, Daniel J.B. Mitchell, and Mahmood A. Zaidi. Greenwich, CT.: JAI Press.
- Kruse, D.L., Freeman, R.B., Blasi, J.R., Buchele, R., Scharf, A., Rodgers, L., and Mackin, C., (2003). Motivating employee-owners in ESOP firms: human resource policies and company performance. *NBER Working Paper Series*, Vol. w10177. Available at SSRN: <http://ssrn.com/abstract=481449>

- Kruse, D.L.; Freeman, R.B. and Blasi, J.R. eds. (2010). Shared capitalism at work: employee ownership, profit and gain sharing, and broad-based stock options. *NBER Conference Report series*. Chicago and London: University of Chicago Press.
- Kumbhakar, S.C., and Dunbar, A.E. (1993). The elusive ESOP-productivity link. *Journal of Public Economics*, 52: 273-283.
- Kurlander, P. and Barton, S. (2003). Benefits performance? *Workspan*, 46(11), 31-6.
- Kurtulus, F.A., Kruse, D., and Blasi, J. (2011). Worker attitudes towards employee ownership, profit sharing and variable pay. *Advances in the Economic Analysis of Participatory and Labor Managed Firms*, Vol. 12. Forthcoming. Available from http://people.umass.edu/fidan/Worker%20Attitudes%20Towards%20Employee%20Ownership,%20Profit%20Sharing%20and%20Variable%20Pay_11_30_2010_Advances_RR_newtables.pdf
- Landau, I., Mitchell, R.J., O'Connell, A.N., Ramsay, I., and Marshall, S.D. (2009). Broad-based employee share ownership in Australian listed companies: survey report. *University of Melbourne Legal Studies Research Paper* No. 412. Available at SSRN: <http://ssrn.com/abstract=1374702>
- Lazear, E. P. (1986). Salaries and piece rates. *Journal of Business*, 59: 405-31.
- Levine, D.I., and Tyson, L.D. (1990). 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.

- Lipold, A.G. (2002). Benefit integration boosts productivity and profits. *Workforce*, 81, 46-50.
- McCarthy, D., Reeves, E., and Turner, T. (2010). Can employee share-ownership improve employee attitudes and behaviour? *Employee Relations*, 32(4), 382 – 395
- McDaniel, W.R., Madura, J., and Wiant, K.J. (1995) Performance following ESOP formations by publicly-held corporations. *Journal of Economics and Finance*. 19(3), 147-169.
- McHugh, P.P., Cutcher-Gershenfeld, J., and Bridge, D.L. (2005). Examining structure and process in ESOP firms. *Personnel Review*, 34(3), 277 – 293.
- Meng, R., Ning, X., Zhou, X., and Zhu, H. (2010). Do ESOPs enhance firm performance? evidence from China's reform experiment. *Journal of Banking & Finance*. In press.
Available <http://www.sef.hku.hk/upload/faculty/42/Attachment%202010.pdf>
- Milgrom, P., and Roberts, J. (1992). *Economics, Organization, and Management*. Prentice-Hall International (UK) Limited: London.
- Mitchell, D.J., Lewin, D.B., and Lawler, E.E. (1990). Alternative pay systems, firm performance, and productivity, In A.S. Blinder (Ed.), *Paying for productivity: A look at the evidence* (pp. 15-94). Washington, DC: Brookings Institution.
- Mugenda, O., and Mugenda, G. (2003) *Research Methods: Quantitative and Qualitative approaches*. ACTS, Nairobi Kenya.

- Nalbantian, H.R., (1987). Incentive compensation in perspective, in Haig R. Nalbantian, ed., *Incentives, Cooperation, and Risk Sharing: Economic and Psychological Perspectives on Employment Contracts*. Rowman & Littlefield: Totowa.
- NSE Handbook (2009). *Performance of NSE*. NSE: Nairobi
- Park, R., Kruse, D. and Sesil, J. (2004). Does employee ownership enhance firm survival? In Virginie Perotin and Andrew Robinson, eds., *Advances in the Economic Analysis of Participatory and Self-managed Firms*, Vol. 8. Greenwich, CT: JAI Press.
- Park, S., and Song, M.H. (1995). Employee stock ownership plans, firm performance, and monitoring by outside blockholders. *Financial Management*. Available at SSRN: <http://ssrn.com/abstract=7475>
- Pierce, J.L., Rubenfeld, S.A., Morgan, S. (1991). Employee ownership: a conceptual model of process and effects. *Academy of Management Review*, 16(1), 121-44.
- Pugh, W.N., Oswald, S.L. and Jahera Jr., J.S. (2000), The effect of ESOP adoptions on corporate performance: are there really performance changes? *Managerial and Decision Economics*, 21: 167–180. doi: 10.1002/mde.971
- Putterman, L., and Skillman, G. (1988). The incentive effects of monitoring under alternative compensation schemes. *International Journal of Industrial Organization*, March: 109-119.

- Sengupta, S., Whitfield, K., and McNabb, B. (2007). Employee share ownership and performance: golden path or golden handcuffs? *International Journal of Human Resource Management*, 18 (8). pp. 1507-1538.
- Sesil. J.S., Kruse, D.L., and Blasi, J.R. (2001). Sharing ownership via employee stock ownership. *World Institute for Development Economics Research*, July 25-53.
- Stretcher, R., Henry, S., and Kavanaugh, J.K. (2006). The ESOP performance puzzle in public companies. *The Journal of Employee Ownership Law and Finance*, 18(4). Available at SSRN: <http://ssrn.com/abstract=1800366>
- Weitzman, M.L., and Kruse, D.L. (1990). Profit sharing and productivity, in Alan S. Blinder (ed.) *Paying for Productivity: A Look at the Evidence*, The Brookings Institution Washington, DC.
- Westwood, R.I., Sparrow, P., and Leung, A. (2001). Challenges to the psychological contract in Hong Kong. *International Journal of Human Resource Management*, 12(4), 621-51.
- Wu, H.L., Su, W.C., and Lee, C.Y. (2008). Employee ownership motivation and individual risk-taking behaviour: a cross-level analysis of Taiwan's privatized enterprises. *The International Journal of Human Resource Management*. 19(12), 2311 – 2331.

APPENDICES

Appendix A: Companies Listed at the Nairobi Stock Exchange

AGRICULTURAL

1. Eaagads Ltd Ord 1.25 AIM
2. Kakuzi Ord.5.00
3. Kapchorua Tea Co. Ltd Ord Ord 5.00 AIM
4. Limuru Tea Co. Ltd Ord 20.00 AIM
5. Rea Vipingo Plantations Ltd Ord 5.00
6. Sasini Ltd Ord 1.00
7. Williamson Tea Kenya Ltd Ord 5.00 AIM

COMMERCIAL AND SERVICES

8. Express Ltd Ord 5.00 AIM
9. Hutchings Biemer Ltd Ord 5.00
10. Kenya Airways Ltd Ord 5.00
11. Nation Media Group Ord. 2.50
12. Scangroup Ltd Ord 1.00
13. Standard Group Ltd Ord 5.00
14. TPS Eastern Africa (Serena) Ltd Ord 1.00
15. Uchumi Supermarket Ltd Ord 5.00

TELECOMMUNICATION & TECHNOLOGY

16. AccessKenya Group Ltd Ord. 1.00

17. Safaricom Ltd Ord 0.05

AUTOMOBILES & ACCESSORIES

18. Car & General (K) Ltd Ord 5.00

19. CMC Holdings Ltd Ord 0.50

20. Marshalls (E.A.) Ltd Ord 5.00

21. Sameer Africa Ltd Ord 5.00

BANKING

22. Barclays Bank Ltd Ord 2.00

23. CFC Stanbic Holdings Ltd ord.5.00

24. Diamond Trust Bank Kenya Ltd Ord 4.00

25. Equity Bank Ltd Ord 0.50

26. Kenya Commercial Bank Ltd Ord 1.00

27. Housing Finance Co Ltd Ord 5.00

28. National Bank of Kenya Ltd Ord 5.00

29. NIC Bank Ltd Ord 5.00

30. Standard Chartered Bank Ltd Ord 5.00

31. The Co-operative Bank of Kenya Ltd Ord 1.00

INSURANCE

- 32. Kenya Re-Insurance Corporation Ltd Ord 2.50
- 33. CFC Insurance Holdings Ltd ord.1.00
- 34. Jubilee Holdings Ltd Ord 5.00
- 35. Pan Africa Insurance Holdings Ltd Ord 5.00

INVESTMENT

- 36. Centum Investment Co Ltd Ord 0.50
- 37. City Trust Ltd Ord 5.00 AIM
- 38. Olympia Capital Holdings ltd Ord 5.00

MANUFACTURING & ALLIED

- 39. A.Baumann & Co Ltd Ord 5.00 AIM
- 40. B.O.C Kenya Ltd Ord 5.00
- 41. British American Tobacco Kenya Ltd Ord 10.00
- 42. Carbacid Investments Ltd Ord 5.00
- 43. East African Breweries Ltd Ord 2.00
- 44. Eveready East Africa Ltd Ord.1.00
- 45. Kenya Orchards Ltd Ord 5.00 AIM
- 46. Mumias Sugar Co. Ltd Ord 2.00
- 47. Unga Group Ltd Ord 5.00

CONSTRUCTION & ALLIED

- 48. Athi River Mining Ord 5.00
- 49. Bamburi Cement Ltd Ord 5.00
- 50. Crown Berger Ltd Ord 5.00
- 51. E.A.Cables Ltd Ord 0.50
- 52. E.A.Portland Cement Ltd Ord 5.00

ENERGY & PETROLEUM

- 53. KenGen Ltd Ord. 2.50
- 54. KenolKobil Ltd Ord 0.05
- 55. Kenya Power & Lighting Co Ltd Ord 2.50
- 56. Total Kenya Ltd Ord 5.00

Appendix B: Past Studies on ESOP, Productivity, and Performance

Author	Year of publication	Country context	Sample period	Data used	Issue examined	Results
Park and Song	1995	US	1979-1989	Secondary	Long term performance of ESOP firms	ESOPs have a positive effect on firm performance
Cin and Smith	2001	South Korea	1978-1998	Secondary	ESOP productivity effects	Increase in ESOP leads to increased productivity
Sesil, Kruse and Blasi	2001	Varied countries	A review of past studies spanning several years	Secondary	Summary of findings on employee ownership and ESOPs (literature review)	Employee ownership linked to better outcomes (behaviour, performance, productivity) but not automatic
Kruse, Freeman, Blasi, Buchele, Scharf, Rogers, and Mackin	2003	US	2002	Primary and Secondary	Role of HR policies in the performance of companies	HR policies of ESOP firms led to better performance of both workers and firms
Hallock,	2004	US	2004	Primary	Demographic and	Some demographic and attitudinal

Salazar, and Vennerman					attitudinal correlates of employee satisfaction with ESOP	significantly influence the variance in ESOP satisfaction.
Park, Kruse and Sesil	2004	US	1988-2001	Secondary	How employee ownership is related to survival	Employee ownership may have an important role to play in increasing job and income security, and decreasing levels of unemployment
Elhayek and Petrovic-Lazarevic	2005	Australia	2001	Secondary	ESOP influence on organisational performance	Firms with lower ESOP participation rates had better organisational performance across many financial areas
McHugh, Cutcher-Gershenfeld and Bridge	2005	US	2004	Primary and secondary	Role of employee-owner attributes in predicting variance in managerial perceptions of ESOP firm performance	Employee influence in operational decisions and information sharing with employee-owners has a positive impact on managerial perceptions of firm performance.
Jones, Kalmi, and Makinen	2006	Finland	2005	Secondary	How firm characteristics and stock market	Firms with higher market value per employee are more likely to use stock

					developments influence the adoption and targeting of stock compensation	option compensation; Share returns from the past year affect the adoption of targeted stock options, but not broad-based plans; Selective and broad-based plans arise as solutions to differing monitoring difficulties
Sengupta, Pendleton and Whitfield	2007	Britain	2006	Primary	Mechanisms linking ESOPs to performance	ESO schemes impact upon performance by acting as an effective retention tool. The study advocates 'golden handcuff' Theory. Higher performance and lower turnover benefits were evident only for certain types of narrow based ESO scheme and not for broad based ESO schemes
Blasi, Freeman, Mackin, and	2008	US	2001-2006	Primary	Effect of employee ownership, profit sharing,	Shared capitalism had beneficial effects on all outcomes save for absenteeism

Kruse					and stock options on workplace performance	and that it had its strongest effects on turnover, loyalty, and worker effort
Chen and Hsu	2008	Taiwan	2003-2005	Secondary	Corporate financial performance and market reaction to ESOP	Antedating reactions toward the information are observed before the event occurs in the market
Kramer	2008	US	2008	Primary and secondary	Employee ownership and participation effects on firm outcomes	Sales per employee was substantially and significantly higher for the employee-owned group of firms
Buchele, Kruse, Rogers, and Scharf	2009	US	A literature review spanning several years	Secondary	The effect of a variety of employee ownership programs on employees' holdings of their employers' stock, their earnings and their wealth	No evidence – either between datasets or between employee-owners and non-owners within datasets – of substitution of company stock ownership for pay or benefits.
Dhiman	2009	India	3 years following ESOP	Secondary	The effect of ESOP on the corporate productivity	ESOP does not improve the productivity performance of Indian corporate sector in short-run.

			adoption			
Landau, Mitchell, O- Connell, Ramsay, and Marshall	2009	Australia	2007	Primary	Employee share ownership practice	Companies with broad-based ESOPs were significantly more likely to have structures for communicating directly with employees.
Dauda and Akingbade	2010	Nigeria	2010	Primary	Employee incentive management and financial participation	Employee financial participation and share holding practices enhance the performance of worker and organization that use them and between growth insurance and employee participation in ownership.
Dhiman and Gupta	2010	India	2000-2005	Secondary	Post-financial performance of pharmaceutical corporate sector following ESOP adoption	Post- financial performance of Suven Life Science Ltd. reduced as compared to the industry average. However the financial performance of Ranbaxy Ltd. had statistically improved as compared

						to the group average value for all financial measures under consideration.
Mcarthy, Reeves and Turner	2010	Ireland	2007	Primary	Outcomes of a substantial broad-based employee share-ownership scheme for employee attitudes and behaviour.	ESOP had created sizable financial returns and had had extensive influence in firm governance at the strategic level.
Meng, Ning, Zhou, and Zhu	2010	China	1996-2000	Secondary	Whether ESOPs enhance firm performance	The study found little difference in performance between ESOP firms and non-ESOP firms.
Ivanov and Zaima	2011	US	1984-2008	Secondary	Effects of ESOP adoption on the company cost of capital	ESOPs lead to decreased cost of capital
Kim and Ouimet	2011	US	1980-2001	Secondary	Whether ESOPs enhance productivity	Small ESOPs improve productivity
Kurtulus, Kruse and Blasi	2011	US	Used prior NBER data	Secondary	Worker attitudes towards employee ownership,	Workers want at least a part of their compensation to be performance-related,

			for 2002- 2006		profit sharing, and variable pay	with stronger preferences for output- contingent pay schemes among workers who have lower levels of risk aversion, greater residual control over the work process, and greater trust of co-workers and management.
--	--	--	-------------------	--	-------------------------------------	---