

**EFFECT OF EMPLOYEE SHARE OWNERSHIP PLANS ON THE  
FINANCIAL PERFORMANCE OF FIRMS LISTED ON THE  
NAIROBI SECURITIES EXCHANGE**

**BY**

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## DECLARATION

This research project is my original work and has not been submitted before any other academic institution for any award.

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## **DEDICATION**

To my wife Mary Njeri and my children Julie and Justin for their selfless and continuing love and support. Lastly to my parents, Joseph and Monica whose endless love, sacrifice and prayers which have contributed to the man I am today

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>CIS</b>	- Collective Investment Schemes
<b>CMA</b>	- Capital Markets Authority
<b>EBITDA</b>	- Earnings Before Interest, Taxes, Depreciation and Amortization
<b>ESOPs</b>	- Employee share ownership plans
<b>ESOs</b>	- Employee share ownership
<b>GDP</b>	- Gross Domestic Product
<b>KCB</b>	- Kenya Commercial Bank
<b>NSE</b>	- Nairobi Securities Exchange
<b>R&amp;D</b>	- Research and Development
<b>ROA</b>	- Return on Assets
<b>ROE</b>	- Return on equity
<b>FP</b>	Financial performance
<b>DPR</b>	Dividend payout ratio

## ABSTRACT

Employee stock option plans have received large consideration in the recent past and have become the most contentious part of the compensation package. Despite their adoption by firms, there is no observed empirical link on the impact of ESOPs and firm's F.P. The agency theory for instance supports that employee share rights can be used as an alternative for monitoring certain situations such as where individual performance reward is complicated to implement. However, a different school of thought argues that once ESOP participants exercise the ESOP, it would lead to an increase in employee compensations and benefits, an additional expense which will reduce the firms' earnings. The aim of this study was to ascertain the effect of ESOPs on F.P of firms quoted at NSE. The population for the study was all the 9 companies quoted at NSE that has employee share ownership plan. Secondary data was collected over a five 5 year time frame (January 2013 to December 2017) annually. The descriptive cross-sectional research design was employed for the study and the relationship between variables established using multiple linear regression analysis. The results of the study found a negative and relationship between employee share ownership plans and ROA and also revealed that firm size had a negative and insignificant relationship with ROA of firm quoted at NSE. The result further revealed that firm age had a positive and insignificant relationship with ROA but a positive and significant relationship between dividend payout ratio and ROA of firm quoted at NSE. The study concluded that ESOPs, firm size and firm age did not significantly influence financial performance of the quoted firm but dividend payout had a significant influence. The study recommended that when firms are introducing or reviewing their employee share ownership plan, they should bear in mind of the positive effect the plan bears on the performance of the firms. Policy makers should however bear in mind that its effect is not statistically significant and so it should not be undertaken at the expense of other actions that can improve performance.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

Employee Share Ownership Plan (ESOP) has been explained as a well-known form of employee participation in most of the industrialized countries (Kaarsemaker, Pendleton & Poutsma, 2009). ESOPs allows employees gain shares in the firm of their operation which makes them to financially benefit when there is a good F.P in the business operations (McElvaney & Waddell, 2006). Empirically, it has been established that organizations that offer ESOPs outperform the non-ESOP organizations in terms of the growth in sales, the market value, growth in employment and accounting based returns (Ismiyanti & Mahadwartha, 2017). A number of firms therefore use ESOPs to increase manager and employee commitment towards the firms operations, which in turn enhances the firms F.P since employees are also owners of the entity (Whitfield et al., 2017). According to Kalra and Bagga (2017) in ESOPs, employees are made owners of the firm, and their personal economic performance is in turn attached to the firm's F.P, hence they become further devoted to being productive and effective staff in the firm.

The agency theory supports that employee share ownership is among the motivational means by which firms can adopt to reduce costs by narrowly aligning the employees' personal interests with those of the other stakeholders (Martes, 2012). The incentive contract theory indicates that ESOPs may well offer motivations to employee owners so as to share information at all levels of the management, this amounts to an improved organizational competence (Landau et al., 2007). The signaling model also predicts that ESOPs should facilitate the efficiency of cooperate bargaining by minimizing cases of

costly strikes. The improved efficiency in bargaining increases the shareholders' fund far beyond the traditional point of view as to why ESOPs should direct to high firm's productivity (Cramton, Mehran & Tracy, 2008).

The ESOP concept is increasingly becoming popular amongst companies in Kenya. The reason for adoption of ESOP by the Kenyan companies is largely attributed to the need to attract and retain top talent to drive the company's long-term performance and value creation (Odero, 2012). Public companies in Kenya can lay down ESOPs subject to authorization by the Capital Markets Authority (CMA). So as to act in accordance with the Capital Markets (Collective Investment) Scheme Regulations 2001, as provided in the CMA CIS Regulations 2001, an enlisted company can set up an employee share ownership to facilitate its workers to own shares of the enlisted company. The CMA approves ESOPS and they have to be structured as unit trusts. The ESOPS Unit Trust is requisite to include a minimum of three trustees. A resolution of the directors and the shareholders and consent of establishment of the ESOP Unit Trust is required so that the CMA can approve an ESOP (Ndiritu & Mugivane, 2015).

### **1.1.1 Employee Share Ownership Plans**

ESOP is a firms' agenda of providing managers with incentives in order to maximize the shareholder's fund and aligning the managers' interests with those of other shareholders in firm (Ismiyanti & Mahadwartha, 2017). ESOP can also be defined as a plan that offers the company's workers with a financial allocate in their firms of employment (Martes, 2012). In an Employee share ownership plan, firms establish a trust fund for its employees and either of them contributes cash to procure the company's inventory,

contribute shares directly to the scheme, or have the plan borrow funds so as to procure company shares (Whitfield et al., 2017). When the plan borrows funds, the firm will have to make contributions to facilitate the plan in the repayment the borrowed funds (Freeman, 2007).

There are two forms of ESOP plans; non leveraged and leveraged ESOP plans. A leveraged ESOP plan is acknowledged when credit is acquired to establish an ESOP trust and the loan is repaid using the employer contributions towards the scheme and dividends shares, money is distributed in the accounts of the employees. On the other hand, non-leveraged ESOP is established when a sponsor firm makes stock or cash contributions to the scheme (McElvaney & Waddell, 2006). Theoretically, ESOPs provides workers with extra employee rights; to have a portion in the overall firm's profits, have unlimited right to access information about the firms operations and finances, and have the rights to be involved in the firm's management (Kaarsemaker, Pendleton & Poutsma, 2009).

The ESOPs schemes are mainly deliberated in providing incentives to the staff, so as to motivate them to attain a sense of belonging for the firm (Ismiyanti & Mahadwartha, 2017). The objective of ESOPs is to promote and to reward the improved employee efficiency and effectiveness and also to develop a through way connection between employee compensation and employee productivity (Ngambi & Oloume, 2013). ESOPs also lead to an increased firm's competitiveness and the employee attractiveness, this enables firm to draw and retain apex talented employees. This is particularly in the firms that offer professional services since talent is the significant aspect in the competitiveness of employees. Employers have to put in place innovative and long-term customs of how to motivate their workers and ESOPs is one of such customs (Bacha et al., 2009).

Employee share ownership can be ascertained by the proportion of outstanding shares that the employees own in a particular firm (Martes, 2012).

### **1.1.2 Financial Performance**

This is the indicator of how efficiently the organization is managed and how effectively and efficiently the human and other resources are utilized in the firm (Matar & Eneizan, 2018). It predominantly reflects the business entity outcomes that reveal the general financial soundness of the entity within a specified span of time. F.P shows how healthy a firm is making maximum use of its capital and human resources so as to make the most of the shareholders fund and the firm's profitability (Naz, Ijaz & Naqvi, 2016). Performance in financial terms is a gauge in varying an organization's financial position or the financial outcomes that are as a result of the management decisions and implementation of such decisions by the firm's employees (Chandrapala & Knápková, 2013).

The economic performance of a firm is very essential to investors of funds, stakeholders and the economy as a whole. To shareholders, ROI is very important, and a firm that has a healthy performance can accrue soaring and long-term proceeds to the investor. In addition, firm's financial prosperity will increase the employee incomes, contribute to products of enhanced superiority for its customers, and have improved environment pleasant production sections (Mirza & Javed, 2013). F.P provides entire information that the shareholders and stakeholders require to assist them in decision making procedures. F.P can be used to appraise like firms from the same industry and to contrast aggregate firms (Naz, Ijaz & Naqvi, 2016).The survival of many firms in the aggressive and unsure

environment is necessitated by a sound F.P as in the end it shows whether or not the firm has attained quality service (Geffen, 2012).

F.P is in the concept that, by what degree to which a firm increases its sales quantity and revenue, the profits, and the equity returns. F.P can be measured by growth in profitability, production capacity, sales growth and utilization of the capital and financial resources (Matar & Eneizan, 2018). Specifically, the F.P of firms can be calculated using several ratios that majorly include ROA ratio, net profit margin and the ROE ratio (Chandrapala & Knápková, 2013). The ROAs is the mostly used measure and it is measured by dividing the business net profits with the average sum assets. This ratio reflects the fraction of rents on the in use total asset. It also assesses how effectively and efficiently the net income is converted from the firm's total assets (Geffen, 2012).

### **1.1.3 Employee Share Ownership Plans and Financial Performance**

Employee stock option is broadly recognized as a useful way of increasing the company's performance by making the employees able to take part in wealth generation and as well as in the sharing of the firm's overall profits (Daneshfar, 2015). The employee share right is termed as a way to overcome the anticipatable short-comings in the aim of improving the shareholder's welfare; the firm's employees are considered as outsiders in the corporate control (Martes, 2012). Theoretical and empirical arguments support staffs that have rights interest tend to be motivated and thus increased efficiency. This in general leads to an improved performance of the business; this will benefit all the firm's shareholders. In various nations, employee share ownership schemes are explained

as means of improving the firm's performance by a way of promoting employee efficiency (Landau et al., 2007).

The theoretical basis for the support of employees share ownership plans located in agency theory (Riaz, Abdul Razzaq & Waqar, 2017). The agency theory supports that to solve the agency setback there are means by which employee share rights plans can condense the agency costs by away of improved productivity since employees have a feeling of direct concern in the performance of the business performance and lowering the monitoring costs by a way of aligning the employee own interests with those of the organization (Hege, 2011). Theoretically, agency theory advances that, even though there may be unlike interests, the owners can frontier their ability to capitalize on their own concessions, therefore minimizing the intensity of interest and wages in the management. The theory of incentives presupposes that ESOPs can be used as component of compensation scheme as a staff performance motivational constituent in the agreements within the workplace (McElvaney & Waddell, 2006)

In their study, Ning and Zhou (2011) studied the illusive performance effect of ESOPs and found there was no significant disparity in the performance of ESOP firm and non ESOP firms. A paper by Whitfield et al (2017) investigated the connection among employee share rights and the firms' performance. He revealed a positive correlation between Employee share option and economic performance. A study by Hege (2011) assessed the connection linking employee ownership and F.P of French publicly traded firms and revealed that employee rights has an affirmative effect on firms' profits but unconstructive impact on the EBITDA margin.

### **1.1.4 Firms Quoted at the Nairobi Securities Exchange**

NSE is the sole approved securities exchange in Kenya, duly approved as such by the Capital Markets Authority under the Capital Markets Legislation. The Nairobi Securities Exchange Limited is incorporated under the Companies Act of Kenyan law as a public company limited by shares (NSE, 2017). In the African stock exchange markets, Nairobi Securities Exchange is ranked fourth as the major stock trade market in stipulations of market volume, additionally ranked fifth in stipulations of trade capitalization as a proportion of Gross Domestic Product in African Stock Exchange Association (Odero, 2012). In Kenya, the NSE is conducted under the control of the CMA of Kenya and is an affiliate of the WFE (Ndiritu & Mugivane, 2015).

The NSE is a leading African Exchange, founded in Kenya which is among the fastest rising economies in the Sub-Saharan Africa. It was founded in the year 1954, and it has six decades legacy in listing and capital rising of equity and debt securities (NSE, 2017). The enlisted entities in Kenya who have adopted ESOP's include Equity group, Safaricom Plc, KCB Group, East African Breweries Ltd, ARM Cement, I&M Holdings ltd, Housing Finance Corporation, Standard Group and the Kenol Kobil (Odero, 2012). The NSE has however remained stagnant and has not been able to contribute significantly to economic development. On average, the firm has been able to finance only about 0.18 percent of Gross Domestic Product (Ndiritu & Mugivane, 2015)

## **1.2 Research Problem**

Employee stock option plans have congregated large consideration in latest years and have become the most contentious part of the compensation package. Firms have been

employing the ESOPs to pay compensation to their staff at both the managerial and non-managerial levels (Kalra & Bagga, 2017). Despite their adoption by firms, there is no abstract and observed empirical link on the impact of ESOPs and firm's F.P. The agency theory for instance supports that employee share rights can be used as an alternative for monitoring certain situations such as where individual performance reward is complicated to implement (Kaarsemaker, Pendleton & Poutsma, 2009). The incentives contract theory proposes that the existence of an employee option rights plan aligns management interest with those of shareholder thus enhancing the firms' F.P. However, a different school of thought argues that once ESOP participants exercise the ESOP, it would lead to an increase in employee compensations and benefits, an additional expense which will reduce the firms' earnings (Ismail et al., 2016).

In the Kenyan context, a number of companies have adopted ESOP schemes; many firms are now taking into account the possible benefits of such ESOPs planning. Firms in Kenya have adopted ESOPs as schemes to provide employee benefits and as investment vehicles. The schemes are largely motivational tools to attract and retain top talent and to lock in employees because only those who have served a company for a particular period qualifies for the incentive (Odero, 2012). However, statistical facts reveals that only 14% of the 64 enlisted firms have ESOP plans and only ARM cement and Equity group has notable ESOPs at 4.6% and 3.9% respectively, the other business ESOPs as a proportion of the entire shares is insignificant, the majority having a less than 1% of the shares in ESOP schemes. This is in sharp disparity with the developed markets such as the United States where more than 800 enlisted firms having a substantive employee share ownership plans program (Cyton Investments, 2017).

Studies on the association between ESOPs and the performance of companies across the globe and also in Kenya have produced mixed results though most of the studies have been carried using different methodologies. A study in Malaysia by Ismail et al (2016) for example assessed the impacts of executive share option plans on share return and revealed negative returns on shares prior to the declaration day and subsequent with a positive impact although the study focused on share returns and executive stock options. A study by Bacha et al (2009) assessed various concerns linked to the functioning of ESOPs between corporations and found a positive declaration impact for the large organizations but a considerably negative declaration impact for the small ones but the study concentrated more on announcement effect of employee share options.

In Kenya, Nyambane (2011) explored the impacts of ESOPs to economic improvement of enlisted firms in the country and revealed a non significant difference among the performance of on ESOP and ESOP firm however the study only compare the performance of non ESOP firm and ESOP firm. Nkubitu (2013) on the other hand assessed the impacts of member of staff's share rights scheme on fiscal improvement of quoted companies in the country and observed that ESOPS had a substantial influence on the economic performance of quoted firms. The study by Nyambane (2011) and Nkubitu (2013) and others done in Kenya, provide conflicting results, which leads to uncertainty as to whether ESOPs significantly affect, firms performance and whether the relationship is direct or inverse. This lead to the study subject, the impacts of employee share rights plans on the fiscal performance of companies enlisted on NSE

### **1.3 Research Objective**

To ascertain the effect of employee share possession plans on the F.P of companies enlisted on the Nairobi Stock Exchange.

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

This paper will add knowledge subsisting on the impacts of employee share right plans on the economic performance for the firms enlisted in NSE. As such, other interested scholars and academicians may use it as a reference point

This paper shall 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 paper may also be useful to non-ESOP firms, as the relationship envisaged here will inform their future decisions regarding ESOP adoption or not. It will also be helpful to the management of the enlisted firms in Kenya as it highlights the effects of ESOPs on the F.P those firms.

The industry 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.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this part, the research explores the theoretical literature, determinants of enlisted firms' F.P, the empirical literature review, the conceptual structure and finally the review of evaluated prose.

### **2.2 Theoretical Review**

The agency theory, the incentive contract theory and the equity theory will be undertaken as the major theories guiding the study.

#### **2.2.1 Agency Theory**

The theory was propounded by Jensen and Meckling (1976) and indicates that in public companies, the ownership of the company is separate from the management and a disparity of interests among the managers and owners will exist (Ray, 2016). Agency theory highlights the problem of corporate governance that arises from ownership separation and management of the company. According to the theory, the management and shareholders can have contrary benefit and the owners could get it complex and costly to keep an eye on the management (Martes, 2012). Agency cost arises due to the differing of interests among its staff and the shareholders in the firm that is primarily owners and managers (Kalra & Bagga, 2017).

This theory presupposes that when there exists a difference in interests, the owners can restrain the management's ability to exploit their own efficacy by means of establishing nexus of contract that can reduce the deviation in interests by offering benefits and a level

of salary to the managers that is above what they would compensate themselves if they were in the control of the company (Martes, 2012). The theory posits that in most times, the managers are of a mind of being opportunity seekers and have the responsibility of achieving their own benefits at the expenses of owners. Thus, employee share rights are used in the matching of the managers' interests with those of the owners (Ray, 2016). Thus, employee rights are in the reflection improved efficiency and productivity as it ensures that staff' interests are correspondence up to an assured degree with the objectives of the firm (Daneshfar, 2015).

The agency theory suggests that when the management recompense is attached to the ability of firms' performance, the managers are motivated to opportunistically use the accounting procedures that will cause high profits (Daneshfar, 2015). Accordingly, if the firm's managers have ownership pledge, they are in the most position to maximize shareholder value (Mirza & Javed, 2013). The theory supports that staff stock plans were regarded as an instrument of aligning the contradicting managers' welfare with that of the shareholders (Kalra & Bagga, 2017). As the agency theory supports, ESOPs are intended to side with the executives' interests with that of the firm owners in the aim reducing agency costs that may be incurred and thus increasing the firm's performance and its net worth in the market (Long & Musibau, 2013).

### **2.2.2 Incentive Contract Theory**

The incentive theory emerged with the division of labour and exchange emanated from Harris and Raviv (1979). This theory presupposes that increase of firm's performance is attached to increased variable pay, and employee rights offer the necessary motivations

across the firm to increase organizational performance (Cramton, Mehran & Tracy, 2008). The incentive contract theory is based on the question what is behind the working hard of the staff when their efforts cannot be perfectly monitored, how staff can be motivated so as to increase profitability by providing ideas and knowledge of production process which management lack (Whitfield et al., 2016).

According to the incentives contract theory, incentive contracts in the relation of employee rights are structured to have influence on efforts toward employment tasks, the cooperation with other stakeholders inside and outside the company and the employee commitment toward the firm operations(Ning & Zhou, 2011). The theory also supports that an employee-owner has a reason to shirk; this is because the employee benefits from the additional full exploit accrued from avoiding and he only gets  $1/n$  of the extra proceeds through his extra efforts. The incentive contract theory further supports the impact of economic contribution by staff as they get some returns (either delayed or ready money) which is directly connected to the firm's performance and that ESOPs makes staff to identified with the company, this leads to reduced staff absenteeism and turnover (Cramton, Mehran & Tracy, 2008).

Proponents of the theory argue that ESOPS helps to align employee and shareholder interests and ESOPs that offer incentives to individual employees in the aim of increasing their effort in production leading to enhanced company performance (Ning & Zhou, 2011). Further, ESO plans develop motivations for unions to become weak bargaining. As an effect, this theory postulates that ESOPs can lead to the reduction of incidences of unnecessary strikes and the fraction of labor disputes (Whitfield et al., 2016). In addition, the theory indicates that ESOPs can be thought to be an example of cross ownership that

attaches the achievement of any company to its stakeholders. This pushes firms to have better incentives when negotiating and investing in the long-term supply relations (Cramton, Mehran & Tracy, 2008).

### **2.2.3 Equity Theory**

This theory arose from Adams (1965) and it majored in explaining and gauging the relational contentment of the working personnel. The theory supports that workers always try to keep at equilibrium what they offer to a firm and what they get from the operation (Kaarsemaker, Pendleton & Poutsma, 2009). Relating to their paper, people make skewed assessment of the proportion of their efforts (inputs) and compensation (outputs) to those of their colleagues. Any apparent inequity is termed to build conflict, and this may make the observers to take remedies; that may include, diminishing the levels of input, negotiating for high wages, or eventually laying off the job (Daneshfar, 2015). Similarly, Grand (2004) asserted that if the disparity in payment is termed to be acceptable relating the basis of the other's better inputs or outcomes, it is regarded to be just.

The equity theory posits that the extent to which employees recognize that they are comparatively compensated for their performance have impact on their attitudes towards the business (Kaarsemaker, Pendleton & Poutsma, 2009). Therefore, staffs who perceive that ESOP schemes are based on fairness may additionally perceive an implementation of contractual obligations on the employer's part and also a sense of responsibility to add on the firms value (Grand, 2004).

## **2.3 Determinants of Financial Performance of Enlisted Firms**

This study considers firm size, firm age and payout of dividends as the key F.P determinants of the enlisted firms.

### **2.3.1 Firm Size**

Firm size is used to determine the extent to which a firm enjoys economics of scale. Enlarging a firm gives it the advantage to enjoy economics to scale; to lower its average production cost and making the operational activities be more efficient (Ilaboya & Ohiokha, 2016). Therefore, the large firms make better profits on their held assets. Conversely, some large businesses become less efficient in operation when the top management loses control over the various operational and strategic activities within the business. In nature, large firms comprise of broad organizational structure that has several managerial levels in the firm's hierarchy (Chandrapala & Knápková, 2013).

Several things in the business are affected by the firm's size and they may include; goodwill, patronage, customer's loyalty and also the level of responsiveness to the stakeholders. The size of a firm is an essential forecaster of firm's performance. Large businesses reveal good profits and the small businesses are not able to compete with large businesses in regards of profitability (Ilaboya & Ohiokha, 2016). The large firms have enhanced probability of obtaining loans from financial institutions and other creditors. They can acquire loans at cheaper rates because they possess better credit worthiness and they have low chances of going bankrupt (Abbasi & Malik, 2015). The static trade-off theory argues that big firms tend to be more leveraged in comparison of the smaller firms because of their reduced chances of going bankrupt (Chandrapala & Knápková, 2013).

### **2.3.2 Age of the Firm**

Age is defined as the duration of time for the period in which a thing or being has existed. The age of a firm can also be explained as the number of years a company has been in incorporation (Ilaboya & Ohiokha, 2016). Age of the firm is a key variable in the determination of variations in performance for different firms. Those companies that have been in existence before tend to have more experience and have distinctively enjoyed the learning benefits; they enjoy greater performance as compared to the new firms. However, some older firms tend to be inactive, that goes unaccompanied by age of operation. A number of small companies are unlikely to be successful in the adversely changing environment (Chandrapala & Knápková, 2013).

As firms get aged, they are frequently aimed at codifying the decision-making procedures, this makes the firm to be more bureaucratic, reduce the organizational flexibility and be able to adopt to prompt changes. Inflexible procedures and rules are immense obstacles to the innovations and changes in the organization. In addition, the firms' age may track down the strategy of quiet life and consequently leading to risk avoidance (large R&D investments), employee conflicts and large restructuring (Pervan, Pervan & Ćurak, 2017). A study by Akben-Selcuk (2016) revealed a curved association involving the companies' age and profitability and concluded that the younger firms can have a decline in their overall profits since the time of their establishment but they can be more profitable once again at their old age.

### **2.3.3 Dividend Payout**

Dividend decisions in all companies are very essential as they determine how funds should be distributed to the investors and the profits to be retained by the firm for re-investment. Agency theory stipulates that even though a business may not have free cash flow, it can make use of dividend payments to the shareholders for the purpose of controlling the over investment setback (Daneshfar, 2015). The dividend policies provide managers with procedures to follow when determining the fraction of profits to be retained by the firm and what to be shared among the partners as cash share correspondingly. It is explained by Signaling theory that dividend policies act as sources of communication that offers the required information to investors concerning the performance of the business. These policies also provide important information concerning the management because they are liable for the firm's future performance and ability to make profits (Kanwal & Hameed, 2017).

### **2.4 Empirical Review**

Aubert, Kern and Hollandts (2017) investigated the connection between the employee stock rights and cost of capital in France incorporating a test of 120 largest quoted companies in the period of 2000-2011. Results established that there was no considerable association between cost of equity and the employee stock rights and a negative connection between cost of debt and employee stock rights. The findings also confirmed that a negative connection exists between the employee stock ownership and prejudiced average cost of capital.

Riaz, Razzaq and Waqar (2017) assessed the effects of ESOPs on the firms' general performance. They made adopt of a positivist philosophy with deductive approach so as to achieve numerical implication and a sample of 280 respondents was used. For the analysis of the collected data, regression and correlation techniques were adopted. The results established that there exists a statistically considerable association between ESOPs and the overall performance of organizations. The study also found that employees' turnover had a moderate positive significant correlation while all others have weak positive weak considerable association with ESOPs.

Maghraoui and Zidai (2016) investigated how the performance of French companies is influenced by the employee stock rights. The study employed the error correction models, econometrics of panel data with little erogeneity trial. The findings of the econometric treatment on a section of 120 firms that are enlisted on the stock exchange from year 2000 to year 2012, show that there exists two long term self-motivations in a particular course from achievement gauges to employee rights.

Kato, Miyajima and Owan (2016) examined the impacts of employee stock rights, using group data on ESOPs in Japan and a sample of publicly-traded firms in the nation from 1989-2013. Using the fixed effect estimates, the results revealed that an increment in the strength of subsisting ESOP schemes gauged by stake per staff will result in statistically considerable outputs and those efficient outputs leads to increased profits because the gains from ESO schemes are statistically significant and even of the modern business environment.

Ray (2016) investigated the influence of ESOPs on the profitability of Indian nonfinancial firms. The paper used the quintile regression model to observe the impacts of ESOPs on the profitability of the sampled companies. The observed results propose that the impact of equity-based pay is affirmative at higher extends of achievement. This is to indicate that the businesses that have stock based recompense plans in their premature growth stages may have a waning economic attainment as contrasted to those companies that have matured. In addition, the results indicated that businesses play a major part when deciding equity based recompense and depicted an affirmative effect of ESOPs on the performance of a company.

In Malaysia, Long and Musibau (2013) examined the effect of ESOPs on one firm in the country. The operational and financial variables were examined for a number of 11 years (5 pre ESOPs and 5 post ESOPs). Their paper revealed that; decline in the firms' F.P was not affected by employee share option schemes. How the business performs and the productivity revealed no improvement on post-ESOPs. The study concluded that employee share option schemes do not encourage workers and that main objectivity of the ESOPs was not content. It was as well found that the ESOP benefactors are the main shareholders or directors and minor shareholders are the losers.

Ngambi and Oloume (2013) examined the connection between employee stock rights and company's achievements by the use of sample companies in Cameroon republican. The study obtained data from the National Institute of Statistics. Variables that were employed to gauge the achievements along with employee rights on one side are the ROAs as well as ROE, and on the other side the percentage of capital held by the staff. The study compared the collection of businesses using ESO with a collection of

businesses not employing ESOs and nonparametric checks of Wilcoxon and correlation analysis were performed in testing the hypothesis on difference in performance between the two collections. The findings revealed an affirmative connection amid ESOs and F.P gauged by the ROA. The study conversely found no indication of the effect of ESOs on the economic accomplishment as calculated by the ROE.

Martes (2012) studied how employee stock rights affect the firm's performance and the development costs for the biggest European firms who have employee right schemes from the year 2006 to 2010 by the use of EFES dataset. Empirical domino effect by use of linear regression showed a weak but affirmative connection amid employee stock rights and the firm's performance. The study as well found a negative connection between employee stock rights, profit margin and/or the manufacture increase. Using longitudinal data on the long term base, employee stock rights have an affirmative effect on ROA and ROE although this study could not verify that high employee stock rights means high performance for businesses.

A study by Khisa (2016) studied the effects of share rights by employees on the fiscal achievement of enlisted firms the country through a descriptive blueprint. Population of the study was made of 8 firms whose employees had shares of the company. The study employed secondary data, which was collected from 2005 to 2015, and regression model was applied in inspecting collected data. It was revealed that employee share rights, inflation and size of the firm significantly affected the enlisted firms' F.P. A conclusion was made that ESOPS had a strong affirmative and considerable influence on the financial achievement among companies quoted with the NSE in Kenya...

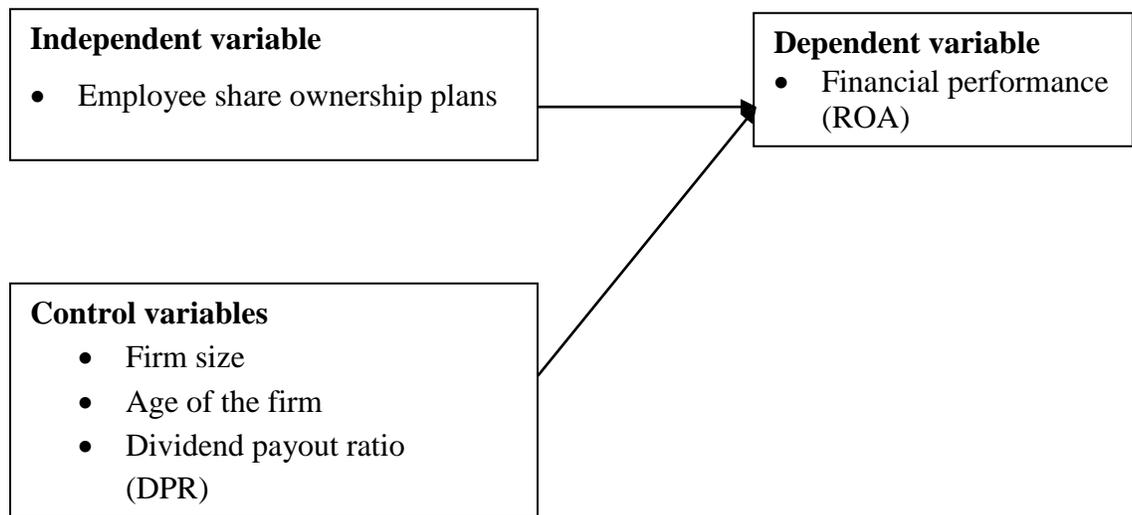
In Kenya, Mochoge (2015) scrutinized the control of ESOPs on fiscal performance of the companies enlisted at NSE using a descriptive survey research design. The paper utilized collected secondary data and it was analyzed using standard deviation, correlations, and regression statistical methods. In the study, it was revealed that the mean of ESO ratio is comparatively high in comparison with other variables and also the standard deviation for the ESO ratio was the utmost. The Foreign ownership had the utmost connection with the performance followed by ESO. The study concluded that a unit increase in ESO, foreign ownership and firm size can drive to improved F.P.

Mokaya and Jagongo (2015) studied the shock of ownership composition on the functioning of firms enlisted at NSE using a cross sectional and descriptive survey method. The study targeted 63 firms, used secondary data, and employed regression analysis to analyze the collected data. The research found a strong and positive correlation between enlisted firms' economic performances and revealed a strong and positive connection between economic performances for companies enlisted in NSE.

In their study, Tarus, Kefah and Nyaoga (2014) assessed the effects of managerial compensations on the economic functioning of insurance firms in the Kenyan economy. The paper measured efficient outline of link amid the stretch of managerial compensation and the main performance ratios by the use of regression model that can establish the connection amid recompense and the economic performance. Findings of the paper revealed a non-considerable negative connection among administrative recompense and F.P of businesses. The paper concluded that the negative connection recommended the restriction of managerial payment so as to capitalize on the owner's profits.

## 2.5 Conceptual Framework

This is a diagrammatic explanation of the association linking the independent variables and the dependent variable. For this study, employee share ownership plans will form the independent while F.P will be dependent variable. In addition, firm size, age of the firm and dividend payout will form the control variables.



**Figure 2.1 Conceptual framework**

## 2.6 Summary of the Literature Review

The literature review chapter explored the agency theory, which argues that ESOPs provide staff with motivation to perform effectively and efficiently even also to collaborate with their workmates and the board management, this is because their incomes will rise when the company's presentation elevates. The Incentive contract theory supports that ESOPs provides employees with incentives to perform harder and smarter, this can be done by lining up their personal welfares with those of the owner while the equity theory indicates that employees will perceive a fair reward for their

performance, since it may affect their attitudes toward the firm. The reviewed theories support that ESOP align the interest of employees to those the company and serves as an incentive towards improved F.P. However, the adoption of ESOPs especially in developing countries is still at infancy and less adopted.

The study also reviewed several international and local studies. Internationally, studies by Aubert, Kern and Hollandts (2017) assessed employee stock ownership and cost of capital, while Maghraoui and Zidai (2016) studied employee ownership and performance of French firms. Kato, Miyajima and Owan (2016) also studied employee stock ownership and firm performance in Japan while Ray (2016) explored ESOPs and performance of nonfinancial companies. In Kenya, Khisa (2016) studied share ownership and firm performance while Mokaya and Jagongo (2015) study focused on ownership structure whereas Tarus, Kefah and Nyaoga (2014) studied executive compensation and firm performance. The reviewed studies however obtained varied results and used different methodologies while other focused on ownership structure which did not consider ESOPs. This creates a need to assess the how ESOPs influence the financial performance of quoted firms in Kenya.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The section describes the study design, target population, along with techniques of collecting information. It as well presents the diagnostic test and data analysis procedure.

### **3.2 Research Design**

A study design is an outline for carrying out a research project and it specifies the particulars of the required procedures to be adopted when obtaining the data required in structuring and solving the problems of the study (Sekaran & Bougie, 2011). For the establishment of the impact of employee option right plans on the firm's economic performance; to firms quoted at the NSE. Descriptive studies try to explain the subject, by building an outline of a set of events, tribulations or individuals, in the way of fact collection and tabulation of the occurrences on study variables. A descriptive research also uses description as a way of organizing data into various patterns that materialize during data analysis which aid the mind to comprehend a qualitative study and its implication

### **3.3 Population**

A study population relates to a large set of objects or people that is the core focus of the researcher (Sekaran & Bougie, 2011). The population of this study was made of the 9 firms, which have issued employee share ownership plans at NSE from the year 2013 to 2017. The researcher carried out a census of the 9 firms since the population is small.

### **3.4 Data Collection**

This study depended on secondary data, which was acquired using a data collection sheet. The secondary data comprised of data on employee share ownership plans, F.P, firms' assets, number of years they have been existence and their DPRs. It was acquired from the firms' financial reports comprising of the statement of financial position and income statement. These reports were obtained from the Capital Market authority and the data was collected of a time span of 5 years since year 2013 up to 2017.

### **3.5 Diagnostic Tests**

To determine the viability of the study model, the researcher carried out several diagnostic tests, which included normality test, test for multicollinearity, test for homogeneity of variances and the autocorrelation test. The normality assumption assumes that the data was normally distributed and the assumption was determined using skewness, kurtosis and the Shapiro Wilk test. In the case where one of the variables is not normally distributed it was transformed and standardized using the logarithmic transformation method. The homogeneity of variance assumption was assessed by plotting of residual plots.

Multicollinearity on the other hand refers to the correlation among the variables and was assessed using the correlation matrix and the variance inflation factors (VIF) where a VIF of more than 10 was an indication of multicollinearity. Any multicollinear variable would be dropped from the study and a new measure selected and substituted with the variable which exhibits co-linearity. Finally, serial correlation (autocorrelation) was assessed

using the Durbin Watson statistic where a value of 1.5 and 2.5 indicated the absence of autocorrelation.

### **3.6 Data Analysis**

Both inferential and explanatory statistics were applied to scrutinize the research data where explanatory statistics comprised of the standard deviation, mean, median and the minimum and maximum values in summarizing the study data. Inferential statistics entailed the correlation analysis and the classical regression model where correlations aided in measuring the strength of relationship among the variables while regression assisted in measuring the impact of the explanatory variables to the response variable.

#### **3.6.1 Analytical Model**

Classical linear regression equation was modeled as presented

$$ROA = \beta_0 + \beta_1(ESOPs) + \beta_2(Size) + \beta_3(Age) + \beta_4(DPR) + \varepsilon$$

Where

ROA = ratio of net income to total assets

ESOPs = Employee share ownership plans determined using ESOPs as a percentage of total shares

Size = Determined using the natural log of total the assets

Age = Determined using the number of years the firm has been in operation

DPR = Dividend Payout Ratio

$\beta_1, \beta_2, \beta_3, \beta_4$  = regression coefficients

$\beta_0$  = Constant

$\varepsilon$  = Error term

### **3.6.2 Tests of Significance**

The t test was applied to assess the statistical connotation of the regression coefficients while the F test and ANOVA were used to measure the statistical implication and fitness of the whole regression equation. The 5% level of significance was used where p value of less than 5% indicated a significant relationship.

# CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION

## 4.1 Introduction

The section represents study's findings established on the objectives of research. This chapter focused on collected data analysis from CMA to unveil the impact of ESOPs on performance of firms quoted at NSE. By use of descriptive statistics, correlation analysis and regression analysis, the outcomes of the study were displayed in tabular form for easy interpretation.

## 4.2 Descriptive Statistics

The study targeted the nine firms, which have issued employee share ownership plans at NSE from the year 2013 to 2017. The study managed to collect data from the 9 firms hence a 100% response rate. The results of descriptive statistics are shown under table 4.1

**Table 4.1: Descriptive Statistics**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Skewness</b>	<b>Kurtosis</b>
ROA	45	-.1534	.2996	.056362	.0806413	.592	1.825
ESOPS	45	.0005	.0460	.011402	.0139855	1.322	.291
Firm size	45	13	20	17.38	1.948	-.997	.226
Firm age	45	10	121	62.78	37.034	.201	-1.206
DPR	45	.000	.970	.37038	.250866	.536	-.368

**Source: Research Data**

The summary results on table 4.1 shows that ROA had a mean value of 0.056362 and minimum and maximum values of -0.1534 and 0.2996 whereas the average value for

ESOPs was 0.011402 with a minimum and maximum values of 0.0005 and 0.0460 respectively. The results further indicate the average value for size of the firm was 17.38 with minimum and maximum values of 13 and 20 while the average value of firm age was 62.78 with minimum and maximum age of 10 and 121 years respectively. The findings further indicate that the mean value for dividend payout was 0.37038 and minimum and maximum values of 0.000 and 0.970 respectively an indication that some of the firms did not pay dividends while other paid 97% of their earnings as dividends. The kurtosis and skewness values show that the values lie within the recommended ranges of -2 and +2 thus an indication that the data was normally distributed.

### 4.3 Diagnostic Tests

The study assessed for normality using the Kolmogorov-Smirnov and Shapiro-Wilk tests, multicollinearity using the variance inflation factors, homogeneity of variances using a residual graph and linearity using a normal p-p plot. The results were as follows

#### 4.3.1 Test for Multicollinearity

Multicollinearity was assessed using the variance inflation factors as shown by table 4.2

**Table 4.2: Test for Multicollinearity**

	<b>Tolerance</b>	<b>VIF</b>
ESOPS	.671	1.491
Firm size	.300	3.333
Firm age	.247	4.041
DPR	.765	1.308

**Source: Research Data**

The multicollinearity results on table 4.2 shows that all the Variance Inflation Factors (VIFs) are less than 10 and all the tolerance values are more than the recommended value of 0.2. The results therefore indicate that there is no multicollinearity among the independent variables and the dependent variable.

### 4.3.2 Test for Normality

The Kolmogorov-Smirnov and Shapiro-Wilk were used to assess for normality

**Table 4.3: Test for Normality**

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROA	.224	45	.160	.918	45	.380
ESOPS	.338	45	.240	.730	45	.450
Firm size	.177	45	.057	.887	45	.433
Firm age	.126	45	.072	.909	45	.511
DPR	.109	45	.200*	.945	45	.062

\*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

**Source: Research Data**

Table 4.3 shows the Kolmogorov-Smirnov and Shapiro-Wilk tests for normality. The results show that all the p values are more than the significance value of 0.05, which indicates that the data is normally distributed and that the assumption of normality has not been violated.

### 4.3.3 Test for Autocorrelation

The test for Autocorrelation was carried out using Durbin Watson test as indicated in table 4.4

**Table 4.4: Test for Autocorrelation**

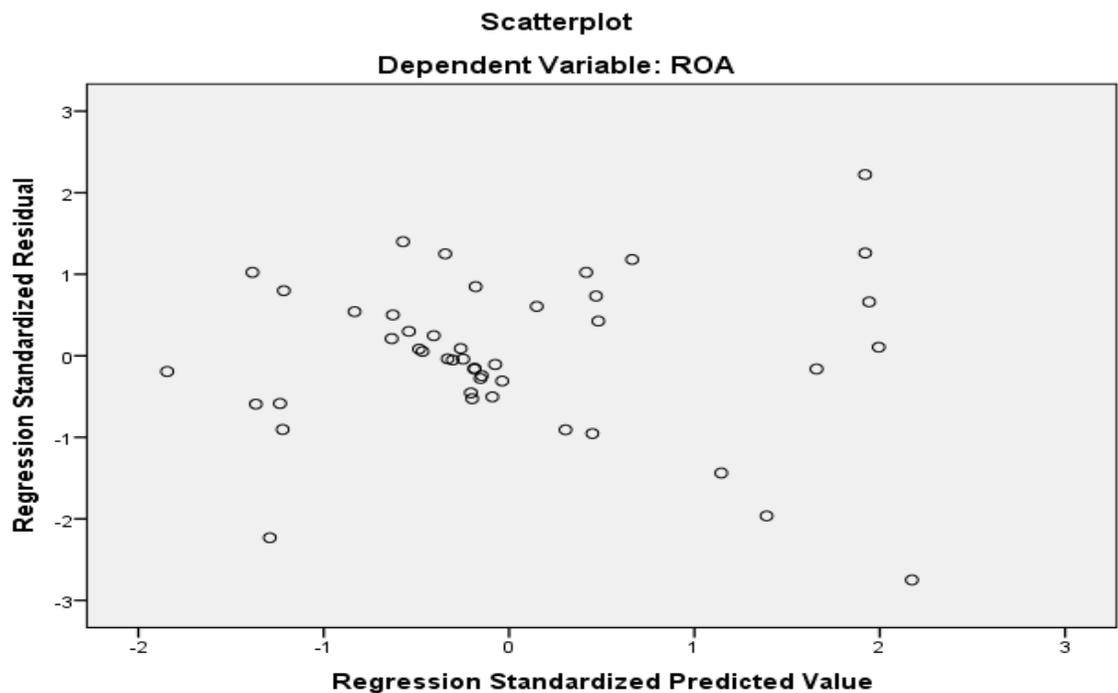
Model	Durbin-Watson
1	1.574

**Source: Research Data**

The autocorrelation results on table 4.4 shows that the Durbin Watson statistics of 1.574 lie between the recommended value of 1.5 and 2.5 respectively. This indicates that the assumption of autocorrelation (serial correlation) in the research has not been violated.

### 4.3.4 Homogeneity of Variances Test

The homogeneity of variances test was assessed using the standardize residual plot



**Figure 4.1: Homogeneity of Variances Test**

The standardized residuals plot on figure 4.1 show the results for the homogeneity of variance. The results indicate that the error points converge at a specific point, which indicates the absence of heteroscedasticity, and that the assumption of homogeneity of variances has not been violated.

#### 4.4 Correlation Analysis

The study undertook correlation analysis to establish the nature and degree of association among the variables of the study. Table 4.5 shows the results

**Table 4.5: Correlation Matrix**

	ROA	ESOPS	Firm size	Firm age	DPR
ROA	1				
ESOPS	-.345*	1			
Firm size	.237	.107	1		
Firm age	-.213	-.342*	-.516**	1	
DPR	.633**	-.261	.290	-.293	1

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

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

#### Source: Research Data

The correlation results on table 4.5 shows that the correlation between ROA and ESOPs was weak and negative (-0.345) while the correlation between ROA and firm size was weak and positive (0.237) respectively. The results further show that the correlation between firm age and ROA was weak and negative (-0.213) whereas the correlation between dividend payout and ROA was strong and positive (0.633) respectively. The findings further indicate that all the correlation coefficients are less than 0.7 hence an indication that there is no multicollinearity among the variables of the research.

## 4.5 Regression Analysis

The regression results comprises of model summary, Analysis of Variance (ANOVA) and the summary of coefficients. The results were as follows

### 4.5.1 Model Summary

**Table 4.6: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.672 <sup>a</sup>	.452	.397	.0626331

a. Predictors: (Constant), DPR, ESOPS, Firm size, Firm age

**Source: Research Data**

The findings on table 4.6 show that the coefficient of determination value as indicated by the R square was 0.452. This indicates that the independent variables, which comprise of dividend payout ratio, ESOPs, firm size and age account for 45.2% of the variation in the dependent variable (financial performance). Thus, 54.8% is explained by other factors, which the study did not consider and the error term.

### 4.5.2 ANOVA

**Table 4.7: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.129	4	.032	8.235	.000 <sup>b</sup>
	Residual	.157	40	.004		
	Total	.286	44			

a. Dependent Variable: ROA

b. Predictors: (Constant), DPR, ESOPS, Firm size, Firm age

**Source: Research Data**

The Analysis of Variance (ANOVA) results on table 4.7 shows that the regression model is significant as the p value is less than the significance value ( $0.000 < 0.05$ ). This indicates that the model is fit and a good predictor of the relationship between the study variables.

### 4.5.3 Coefficients

**Table 4.8: Summary of Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.054	.187		.288	.775
ESOPS	-1.527	.824	-.265	-1.852	.071
Firm size	-.001	.009	-.026	-.121	.904
Firm age	.000	.001	-.172	-.730	.470
DPR	.167	.043	.521	3.891	.000

a. Dependent Variable: ROA

**Source: Research Data**

The results on table 4.8 indicate that there is a negative ( $B = -1.527$ ) and insignificant ( $P$  value =  $0.071 > 0.05$ ) relationship between employee share ownership plans and ROA of firm quoted at NSE. The results also indicate that firm size has a negative ( $B = -0.001$ ) and insignificant ( $P$  value =  $0.904 > 0.05$ ) relationship with ROA of firm quoted at NSE. Further, the results indicate that firm age had a positive ( $B = 0.000$ ) and insignificant ( $P$  value =  $0.470 > 0.05$ ) relationship with ROA of firm quoted at NSE. Finally, the results show that there was a positive ( $B = 0.167$ ) and significant ( $P$  value =  $0.000 < 0.05$ ) relationship between dividend payout ratio and ROA of firm quoted at NSE. From the results, the following equation was formulated

$$ROA = 0.054 + 0.167(DPR)$$

## 4.6 Discussion of Research Findings

The findings established that the relationship between ESOPs and financial performance of firms quoted at the NSE was negative and statistically insignificant. This finding means that employee share ownership plan do not have a significant influence on listed firms in Kenya financial performance. This finding is similar to that of Aubert, Kern and Hollandts (2017) who established that there was no considerable association between cost of equity and the employee stock rights and a negative connection between cost of debt and employee stock rights. Long and Musibau (2013) also concluded that employee share option schemes do not encourage workers and that main objectivity of the ESOPs was not content. However, Riaz, Razzaq and Waqar (2017) established that there exists a statistically considerable association between ESOPs and the overall performance of organizations. Kato, Miyajima and Owan (2016) revealed that an increment in the strength of subsisting ESOP schemes gauged by stake per staff will result in statistically considerable outputs and those efficient outputs leads to increased profits because the gains from ESO schemes are statistically significant and even of the modern business environment.

The results revealed that size of the firm had a negative and insignificant relationship with the ROA of the firms quoted at the NSE. This indicates that size of the firm did not have a statistically significant influence on listed firms in Kenya financial performance. Abbasi and Malik (2015) however posit that large firms have enhanced probability of obtaining loans from financial institutions and other creditors. They can acquire loans at cheaper rates because they possess better credit worthiness and they have low chances of going bankrupt. Chandrapala and Knápková (2013) explains that the static trade-off

theory argues that big firms tend to be more leveraged in comparison of the smaller firms because of their reduced chances of going bankrupt.

Thirdly, the findings established that age of the firm had a positive but statistically insignificant impact on ROA of the firms quoted at the NSE. The results means that age of the firms do have a significant impact on listed firms in Kenya financial performance. Ilaboya and Ohiokha (2016) explains that the age of the firm is a key variable in the determination of variations in performance for different firms and those companies that have been in existence before tend to have more experience and have distinctively enjoyed the learning benefits; they enjoy greater performance as compared to the new firms. Akben-Selcuk (2016) concluded that the younger firms can have a decline in their overall profits since the time of their establishment but they can be more profitable once again at their old age.

Lastly, the study results established that dividend payout had a positive and significant relationship with ROA of the firms quoted at the NSE. The finding therefore means that there is a significant relationship between dividend payout and listed firms in Kenya financial performance. Kanwal and Hameed (2017) posit that it is explained by Signaling theory that dividend policies act as sources of communication that offers the required information to investors concerning the performance of the business. These policies also provide important information concerning the management because they are liable for the firm's future performance and ability to make profits.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

The section gives a summarized overview of the previous chapter's outcomes, conclusion and study limitations. The section also elucidates the policy recommendations that policy makers can implement to achieve the expected F.P of firms enlisted at NSE. The chapter also discusses a few main limitations encountered and suggestions for future research.

### **5.2 Summary**

The researcher was seeking to investigate the influence of ESOPs on F.P of firms quoted at NSE. The independent variables were ESOPs, DPR, firm size and age. The study adopted a descriptive cross-sectional research design. CMA reports were used to retrieve secondary data which were analyzed using SPSS software version 22. The study used annual data for the 9 firms enlisted at NSE that have ESOPs covering a five year time frame as from January 2013 to December 2017.

The descriptive findings revealed that that ROA had a mean value of 0.056362 whereas the average value for ESOPs was 0.011402 respectively. The findings also established that the average value for size of the firm was 17.38 while the average value of firm age was 62.78 with minimum and maximum age of 10 and 121 years respectively. The findings further revealed that the mean value for dividend payout was 0.37038 respectively.

The results of correlation revealed that the correlation between ROA and ESOPs was weak and negative while the correlation between ROA and firm size was weak and positive respectively. The findings also established that the correlation between firm age and ROA was weak and negative (-0.213) whereas the correlation between dividend pay-out and ROA was strong and positive (0.633) respectively.

The results of regression found that independent variables, which comprised of dividend pay-out ratio, ESOPs, firm size and age accounted for 45.2% of the variation in the dependent variable (financial performance) and that the regression model was fit and a good predictor of the relationship between the research variables. The study found a negative and relationship between employee share ownership plans and ROA and also revealed that firm size had a negative and insignificant relationship with ROA of firm quoted at NSE. The result further revealed that firm age had a positive and insignificant relationship with ROA but a positive and significant relationship between dividend pay-out ratio and ROA of firm quoted at NSE.

### **5.3 Conclusion**

The study results revealed that the relationship between ESOPs and financial performance of firms quoted at the NSE was negative and statistically insignificant. The study based on this finding concludes that employee share ownership plan do not have a significant influence on listed firms in Kenya financial performance.

The finding of the research also found that size of the firm had a negative and insignificant relationship with the ROA of the firms quoted at the NSE. Based on this

finding, the study concludes that the size of the firm does not have a statistically significant influence on listed firms in Kenya financial performance.

Additionally, the results revealed that age of the firm had a positive but statistically insignificant impact on ROA of the firms quoted at the NSE. Based on the finding, the study makes the conclusion that the ages of the firms do have a significant impact on listed firms in Kenya financial performance.

Finally, the study findings established that dividend payout had a positive and significant relationship with ROA of the firms quoted at the NSE. Based on this finding the study makes the conclusion that there was a significant relationship between dividend payout and listed firms in Kenya financial performance.

#### **5.4 Recommendations**

ESOPs were found to have negligible impact on firms performance in financial terms. The research therefore recommends that when firms are introducing or reviewing their employee share ownership plan, they should bear in mind of the positive effect the plan bears on the performance of the firms. Policy makers should however bear in mind that its effect is not statistically significant and so it should not be undertaken at the expense of other actions that can improve performance.

The results also led to the conclusion that size of the firm does not have significant impact of ROA. The study however suggests that all firms in general should strive to increase their asset base since large firms enjoy the benefits of economies of scales associated with size.

The study found out that age of a firm relates does not significantly influence its performance. The study however recommends that managers of enlisted firms should strive to keep their firms growing and enlisted for longer as it has been found there is a desirable association between the number of years a company has been enlisted and performance.

Finally, the results led to the conclusion that dividend payout had a positive and significant effect of quoted firm financial performance. The study based on this observation recommends that that the management of listed firms should focus on maximizing the wealth on shareholders and payment of dividends so that they can enhance the value of the firm.

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

This research covered five years 2013-2017. It has not been determined if the results would hold for a longer study period. Furthermore, it is uncertain whether similar findings would result beyond 2017. A longer study period is more reliable as it will take into account major happenings not accounted for in this study.

One of the study's limitations of was the quality of the data. It is difficult to derive conclusions from the study since the legitimacy of the situation cannot be ascertained. The data that has been used is only assumed to be accurate. Secondary data was employed in the study which was already in existent as opposed to primary data which was raw information. The study also considered selected determinants and not all the factors affecting F.P of companies quoted at NSE mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

## **5.6 Suggestions for Further Research**

The research concentrates in ESOPs and firms' F.P firms quoted at NSE and relied on secondary data. A research study where primary data is relied upon and covering all the firms enlisted at NSE and that has ESOPs is recommended so as to compliment this research.

This research didn't exhaust the independent variables in relation to F.P of firms quoted at NSE and a recommendation is given that more research be carried out to incorporate other variables such as managing efficiency, growth opportunities, corporate governance, industry practices, leverage, political stability and other macro-economic variables. Establishing the impact of each variable on F.P of firms quoted at NSE will enable policy makers know what tool to use when maximizing shareholder's wealth.

The study concentrated on the last five years since it was the most recent data available. Future studies may use a range of many years e.g. from 2000 to date and this can help confirm or disapprove this study's findings. The study limited itself by focusing on enlisted firms at NSE. The recommendations of this study are that further studies be conducted on other non-enlisted firms operating in Kenya or firms enlisted in other

exchanges. Finally, due to regression models' limitations, other models such as the Vector Error Correction Model (VECM) may be applied in explanation of the various relationships among variables.

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## APPENDICES

### Appendix I: List of firms with ESOPs

<b>Firm</b>	<b>Year</b>
Equity Group	2009
Safaricom Plc	2008
KCB Group	2010
East African Breweries Ltd	2008
ARM Cement	2009
I&M Holdings Ltd	2013
Housing Finance Corporation	2010
Standard Group	2011
Kenol Kobil	2012

## Appendix II: Research Data

Firm	Year	Net-income Ksh '000'	Total assets Ksh '000'	Total ESOPs	No of shares	Age	Dividends Ksh '000'
<b>Equity</b>	2017	18,918,000	526,665,000	117,651,500	3,773,674,802	14	7,547,000
	2016	16,545,794	473,713,133	122,581,800	3,773,674,802	13	7,547,000
	2015	17,303,438	428,062,514	143,729,900	3,773,674,802	12	7,547,000
	2014	17,151,000	344,572,000	143,865,900	3,702,777,020	11	6,665,000
	2013	13,278,000	277,728,818	138,534,200	3,702,777,020	10	5,554,000
<b>Safcom</b>	2017	48,444,418	161,686,996	20,827,000	40,065,428,000	18	38,863,000
	2016	38,104,290	159,182,485	20,827,000	40,065,428,000	17	30,483,000
	2015	31,870,000	156,960,000	20,827,000	40,065,428,000	16	25,642,000
	2014	23,017,540	134,600,946	20,827,000	40,065,428,000	15	18,831,000
	2013	17,539,810	128,856,157	20,827,000	40,000,000,000	14	12,400,000
<b>KCB</b>	2017	19,704,000	646,668,000	49,098,300	3,066,063,487	121	9,198,000
	2016	19,723,000	595,240,000	49,098,300	3,066,063,487	120	9,198,000
	2015	19,623,000	558,094,000	49,098,300	3,025,212,992	119	6,050,000
	2014	16,849,000	490,338,000	49,093,300	3,025,212,992	118	6,050,000
	2013	14,341,568	390,852,000	38,567,480	2,984,227,692	117	5,968,000
<b>EABL</b>	2017	8,514,568	66,666,312	1,430,003	790,774,356	95	4,349,259
	2016	10,270,813	61,746,000	2,014,000	790,774,356	94	5,930,807
	2015	9,574,905	66,939,778	2,014,000	790,774,356	93	4,744,645
	2014	6,858,608	62,865,943	2,014,000	790,774,356	92	3,525,176
	2013	6,522,200	57,720,462	2,014,000	790,774,356	91	1,110,778
<b>ARM</b>	2017	(6,549,812)	42,699,067	20,435,335	959,940,200	43	0.00
	2016	(2,800,175)	51,058,802	20,435,335	848,940,000	42	0.00
	2015	(2,890,841)	51,936,664	20,435,335	495,275,000	41	0.00
	2014	1,493,393	36,912,580	20,435,335	495,275,000	40	297,165
	2013	1,348,803	29,705,254	22,806,235	495,275,000	39	247,638
<b>I&amp;M</b>	2017	5,725,818	202,645,013	9,999	2,880,245	67	3,947,324
	2016	6,581,281	182,157,482	9,999	2,880,245	66	1,373,877

	2015	6,032,643	164,822,609	9,999	2,880,245	65	1,296,110
	2014	987,848	114,972,436	9,999	2,880,245	64	748,863
	2013	4,974,956	141,364,216	9,999	2,880,245	63	748,863
<b>HFC</b>	2017	126,216	67,541,116	775,000	349,596,667	52	122,406
	2016	905,829	71,930,140	485,000	349,381,667	51	174,754
	2015	1,196,969	71,659,434	530,000	348,896,667	50	226,783
	2014	975,336	60,961,680	455,000	231,580,000	49	347,153
	2013	995,196	47,389,377	640,000	231,070,000	48	404,301
<b>Standard Group</b>	2017	(210,838)	4,459,637	266,880	81,731,808	115	0.00
	2016	198,521	4,404,931	266,880	81,731,808	114	25,392
	2015	(289,603)	4,355,614	266,880	81,731,808	113	0.00
	2014	220,514	4,101,749	226,880	81,731,808	112	40,866
	2013	189,493	4,136,762	266,880	81,731,808	111	40,866
<b>Kenol Kobil</b>	2017	2,464,703	24,099,030	386,148	73,588,000	58	859,888
	2016	2,413,207	24,201,705	386,148	73,588,000	57	579,557
	2015	2,014,974	17,377,103	386,148	73,588,000	56	367,940
	2014	1,091,284	23,915,166	386,148	73,588,000	55	294,352
	2013	558,419	28,121,673	386,148	73,588,000	54	147,176