

**THE EFFECT OF EMPLOYEE STOCK OWNERSHIP PLANS ON EMPLOYEE
ENGAGEMENT: A CASE STUDY OF EQUITY BANK IN NAIROBI COUNTY**

BY

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110642

**A RESEARCH PROJECT SUBMITTED TO STRATHMORE UNIVERSITY BUSINESS
SCHOOL IN PARTIAL FULFILMENT FOR THE REQUIREMENT OF A DEGREE OF
BACHELOR OF COMMERCE**

STRATHMORE UNIVERSITY BUSINESS SCHOOL

STRATHMORE UNIVERSITY

NAIROBI, KENYA

APRIL 2022

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other university. To the best of my knowledge and belief, this research proposal contains no material previously published or written by another person except where due reference is made in the research proposal itself.

Signed: _____ Date: _____

Patience Mutheu Kavivya

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

Signed: _____ Date: _____

Mr. John Njane

ABSTRACT

The purpose of this research study is to examine the effects of employee stock ownership plans on employee engagement within the banking sector, specifically add equity bank. The objective of this study is to find out what impact financial incentives, training and educating employees on ESOP and management commitment on implementation of employee stock ownership plans has on employee engagement.

A descriptive research design has been employed in conducting this study and to address the research questions. A quantitative approach was used to collect the data and the study comprised of employees in senior, mid management and operational levels at equity bank. The study utilized Microsoft Excel for the data analysis. The dependent variable is employee engagement and the independent variable is Employee Stock Ownership Plans. An ESOP is used to improve corporate culture, increase employee engagement, and provide additional retirement benefits to hardworking employees. They can also be an effective strategy for attracting and keeping top talent (Galvin, 2021).

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ABBREVIATIONS AND ACRONYMS

CMA	Capital Markets Authority
ESOP	Employee Stock Ownership Plans
NSE	Nairobi Securities Exchange

ACKNOWLEDGEMENT

I would like to express my gratitude and appreciation to all those who gave me the opportunity to complete this research. Special thanks is due to my supervisor Mr. John Njane who made this work possible. His guidance and advice carried me through all the stages of writing my project.

I would also like to thank my family and friends for their moral support , words of encouragement and understanding. Your prayers for me sustained me this far.

Finally, I would like to thank God for the grace He gave me throughout this period that has allowed me to complete this research .

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CHAPTER 1: INTRODUCTION

1.1 Background of the study

Employee stock options are contracts which give the employee a right to purchase a share of a company's stock at a pre-specified exercise price and for a pre-specified period of time (Lin, 2009). Employee engagement has been defined by Wellins and Concelman (2005) as the mixture of commitment, loyalty productivity and ownership while Xiao and Duan (2014) defined employee engagement as a conceptualization of five dimensions: effectiveness, identity, commitment loyalty and initiative. It has been observed that an engaged employee is well aware of the business context, who works well with the colleagues to improve performance within the job for the benefit of the organization (Mohanty, 2018). Companies have therefore tried to adopt various ways to resolve employee concern linked to employee engagement, which could range from monetary incentives to appraisals in kind and several other options. In the 'Aon Hewitt's Engagement Model', it has included six engagement drivers; work, people, opportunities, total rewards, company practices, and quality of life (Mohanty, 2018) 11 .It is therefore important for companies to look into various suitable plans, which result in the creation of win-win solutions for both the firms and the employees. The basics of a stock option were straightforward: you were given an option (an offer) to purchase a portion of the firm through common stock options (called ISOs or NSOs) at a low price (the "strike price"). If the firm was successful, you could sell it for a considerably greater price when it went public (when its shares were listed on a stock market and freely traded) or was purchased (Blank, 2019).

In such scenarios, Employee Stock Ownership Plans, are used as a tool to reward and retain crucial human capital, and this method has gained wide acceptance and adoption (Varshneya, 2020). Over the years, employee stock options have been a well-known tool for employee compensation. Several studies indicate that companies that adopt Employee Stock Option Plans (ESOP) have a higher level of productivity and profits in comparison to their counterparts that have not implemented ESOP. The ideology behind ESOP is that they are used to align individual employee

goals with those of the organization and they help to retain staff, attract top talent, motivate employee performance and allow the employees to participate in potential the long-growth of the company (Kumar, 2004). For the employees who have the option of acquiring ESOP, they tend to be more motivated to place as much effort as they can towards their performance and display greater involvement in the day-to-day functioning the firm and with an added emphasis on corporate performance (Express, 2016).

As employee engagement has no physical properties, it is manifested and often measured behaviorally. The behavioral manifestation is understood as an employee's role performance, discretionary effort, and the employer's success Kahn (1990) and (Schneider, 2008). The engagement level of employees therefore directly affects the productivity of an organization and having employees undertake dedicated and meaningful work enables the employees to realize how valuable they are in a firm and makes them engaged employees (Ryan, 1985). With employee engagement being an important part of a firm, the main focus of employee engagement is the alignment of the employee with the organizational objectives and to go beyond what is expected (Menguc, 2013).

ESOPs have gained popularity globally for the benefits they offer companies and employees alike, they have been adapted successfully by several international companies in various sectors such as construction, banking, insurance, textile manufacturing, architectural firms and health care providers. The (NCEO, 2021) conducted a study of companies based in the United States and found that as of 2021 estimated that there were roughly 6,600 employee stock ownership plans that involved more that 14 million participants.

According to Freeman (2007) the clearest beneficiaries of ESOP are the employees whom ownership is initially bestowed. The employees often gain a substantial amount of wealth and sizeable ESOP benefits accrue, usually without the risk or sacrifice of founding or purchasing a business. When employers design their ESOP, they choose a perfect vesting schedule to go hand in hand with the ESOP (Eqvista, 2021). In vesting, there are three types of vesting; cliff vesting, immediate vesting and graded vesting. According to Brighton Jones (2020) , graded vesting allows an individual to have incremental ownership of the asset over time. For example 10% during the first year, 25% in the second year, 25% during the third year and 40% in the fourth year. As a

requirement of the law the vesting schedules on retirement plans cannot be longer than six years. Under cliff vesting, the employer provides a lump sum benefit to the employee at a specified date. And for immediate vesting, the employee does not have to wait, they immediately have full ownership of the asset.

According to Anitha (2014), employee engagement is a good tool to assist every company to achieve a certain level of competitive advantage over other. Anitha (2014) further explains that employees cannot be duplicated or imitated by competitors and is considered one of the most valuable assets if engaged and managed properly. While at their places of work, it is necessary for employees to feel like they are constantly engaged in the activities of the company, a study by Hofstede (1997) found that employees wanted to be involved in decisions that affected their work. The researcher found that leaders of high-engagement workplaces created a trusting and challenging work environment in which employees thrive.

According to the study conducted by Chesnut (2018) in Europe and USA found that share option plans were an appropriate instrument in US startups and Dutch larger companies for attracting and retaining human capital. In addition to that, ESOPs were associated with increased feelings of ownership among the employees, increased motivation, satisfaction, competitive advantage, decreased absenteeism, performance and productivity, profitability and a sense of community with much less isolation between the management and employees.

In Africa, and particularly in South Africa. Over time, ESOPs have been used as employer benefit schemes and to promote employee empowerment programs. Kenyans on the ground. ESOPs are becoming increasingly popular in the local market as employee benefit plans employees have the option to acquire or purchase stock in the firm. Adoption and implementation of ESOPs by both private and public businesses in Kenya, the number of listed firms has increased in recent years. Kenyan corporations have used the ESOP model to recruit and retain outstanding people, as well as produce funds on the Securities Exchange .

Commercial banks in Kenya

Banks are an important part of the global business sector and play an important role in global economies. Banks in Kenya are financial intermediaries that serve as economic resource mobilization centers. This is accomplished by redirecting much-needed funds from surplus

spending sectors to deficit spending sectors of the economy by businesses and households (Wanjiku, 2017). According to the Central Bank of Kenya, there are forty-three banks and clearing house members. Wanjiku (2017) also stated that the majority of these banks are modest to medium-sized and locally owned. Eleven of the 43 banks are listed on the Nairobi Securities Exchange (NSE). Listed firms are those whose shares can be freely exchanged on financial markets since they are not subject to transferability limitations. Listed banks use a variety of legal structures to manage their operations, and they frequently face a variety of obstacles, including financial and governance issues.

1.2 Statement of the problem

In Kenya, the governing and regulatory board for ESOP at publicly listed companies is the Capital Markets Authority (CMA). The CMA requires that for a listed company to offer its employees ESOP, the company needs to have at least three trustees or a corporation that will serve as a sole trustee. The ESOP will also have a defined set of rules that will govern its operations, clearly define the rights of the employees under the ESOP and also the pricing and valuation procedure of units (CMA). There are three main forms of ESOP offered in Kenya; share option scheme, savings-related share option schemes and profit-sharing schemes. Even as the ESOPs act as an incentive to employee productivity and commitment of employees, companies are also influenced to consider them because the dividends from the ESOP by a listed firm, when registered with Kenya Revenue Authority (KRA), qualify for tax benefits (Registrars, 2020).

The NSE has a number of firms that have adopted ESOPs such as Safaricom, EABL, Housing Finance and Equity, thus enhancing the need to establish the impact of ESOPs use on employee engagement. In Kenya, Employee stock ownership plans (ESOPs) are utilized to give employee perks as well as investment vehicles. The programs are mostly motivational in nature, with the goal of attracting and retaining top people. Compensation based on equity employees are locked in since only those who have worked for a firm for a specific period of time are eligible. The time period qualifies for the reward (Odero, 2012). The ESOP model is growing increasingly popular among Kenyan corporations. The adoption of ESOP by Kenyan enterprises is partly attributable to the necessity to recruit and retain outstanding employees to support the companies' long-term

profitability as well as value generation Employee turnover is predicted to decrease as a result of equity-based remuneration employee turnover and motivation.

Research confirms also that employee ownership, on average, leads to increased firm productivity, profitability, and longevity. Evidence suggests that combining employee ownership with increased employee participation may generate astounding returns on investment. According to (Quarrey, 1987) When we examined only the ESOP enterprises, the most intriguing conclusion was the influence of worker engagement. The most significant association was between business success and workers' opinions of their managers' attitudes toward worker involvement, regardless of firm size, employee contribution level, or even the proportion of the company held by the ESOP. The implementation of an ESOP is intended to boost employee enthusiasm and productivity. This might be linked to the ESOP's ownership benefits to participating employees. Odero (2012) stated that a research conducted by Buchko and Bartkus found that employee owners who believed that the ESOP allowed them to have a bigger say those that had a say in corporate choices were more devoted, pleased, and involved in their profession. The existing local studies have focused on the financial performance of the companies listed in the NSE, whereas this study will seek the effect of the ESOP on employee engagement.

1.3 General Research Objective

To establish the effect of employee stock ownership plans on employee engagement at Equity.

1.4 Specific Research Objectives

- i. To investigate the effect of financial incentives on employee engagement at Equity.
- ii. To assess the effect of training and educating employees on ESOP on employee engagement at Equity.
- iii. To assess effect of management's commitment on implementation of employee stock ownership plans on employee engagement at Equity.

1.5 Research Questions

- i. How does financial incentives affect employee engagement at Equity?

- ii. What effect does training and educating employees on ESOP have on employee engagement at Equity?
- iii. How does the management's commitment on implementation of employee stock ownership plans affect employee engagement at Equity?

1.6 Scope of the study

This study focuses on the effect of employee stock ownership plans on employee engagement. An analysis of Equity in Kenya will be carried out.

Equity Bank, previously Equity Building Society, commenced operations in 1984 and became a Kenyan commercial bank in August 2006 through a share offering on the Nairobi Stock Exchange. Since then, Equity Bank has grown to become the largest and most recognizable banking brand in both Kenya and the East African area (MarketsWiki, n.d.).

The Bank operates an ESOP where employees are given an opportunity to acquire the bank's shares at discounted prices. Eligible employees are invited to take up offers when they are opened and that the shares allocated and taken up are held for a period of five years after which the same are vested in eligible staff.

1.7 Significance of the study

Firstly, the study will aid the management of listed companies by analyzing the effect of employee stock ownership plan on employee engagement. This may be used by industry practitioners in creating a ESOP that will help employees harness their full potential and thus increase the profitability of the company through increased employee productivity. The research would also encourage management to develop or implement policies that enhance employee productivity in order to boost shareholder value.

The study will benefit the employees at listed companies by having the company's management create a more actioned and feasible employee stock ownership plan for the implementation of the ESOPs that will thus ensure that the employees receive their stock options as promised by the management.

The study will also benefit investors who would wish to access if ESOPs have a genuine impact on employee engagement. This will in turn aid them in their future investment decisions.

Lastly, the findings of the study will aid other scholars and academicians as they further study the effect of employee stock ownership plans on employee engagement.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks at the literature on the effects of employee stock ownership plans as a form of compensation on employee engagement with a focus on Equity Bank in Kenya.

2.2 Theoretical framework

This agency theory and the equity theory will be undertaken as the major theories guiding the study.

2.2.1 Agency Theory

The agency theory which is probably the most influential theory in relation to ESOP. According to the agency theory, agents are motivated by personal goals and focus on the external tangible rewards which have a measurable market value (James H. Davis, 1997). Jensen and Meckling (1976) identified the building block of the agency theory however is, a certain social interaction, where a relationship viewed 'as a contract under which one person (the principal) engages another individual (the agent) to undertake a certain service on their behalf and it involves the delegation of decision-making authority to the agent.' The agency theory is therefore based on two assumptions, the first being that individuals seek to maximize their utility and the second assumes that individuals are likely to benefit from the incompleteness of contracts (Zogning, 2017). Lopes (2016) states that in the beginning, high-powered incentives were initially recommended to align the agent's and principal's interests. The agency theory assumes that where there exists a contrast in interests, the owners have the to restrain the management's ability to exploit their own benefit by establishing a bond that can help to reduce the deviation of interests by offering certain benefits and a level of salary to the managers of a firm that they would compensate themselves if they were to be in control of the company (Martes, 2012). Eisenhardt (1989) reaffirmed Jensen and Meckling's (1976) notion that increasing firm ownership of managers decreases managerial opportunism by stating in formal terms ' When the contract between the principal and the agent is outcome based, the agent is more likely to behave in the interests of the principal.' The agency theory is suited to ESOP being used to boost

employee as it proposes the alignment of interests by the principal and the agent and the main focus of employee engagement is the alignment of the employee with the organizational objectives.

2.2.2 Expectancy theory

The Expectancy theory proposed by Vroom (1964) established the expectation model to describe motivation, focusing on the process that employees go through while deciding between various activities and how much effort they put into that conduct. Expectancy is the individual's belief that one's effort will lead to certain level of performance. Employees do not exert effort to the task unless they think they can do it. Aside from Vroom's initial anticipation model, the desirability of the outcome—valence—can be developed by the two sorts of outcomes, intrinsic and extrinsic, as described by Campbell, Dunnette, Lawler, and Weick (1970). Vroom outlines the most important satisfiers that may function as motivators for all workers: 'intrinsic job satisfaction, corporate participation, financial and job status satisfaction, and pride in collective accomplishment. A reward and compensation system is founded on the expectation theory, which states that employees are more likely to perform when they believe there is a strong relationship between their performance and the reward they get.

Thus, Vroom's expectation theory of motivation is about the personal connections they make in their brains about the final result and their involvement in reaching those end outcomes or achievements, rather than self-interest in rewards. According to a study conducted by Mueller (2012) to determine the relation between the expectancy theory and employee engagement, George Elliman, the administrator of Tribeza, a lifestyle magazine, evaluates his employees who were considered best in the business once, as unsupportive and lacking motivation. George used the notions of the expectation theory to resurrect Tribeza's achievements in order to rescue him. Following his research, George discovered that the expectation theory is governed by three variables that must be satisfied in order to boost his employees' motivation. To begin, George's employees must feel that they are expected to put up more effort in their duties in order to achieve better productivity. George must guarantee that his staff is engaged in the project and, as a result, uses their abilities to the utmost extent possible while completing their jobs. The next component in motivating an employee is instrumentality (Penn_State_University, 2013).

Finally, in order to maximize motivation, the preceding two components must be paired with valence. George needed to select what results are suitable for his staff in order to return Tribeza to her former grandeur. Employees will be forced to exert maximum effort to perform to their full capacity only when the incentive presented is linked to something that the employee desires (Penn_State_University, 2013). As a summary of the preceding case study, it was revealed how George Elliman, an entrepreneur, used the expectation theory to motivate his staff, hence increasing total employee engagement. Expectancy may be defined as the perceived relationship of an individual's efforts, execution, and the intended outcome.

2.3 Empirical literature review

This review will discuss the cliff vesting schedule, the graded vesting schedule and the management's commitment on implementation of employee stock ownership plans.

2.3.1 The effect of financial incentives on employee engagement at Equity

In the workplace, the terms "incentives," "rewards," and "recognition" are used interchangeably, with no discernible distinction (Ndichu, 2017). Incentives are any source or media that pushes an individual or group of employees to perform better and invest more effort than expected. Financial incentives are the process of persuading employees to follow plans in order to accomplish shared goals of employees and employers (Ekpudu, 2012). Employees want their performance should be appreciated and by offering them appropriate rewards and benefit package is an effective way not only to achieve their organizational goals but also their continuation of relationship with talented employees (Saleem, 2011).

Employee commitment and loyalty are positively affected by financial incentives and awards. Employees stay in an organization because of the costs of quitting and the benefits of being a part of the company. As a result, it is critical for the company to maintain relationships with employees in ways that promote their loyalty to the company. Because financial incentives and rewards establish the foundation for high levels of commitment, organizations must adopt strategies that include financial incentives and rewards, such as promotion, bonus, profit sharing or gain sharing, and employee stock ownership, among other things (Saleem, 2011).

To further discuss the impact of rewards on employee motivation and engagement towards the firm, Shives and Scott (2003) proposed the gain sharing concept. Organizational effectiveness can be greatly improved by using a gain-sharing method. Financial bonuses can increase employee productivity through a profit-sharing strategy, and employees should be rewarded financially for extra efforts. This strategy primarily focuses on lowering expenses, with a portion of the savings being transformed into bonuses for employees to incentivize them.

When an employee has earned the right to receive benefits from an employer benefit plan, they are said to be "vested." Cliff vesting occurs when an employee becomes fully vested on a specific date rather than becoming partially vested in increasing amounts over a long period of time (Adams K. , 2021). Plans typically have a four-year vesting schedule with a one-year cliff. The employee receives full benefits after completing the cliff period. According to Bhatti (2011) the one-year cliff means you will not receive any vested shares until the first anniversary of your start date. At the one-year mark, you will have 25% of your shares vested. Following that, vesting occurs on a monthly basis. For employees it is necessary for them to understand vesting schedules because when they are given stock options that have a vesting schedule, it is critical that they understand how and when they can exercise your benefit. In general, if they choose to leave the company early, the employees may not be able to take unvested options with them, which could have a significant impact on their financial planning (Jones, 2020).

Cliff vesting allows a company to reward valuable personnel with vested perks. Simultaneously, the method gives time for employees to be verified before fully committing to the system. It's a gesture that demonstrates the company values its employees by returning a percentage of the profits they've worked so hard for — a big retirement payout to start a new life or a pension plan to bring a ray of sunshine to old age. (Institute, n.d.). Getting stock options is one of the most exciting aspects of working for a company. It gives you a stake in the company and aligns management and employee incentives. Bhatti (2011) provided an example of how the cliff vesting schedule works, which is, if one is a company engineer with 4,800 shares in their options package, they'll have 1,200 shares vested at the one-year mark (if they choose to quit or am fired before that date, they get zero). After a year, the engineer gets another 100 shares vested (1/48th of the options package) for every month they stay with the company.

2.3.2 The effect of training and educating employees on ESOP on employee engagement at Equity

In some companies, ESOP committees are formed and these committees often play a key role in creating an ownership culture that is purposed to drive business performance. ESOP committees fulfill different roles at different companies as some are legal committees that add vice yes OK trustees and issues relating directly to the ESOP while other committees provide opportunities for employees to train educate and communicate ownership messages to employees. Some provide for education and training around mainly understanding financial information so that employees are able to know and understand how their behavior effects company performance while others provide employees with the opportunity to provide input into operational strategy (Alexander P. Moss, 2011). It is the responsibility of the managers to not sit back and wait for the ESOP to work magic, but to be proactive in showing employees how they are doing. An active effort can come in the form of ESOP targeted training programs for individuals, as well as personal money management programs employees, programs to help employees understand how their behavior influences bottom-line growth, events to showcase employee advantages, and, finally, how every employee-direct owner's engagement raises the market worth of both the company and their own future shares. The use of education and engagement in this ESOP result in exemplary benefits (King, 2013).

According to a study conducted by King (2013) on NewAge industries which As of December 2013,12 the firm has a 40% ESOP and is owned by over 100 employees with an average tenure of 8 years after first adopting the ESOP in 2006. NewAge's founder makes a significant commitment in teaching employees about the ESOP, and this investment appears to be paying off. Hour-long seminars are provided to educate all new employees about their own and their company finances. Some of the topics covered in the education program are personal employee profit and loss statements, business profit and loss statements, future retirement planning, the ESOP and NewAge background and lastly, how the ESOP is valued. Since its inception in 2006, the ESOP has grown in value by approximately 400 percent. Employees from all wage levels have a better grasp of NewAge than employees at a similar, non-employee-owned firm. NewAge Industries has demonstrated how investing in employee ownership identification via education and engagement yields company-wide advantages (King, 2013).

Blair et al. (2000) and Craig and Pencavel (1992,93,95) found that, in addition to company survival, employee tenure is longer in employee-owned enterprises. Craig and Pencavel found evidence that in U.S plywood cooperatives (an alternate form of profit sharing) in the Pacific Northwest companies tended to adjust wage rates and refrain from layoffs. During the years 1983-1985, Blair discovered that enterprises with at least 17 percent of the company equity had considerably longer average employee tenure than equivalent non-ESOP firms. (Margaret Blair, 2000).

2.3.3 Management's commitment on implementation of employee stock ownership plans at Equity

A dedicated team is essential for any company, no matter how big or small it is. An ESOP pool is a collection of stock held for a private company's employees. When it comes to the company's commitment to ESOP, the company needs to have a clear plan on how they will implement their ESOP so that the employees have a certain level of confidence, trust and feel connected to the company.

A company would need to prepare an ESOP plan with the help of a lawyer. The many legal clauses governing ESOP administration, pool size, grants, vesting, employee termination, exercise period, and other topics are covered in this scheme document. The lawyer will now ask the company founders a series of questions in order to add or alter clauses in the ESOP scheme paperwork to meet the company's needs. It's important to note that the scheme must be written in a way that is fair and helpful to the employees; otherwise, the ESOP entire function as a tool for attracting and retaining talent may be lost (Equity).

Also within an ESOP, it is necessary for the company to involve their employees and to have an effective system of communication within the ESOP. Executives in an ESOP organization must maintain and demonstrate great communication skills. Transparency and openness in decision-making, empathy and viewpoint taking, and team-based leadership are all important communication themes for ESOP company executives to consider (Somodi, 2017). The sense of community developed among employees is critical to the success of any firm. An ESOP company is no different. Participants are automatically grouped into their own community. If a firm wants its employees to be more engaged and invested in its success, it must present a clear goal and vision, as well as core competencies and a well-known value system. A good ESOP

program includes strong communication, favorable attitudes from participants, public speaking ability when addressing company issues, the ability to embrace change, and the ability to negotiate effectively. In addition, participation seeks employees to have a 'voice' in an ESOP plan (Somodi, 2017).

According to Mchugh (1997) employee participation is a critical link between an ESOP and firm performance, employees that understand the value of commitment to the firm will demonstrate that commitment both inside and outside of the workplace. Employee participation opportunities may include committees or task forces on employee communications, specific problem-solving groups, safety, health-care cost reduction, process improvement, quality, community engagement, charitable contributions, and capital investments. In the case of an employee stock ownership plan, the president/CEO must develop a strong executive team as well as a strong board of directors to guarantee that ESOP regulations and procedures are followed. Consistency will be achieved by maintaining explicit ESOP policies (Somodi, 2017).

2.4 Conceptual Framework

The main variables used in this study are employee stock option plans and employee engagement. The figure below shows the framework effectively.

Independent variable

Dependent Variable

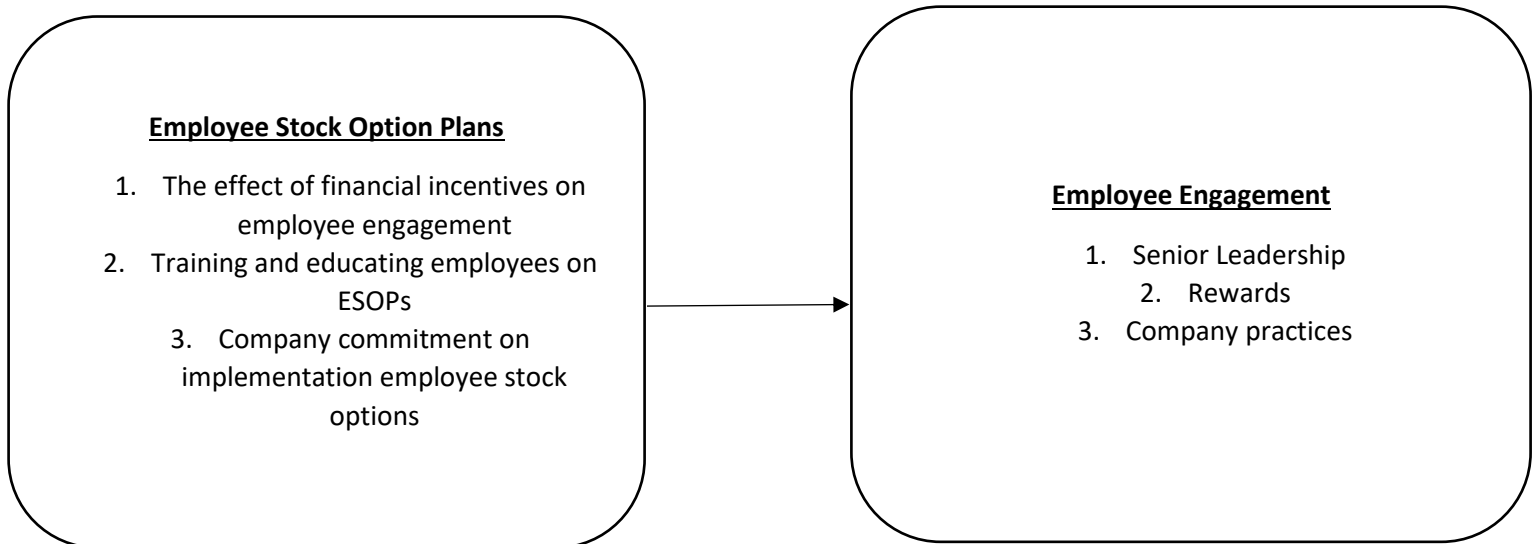


Figure 1: Conceptual framework

2.5 Research gap

Various scholars have conducted had undertaken several research papers to study ESOP. However, the study around ESOPs has been largely focused on the impact of stock options on financial performance. Khisa (2016) conducted a study on the effect of ESOP on firm's performance among firm's on the NSE bourse in Kenya where the study concluded that ESOP have a strong positive influence on the financial performance among companies listed in the NSE in Kenya. A similar study conducted by Odero (2012) attempted to determine the influence of ESOP adoption on the financial performance of the organization. The outcomes for the various businesses were mixed. Adoption of ESOP had a considerable influence on the financial success of some companies, whereas adoption of ESOP had no beneficial impact on the financial performance of other organizations.

This research proposal aims to contribute to the pool of literature on the impact of ESOP on employee engagement , specifically in public listed companies in Kenya. This is to help other companies to improve employee engagement through the use of ESOPs for companies that are listed. In this study, the capital city of Kenya, Nairobi, will be the geographical area where the study will be conducted.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that will be applied for the purpose of this study. The research methodology and procedures applied respond to the questions asked in chapter one of the study. This chapter will be organized as follows: the research design, target population of the study, the sampling design, data collection methods, research procedures, the data analysis methods and the summary of the chapter.

3.2 Research design

(Creswell, 2014) defines research design as a plan for connecting the conceptual research problems to the important and achievable empirical research. It is the enquiry which provides the specific direction for the procedures undertaken in research. Descriptive research will be employed to achieve the set objectives for this study. According to (Gay, 1992) descriptive research involves the collection of data in order to examine the hypotheses or to answer questions regarding the current status of the subject of study. Descriptive analysis is therefore scientific research which is able to describe an event, phenomena or a fact systematically dealing with a certain area or population.

The application of descriptive research will be ideal for this study as it focuses on the effect of ESOP on employee engagement at Equity Bank.

3.3 Population

The study population according to (Chaudhury, 2010) can be classified in terms of location, a particular age group, sex or occupation. The target population for the study will include 308 employees at Equity in Nairobi County.

3.4 Sampling frame and sample size

A sample is a finite part or a subset of participants that is drawn from a target population. And in turn, the target population corresponds to the entire set of subjects whose characteristics are of interest to the team conducting the research (Jeovany Martínez-Mesa, 2016). The study will

utilize stratified random sampling which is applicable where conditions are unevenly distributed within a certain population in regards to sex, age and any other variable (Chaudhury, 2010) . The study will aim to group the target population into various groups known as strata. The samples will be obtained from different departments within Equity.

The researcher will utilize a sample size of 76 employees.

3.4.1 Sampling Technique

(A.G. Mugenda, 2013) states that a sampling frame is a list of all items from which a representative sample will be drawn for the purpose of research. The study's sampling frame will be drawn from 76 employees at the various branches in Nairobi County, as shown below.

To minimize errors, (Nassiuma, 2000) standard formula was used to select the sample size to represent the population.

$$n = \frac{NC^2}{C^2 + (N - 1)e^2}$$

Where:

n = Sample Size

N= Population (308)

C=Coefficient of Variation (10%)

e= Sampling Error 1%

Hence,

$$n = \frac{308 * 0.1^2}{0.1^2 + (308 - 1)0.01^2}$$

n = 76

Therefore, the study will include 76 employees.

This representative group will include employees from different departments and managers.

3.5 Data collection methods

According to (Kabir, 2016), data collection is the process of gathering and measuring information on variables of interest in an established systematic manner which allows one to answer stated research questions, evaluate outcomes and test hypotheses. Secondary data and primary data are the two main sources of data for a study. Primary data is original and unique data, which is collected directly by a researcher from sources such as questionnaires, observations and surveys according to the researchers requirements (Ajayi, 2017) , whereas secondary data is data that has already been collected for some other purpose (Allen, 2017) .

The researcher will employ the use of primary data through the use of structured questionnaires, the questionnaires will be closed-ended questions. The researcher chose the use of questionnaires because it is a free from the bias of the interviewer and the respondents will have ample time to provide informed and intentional answers, and finally the method is cost-effective.

3.6 Data analysis

Data analysis is the process of systematically applying statistical or logical techniques in order to describe and illustrate, condense and recap and evaluate data presented. Indeed, researchers typically analyse patterns in their observations through the entire data collection phase (Robinson, 2004) .

The data will be collected and presented in a Microsoft Excel spreadsheet whereby analysis of the data will be conducted. The data will be presented on tables and pie-charts for analysis presentation. The data will then be analysed quantitatively and sorted.

3.7 Ethical issues

Research ethics is the analysis of ethical issues which are raised when individuals are participants in a research study, research ethics may therefore be defined as doing what is morally and legally right in a research study (Showkat, 2017). The research will mainly consider the privacy of the respondents, informed consent and the intellectual property that will be used for the purpose of the research study.

CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the findings of the research findings on the general information about the respondents and what effect financial incentives, training and education and management's commitment has on employee engagement. The focus of this study is employees in the banking sector, specifically Equity Bank.

4.2 Sample representation

This discusses the general information of respondents.

4.2.1 Response rate

The targeted number of respondents for the study was 76 employees. The data was collected by distributing questionnaires at each branch and then the questionnaires were distributed among staff members within the branch.

The number of answered questionnaires was 53. Out of these, only 44 were fully answered. The other 9 only had the demographic information and one other section filled and therefore could not provide any useful data. For this reason the 9 questionnaires were discarded to increase the accuracy of the data collected. This is illustrated in the table below.

Questionnaires	Frequency	Percent
Responded	44	58%
Not responded	32	42%
Total	76	100%

Table 1: Response rate

4.2.2 Gender of the respondents

More males than females participated in this study. This is illustrated below.

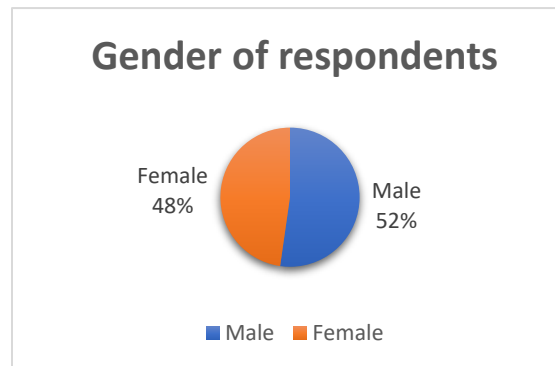


Figure 2: Gender of Respondents

Gender	Frequency	Percent
Male	23	52%
Female	21	48%
Total	44	100%

Table 2: Gender of Respondents

4.2.3 Age of respondents

The respondents were grouped into different age groups and the tally was as follows: 18-25 was 9%, 26-30 was 23% , 31-35 was 34% , 36-40 was 23% and 41 and above was 11%. This is illustrated below:

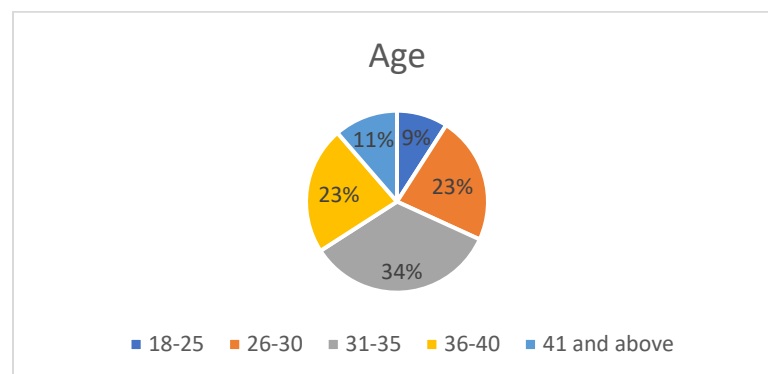


Figure 3: Age of Respondents

Age	Frequency	Percent
18-25	4	9%
26-30	10	23%
31-35	15	34%
36-40	10	23%
41 and above	5	11%
Total	44	100%

Table 3: Age of respondents

4.2.4 Level of education

From the data collected, 62% of the respondents had undergraduate as their highest level of education, 36% of the respondents had postgraduate as their highest level of education and 2% of respondents had certificate/diploma as their highest level of education.

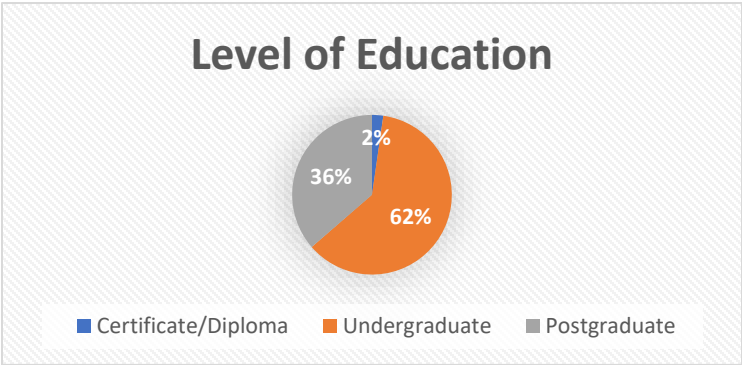


Figure 4: Level of education

Level of education	Frequency	Percent
Certificate/Diploma	1	2%
Undergraduate	27	62%
Postgraduate	16	36%
Total	44	100%

Table 4: Level of education

4.2.5 Number of years working for Equity

Among the respondents, 37% have worked at Equity Bank for 1-5 years, 36% have worked for Equity Bank for 6-10 years, 23% have worked for 11-25 years, 2% have worked for above 15 years and 2% have worked for less than 1 year. This is illustrated below.

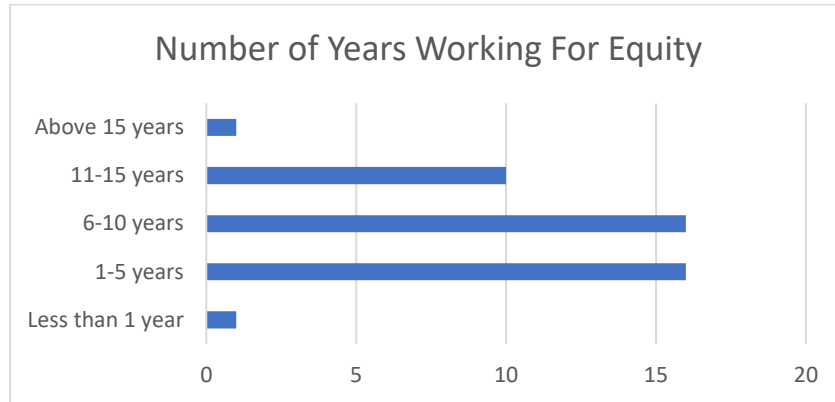


Figure 5: Number of years working for Equity

Number of years working for Equity	Frequency	Percent
Less than 1 year	1	2%
1-5 years	16	37%
6-10 years	16	36%
11-15 years	10	23%
Above 15 years	1	2%
Total	44	100%

Table 5: Number of years working for Equity

4.3 Descriptive Analysis

The mean and standard deviation are utilized to assess the data in this case. When it comes to the hypotheses examined, the mean shows the amount of agreement or disagreement. This is measured on a 5-point Likert scale, with strongly disagree being the highest and represented by the number 1, disagree by the number 2, neutral by the number 3, agree by the number 4, and strongly agree by the number 5. The standard deviation measures how spread the data is in comparison to the mean. A low standard deviation indicates that the data is centred around the

mean, whereas a greater standard deviation indicates that the data is dispersed. The term deviation suggests that the data is more dispersed.

4.3.1 Effect of financial incentives on employee engagement

With regards to financial incentives, hypotheses about the employee motivation, productivity and the comparison of the stock options offered in the by other organizations in the market were tested. The results were as follows.

Employees were neutral on their understanding of cliff vesting schedules at Equity Bank. The employees agreed that the ESOP motivated them to offer more services to the organization. The employees agreed that the employee stock option plans contributed to their personal growth. They also agreed that the ESOP made them more motivated to increase their productivity. Lastly, the employees agreed that the ESOP offered at Equity compared favourably with those being offered by other organizations in the market.

Hypothesis	Mean	Standard Deviation
I have a reasonably good understanding of how the cliff vesting schedule at Equity works	3.80	1.02
The Employee Stock Option Plans motivate me to offer more services to the organization	4.39	0.92
Employee Stock Option Plans rewards have contributed to my personal growth	4.48	0.88
The Employee Stock Option Plan makes me more motivated to increase my productivity at Equity	4.55	0.79
Stock option rewards compares favorably to that of similar organizations in the market	4.50	0.90
<i>Strongly disagree – (1), Disagree – (2), Neutral – (3), Agree – (4), Strongly agree – (5)</i>		

Table 6: The effect of financial incentives on employee engagement

4.3.2 The effect of training and educating employees on ESOP on employee engagement

With regards to the effect of training and educating employees on ESOP on employee engagement, hypotheses involving attending training on ESOP funded by Equity and the employees level of comfort participating in organizational activities were tested. This is illustrated below.

The employees agreed that adequate training on ESOP was offered to new hires. The employees were neutral on the notion that the organization inspired their best work and motivated them to contribute more than is normally required to complete their work. However, the employees disagreed that the benefits they received at Equity would be difficult to receive from another employer. The employees agreed that after attending training funded by Equity on ESOP they understood how their efforts contributed to the goals of the organization. The employees agreed that they were comfortable participating in organizational activities as they had an intense sense of belonging and desire to be part of the organization.

Hypothesis	Mean	Standard Deviation
Equity provides adequate training for new hires on the Employee Stock Option Plan offered	4.45	0.93
This organization inspires my best work motivates me to contribute more than is normally required to complete my work	3.57	1.32
The Employee Stock Option Plan benefits I receive at Equity would be difficult to receive from another employer	2.05	1.12
After attending the training on Employee Stock Ownership Plans funded by Equity I now understand how my efforts contribute to the organizational goals	4.48	0.93
I am comfortable participating in the organizations activities as I have an intense sense of	4.57	0.82

belonging and desire to be part of the organization		
<i>Strongly disagree – (1), Disagree – (2), Neutral – (3), Agree – (4), Strongly agree – (5)</i>		

Table 7: The effect of training and educating employees on Employee Stock Ownership Plans

4.3.3 Management’s Commitment on implementation of Employee Stock Ownership Plans

In regards to management’s commitment, hypotheses revolving around the senior management communicating changes to the ESOP and view-point taking of employees were tested. The results were as follows:

The employees voted neutral on Equity having established a sound team of executives to ensure ESOP policies were maintained. The employees also agreed that there was fairness and equity in the administration and implementation of the ESOP. The employees however disagreed on the trust in senior management to provide the ESOP security and maintain a positive relationship. Employees agreed that senior leadership at Equity communicated changes in the ESOP policies that have been made after employee participation. Lastly, the employees agreed that senior leadership at Equity encouraged view-point taking to clarify concerns to ESOP participants.

Hypothesis	Mean	Standard Deviation
Equity has established a sound team of executives to ensure that Employee Stock Option Plan policies are maintained	3.32	1.18
There is fairness and equity in the administration and implementation of the Employee Stock Option Plan	4.61	0.72
I trust senior management to provide the ESOP security and maintain a positive relationship	2.95	1.22
The senior leadership at Equity communicates changes in the Employee Stock Option Plan’s policies are made after participation and communication	4.64	0.72
Equity senior leadership encourages view-point taking	4.70	0.70

to clarify concerns from participants		
<i>Strongly disagree – (1), Disagree – (2), Neutral – (3), Agree – (4), Strongly agree – (5)</i>		

Table 8: Management’s commitment on implantation of Employee Stock Ownership Plans

4.4 Correlation Analysis

In this section, the correlation between the variables of Employee Stock Ownership Plans i.e. financial incentives, training and educating, and management’s commitment, and how they affect employee engagement are tested.

Pearson’s r correlation coefficient was used. According to Pearson, if:

r = +/- .5 is a large correlation.

r = +/- .3 is a medium correlation.

r = +/- .1 it is a small correlation.

4.4.1 Correlation between financial incentives and employee engagement

Findings from the research showed that there is a significant correlation between financial incentives and employee engagement. This is illustrated in the table below.

	Financial Incentives	Employee Engagement
Financial Incentives	1	-
Employee Engagement	0.72	1

Table 9: Correlation between financial incentives and performance

4.4.2 Correlation between training and educating employees and employee engagement

Findings from the research showed that there is a significant correlation between training and educating employees and employee engagement. This is illustrated below.

	Training and educating employees	Employee Engagement
Training and educating employees	1	-
Employee Engagement	0.71	1

Table 10: Correlation between training employees and employee engagement

4.4.3 Correlation between management’s commitment on implementation of employee stock ownership plans and employee engagement

Findings from the research showed that there is a significant correlation between management’s commitment and employee engagement. This is illustrated below.

	Management's commitment	Employee Engagement
Management's commitment	1	-
Employee Engagement	0.70	1

Table 11: Correlation between management’s commitment and employee engagement

4.5 Summary of findings

The chapter displayed the demographic information of the respondents as well as the outcomes of the key research findings based on the three research questions: the effect of financial incentives on employee engagement, the effect of training and educating employees on ESOP on employee engagement and the effect of management’s commitment on implementation of Employee Stock Ownership Plans on employee engagement.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions, the conclusion, the recommendations, suggestions and limitations of the study relating to the research questions and the data analysed in chapter four. The study analyses the effect of employee stock ownership plans on employee engagement at Equity Bank.

5.2 Summary of findings

The study investigated the effect of employee stock ownership plans on employee engagement at Equity Bank. The following were the research questions:

1. What is the effect of financial incentives on employee engagement at Equity.
2. What is the effect of training and educating employees on ESOP at Equity.
3. What is the effect of management's commitment on implementation of ESOP at Equity.

In performing this study and assessing the research findings, a descriptive research approach was used. The research population included a total of 76 Equity employees; however, only 44 individuals answered, yielding a 58 percent response rate. The gathered descriptive and correlation analyses were used to analyse the data. Descriptive correlation was used to describe and summarize the data, whereas analysis was used to describe and summarize the data, discover the link between the dependent and independent variables. The dependent variables are financial incentives, training and educating employees and management's commitment, whereas the independent variable is employee engagement.

5.2.1 Summary of the effect of financial incentives on employee engagement at Equity

The findings indicated that there is a significant correlation between financial incentives and employee engagement. This means that there exists a linear relationship between financial incentives and employee engagement.

The results contradict the findings of the study conducted by Ogbonnaya, Daniels and Nielsen (2017) that found indicated that when it came to share ownership there was a direct negative relationship with job satisfaction and no significant relationships with employees' commitment and trust in management.

This is in line with a research conducted by Waqas (2014) on , that revealed that in the cultural setting of Pakistan, monetary and non-monetary benefits are critical for good employee engagement. Employee engagement is required for high business returns since highly engaged people will put out their best efforts in companies, and businesses will expand over time. Waqas (2014) concluded that incentives have a significant impact on employee engagement, and that employee engagement will give reasonable reasons for greater organizational performance.

5.2.2 Summary of the effect of training and educating employees on ESOP at Equity

The findings indicated that there is a significant correlation between training and educating employees on ESOP and employee engagement. This means that there exists a linear relationship between training and educating employees on ESOP and employee engagement.

This study is in line with a study conducted by Githinji (2014), which revealed that training positively influences employee performance by having a positive influence on employee engagement at the United Nations Support Office For The African Union Mission in Somalia involving 45 participants. According to the findings of the study, training promotes employee engagement in a variety of ways. It has been demonstrated that training increases employee involvement in change processes, which has a favorable impact on employee and organizational performance.

5.2.3 Summary of management's commitment on implementation of employee stock ownership plans

The findings indicated that there is a significant correlation between management's commitment on implementation of ESOP on employee engagement.

This is in line with a study conducted by Hernandez (2018) on management challenges in a majority-owned ESOP during recessionary times which found that, participants believed that since managers had the technical and particular expertise to deliver favourable financial performance, the existence of a strong managerial engagement in strategic decision-making, the creation, and survival of the ESOP plan had proven beneficial. Furthermore, because co-ownership under an ESOP structure involves a number of difficulties for the company, there are

regulatory and compliance difficulties that must be carefully planned and addressed; if the legislation on contribution retirement plans does permit majority-owned ESOP firms to participate have a representative corporate governance, as long as the distribution and allocation of resources are fair. The shares carefully adhere to the regulations, and the significant engagement of the Executive Management is possible designed and even justified since it produces an economic effect that is expected to have a significant impact determinant of the organization's ability to survive and sustain a competitive advantage in an industry that can be severely affected during recessions.

This is also in line the study conducted by Klein (1987) based on 37 ESOP companies in the United States found that firm communications regarding the ESOP boost employee comprehension of the plan and persuade employees of management's commitment to the plan, ESOP communications may have a direct influence on employee views.

Findings from a study conducted by McHugh (2004) concerning examining structure and process in ESOP firms that utilized 61 firms, revealed that when paired with meaningful employee participation in decision-making, a robust ESOP communication system that provides ESOP employee/participants with information about their ownership status and actions may have an effect that goes beyond the cumulative benefit of each activity alone.

5.3 Conclusion

The results from the research conducted revealed that there was a significant correlation between financial incentives and employee engagement. This means that there exists a linear relationship between financial incentives and employee engagement at Equity Bank. The conclusion drawn is that financial incentives have affect employee engagement.

The findings of the research indicated that there was a significant correlation between training and educating employees in ESOP and employee engagement. This means that there is a linear relationship between training and educating employees on ESOP and employee engagement. The conclusion that is drawn is that training and educating employees on ESOP has an impact on employee engagement.

Results from the research showed that there was a significant correlation between management's commitment on implementation of ESOP and employee engagement. Therefore, there exists a

linear relationship between management's commitment on implementation of ESOP and employee engagement. The conclusion drawn is that management's commitment on implementation of ESOP has an effect on employee engagement.

5.4 Recommendations

The findings from the study indicated that financial incentives had a significant effect on employee engagement. It is for this reason that the study recommends that for banking institutions to benefit from increased employee engagement, employees require financial incentives that compare favorably to those being offered by other organizations so as to have employees willingly increase their productivity and engagement. Financial incentives should be a driver to ensure that employees are more engaged in organizational activities.

The results from the research also revealed that training and educating employees on ESOP had a significant effect on employee engagement. The study therefore recommends that employers provide an avenue for training employees on ESOP to ensure that they understand how their individual efforts contribute to organizational activities.

From the study, a conclusion is drawn that management's commitment to implementation of ESOP has a significant effect on employee engagement. Senior management therefore needs to provide an avenue for employees to be actively engaged in the ESOP through view-point taking. Senior management also needs to ensure changes in ESOP policies are well communicated to the participants.

5.5 Suggestions for further research

This study focused on the effects of employee stock ownership plans on employee engagement at Equity Bank to offer an understanding of how an effective employee stock ownership plan can offer a firm a competitive advantage in the current competitive business environment. It however only focused on financial incentives, training and educating employees on ESOP and management's commitment. There is therefore a need to investigate other factors that have an impact on employee engagement in not only the banking sector in Kenya but other sectors.

Kenya however has various companies in various sectors that offer ESOP and are not regulated by the CMA or listed on the NSE, which often differ in ESOP administration and have different

settings all together. This thus warrants another study which would ensure generalization of the study findings for all sectors to thus pave the way new more comprehensive policies. The study therefore recommends another study to investigate the effects of employee stock ownership plans on employee engagement in Kenya.

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APPENDIX 1: LETTER OF INTRODUCTION

To whom it may concern

Dear Sir/Madam,


I write to you to formally request that you kindly afford me the opportunity to conduct my undergraduate research project through the use of both closed-ended and open-ended questions, on the effect of Employee Stock Ownership Plans on employee engagement: A case study of Equity Bank in Nairobi County.

I am a student at Strathmore University undertaking a Bachelor's Degree in Commerce.

Additionally, I would request that the respondents are reminded to conceal their identities for the purpose of this research by maintaining the anonymity of their responses and guaranteeing their engagement is handled with great confidentiality and in a professional manner.

Any assistance accorded shall be greatly appreciated.

Yours sincerely,



Patience Kavivya.

APPENDIX 2: QUESTIONNAIRE

The general objective of this study is to determine the effects of Employee Stock Ownership Plans(ESOP) on employee engagement at Equity. You are kindly requested to respond to these questions by ticking (✓) in the appropriate boxes or fill in the answers in the blank spaces.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender

Male: [] Female: []

2. Age

18-25 [] 26-30 [] 31-35 [] 36-40 [] 41 and above []

3. Level of education

Certificate/ Diploma [] Undergraduate [] Postgraduate []

4. Number of years working for Equity

Less than 1 year [] 1-5 years [] 6-10 years [] 11-15 years [] Above 15 years []

SECTION B: THE EFFECT OF FINANCIAL INCENTIVES ON EMPLOYEE ENGAGEMENT AT EQUITY BANK

This section aims to find out the effect of cliff vesting schedules on employee engagement at Equity.

On a scale of 1-5, tick in the appropriate box how you strongly agree or disagree with the statements given.

STATEMENT	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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I have a reasonably good understanding of how the cliff vesting schedule at Equity works					
The Employee Stock Option Plans motivate me to offer more services to the organization					
Employee Stock Option Plans rewards have contributed to my personal growth					
The Employee Stock Option Plan makes me more motivated to increase my productivity at Equity					
Stock option rewards compares favorably to that of similar organizations in the market					

SECTION C: THE EFFECT OF TRAINING AND EDUCATING EMPLOYEES ON ESOP on EMPLOYEE ENGAGEMENT

This section aims to determine the effect of training and educating employees on ESOPs at Equity

On a scale of 1-5, tick in the appropriate box how you strongly agree or disagree with the statements given.

STATEMENT	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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Equity provides adequate training for new hires on the Employee Stock Option Plan offered					
This organization inspires my best work motivates me to contribute more than is normally required to complete my work					
The Employee Stock Option Plan benefits I receive at Equity would be difficult to receive from another employer					
After attending the training on Employee Stock Ownership Plans funded by Equity I now understand how my efforts contribute to the organizational goals					
I am comfortable participating in the organizations activities as I have an intense sense of belonging and desire to be part of the organization					

SECTION D: MANAGEMENT’S COMMITMENT ON IMPLEMENTATION OF EMPLOYEE STOCK OWNERSHIP PLANS ON EMPLOYEE ENGAGEMENT AT EQUITY

This section aims to find out the effect of the effect of management’s commitment on implementation of Employee Stock Ownership Plans on employee engagement at Equity.

On a scale of 1-5, tick in the appropriate box how you strongly agree or disagree with the statements given.

STATEMENT	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Equity has established a sound team of executives to ensure that Employee Stock Option Plan policies are maintained					
There is fairness and equity in the administration and implementation of the Employee Stock Option Plan					
I trust senior management to provide the ESOP security and maintain a positive relationship					
The senior leadership at Equity communicates changes in the Employee Stock Option Plan's policies are made after participation and communication					
Equity senior leadership encourages view-point taking to clarify concerns from participants					