RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE AMONG COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITIES EXCHANGE IN KENYA

BY

JANE WANJIRU CHEGE

D61/68208/2011

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE

UNIVERSITY OF NAIROBI

October 2013

DECLARATION

STUDENT DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:……………………………………..Date:…………………………………

Jane Wanjiru Chege

D61/68208/2011

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature…………………………………….….Date…………………………………..

Mr. James M. Ng'ang'a
Lecturer
School of Business
University of Nairobi

DEDICATION

I dedicate this work to my entire family, my loving husband Simon, my son James, my daughter Grace and my parents for their support during its preparation. Your patience and encouragement as I stayed away for long, either in class throughout the weekends, or in the field was really touching.

ACKNOWLEDGEMENTS

My sincere gratitude to the Almighty God for seeing me through the course and for all the blessings in my life; I will always live for you.
Special thanks to my husband Simon Chege for his understanding and support during the entire period of the course and taking care of the family while I was away every weekend and evenings attending classes and sitting for exams. I will always be grateful to my son Jim muiruri, my daughter Grace Wairimu for understanding that even mothers go to school and never complained about my absence from home. Am greatly indebted to my parents, Lilian, James and Grace for their support and ensuring I get where I am today

My Special thanks to my supervisor, Mr. James M. Ng'ang'a for his guidance, assistance and patience during the entire research period. You made me look at the world in a broader way. Many thanks to my friends Ephantus, Rose, Gordon, Maurice and Lagat for supporting me throughout the course especially in dealing with the group work. Am honored to have been a member of such a great team. May our Almighty God bless you all abundantly.

ABSTRACT

The purpose of this study was to establish relationship between ownership structure and financial performance among commercial banks listed in the Nairobi securities exchange in Kenya.

The research design was descriptive survey study in nature since it focused on all investment firms in Kenya. The population of the study was banks listed at the NSE. The target population was also the sample of the study which was 10 commercial banks which are listed at the NSE. Data financial performance (profit before tax) and the variables for ownership structure were secondary that was sourced from the annual financial reports of the listed commercial banks. The data was gathered by use of a secondary data collection template .The selected period was 4 years. The researcher used averages and percentages in this study. The researcher used Statistical Package for Social Sciences (SPSS) to generate the descriptive statistics and also to generate inferential results. Regression analysis was used to demonstrate the relationship between the investment strategies and the profitability of the investments firms.

Finding indicated that there is a positive relationship between Profitability and Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital as indicated by the beta coefficients. Log Local Corporate, have a negative relationship. Log Foreign Shares is statistically significant in explaining profitability. Results indicate that a unit change in Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital led to a positive change in profitability while the inverse is the case with Log Local Corporate.
It is recommended that the Central Bank of Kenya (CBK) should continue enforcing and encouraging firms to adhere to good corporate governance for financial institutions for efficiency and effectiveness. Finally, regulatory agencies including the government should promote and socialize corporate governance and its relationship to firm performance across industries.

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ABBREVIATIONS AND ACRONYMS

DIVOWN	Diverse Ownership
DY	Dividend Yield
FORENOWN	Foreign Ownership
GOVOWN	Government Ownership
INSTOWN	Institution Ownership
JSCB	Joint-Stock Commercial Banks
MANDISC	Managerial Discretion
MANOWN	Manager Ownership
ROA	Return on Assets
ROE	Return on Equity
SOCBs	State-Owned Commercial Banks

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Ownership structure, as a mechanism in corporate governance to facilitate increased efficiency of a firm, has been believed to effect firm performance for many years (Chen, 2012). The relationship between ownership structure and corporation performance is one that has received considerable attention in finance literature (Jiang, 2004). For a few decades, ownership structure has been an appealing subject for scholars and analysts. The first study within the theory of the firm on the modern corporation was done by Berle and Means in 1932. They debated over conflicts of interest between controllers and managers. They asserted that with growing diffusion of ownership, the power of shareholders to control management is reduced. As a result, they suggested that a negative correlation exist between ownership concentration and a firm's performance (Bargezar and Babu, 2008).

Demsetz (2003) put a counter argument by observing that it is unreasonable to suppose that the diffused ownership structure dilutes profit maximization objective as a guide for resource allocation and utilization. He argued that the ownership structure is an 'endogenous' element for maximizing the profit and value of a corporate entity. When the requirement of capital is large for achieving scale rapidly, there is a need to meet the requirement (of capital) by making offer to the public at large to contribute to the equity share capital of a firm. Subscription by the members of public to the equity share capital of a firm leads to diffusion of ownership structure. Thus, the value enhancement of a corporate entity by achieving scale requires a diffused ownership structure, as single ownership is not enough to maximize the value of a firm (Ganguli and Agrawal, 2009). The connection between ownership structure and performance has been the subject of an important and ongoing debate in the corporate finance literature (Demsetz and Villalonga, 2001). The concept of ownership structure can be defined along two dimensions: ownership concentration and ownership mix (Gursoy and Aydogan, 2002).

1.1.1 Ownership Structure and Financial Performance

The success of any business firm mainly depends upon the good corporate governance. Shareholders, who are supposed to control, are unable to control effectively and make the decisions of the management and the problem is that there is no assurance that the management team represents the interest of shareholders. In addition, the shareholders have voting rights to elect and control a majority of the directors and to determine the outcome of the firms. They have tremendous powers to benefit themselves over the minority shareholders. It directly affects the firm’s performance. The corporate governance is essential to protect the interests of all (Mercia et al., 2002).

Banking has long been recognized as an important component in economic development. Kenya's banking sector has undergone through significant performance changes in the past few years, recording tremendous improvements in key indicator variables. However, some banks have grown more and faster than others. This has been the case among both listed and non-listed banks. Profitability tends to be associated with banks that hold a relatively high amount of capital, and with large overheads. Other important internal determinants of banks profitability is bank loans which have a positive and significant impact while bank size has mostly negative and significant coefficients. This latter result may simply reflect scale inefficiencies (Ngara, 2009).

Following the 2002 World Development Report, Boubakri et al. (2002) suggested 3 arguments justifying state over private ownership of bank namely that private banks are more prone to crisis; that excessive private ownership may limit access to credit to many parts of society; and finally that the government is more fitted to allocate capital to certain investment (Boubakri et al., 2002). Two additional theories have also been advanced for government participation in the financial market, namely, the development view and the political view. The development view suggests that in some countries where the economic institutions are not well developed, government ownership of strategic economic sectors such as banks is needed to jumpstart both financial and economic development and foster growth. The political view suggests that governments acquire control of enterprises and banks in order to provide employment and benefit to supporters in return for votes, contributions and bribes. Such approach is greater in countries with underdeveloped financial system and poorly developed property rights. Under the development view governments finance projects that are socially desirable. In both views, the government finances projects that would not get privately financed (La Porta et al., 2002).

While such arguments have some validity, recent evidence however point to the costs of government ownership of banks, suggesting that state ownership have a depressing impact on overall growth (La Porta et al., 2002). There is a strong negative correlation between the share of sector assets in state banks and a country's per capita income level. Greater state ownership of banks tends to be associated with lower bank efficiency, less saving and borrowing, lower productivity, and slower growth (Barth et al., 2000). Even government residual ownership is likely to have an effect on performance (Boubakri et al., 2002). Majority of research indicate that private ownership of banks is associated with superior economic performance (Lang and So, 2002; Cornett et al., 2000).

Theoretically this is consistent with the agency relationship hypothesized by Jensen and Meckling (1976). State ownership would be deemed inefficient due to the lack of capital market monitoring which according to the Agency theory would tempt manager to pursue their own interest at the expense of the enterprise. Managers of private banks will have greater intensity of environmental pressure and capital market monitoring which punishes inefficiencies and makes private owned firms economically more efficient (Lang and So, 2002).

1.1.2 Ownership Structure and Efficiency of Commercial Banks

Banking efficiency is a subject that has attracted increasing attention in recent years. Above all, there are two types of evidence on efficiency, one comparing the efficiency of foreign entrants with domestic competitors, the other showing that, within the subset of banks that expand abroad, banks that are more internationalized are also more efficient. Several studies of developed countries have found that foreign-owned banks are less efficient than domestic banks. Efficiency comparisons between foreign and domestic banks in developing countries yield very different results. Claessens (2000) find that foreign banks have lower interest margins, overhead expenses, and profitability than domestic banks in developed countries, while the opposite is true in developing countries. They interpret their results to imply that the reasons for foreign entry, as well as the competitive and regulatory conditions found abroad, differ significantly between developed and developing countries.

Ownership structure is like the hard core of corporate governance, a firm's "owners," is those persons who share two formal rights: the right to control the firm and the right to appropriate the firm's profits, or residual earnings which in theory, could be separated and held by different classes of persons Hansmann (2000). The connection between ownership structure and performance has been the subject of an important and ongoing debate in the corporate finance literature (Demsetz and Villalonga, 2001).The concept of ownership structure can be defined along two dimensions: ownership concentration and ownership mix (Gursoy and Aydogan, 2002). The former refers to the share of the largest owner and is influenced by absolute risk and monitoring costs (Pedersen and Thomsen 1999), while the latter is related to the identity of the major shareholder. According to Morck et al. (2005), the differences in ownership structure have two obvious consequences for corporate governance.

On the one hand, dominant shareholders have both the incentive and the power to discipline management. On the other hand, concentrated ownership can create conditions for a new problem, because the interests of controlling and minority shareholders are not aligned. Therefore, it will be an economic image for minority shareholders to look for interests' protection through broad of directors. While previous researchers Jensen and Meckling (1976), they thought that improve the share participation for insider controllers may decrease agency cost and increase firm performance. As early as 1932, there were researcher suggested that an inverse correlation should be observed between the diffuseness of shareholdings and firm performance (Berle and Means, 1932), while later this comment was argued by some other researchers (Demsetz and Lehn 1985, Holderness and Sheehan 1988, Himmelberg et al. 1999), who found concentrated ownership is not associated with better operating performance or higher firm valuation.

Except the common evidence showed in transition nations like Central and Eastern Europe or other developed countries like the U.S. and UK etc., little evidence was found in South East Asian countries (Gedajlovic and Shapiro, 1998). One reason might be concluded as the fact that many economies in the region are characterized by considerable family ownership of listed corporations (Claessens et al. 2000). In developing countries, Micco et al. (2004) identified a strong relationship between ownership structure and performance, the state-owned banks operating in developing countries tend to have lower profitability than their private counterparts, and foreign-owned banks tend to be characterized by higher profitability. While this finding is quite different from the result showed in Gupta (2005), who pointed that non-controlling shares of state-owned enterprises to be held privately has positive effects on profitability, productivity, and investment in India. When the legal framework does not offer sufficient protection for outside investors, entrepreneurs and original owners are forced to maintain large positions in their companies which result in a concentrated form of ownership (Omrana et al. 2008).

Earlier studies tended to find a linear positive association between ownership concentration and profitability (Cubin and Leech 1983), while according to the theoretical and empirical studies in Stulz (1988), the evidence showed a quadratic shaped relationship between level of ownership and firm performance. Furthermore, as the first ever evidence in the literature, Magalhaes et al. (2008) identified a cubic relationship between ownership concentration and bank performance in 423 banks around 39 countries. Since the Ownership concentration refers to the distribution of the shares owned by a certain number of individuals or institutions; the ownership mix on the other hand, is related to certain institutions or groups such as government, private company or foreign partners among the shareholders, therefore, the overall concentration of ownership as well as particular types of investors, are responsible for the changes in profitability and labor productivity (Claessens and Djankov 1998).

With a precise founding in research of Sun and Tong (2003), they concluded that state ownership having negative impacts on firm performance in China; while foreign ownership does not show uniformly strong, positive impacts on firm performance. This result is different from Claessens and Djankov (1998), ownership by foreign strategic investors is associated with higher profitability, foreign banks with majority ownership within the MENA region seem to have significant affect on performance in most estimation Kobeissi (2004). Therefore, such as Lang and So(2002) explained, the choice of ownership whatever state, foreign or private are all important in the context of bank, and both an essential element for the development of a healthy banking system in developing countries. The mix and concentration of stock ownership do indeed significantly affect a company's performance (Xu and Wang, 1999). From all the experiences above we can tell that the overall level of ownership concentration as well as ownership types seem to determine enterprise performance (Claessens and Djankov, 1998)

1.1.3 Ownership Structure and Profitability of Commercial banks

Profit efficiency is the ratio of predicted actual profit to predicted maximum profit, which could be earned if a bank was as efficient as the best practice bank after adjusting for random error. Profit efficiency is ability to achieve maximum profits for a given set of output and the estimated values in logarithm are bounded between 0 and 1. The higher the profit efficiency score is, the more profit efficient the bank will be. If the score is 1, it means the most profit efficient bank. Recent years have seen increased research into the relationship between ownership and bank profitability. Several studies have been conducted on the relative performance of foreign versus domestic banks. Studies of the relative performance of foreign versus domestic banks in industrial countries include DeYoung and Nolle (1996), Berger et al. (2000) and Vander Vennet (1996); and studies focusing on developing countries (or both developing and industrial countries) include Boninet al. (2004) and Clarke et al. (2000).

Most of these studies have argued that foreign banks are more profitable than their domestic counterparts in developing countries and less profitable than domestic bank s in industrial countries. Comparing the 1995-2000 performance of foreign and domestic banks in select Latin American countries, they revealed that while foreign banks differed little from their domestic counterparts in overall financial condition, they showed more robust loan growth, a more aggressive response to asset quality deterioration, and a greater ability to absorb losses- characteristics that jointly portray that they are by far more profitable than domestic banks. Jeonet (2004), state that foreign banks are more likely to earn higher returns on assets and equity than domestic banks. Drawing similar conclusions, Miccoet al. (2004) explain that foreign-owned banks tend to have much lower overhead costs.

Also, higher rates of return among foreign banks reflect lower-cost operations and / or improved investment and lending practices that improve earnings. But, in industrial countries, foreign banks experience lower margins (measured either as a share of total assets or as a share of loans plus deposits) than their domestic counterparts. There are several other plausible reasons for the enhanced profitability of foreign banks when compared to their domestic counterparts. Firstly, foreign banks enjoy technical advantages over domestic banks in their host territories. They enjoy economies of scale from operating in more than one country at a time. When interest rates in their home countries go higher than interest rates in their host countries, they simply reduce their lending activities in the host country and increase their lending activities in their home country and vice versa.

This is why Jeonet et al. (2004) state that: “foreign banks’ lending is sensitive to changes in home-country conditions”. In developing countries, foreign banks are frequently exempt from credit allocation regulations and other such restrictions; hence, they are able to realize high interest margins by lending without any restrictions to the most profitable sectors in the host country’s economy. They also have more opportunities to transfer their funds abroad to expand their income base. Furthermore, they are better able to raise equity capital internationally than their domestic counterparts, and this often makes them to accept a lower net profitability (Claessens et al. 1998).

Finally, depositors consider these banks a safe haven due to high capitalization and access to foreign credit, thereby enhancing patronage and profits (Hull, 2002). Studies (e.g. Zeitun and Tian, 2007) have also been conducted on the relationship between ownership concentration (spread) and bank profitability. Based on the spread of ownership, banks could be classified as either quoted or non-quoted. The ownership structure of quoted banks is deconcentrated (diffused or well spread out), while the ownership structure of non-quoted banks is concentrated. Using data for all the more than 700 Czech firms that were consistently listed on the Prague Stock Exchange over the period 1992-95, the empirical evidence from Claessens et al. (1997) reveal that there are strong positive relationships between ownership concentration and profitability.

They find that the more concentrated the ownership of a firm, the higher its profitability and market value. Mitton (2002) also shows that firms with high disclosure quality and ownership concentration showed better stock market performance during the Asian economic crisis. Ownership concentration may improve performance by decreasing monitoring costs (Shleifer and Vishny, 1986). However, it may also work in the opposite direction (Leech and Leahy, 1991). There is a possibility that large shareholders use their control rights to achieve private benefits (Zeitun and Tian, 2007).

Studies have also been conducted on state versus private ownership of banks. Empirical evidence from La Porta et al. (2002) and Micco et al. (2004) suggest that state-owned banks operating in developing countries tend to have lower profitability than their private counterparts and that this lower profitability is due to lower net interest margin, higher overhead costs (mostly due to the fact that state-owned banks tend to employ relatively more people), and higher non-performing loans. When they focus on industrial countries, they find that, relative to their private counterparts, state-owned banks tend to have slightly higher overhead costs but other performance variables (profitability, margins, and non-performing loans) do not vary significantly across these two groups of banks. However, non-performing loans tend to be particularly high in state banks.

This is especially the case in the Caribbean, industrial countries, Middle East, and Sub-Saharan Africa. Several other reasons have been given for the low profitability generally observed among most state-owned banks in the world. Sapienza (2004) states that state-owned banks charge lower interest rates than do privately owned banks to similar or identical firms. Clarke et al. (2004) state that state-owned enterprises (SOEs) experience poorer corporate governance than private firms; and this could be attributed to weak incentives for managers to perform effectively. SOEs managers do not face a market for their skills or a credible threat of losing their job for non-performance; and bankruptcy, liquidation or hostile takeover are not credible threats for state owned firms (Berglof and Roland, 1998; Dewatripont and Maskin, 1995; Schmidt, 1996; Vickers and Yarrow, 1989; and Vickers and Yarrow, 1991).

Miccoet al. (2004) attributes state banks' low profitability to the fact that, rather than maximizing profits, they respond to a social mandate. Since state banks are owned by the government, they often align themselves with government policies even when these policies significantly diminish their profit margins. Pedersen and Thompson (1997) and Zeitun and Tian (2007) have asserted that ownership structure has impacts on a firm's performance and its default risk. However, there is need to emphasize that the empirical studies of the relationship between firm performance and ownership concentration and structure have produced mixed results. For example, Demestz and Lehn (1985) find no effect of ownership structure on accounting profits. On the other hand, Leech and Leahy (1991) find a negative and significant relationship between ownership concentration and firm value and profitability.

1.1.4 Commercial Banks in Kenya

There are currently 43 commercial banks in the country, 1 mortgage finance company, 6 deposit taking microfinance institutions, 4 representative offices of foreign banks, 112 foreign exchange bureaus and 2 credit reference bureaus. As at the end of March 2012, there was KES 2.1 trillion held as assets in the Kenyan banking Sector with loans and advances of about KES 1.2 trillion. The deposit base stood at KES 1.6 trillion and the profit before tax of the sector in general stood at KES 24.7 billion as at 31st March 2012. As at the end of March, the number of customer deposit accounts stood at 14.36 million while the loan accounts stood at 2.032 million accounts (Central Bank of Kenya, 2012)

Comparatively, the banking sector's aggregate balance sheet expanded by 5% in the quarter from KES 2 trillion in December 2011 to KES 2.1 trillion in March 2012. Gross loans and advances in the sector grew from KES 1.19 trillion in December 2011 to KES 1.24 trillion, about to 4.2% in growth. Deposits were the main source of funding for the banking sector. The deposit base rose by 4.7% from KES 1.49 trillion in December 2011 to KES 1.56 trillion in March 2012, the growth attributed to branch expansion, increased remittances and receipts from exports. The banking sector's recorded pre-tax profit of KES 24.7 billion for the quarter was a 5.4% decrease from the KES 26.1 billion recorded in the quarter ending in December 2011. Total income in the year stood at KES 88.4 billion in the first quarter of 2012, an 8.9% increase in income from the KES 81.2 billion registered in the fourth quarter of 2011 (CBK,2012).

Central Bank of Kenya expects the banking sector to sustain its growth momentum largely driven by adoption of cost effective delivery channels and increased presence of Kenyan banks in the East African Community partner states and South Sudan. The risks of inflation and the resulting high interest rates are expected to reduce in the course of the year (CBK, 2012).

According to Themba (2011) the overall performance and profitability of the banking sector in Kenya has improved tremendously over the last 10 years. Despite the overall good picture a critical analysis indicates that, not all banks are profitable. The huge profitability enjoyed by the large banks vis-a-avis the small and medium banks indicates that there are some significant factors that influence the performance of commercial banks. Flamini et al. (2009) and other several studies have shown that bank profitability is determined by bank-specific factors and industry specific factors.

The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2009). Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow. Banks dominate the financial sector in Kenya and as such the process of financial intermediation in the country depends heavily on commercial banks (Kamau, 2009). Oloo (2009) describes the banking sector in Kenya as the bond that holds the country's economy together. Sectors such as the agricultural and manufacturing virtually depend on the banking sector for their very survival and growth. The performance of the banking industry in Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bank-failures between 1986 and 1998 (Mwega, 2009).

1.2 Research Problem

It has been widely accepted that organizational form influences operating behavior, as it defines the nature of residual claims and, thus, the motivations of the firm's owners. According to the agency theory, several categories of shareholders can have an influence on the managers' efficiency. The researches on the performance of companies have found that there was positive relationship between Corporate Governance and Corporate Performance. Despite tight regulatory framework, ownership structure we are likely to see corporate failures and malfunctions in the region. In Kenya financial reforms have encouraged foreign banks to enter and expand banking operations in the country.

Kamau (2009) affirm that foreign banks are more efficient than local banks. She attributes this to the fact that foreign banks concentrate mainly in major towns and target corporate customers, whereas large local banks spread their activities more widely across the country. Foreign banks therefore refrain from retail banking to specialize in corporate products, while large domestic banks are less discriminatory in their business strategy. These different operational modalities affect efficiency and profitability she affirms. There has been renewed interest concerning issues of ownership structure on bank profitability in Kenya, however, relevant data from empirical studies are still few and far between. It is worth noting that most research on ownership structure and firm performance has been dominated by studies conducted in developed countries.

Studies in Kenya have focused on ownership structure on the profitability. For example, Kiruri (2013) investigated the effects of ownership structure on bank profitability. Mang'unyi (2011) conducted a study on the Ownership Structure and Corporate Governance and Its Effects on Performance a Case of Selected Banks in Kenya. Kithinji (2010) investigated on credit risk management and profitability of commercial banks in Kenya, Olweny and Shipho (2011) investigated the effects of banking sectoral factors on the profitability of commercial banks in Kenya. There is therefore a gap in literature as far as an industry-wide study on the effects of ownership structure on bank profitability in Kenya is concerned. This is the gap the present study seeks to bridge and this study examines the relationship between ownership structure and firm financial performance (measured by ROE) of listed commercial banks in Kenya.

1.3 Research Objective

The objective of the study is to establish the relationship between ownership structure and financial performance among commercial Banks listed in the Nairobi Securities Exchange in Kenya

1.4 Value of the Study

The study will be useful to the stake holders, Managers, Government and Academicians. The study is expected to benefit the commercial banks in Kenya as they would be able to know the relationship between financial performance implication and shareholding structure. It is also expected that the study would

It will provide relevant information to the shareholders on whether their wealth is influenced by financial performance of the banking industry. Management of Companies quoted in NSE in Kenya has been given the responsibility to maximize shareholders wealth and this is through maximizing the market value of company's shares. This study will be useful to the managers in guiding them towards making financing decisions that are in line with Shareholders wealth maximization and will help manager's to know if their firms have been reducing their interest –bearing liabilities. The study will help firms towards establishment their credit worthiness.

The study will be useful to policy makers in their effort to revamp their commercial banks in Kenya through understanding the effect of shareholding structure on financial performance and also regarding capital base, financial strength and other regulatory requirements of the banking companies. The results of this study would also be valuable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions on financial performance implication and shareholding structure of public listed commercial banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter explores the literature that focuses on the impact of ownership structure on the profitability of commercial banks in Kenya. The chapter commences by reviewing the theories that informed the discussion on ownership structure and financial performance. It then dwells on the empirical studies that discuss the relationship between ownership structure and financial performance among commercial Banks listed in the Nairobi Securities Exchange.

2.2 Theoretical Review

This section contains review of theories relevant to the study.

2.2.1 Agency Theory

This theory has its origins in the early 1930s when Berle and Means (1932) explored the corporate revolution. They revealed that at the early stage, corporations were managed by the founders themselves. As corporations grew, the owners sought external sources of financing. Hence, corporations issued equity. As a result, corporations became owned by external shareholders, where the evolution of separation between owners (ownership) and managers (control) commenced.

There are three types of separation of ownership and control. The first is majority control. This is where some of the shareholders own majority of shares, and the remainders are widely diffused and only hold a portion of the shares. Hence, only the remainder shareholders are separated from control. The second is minority control, where ownership is widely spread. As such, the greater part of ownership is practically without control. The third is management control. There is no existence of large minority shareholders which results directors or managers responsible in controlling the corporation. The third type of separation of ownership and control is known as Quasi-public Corporation, which it has been resulted as the increment of owners. This happened because Quasi-public Corporation get its supply of capital from a group of investors, known as investing public Berle & Means (2002). There are two types of investors, which are either as an individual, they invest directly in purchasing the corporation's stocks or bonds, or invest indirectly by investing in insurance companies, banks and investment trusts, which will invest in corporate securities on behalf of the investors.

Goergen and Renneboog (2001) argued that if there are insufficient monitoring mechanisms in a firm such as having a diffuse ownership structure (which is the opposite of the ownership concentration structure), it may lead to high managerial discretion which may increase the agency costs. As has been argued in the literature, the level of monitoring is a function of such variables as institutional ownership, block ownership by outsiders, the technology in place to monitor the managers Bajaj, Chan and Dasgupta (1998) and forecasted profit gain derived from the monitoring (Demsetz and Lehn 2005)

This theory is relevant to this study because the State ownership would be deemed inefficient due to the lack of capital market monitoring which according to the Agency theory would tempt manager to pursue their own interest at the expense of the enterprise. Managers of private banks will have greater intensity of environmental pressure and capital market monitoring which punishes inefficiencies and makes private owned firms economically more efficient (Lang and So, 2002).

2.2.2 Stakeholder Theory

The traditional definition of a stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives Freeman (1984). The general idea of the Stakeholder concept is a redefinition of the organization. In general the concept is about what the organization should be and how it should be conceptualized.

Friedman (2006) states that the organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and the participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group.

The definition of a stakeholder, the purpose and the character of the organization and the role of managers are very unclear and contested in literature and has changed over the years. Even the father of the stakeholder concept changed his definition over the time. In one of his latest definitions Freeman (2004) defines stakeholders as those groups who are vital to the survival and success of the corporation. In one of his latest publications Freeman (2004) adds a new principle, which reflects a new trend in stakeholder theory. In this principle in his opinion the consideration of the perspective of the stakeholders themselves and their activities is also very important to be taken into the management of companies. He states "The principle of stakeholder recourse. Stakeholders may bring an action against the directors for failure to perform the required duty of care" (Freeman 2004).

All the mentioned thoughts and principles of the stakeholder concept are known as normative stakeholder theory in literature. Normative Stakeholder theory contains theories of how managers or stakeholders should act and should view the purpose of organization, based on some ethical principle Friedman (2006). Another approach to the stakeholder concept is the so called descriptive stakeholder theory. This theory is concerned with how managers and stakeholders actually behave and how they view their actions and roles. The instrumental stakeholder theory deals with how managers should act if they want to flavour and work for their own interests. In some literature the own interest is conceived as the interests of the organization, which is usually to maximize profit or to maximize shareholder value. This means if managers treat stakeholders in line with the stakeholder concept the organization will be more successful in the long run.

Donaldson and Preston (1995) have made this three-way categorization of approaches to the stakeholder concept kind of famous.

This theory is relevant to this study because the Shareholders make the decisions of the management and the problem is that there is no assurance that the management team represents the interest of shareholders. In addition, the shareholders have voting rights to elect and control a majority of the directors and to determine the outcome of the firms. They have tremendous powers to benefit themselves over the minority shareholders.

2.2.3 Modigliani-Miller with Corporate Taxes (1963)

The Modigliani-Miller with corporate taxes which is also referred to proposition II Theory (MM II) defines cost of equity is a linear function of the firm's debt/equity-ratio. According to them, for any firm in a given risk class, the cost of equity is equal to the constant average cost of capital plus a premium for the financial risk, which is equal to debt/equity ratio times the spread between average cost and cost of debt. Also Modigliani and Miller (1963) recognized the importance of the existence of corporate taxes. Accordingly, they agreed that the value of the firm will increase or the cost of capital will decrease with the use of debt due to tax deductibility of interest charges. Thus, the value of corporation can be achieved by maximizing debt component in the capital structure. This theory of capital structure for the study provided an important and analytical framework. According to this approach, value of a firm is VL = VU = EBIT (1-T) / equity + TD where TD is tax savings. Modigliani-Miller Proposition II is assuming that the tax shield effect of each is the same, and continued in sight. Leverage firms are increased in interest expense due to reduced tax liability, has also increased the allocation to the shareholders and creditors of the cash flow. The above formula can be deduced from the company debt the more the greater the tax saving benefits, the greater the value of the company.

The revised capital structure of the Modigliani-Miller Proposition II, pointed out that the existence of tax shield in a perfect capital market conditions cannot be reached, in an imperfect financial market, the capital structure changes will affect the company's value.

Therefore, the value and cost of capital of corporation with the capital structure changes in different leverage, the value of the levered firm will exceed the value of the unlevered firm.MM Proposition theory suggests that the higher the debt ratio is more favourable to corporate, but though borrowing adds an interest tax shield it may lead to costs of financial distress. Financial distress occurs when promises to creditors are broken or honored with difficulty. Financial distress may lead to bankruptcy. The trade-off theory of capital structure theory in MM based on the added risk of bankruptcy and further improves the capital structure theory, to make it more practical significance.

2.3 Review of Empirical Studies

Banking efficiency is a subject that has attracted increasing attention in recent years. Above all, there are two types of evidence on efficiency, one comparing the efficiency of foreign entrants with domestic competitors, the other showing that, within the subset of banks that expand abroad, banks that are more internationalized are also more efficient. Several studies of developed countries have found that foreign-owned banks are less efficient than domestic banks. Efficiency comparisons between foreign and domestic banks in developing countries yield very different results. Claessens (2000) find that foreign banks have lower interest margins, overhead expenses, and profitability than domestic banks in developed countries, while the opposite is true in developing countries. They interpret their results to imply that the reasons for foreign entry, as well as the competitive and regulatory conditions found abroad, differ significantly between developed and developing countries.

Kosak and Cok (2008) investigated the relationship between bank ownership and bank profitability in six South-Eastern European countries: Croatia, Bulgaria, Romania, Serbia, FYR Macedonia and Albania. Like in most other Eastern European countries the transition period in the selected set of six Balkan countries was characterized by a large influx of foreign investors, mostly Western European banks. Partly, these countries were included as a subset in some others, much broader studies, but the research performed specifically for this region is scarce. The empirical analysis was based on the available individual bank data provided by Bank Scope database. The profitability indicators were selected following the recently published studies in the field. In the first part of the analysis the profitability differences between foreign owned and domestic banks were tested, whereas in the second part the bank level and country level determinants of specific profitability indicators for foreign and domestic banks were detected, using the regression analysis. Results do not reveal any substantial statistically significant differences between profitability measures of domestic and foreign owned banks, while the econometric tests identify several factors that are clearly associated with bank profitability.

Wen Wen (2010) conducted a study on Ownership Structure and Banking Performance in China. He chosen a sample of 49 large Chinese banks of different type's over the 2003-2008 periods and evaluates the impact of the largest shareholder and the top three investors with different identity. Using ROA (Return on Assets) and ROE (Return on Equity) as profitability measures, the results show that there is no obvious correlation between ownership structure and bank performance in general, although state-owned commercial banks (SOCBs) might present a quadratic relationship with ROE. However, we did not find such relationship for joint-Stock commercial banks (JSCBs) and city commercial banks (CCBs). In addition, our results indicate that banks with private or foreign shareholders are not performing better either.

Iannotta, Nocera and Sironi (2006) conducted a study on Ownership Structure, Risk and Performance in the European Banking Industry where they compared the performance and risk of a sample of 181 large banks from 15 European countries over the 1999-2004 period and evaluate the impact of alternative ownership models, together with the degree of ownership concentration, on their profitability, cost efficiency and risk. Three main results emerge. First, after controlling for bank characteristics, country and time effects, mutual banks and government-owned banks exhibit a lower profitability than privately-owned banks, in spite of their lower costs. Second, public sector banks have poorer loan quality and higher insolvency risk than other types of banks while mutual banks have better loan quality and lower asset risk than both private and public sector banks. Finally, while ownership concentration does not significantly affect a bank's profitability, a higher ownership concentration is associated with better loan quality, lower asset risk and lower insolvency risk. These differences, along with differences in asset composition and funding mix, indicate a different financial intermediation model for the different ownership forms.

Raji (2012) conducted a study on the effects of ownership structure on the performance of listed companies on the Ghana stock exchange. Their study sought to determine the relationship between the ownership structure of listed firms and performance on Stock Market. The study made used of secondary data and the data were analyzed using Pearson's Product Moment Correlation and Logistic Regression. The first finding indicated that there is a significant negative relationship between ownership concentration and firm performance. The second finding shows a positive relationship between insider ownership and firm performance. The study recommends that there is dire need to reasonably diversify shareholding as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance. At the same time, the managers should be protected from unnecessary direct interference by the shareholders.

Fernandez, Fonseca and Gonzalez (2012) analyze how bank profitability varies depending on the type of bank ownership. They compared stock banks, mutual banks, state-owned banks and saving banks organized as foundations, using country-level panel data from eight OECD countries to correct for un observed country heterogeneity. Our results indicate that mutual and state-owned banks have higher interest margins and higher profit before taxes than commercial stock banks after adjusting for risk. Whereas the higher profit before taxes of state-owned banks is based on their lower risk-taking, the use of provisions for income smoothing seems to explain the same result in mutual banks.

Aburime (2010) conducted a study about the impact of ownership structure on bank profitability in Nigeria. He examined whether the composition and spread of bank ownership significantly impinges on bank returns. Using 98 commercial and merchant banks in 478 observations over the 1989-200 periods, regression and t-test results suggest that the composition and spread of ownership has had no significant effect on bank profitability in Nigeria. Hence, the current move by the Central Bank of Nigeria (CBN) to manipulate the composition of bank ownership in Nigeria is inappropriate.

Mang'unyi (2011) did a study which explored Ownership Structure and Corporate Governance and Its Effects on Performance of firms in Kenya with reference to banks. The study revealed that there was no significant difference between type of ownership and financial performance, and between banks ownership structure and corporate governance practices. Further results revealed that there was significant difference between corporate governance and financial performance of banks. However, foreign-owned banks had slightly better performance than domestically-owned banks. This study recommends that corporate entities should promote corporate governance to send a positive signal to potential investors. The Central Bank of Kenya (CBK) should continue enforcing and encouraging firms to adhere to good corporate governance for financial institutions for efficiency and effectiveness. Finally, regulatory agencies including the government should promote and socialize corporate governance and its relationship to firm performance across industries.

Kiruri (2013) conducted a study which sought to investigate the effects of ownership structure on bank profitability in Kenya. Primary data was obtained through a questionnaire that was structured to meet the objectives of the study. The study used annual reports that were available from their websites and in the Central bank of Kenya website. The study found that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. The study concludes that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and domestic ownership lead to higher profitability in commercial banks.

Kithinji (2010) did a study on credit risk management and profitability of commercial banks in Kenya, Data on the amount of credit, level of nonperforming loans and profits were collected for the period 2004 to 2008. Amount of credit was measured by loan and advances to customers divided by total assets, non performing loans was measured using nonperforming loans/ total loans, and profits were measured using ROTA (Return on Total assets). The trend of level of credit, nonperforming loans and profits were established during the period 2004 to 2008. A regression model was used to establish the relationship between amount of credit, non-performing loans and profits during the period of study. R2 and t-test at 95% confidence level were estimated. The regression results indicate that there is no relationship between profits, amount of credit and the level of nonperforming loans.

2.4 Conclusion

The chapter begun by providing a brief discussion on key theoretical approaches and findings reported in earlier related studies on the banking industry known for its high-cost distribution system and lack of price competition. Bankers are increasingly faced with more intensive competition from non-traditional sources such as banks, mutual funds, and investment firms. The increased competition has narrowed profit margins and motivated bankers to seek ways to reduce costs. Technological advances in sales, pricing, mobile banking services have forced bankers to become more innovative; and the relatively high fixed costs of the new systems may have affected the minimum efficient scale in the industry.

The chapter concentrated on empirical facets of enhancing Financial Integrity in the Banking Sector to ensure that the financial systems are safeguarded against money laundering and financing of terrorism in line with international best practice. It is expected banks to strengthen their screening and monitoring role of their clients, new or potential ones for market development so as this can be achieved through financial deepening and development in line with the aspirations under the Kenyan Vision 2030 Njuguna (2013). Following is Chapter 3, which will present the research methodology to be used in conducting this research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the type of research design, target population, sample size, instrument to be used and data analysis. According to Polit and Hungler (2003) methodology refers to ways of obtaining, organizing and analyzing data.

3.2 Research Design

A research design is the structure of research. Orodho (2003) defines it as the scheme outline or plan that is used to generate answers to research problems. Newing (2011) states that the term 'research design' is used both for the overall process described above (research methodology) and also, more specifically, for the research design structure. The latter is to do with how the data collection is structured.

The current study adopted descriptive survey design. A survey is a research design that involves the analysis or study of more than one unit/organization, individual. A descriptive survey research is a research design that attempts to show the status quo of study items (Sekaran, 2006; Cooper and Schindler, 2006). A descriptive survey design is concerned with addressing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes (John & Johnson 2002).

3.3 Target Population and Sample

According to Kombo and Tromp (2006) population is a group of individuals, objects or items from which samples will be taken for measurement or it is an entire group of persons, or elements that have at least one thing in common. The researcher targeted commercial banks listed at the NSE. The target population was also the sample of the study which were 10 commercial banks which are listed at the NSE (Appendix I)

3.4 Data Collection

Secondary data was utilised in this study. This means that all the study variables utilised quantitative data. Data financial performance (profit before tax) and the variables for ownership structure were secondary that was sourced from the annual financial reports of the listed commercial banks. The data was gathered by use of a secondary data collection template (Appendix II).

3.5 Data Analysis

Data Analysis is the processing of data to make meaningful information (Sounders, Lewis and Thornhill, 2009). Burns and Grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. This involves editing, data entry, and monitoring the whole data processing procedure. Data were sorted and input into the statistical package for social sciences (SPSS) for production of tables, descriptive statistics and inferential statistics.

3.6 Analytical model

To determine the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. The multiple linear regression model to be used is as laid below.

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where;

i) Y= log of Profit before tax (Financial performance)

ii) a - is the constant term

iii) $\{\beta_i; i=1,2,3,4\}$ = The coefficients representing the various independent variables also called predictor variables

iv) X_1 - foreign share capital ownership

v) X_2 - share capital owned by individuals (local retail ownership)

vi) X_3 - share capital owned by institutions (local corporate ownership)

vii) X_4 - Debt to Equity

viii) X_5 – of shareholders capital

ix) e is the error term which is assumed to be normally distributed with mean zero and constant variance.

Using SPSS, the regression model was tested on how well it fits the data. The significance of each independent variable was also tested. Fischer distribution test called F-test was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at a 95 percent confidence level. The p-value for the F-statistic was applied in determining the robustness of the model. The conclusion was based on the basis of p value where if the null hypothesis of the beta is rejected then the overall model was significant and if null hypothesis was accepted the overall model could be insignificant. In other words if the p-value is less than 0.05 then it would be concluded that the model is significant and has good predictors of the dependent variable and that the results are not based on chance. If the p-value is greater than 0.05 then the model would not be significant and could be used to explain the variations in the dependent variable.

CHAPTER FOUR

FINDINGS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study. The descriptive statistics were presented first followed by the model results. The interpretation and discussion of the results were presented in a separate section. The chapter summary was also given.

4.2 Descriptive Results

4.2.1 Profitability

This section presents trend analysis for profitability for the 10 commercial banks. Results in Figure 4.1 indicates that profit before tax for the year 2009 was Kshs 40,349,000 .In the year 2010 profit before tax rose to Kshs 56,932,709 and it also rose in year 2011 to Kshs 66,533,019 .In the year 2012 profit before tax was Kshs 81,671,000. In overall profit before tax for 10 commercial Banks has been increasing from year 2009 to 2012.

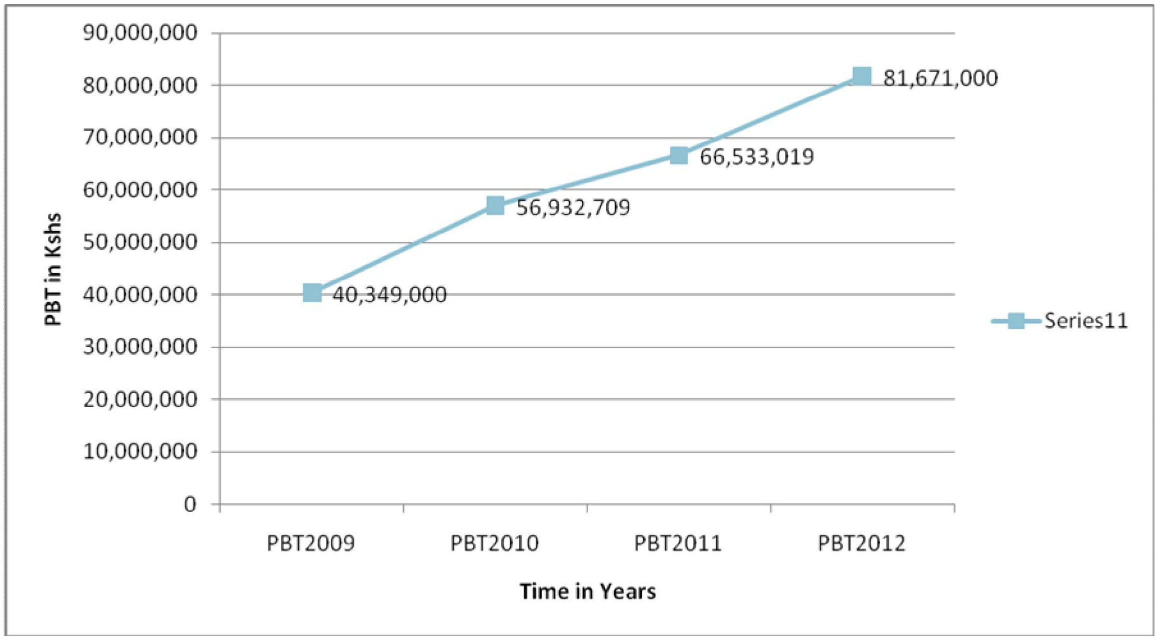

Figure 4.1 Average profit before tax per year

4.2.2 Foreign Share Capital Ownership

The findings in Figure 4.2 indicates that Foreign Share Capital for the year 2009 was 3,328,911,707, in the year 2010 it declined to 3,249,570,900 and went up again to Kshs 6,496,530,475 in the year 2012. In the year 2012, Foreign Share Capital rose to 7,026,777,787.

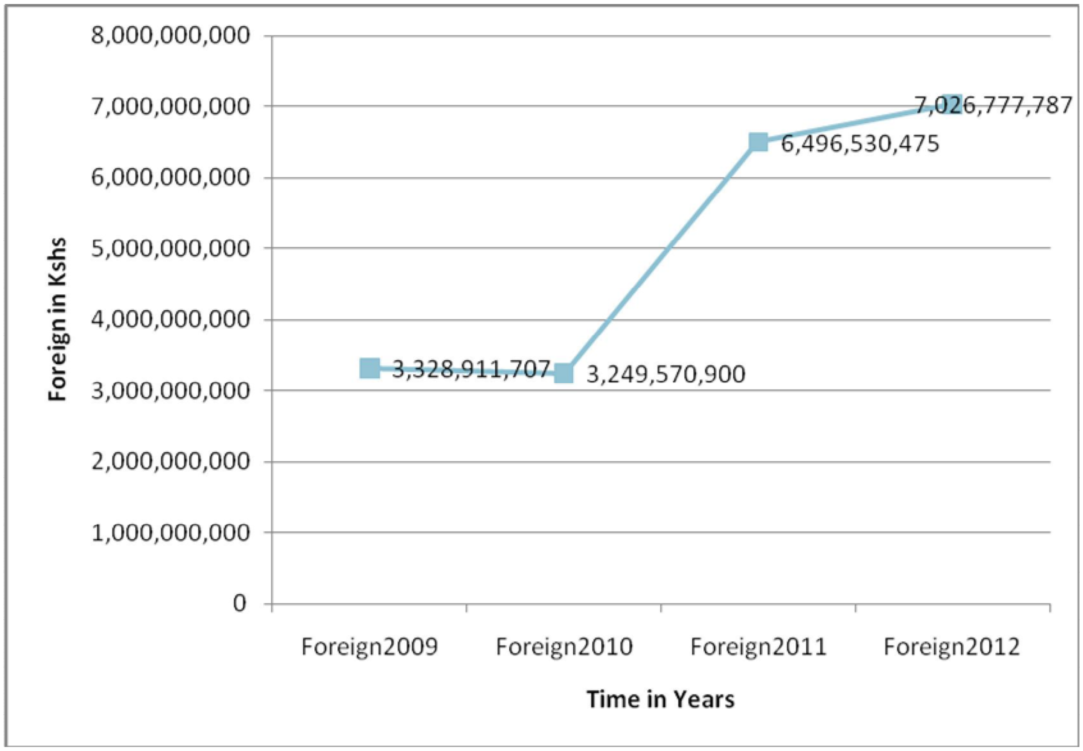

Figure 4.2 Average Foreign Share Capital per year

4.2.3 Local Retail Ownership

Figure 4.3 shows that the average local retail ownership for the year 2009, was Kshs 3,435,710,954. In the year 2010 it declined to Kshs 3,026,976,035. In the year 2011 it rose to Kshs 3,730,041,906 and the trend reversed and there was a decline in average local retail in the year 2012 which had Kshs 3,641,370,129.In overall it shows that the trend was not consistent across the year .

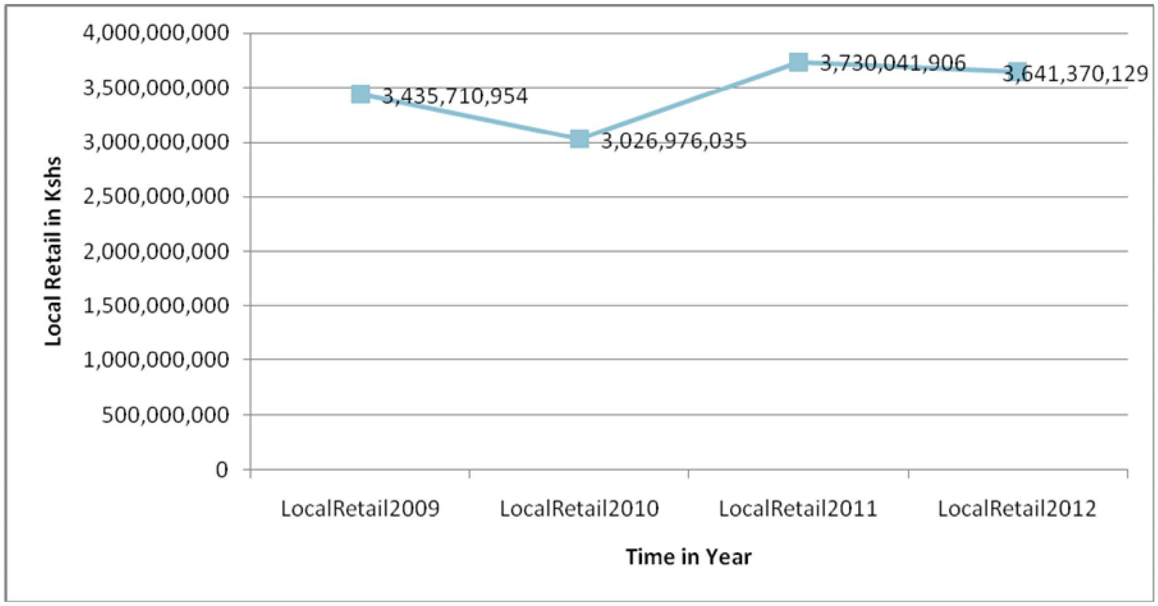

Figure 4.4 Average Local Retail per year

4.2.4 Local Corporate Ownership

Figure 4.4 indicates that the average local corporate ownership for the year 2009 was Kshs 6,339,150,802.The trend rose in the year 2010 to Kshs 6,605,306,776 and also in the year 2011 to Kshs 7,166,788,160.The average local corporate in the year 2012 was 7,595,997,548.It shows that the local corporate shares was consistent from the year 2009 to year 2012.

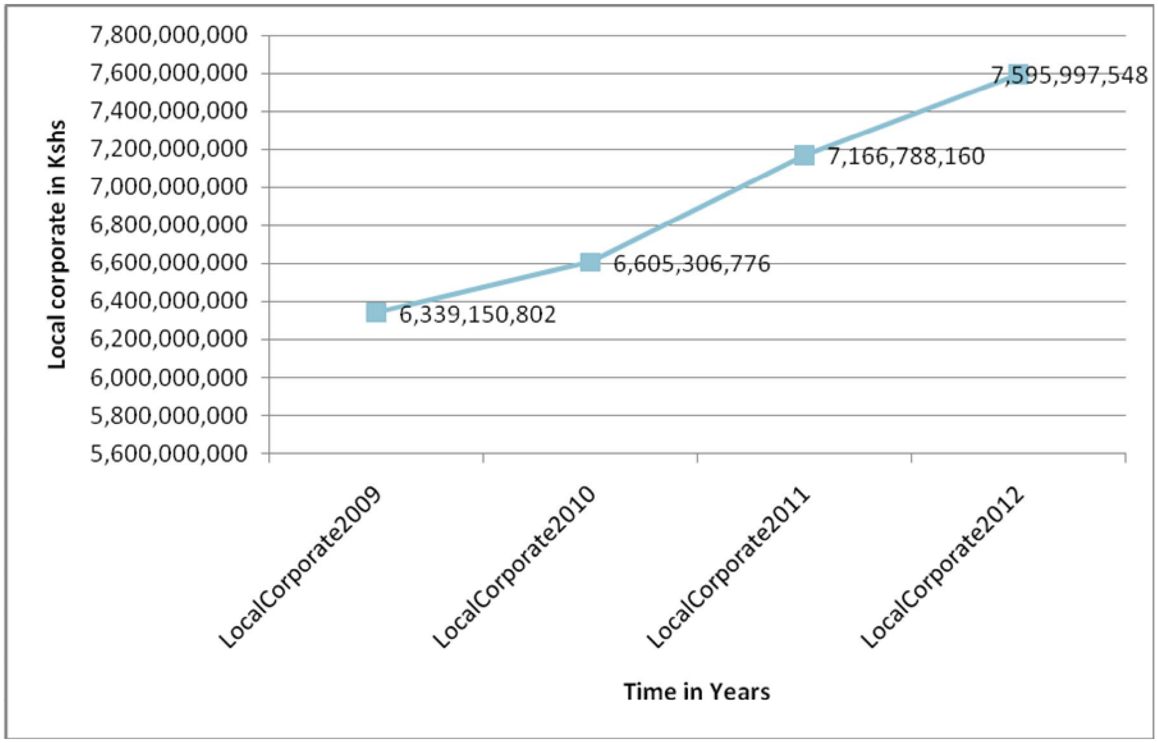

Figure 4.4 Average Local Corporate per year

4.2.5 Share Capital

Results in Figure 4.5 indicates that the average share capital for the year 2009 was Kshs 23,394,364 .The average share capital rose to Kshs 24,765,574 in year 2010.A further rise in average share capital to Kshs 25,095,914 was recorded in year 2011 and the average was maintained in the year 2012. This shows that there was an increasing trend in average share capital from the year 2009 to 2012.

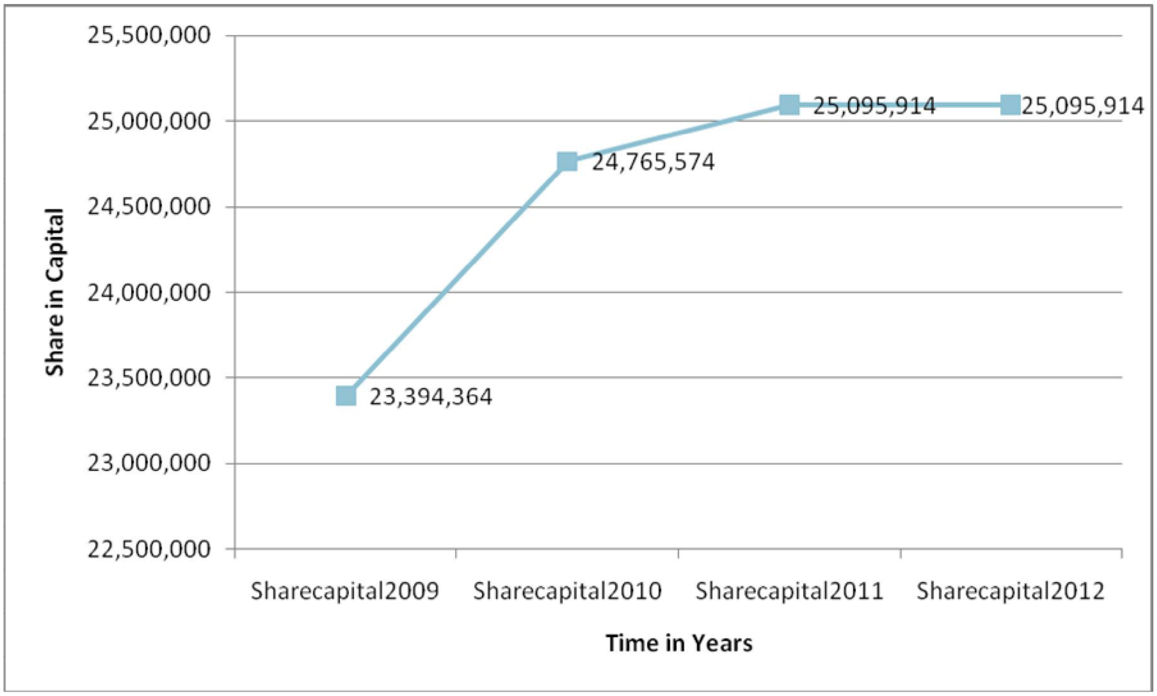

Figure 4.5 Average capital share

4.4.2 Regression Analysis

Table 4.1 shows the initial regression results regarding the robustness of the regression model in explaining the study phenomena. The composite correlation between the dependent and the independent variables is 0.950 which is a positive and a moderate correlation. The coefficient of determination also called R square is 0.902 (90.2%). This means that the independent variables (log foreign share capital ownership, local retail ownership, local corporate ownership, log of Debt to Equity and log of shareholders capital) of the study can explain the variations in the dependent variable (log of Profit before tax) while the rest is explained by other factors or variables not captured in this current study.

Table 4.1 Regression Model Fitness

Indicator	Coefficient
R	0.950
R Square	0.902
Std. Error of the Estimate	0.39526

ANOVA statistics indicate that the overall model was significant. This was supported by an F statistic of 7.377 and p value of 0.038. The reported probability was less than the conventional probability of 0.05 (5%) significance level. The ANOVA results imply that the independent variables are good joint predictors of profitability. The ANOVA results also indicate that predicting profitability through independent variables yields better results than predicting profitability through the mean.

Table 4.2 Analysis of Variance (ANOVA)

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	5.763	5	1.153	7.377	0.038
Residual	.625	4	.156		
Total	6.388	9			

Regression results in Table 4.3 indicate that there is a positive relationship between Profitability and Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital as indicated by the beta coefficients of; 0.296, 0.198, 6.31 and 0.357 respectively. Log Local Corporate, have a negative relationship of –0.2. Log Foreign Shares is statistically significant in explaining profitability (0.009). Results indicate that a unit change in Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital led to a positive change in profitability while the inverse is the case with Log Local Corporate.

Table 4.3 Regression Coefficient

Variable	Beta	Std. Error	T	Sig
Constant	5.265	3.197	1.647	0.175
Log Foreign Shares	0.296	0.062	4.746	0.009
Log Local Retail	0.198	0.191	1.034	0.359
Log Local Corporate	-0.2	0.174	-1.15	0.314
Log Debt to Equity	6.31	4.011	1.573	0.191
Log Share Capital	0.357	0.273	1.307	0.261

4.3 Summary and Interpretation of Findings

Finding indicated that there is a positive relationship between Profitability and Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital as indicated by the beta coefficients of; 0.296, 0.198, 6.31 and 0.357 respectively. Log Local Corporate, have a negative relationship of –0.2. Log Foreign Shares is statistically significant in explaining profitability (0.009). Results indicate that a unit change in Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital led to a positive change in profitability while the inverse is the case with Log Local Corporate.

The findings agree with those of Wen Wen (2010) in literature review who conducted a study on Ownership Structure and Banking Performance in China. The result shows that there is no obvious correlation between ownership structure and bank performance in general, although state-owned commercial banks (SOCBs) might present a quadratic relationship with ROE. However, they did not find such relationship for joint-Stock commercial banks (JSCBs) and city commercial banks (CCBs). In addition, their results indicated that banks with private or foreign shareholders are not performing better.

The findings also agree with those of Aburime (2010) who conducted a study about the impact of ownership structure on bank profitability in Nigeria. He examined whether the composition and spread of bank ownership significantly impinges on bank returns. Using 98 commercial and merchant banks in 478 observations over the 1989-200 periods, regression and t-test results suggest that the composition and spread of ownership has had no significant effect on bank profitability in Nigeria. Hence, the current move by the Central Bank of Nigeria (CBN) to manipulate the composition of bank ownership in Nigeria is inappropriate.

Accordingly, the findings agreed with those of Kiruri (2013) conducted a study which sought to investigate the effects of ownership structure on bank profitability in Kenya. The study found that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. The study concludes that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and domestic ownership lead to higher profitability in commercial bank.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Introduction

This chapter contains summary of findings, conclusions and recommendations. They are based on the key results derived from data analysis. Based on the conceptual and contextual gaps identified in the study areas for further research are also proposed.

5.2 Summary

Based on the results of data analysis it was found that the overall Foreign Share Capital Ownership for the year 2009 to 2010 declined but increased in the year 2011 and 2012.

In overall profit before tax for ten commercial Banks has been increasing from year 2009 to 2012. The trend of average local retail ownership was not consistent across the year 2009 to 2012 ,but the average local corporate shares for the year 2009 to year 2012 was consistent. It shows that there was an increasing trend in average share capital from the year 2009 to 2012.

ANOVA statistics indicate that the overall model was significant. This was supported by an F statistic of 7.377 (p value = 0.038). The reported probability was less than the conventional probability of 0.05 (5%) significance level. The ANOVA results imply that the independent variables are good joint predictors of profitability. The ANOVA results also indicate that predicting profitability through independent variables yields better results than predicting profitability through the mean

Regression results indicate that there is a positive relationship between Profitability and Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital as indicated by the beta coefficients of; 0.296, 0.198, 6.31 and 0.357 respectively. Log Local Corporate, have a negative relationship as shown by a beta coefficient of negative zero point two. Log Foreign Shares is statistically significant in explaining profitability (0.009). Results indicate that a unit change in Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital led to a positive change in profitability while the inverse is the case with Log Local Corporate.

5.3 Conclusions

It was concluded that the trend in profit before tax for ten commercial Banks has been increasing from year two thousand and nine to two thousand and twelve. The trend of average local retail ownership was not consistent across the year two thousand and nine to two thousand and twelve, but the average local corporate shares for the year two thousand and nine to year two thousand and twelve was consistent. It shows that there was an increasing trend in average share capital from the year two thousand and nine to two thousand and twelve.

In conclusion the composite correlation between the dependent and the independent variables was zero point nine five which is a positive and a strongly correlation. The coefficient of determination also called R square is zero point nine zero two. This means that the independent variables (log foreign share capital ownership, local retail ownership, local corporate ownership, log of Debt to Equity and log of shareholders capital) of the study can explain the variations in the dependent variable (log of Profit before tax) while the rest is explained by other factors or variables not captured in this current study.

It was also concluded that a unit change in Log Foreign Shares, Log Local Retail, Log Debt to Equity and Log Share Capital led to a positive change in profitability while the inverse is the case with Log Local Corporate.

In conclusion the ANOVA results imply that the independent variables are good joint predictors of profitability. The ANOVA results also indicates that predicting profitability through independent variables yields better results than predicting profitability through the mean.

5.4 Policy Recommendations

It is recommended that the Central Bank of Kenya (CBK) should continue enforcing and encouraging firms to adhere to good corporate governance for financial institutions for efficiency and effectiveness. Finally, regulatory agencies including the government should promote and socialize corporate governance and its relationship to firm performance across industries.

It is recommended that commercial banks should engage strategic investors. Such investors should provide loans to the commercial banks for example such strategic investor can advance long term loans to the banks that will improve the profitability.

It is recommended that the equity share holder should be substituted for debt share holding in future. This is because an increase in debt share holding arising out of substitution would be beneficial to the commercial bank because it will result into profitability.

It is recommended to have more local investors list on the Commercial Bank, more awareness creation programs should be undertaken to ensure that investor's are abreast of the opportunities to raise funds from the Commercial Bank, the roles of other players, the procedures at the Commercial Bank and the functions thereof. The Commercial Bank regulations should be reviewed with a view to make them stronger. The incentives provided at the Commercial Bank should be reviewed to make them more attractive to local investors

It is recommended that financial institutions should make their lending policies easier to understand. In addition, they should differentiate their lending products so that they encourage the use of debt capital by listed firms.

It will provide relevant information to the shareholders on whether their wealth is influenced by financial performance of the banking industry. Management of Companies quoted in NSE in Kenya has been given the responsibility to maximize shareholders wealth and this is through maximizing the market value of company's shares. This study will be useful to the managers in guiding them towards making financing decisions that are in line with Shareholders wealth maximization and will help manager's to know if their firms have been reducing their interest –bearing liabilities. The study will help firms towards establishment their credit worthiness.

The study will be useful to policy makers in their effort to revamp their commercial banks in Kenya through understanding the effect of shareholding structure on financial performance and also regarding capital base, financial strength and other regulatory requirements of the banking companies. The results of this study would also be valuable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions on financial performance implication and shareholding structure of public listed commercial banks.

5.5 LIMITATIONS OF THE STUDY

Due to time considerations, this study was restricted to 4 years. A longer period of 10 years may have provided a clearer picture of the effects of ownership structure on financial performance among commercial bank listed in Nairobi Stock Exchange in Kenya.

The study was limited in scope as it covered the ownership structure of only the listed banks in the Nairobi stock Exchange in Kenya while there are many other commercial banks that are not listed. The study results may not therefore benefit the banking sector in Kenya at large.

The study considered only the ownership structure in evaluating the financial performance of banks and other factors such as the performance of the economy, size of the bank, market share, risk, inflation and interest rates of the banks were not included in the study.

The study was only done for the banks which operate in the financial sector which also includes the insurances, pensions and microfinance institutions. A study on the whole of financial sector may have provided more detailed results on the effects of ownership structure on the financial performance of the companies in the sector.

The research used only five variables of ownership of the banks yet there are many other alternative measures that may have provided different results from the ones provided by the five variables used.

5.6 Areas for Further Study

Review of literature and findings from data analysis revealed several empirical gaps that can be filled through another study. For instance, further studies need to be conducted on the factors that affect the achievement of the goals, objectives and strategies of commercial banks. This may shed light on the reasons why the commercial banks have performed the way they have performed.

Further research is recommended covering reasons why some commercial banks have not listed on the Nairobi Security Exchange. Another study could be investor participation in cross border listed shares.

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Appendix I: List of Banks in Nairobi Securities Exchange

1) Barclays Bank Ltd
2) CFC Stanbic Holdings Ltd
3) Diamond Trust Bank Kenya Ltd
4) Housing Finance Co Ltd
5) Kenya Commercial Bank Ltd
6) National Bank of Kenya Ltd
7) NIC Bank Ltd
8) Standard Chartered Bank Ltd
9) Equity Bank Ltd
10) The Co-operative Bank of Kenya Ltd

Appendix II: Secondary Data Collection Template

Name of Bank………………………….

Variable	**2012**	**2011**	**2010**	**2009**
Profit before Tax				
log foreign share capital ownership				
log share capital owned by individuals (local retail ownership)				
log share capital owned by institutions (local corporate ownership)				
log of Debt to Equity				
_ log of shareholders capital				

i) X_1 - log foreign share capital ownership

ii) X_2 - log share capital owned by individuals (local retail ownership)

iii) X_3 - log share capital owned by institutions (local corporate ownership)

iv) X_4 - log of Debt to Equity

v) X_5 _ log of shareholders capital