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# Determinants of Participation in Employee Share Ownership Plans in the Banking Sector: A Case of Listed Commercial Banks in Kenya

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# Abstract

The purpose of the study was to examine determinants of participation in Employee Share Ownership Plans (ESOPs) of commercial banks listed at Nairobi Securities Exchange in Kenya. The specific objectives for the study was to determine the influence of company performance, demographic factors and financial orientation on employee participation in ESOPs. The study adopted qualitative research type and adopted descriptive research design. The target population are three commercial banks with an estimated total number of employee of 7469 as of 2018. The sample size for the study was 365 respondents. This was achieved through purposive sampling technique. The primary data was collected by questionnaires through drop and pick technique to those listed commercial banks in Nairobi County at their head offices and branches. Descriptive statistical tools were used to summarize, organize, interpret and present data. Statistical Package for Social Sciences (SPSS) software was used to analyze data. Data presented using figures, charts and tables. The regression model was used to establish relationship between the study dependent and independent variables. The study found that there was a positive correlation between employee participation in ESOP and company performance, financial orientation, ESOP design and demographic factors. Furthermore, the study also established that demographic factors contribute most to employee's participation in ESOP followed by financial orientation and ESOPs design while company performance contributed least to employee's participation in ESOP. The study recommended that companies planning to introduce ESOPs should consider demographic factors, financial orientation, ESOP design and company performance in that order. The study also recommended that a public policy should be formulated by the Government of Kenya to promote introduction of ESOPs in private and public companies in order to embrace sharing capitalism. Finally, employees should grasp the opportunity to invest in their company's ESOPs cautiously as it provides them with passive income with high risk and limited involvement in the company decision making.

**Keywords:** *Determinants, Employee Share Ownership Plans, banking sector and commercial banks.*

### 1.1 Background to the Study

Ownership of enterprises have evolved over the years, from investors-owned enterprises, customer-owned enterprises to employee owned enterprises. Besides, there are government ownership, foreign ownership, management (employees) ownership and local ownership structure (Ng'ang'a, 2017). Whereas investor-owned enterprises constitute majority of ownership form, employee-owned enterprises exists and continue to emerge around the world. Employee owned enterprises existed mostly in service industries such as law, accounting, investment banking, management consulting, advertising, engineering and medicine (Hansmann, 2000). Employee ownership are of varieties of forms, not simple and one-dimensional concept (Caramelli, 2011). Currently, there are fully employee owned and partially employee owned enterprises. One mechanism used for turning investor owned company into partially or fully employee-owned enterprise is through adoption of Employee Share Ownership Plans (ESOP) which is popular method in United States.

Employee share ownership plans (ESOPs) have been defined in varieties of ways. According to Gates and Saghir, (1995) employee share ownership plans refers to set of rules governing the acquisition, allocation and management of shares held for employees. Others have defined employee share ownership plans as contracts between the employee (or grantee) and the employer (or grantor) that give the employee right but not the obligation to purchase common shares or stock from the employer for a specific price for specified period of time (Olagues and Summa, 2010). According to Caramelli (2011), employee share ownership plans facilitates employees becoming shareholders in the company they work for either by receiving shares as a grant or by purchasing using their own money.

In Africa, there are several companies which have embraced ESOPs though the actual number of companies with ESOPs is unclear. According to Center of Economic and Social Justice (CESJ), Egypt is credited of being the first country in the developing world to launch ESOPs in 1989 with the formation of Alexandria Tire Company. Other countries with ESOPs are South Africa, Uganda, Tanzania, Rwanda, Nigeria, Zambia, Botswana, Egypt, Ethiopia and Kenya among others. These countries have legal provisions allowing establishment of ESOPs. Practically, employee share ownership plans (ESOPs) comes into existence by the approval of corporation management, board of directors and shareholders. According to Gates and Saghir (1995), ESOPs are often structured as a separate legal entity such as a trust which hold employee shares in an individual account according to the terms of the trust.

In Kenya, ESOPs are recognized in Capital Markets Authority (CMA) Collective Investment Scheme regulation of 2001. According to the regulation, it is a requirement that a listed company with employee share ownership plans should be structured as a unit trust and obtain an approval from Capital Markets Authority (CMA). Currently, there are fifteen companies listed at Nairobi Securities Exchange (NSE) with approved employee share ownership plans. Studies in Kenya and elsewhere have postulated that, ESOP are very beneficial to the companies and employees. For example, some empirical studies found that employee share ownership plans have strong positive and significant influence on financial performance among companies listed in Nairobi Securities Exchange (NSE) as well as in attracting and retaining talent (Khisa, 2016). For these benefits to be realized, employee must participate in companies' employee share ownership plans. It is in this light; the study aims to examine determinants of participation in ESOPs on listed commercial banks with ESOPs in Nairobi Securities Exchange (NSE).

### 1.2 Statement of the Problem

Globally, there is different employee participation rate in Employee Share Ownership Plans (ESOPs). For example, in UK it has been estimated that 35 percent of employees participated in ESOP in 1998 (Pendleton, 2001). In China, a study conducted by Chiu et al in 2005, using three companies as a case had shown that employee participation reached up to 90%. In Africa, the first employee share ownership plan was established in 1989 in Egypt and thereafter spread in many other African countries. However, it is not clear what is the participation rate and what are the determinants of participation in employee share ownership plan. Lack of transparency and limited research conducted on employee share ownership plans in Africa may have contributed to lack of accurate statistics showing population size of corporations with employee share ownership plan and rate of employee participations.

According to CMA of Kenya, there are fifteen companies with employee share ownership plans as of end of Jan 2019. These are public listed companies. It is not clear how many private companies have established employee share ownership plans in Kenya. Besides, employee participation is not always clear to the public except a few companies that disclose such information. For example, Housing Finance (HF) Group PLC annual report of 2017, shows that 400,000 shares were still held by employees and only 155,000 number of shares were exercised by employees in 2017 out of 1,330,000 shares that were available during the period, leaving a balance of 775,000 shares. This is equivalent to 41.7% participation rate in employee share ownership plan during that period. However, in 2018 all outstanding shares of 2017, were both held by employees (lapsed) and exercised, leaving a nil balance by end of the year.

Furthermore, Brown et al (2008) attributed determinants of employee participation in ESOPs to financial determinants (company performance, financial orientation) and non-financial (demographic factors and the ESOPs designs). However, the variables in the current study are company performance, financial orientation and demographic factors and their influence on employee participation in ESOPs of listed commercial banks in Kenya. This study fills the existing research gaps and furthermore, contribute to the body of knowledge on determinants of employee participation in ESOPs.

### 1.3 Research Objectives

i. To examine how company performance influence participation in ESOP of listed commercial banks in Kenya.

ii. To establish influence of financial orientation on participation in ESOP of listed commercial banks in Kenya.
iii. To assess influence of demographic factors on participation in ESOPs of listed commercial banks in Kenya.
iv. To find out influence of plan design on participation in ESOPs of listed commercial banks in Kenya.

### 1.4 Research Questions

i. To what extent does company performance determine participation in ESOPs of listed commercial banks in Kenya?
ii. How does financial orientation determine participation in ESOPs of listed commercial banks in Kenya?
iii. How do demographic factors determine participation in ESOPs of listed commercial banks in Kenya?
iv. To what extent does ESOPs plan design determine participation in ESOPs of listed commercial banks in Kenya?

### 1.5 Scope of the Study

The study was limited to examining the determinants of participation in employee share ownership plans of listed commercial banks in Kenya. The target population is employees of three commercial banks (Equity Bank, I & M Bank and Housing Finance Group) holding different positions or in different roles. The study was carried at the bank's head offices and branches in Nairobi County.

## 2.0 Literature Review

### 2.1 Theoretical Framework

#### 2.1.1 Agency Theory

Agency theory was advanced by Jensen and Meckling in 1976. This is the anchoring theory for this research. The theory discusses agency problems that arise in an organization as a result of separation of owners/shareholders (principal) and managers (agent). These problems are adverse selection and moral hazards. Adverse selection occurs when owners cannot establish accurately that the agent hired puts his full ability and capability to do the work for which he is rewarded to do while moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort and represent his best interest in day to day decision making. Besides, the theory provides some interventions on the reduction of this principal-agent problems (Panda & Leepsa, 2017).

Jensen and Meckling elaborated three costs (agency costs) attributed by divergence of interest between owners and managers (Laiho, 2011). These costs are; first, rise of principal monitoring costs associated with principal desire to limit agent's harmful decisions or actions. Second, increased bondage costs from the agent to give comfort to principals that they will make beneficial decisions and not take certain actions. Third is residual cost associated with inefficient decisions taken by the agent which do not maximize shareholder's wealth (Panda and Leepsa, 2017).

According to Panda and Leepsa (2017), there are several remedies to agency problem such as managerial ownership which is providing shares / stock of the firm to the top management in order to increase attachment to the firm; providing adequate executive compensation in order to motivate them to work harder to increase performance of the company; increase in the debt level of the company which makes the managers cautious in decision making in order to ensure periodic payments are made and the company records profitability; concentrated ownership (block holders) whereby one of the owner acquire more shares and become stronger owner in order to monitor the decision of the manager and control their activities among others.

In this context, Employee Share Ownership Plans (ESOPs) as a form of equity based compensation scheme under wider discussion on managerial compensation has been justified based on the need to control agency problem that exists between shareholders and managers (Karla and Bagga, 2017). According to Karla and Bagga (2017), ESOPs were conceived as a mechanism to co-align the conflicting interests of managers and owners. Besides, various studies indicates managerial ownership (CEO ownership, director's ownership and executive ownership) positively associated with decrease of agency cost. (Panda and Leepsa, (2017).

### 2.1.2 Prospect Theory

The prospect theory was developed by two Israel psychologist Daniel Kahneman and Amos Tversky in 1979. The theory emerged as alternative to expected utility theory and presents an analysis or a model of decision making under risky or uncertain situation. The theory argues that investment decision making passes into two phases in a choice process; editing and evaluation phase. In editing phase, investor carry out preliminary analysis of presented prospects. Once editing phase is completed, edited prospects are evaluated and the prospect of highest value is selected (Kahneman & Tversky, 2013).

In accordance with the theory, employees as investors in company's ESOPs will carry out preliminary analysis before reaching a decision to purchase the shares. This analysis entails examining company performance over the years through examining financial and non-financial factors such as earning per share, return on equity, market share among others.

Furthermore, employees assess risks associated with the decision to buy company's shares such as potential gains and losses. Again, preliminary analysis will only be possible in an environment where the company's discloses information on its employee share ownership plans designs and their performance over the period. With this fact, prospect theory is very important in understanding employee choice process and the need to provide relevant information that will assist employee carry our analysis and evaluate the company's employee share ownership plans.

### 2.1.3 Expectancy Theory

Expectancy theory was developed by Victor Vroom in 1964 as a psychological theory and expanded to become one of dominant theories of work motivation. It is also considered to be useful theory in various domains such as organizational behavior and work compensation but rarely discussed in the field of economics (Sloof and Praag, 2007). According to Reinharth and Wahba (1975) the main theme of expectancy theory is that an individual's behavior is a function of the degree to which the behavior is instrumental in the attainment of some outcomes and the evaluation of these outcomes. In other words, an individual selection of one behavior over others is subject to expect and desirability of the outcome of that behavior.

In expectancy theory, work motivation is an outcome of individual's expectancy on three factors, namely; valence, expectancy and instrumentality. According to Woo-Lee (2019), valence refers to the subjective value of potential rewards that are expected to be given as a result of achieving performance target. Also valence means a measure of degree to which a person values a particular reward or incentive. The higher this measure to a particular reward, the more motivated the person will be (Sloof and Praag, 2007). Expectancy refers to the subjective probability estimated by an actor that an action or effort will lead to achieve the performance target or desired outcome. It also refers to actor's perception that there is positive correlation between effort and performance. The higher the correlation between effort and performance, the more motivated the actor will be to exert the effort. Instrumentality refers to the subjective probability that the promised rewards will be actually given when performance goals are achieved. It also concerns with an individual's expectations that his remuneration is tied to his level of performance or output.

Several studies have positively linked incentives with employee productivity, commitment, motivation, job satisfaction and organizational effectiveness (Ali, Afridi and Shafi, 2016). However, management challenge is understanding what potential rewards or incentives are expected by employees in order to motivate them. One possible solution is for an organization to use several types of reward and remunerations methods including establishment of employee share ownership plans (ESOP), strengthen perceived link between performance and rewards and ensure employee value the rewards given for high performance (Sloof and Praag, 2007).

### 2.2 Empirical Literature Review

#### 2.2.1 Determinants of Participation in ESOP

Studies have found that employers establish employee share ownership plans for several reasons such as broadening company's ownership, enhance enterprise performance, raise money for corporate purposes, facilitate privatization, provide extra source of earnings to employee through either dividend payout or increase in share's value (Gates and Saghir ,1995). Besides, some entities introduce employee share ownership plans in order to prevent hostile take overs, take advantages of tax breaks as well as promote information sharing and employee commitment (Pendleton, 2001). However, reasons as to why employees choose to participate are not always clear (Brown, Landau, Mitchell, O'Connell and Ramsay, 2008).

There are several determinants of participation in employee share ownership plans. Company driven determinants or factors such as company performance, plan design and communication as well as individual driven factors such as employee financial orientation, demographic factors, employee attitudes and finally work-place influences (Brown et al., 2008). In this study, the researcher examined Company performance, financial orientation, ESOP design and demographic factors on the employee participation in employee share ownership plans.

#### 2.2.2 Company Performance and Participation in Employee Share Ownership Plans

Company performance is demonstrated on financial and non-financial measures. A study by Joshi and Batra (2017) confirmed that rational investors consider financial performance of the company as a measure of performance and employ financial ratios such as earning per share and return on

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equity among other ratios to assist them in selecting shares of the companies to invest. However, this may not always be the case as investors tends to make investment decision in a less than rational manner (Kamuti and Omwenga, 2017). Besides, non-financial measures such as market share and adoption of technology are potential determinants on investors investing decision.

With regards to employee participation based on performance of the company, a study by Brown et al (2008) had shown that performance of shares exert significant influence on employee share ownership plan participation rates where as poor share performance had a negative effect on employee participation. Another study by Brown et al (2011) of two major Australian company with employee share ownership plan had established that financial motivation is predominant reason for employee participation.

### 2.2.3 Demographic Factors and Participation in Employee Share Ownership Plans

There are several studies that have explained the effect of demographic factors such as age, gender, income spiritual intelligence and education on the investment objectives and investment decision making. It is widely acknowledged that employees (individuals) investing in shares under employee share ownership plan or at the stock market have certain investment objectives such as income maximization, capital gains maximization or both or even for speculative purposes.

With respect of employee participation in employee share ownership plans, several studies conducted found that demographic factors or variables plays key role in employee participation (Brown et al, 2008). Demographic factors found to exert strong influence in employee share ownership plan participation are income and age (Brown, Minson, O'Connell and Ramsay, 2011). ESOP participation increases as the employee salary rises. This is because those with high salaries face lower liquidity constraints and more likely to be well educated and more informed to make a decision to participate. Whereas those with lower salaries prioritize meeting their consumption needs before exploring investing. On the other hand, studies shows that as age increases so is the participation in employee share ownership plan (Brown et al., 2011). This is partly due to realization that they need to pay attention on saving for retirement or rainy day as well as generate more income in order to fulfill their dreams. Other demographic factors such as gender, level of education, job position and job tenure influence participation however, the results are mixed (Brown et al., 2011).

### 2.2.4 Financial Orientation and Participation in Employee Share Ownership Plans

There is a pertinent question on whether employee orientation towards share ownership in employee share ownership plans is to attain financial gains (financial orientation) or to attain ownership control (control orientation) of the firm. According to Brown et al (2011), there are few previous studies that deliberated to answer the question. Those that addressed the question argued that prior studies found that financial gain or motivation as a strong motive for employee participation in employee share ownership plans (Brown et al, 2011).

Besides, these employees are willing to assume financial risks for a possibility of making financial gain, demonstrate strong work ethics and organizational citizenship behaviors, engage in innovation initiatives and work full time. Notwithstanding, there are studies that have established that control orientation has an effect albeit to a small extent (Brown, Minson, O'Connell and Ramsay, 2012).

### 2.2.5 ESOP Plan designs and Participation in ESOPs

Employee share ownership plan designs vary depending on the employee ownership form which range from nominal stake to full collective stake (Caramelli, 2011). Besides, employee share ownership plans are designed differently depending on who incur the costs or what is the source of funds used to purchase the shares.

According to Brown et al (2008) the plan design determines employee participation rates in employee share ownership plan. For example, a plan design which provides the shares as a gift or follows employer matching contribution attract employee participation compared to those that does no not (Brown et al., 2008). In matching, for every one or two shares purchased, the employer provides employee with another free shares.

### 2.2.6 Participation in Employee Share Ownership Plans (ESOPS)

Globally, the motive for introducing employee share ownership plan varies between one organizations to another. However, in developing countries the prime objective is to broadening ownership by providing a group of workers an opportunity to acquire ownership and increase their stake in the corporations (Gates and Saghir, 1995).

Providing employee, a stake in the ownership of the corporation is expected to improve corporation's performance, retain talent, overcoming worker's resistance to privatization and raising money to fund corporation's growth plans. On the other hand, it has been argued that participation in employee share ownership plan aimed to weaken employee attachment to unions and mitigate against wage pressures during tough economic times (Brown et al., 2008).

In Africa and particularly in Kenya, total number of companies with employee share ownership plan are unknown apart from those approved by Capital Market Authority (CMA). According to CMA, there are fifteen listed companies with employee share ownership in Kenya. However, this number includes those which have cancelled the plan such as KCB Bank. Besides, privately established employee share ownership plans might exists but they are out of scope of CMA regulation.

Besides, employee participation is not always clear to the public except a few companies that disclose such information. For example, Housing Finance (HF) Group PLC annual report of 2017, shows that 400,000 shares were still held by employees and only 155,000 number of shares were exercised by employees in 2017 out of 1,330,000 shares that were available during the period, leaving a balance of 775,000 shares. This is equivalent to 41.7% participation rate in employee share ownership plan during that period. However, in 2018 all outstanding shares of 2017, were both held by employees (lapsed) and exercised, leaving a nil balance by end of the year.

Studies in Kenya on employee share ownership plan has examined the effect of employee share ownership structure on financial performance of firms listed at Nairobi Stock Exchange (Mochoge, 2015). The study concluded that employee share ownership moderately contribute to profitability of listed firms. However, a study by Khisa (2016) concluded that employee share ownership plan have strong positive and significant influence on the financial performance among listed firms in the NSE in Kenya. In another study, Wanjiku (2017) focused on the effects of employee share ownership on earning per share of Kenyan commercial banks. The study concluded that employee

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share ownership plan have positive influence on earning per share. None of above studies, have examined determinants of employee participation in listed commercial banks in Kenya.

### 2.3 Research Gaps

In Kenya, the author did not come across any research study on determinants of participation in employee share ownership plan despite existence of ESOPs for the past five years. However, there are handful researches on effects of employee share ownership plans on financial performance of firms or companies listed in Nairobi Securities Exchange. Except in the study by Odero (2012) which showed mixed results, other studies found that employee share ownership plans have strong positive and significant influence in the financial performance among listed firms in the NSE.

Furthermore, Mochoge (2015) conducted a study on the effect of employee share ownership structure on the financial performance of firms listed in the NSE. Finally, Wanjiku (2017) conducted a research on effects of employee share ownership plan on earning per share of commercial banks in Kenya.

Therefore, none of above mentioned studies examined determinants of participation on those firms understudy. It is therefore crucial studying determinants of participation on employee share ownership plans in listed commercial banks in Kenya. This study therefore fill the knowledge gap that exists and provide base for further research on employee share ownership planning in manufacturing industry, telecommunication industry, oil and energy industry, transportation and aviation industry, construction industry among others.

### 2.4 Conceptual Framework

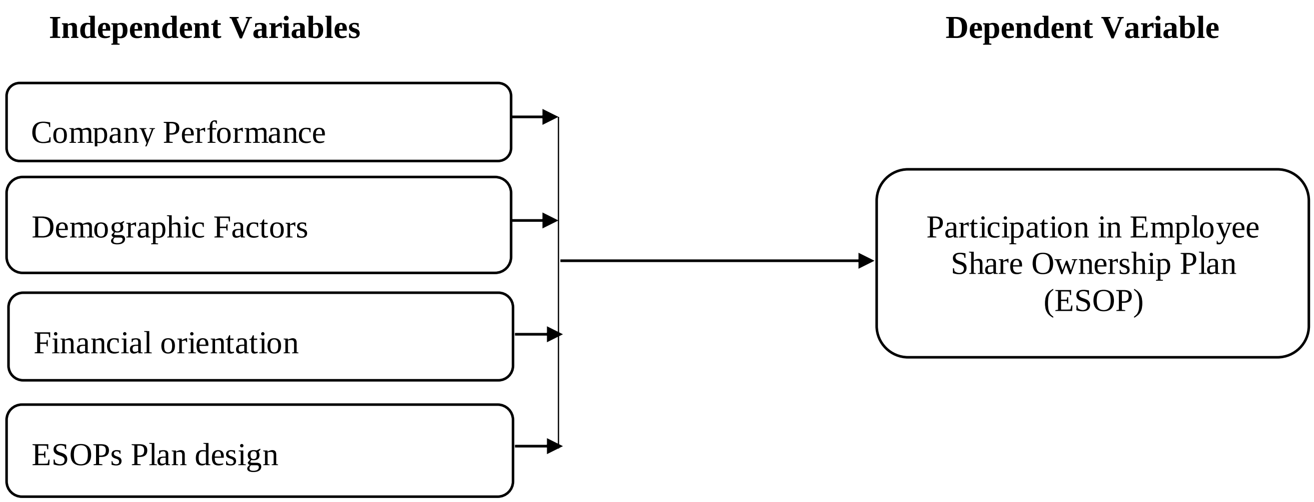


**Figure 1 Conceptual Framework**

## 3.0 Research Methodology

The research design that was utilized in this study was descriptive research design focusing on listed commercial banks in Nairobi Securities Exchanges with an approved Employee Share Ownership Plans (ESOPs). The target population for the study was three commercial banks with active ESOPs listed at NSE which are Equity Group Holdings, HF Group Limited and I & M

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Holdings Limited having approximately a total of 9000 employees. This is because other listed commercial banks have no ESOPs. The study used purposive sampling to sample 365 employees. Data collection instrument that was used in this study was questionnaire. The data gathered from the questionnaire was checked on its completion and coded. The data analysis was done using descriptive and inferential statistics. The analysis was done using statistical package for social sciences (SPSS) to generate frequencies, means and percentages of the response.

## 4.0 Research Findings and Discussions

### 4.1. Correlation Analysis

**Table 1: Coefficient of correlation**

| | | Participation in ESOP | Company performance | Financial orientation | Demographic factors | ESOPs plan design |
|---|---|---|---|---|---|---|
| **Participation in ESOP** | Pearson Correlation | **1** | | | | |
| | Sig. (2-tailed) | | | | | |
| **Company performance** | Pearson Correlation | .523 | 1 | | | |
| | Sig. (2-tailed) | .0032 | | | | |
| **Financial orientation** | Pearson Correlation | .6140 | .3421 | 1 | | |
| | Sig. (2-tailed) | .0021 | .0014 | | | |
| **Demographic factors** | Pearson Correlation | .7460 | .1240 | .0621 | 1 | |
| | Sig. (2-tailed) | .0043 | .0120 | .0043 | | |
| **ESOPs plan design** | Pearson Correlation | .5210 | .3420 | .0000 | .1660 | 1 |
| | Sig. (2-tailed) | .0172 | .0031 | 1.000 | .0031 | |

To compute the correlation (strength) between the study variables and their findings the researcher used the Karl Pearson's coefficient of correlation (r). From the findings shown in Table 1 above, there was a positive correlation between company performance and employee participation in employee share ownership plan as shown by a correlation figure of 0.523, there was a positive correlation between financial orientation and employee participation in employee share ownership plan with a correlation figure of 0.614, there was also a positive correlation between demographic factors and employee participation in employee share ownership plan with a correlation value of 0.746and a positive correlation between employee share ownership plan design and employee participation in employee share ownership plan with a correlation value of 0.521.

The findings were in agreement with prior studies by Brown et al (2008) who examined determinants of employee share ownership plans in Australia and showed that determinants of employee participation in ESOPs are company performance, financial orientation, demographic factors and ESOP plan designs.

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### 4.2 Regression Analysis

Regression analysis was conducted and results are presented here below

**Table 2: Model Fitness**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.913 | 0.834 | 0.751 | 0.4538 |

The model fitness results in Table 2 shows that company performance, financial orientation, demographic factors and ESOP plan design were found to be satisfactory variables in explaining employee participation in ESOPs established by listed commercial banks in Kenya. This is supported by coefficient of determination also known as R square of 0.834. This means that company performance, financial orientation. Demographic factors and ESOP plan design explains 83% of the determinants of employee participation in ESOPs. The results are in consistent with the finding of Ikeobi and Arinze (2016), Joshi and Batra (2017), Brown et al (2008) and Brown et al (2011) who found that demographic characteristics of investors, company financial performance, ESOP plan design and employees financial orientation have strong influence for employee participation in employee share ownership plans.

**Table 3: Regression Coefficients**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| Model | B | Std. Error | Beta | t | Sig. |
| (Constant) | 1.308 | 1.342 | | 1.623 | 0.357 |
| Company performance | 0.558 | 0.310 | 0.172 | 4.342 | .0276 |
| Financial orientation | 0.731 | 0.156 | 0.210 | 3.532 | .0285 |
| Demographic factors | 0.785 | 0.322 | 0.067 | 3.542 | .0202 |
| ESOPs plan design | 0.620 | 0.245 | 0.148 | 3.458 | .0249 |

$Y= 1.308+ 0.558X_1+ 0.785X_2+ 0.620X_3+0.731X_4$

Where;

Y = Participation in ESOPs.

$X_1 =$ Company performance

$X_2 =$ Demographic factors

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$X_3$ = ESOP Plan design

$X_4$ = Financial orientation

The regression equation above has established that taking all factors into account (company performance, financial orientation, demographic factors and ESOPs plan design) constant at zero, employee's participation in employee share ownership plan will be 1.308. This infers that demographic factors contributed positively and significantly to employee's participation in employee share ownership plan ($B = 0.785$, $p = 0.322$) followed by financial orientation ($B = 0.731$, $p = 0.156$) then employee share ownership plan design ($B = 0.620$, $p = 0.245$) while Company performance ($B = 0.558$, $p = 0.310$) contributed the little to employee's participation in employee share ownership plan.

## 5.0 Conclusion

Based on the findings, the study concludes that the demographic factors contribute most to employee's participation in employee share ownership plans of listed commercial banks in Kenya. Both the correlation results and regression showed a positive and significant relationship between demographic factors and participation in employee share ownership plans (ESOPs). In this study, majority (61%) of respondent were earning from 200,000 and above indicating that they had adequate disposable income to participate in ESOP as well as majority (56%) were of 30 years of age and above. According to Brown et al (2008) salary earned by employees, age, job level and occupation determine participation in ESOPs rather than other determinants especially when employees are required to use their own money to buy shares.

On financial orientation, the study established that it is the second most influential factor that determines employee participation in employee share ownership plans. The findings show that employees participate in order to have a share in company's profit as well as to be involved in the company's decision making. Besides, employees are aware of the risk in investing in the company such that if the company does badly, employee share ownership plans put employee savings at risk. The study established that that companies should provide more financial training/education to enable employees to better understand the financial/ accounting information as lack of understanding thereof may determine employee participation on employee share ownership plan.

Employee share ownership plan design is the third most influential factor that determines employee participation in ESOPs. The findings attest Brown et al (2008) finding that the plan design determines employee participation rates in employee share ownership plans. The study found that employees agreed that they will participate if the shares are provided as a reward package or gift or that employer should match up with amount of shares employee buys. This finding conforms to the earlier studies which established that the plan design which provides the shares as gift or match contribution attracts more participation than those that does not (Brown et al, 2008).

On company performance, the study established that reasonable earning per share determines employees' investment decision. Employees only buy shares in employee share ownership plan if they anticipate that share price will go up and when the company market share is good. The study also found that opportunity to own shares in the company motivates them to increase their performance and that company should provide employees with more financial information about

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employee share ownership plans performance. Besides, employees agreed that if an investment will be profitable, they are prepared to borrow money to make this investment. Finally, the correlation and regression results showed positive relationship existed between demographic factors, company performance, financial orientation, and ESOP design and employee participation in ESOPs of selected commercial banks in Kenya.

## 6.0 Recommendation

The study recommends that companies' management should put in place employee share ownership plans not only to better align the interest of employees and employers, but take into account demographic factors, and staff / employee financial orientation while designing employee share ownership plans for the firm. The study also recommend to the Government of Kenya to promote introduction of employee share ownership plans in companies that demonstrate good performance in order to embrace sharing capitalism whereby employees are given an opportunity to own a stake in the company that they work for. This is because for the employees who have toiled for years to deliver business targets needs to be rewarded based on the profitability of the company or using equity based compensation.

Besides, the policy also should provide tax incentives to employees who invests in employee share ownership plans where by amount of their salary that is used to invest in employee share ownership plans is tax deductible like the amount saved for retirement, prioritize employee buyouts scheme and business succession, as a successful alternative to selling the company to an external buyer. More important, CMA should design employee awareness programs informing risk and returns of investing in employee share ownership plans in order to facilitate broader wealth generation. For the individual employees, the study recommends that employees should grasp the opportunity to invest in their company's employee share ownership plans as it provides them with passive income with some level of risk.

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