THE EFFECT OF OWNERSHIP STRUCTURE ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY:

DAVIS OMBATI OGEGA

REG.NO. D63/80711/2012

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR AWARD OF MASTER OF SCIENCE IN FINANCE, UNIVERSITY OF NAIROBI

SEPTEMBER 2014

DECLARATION

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

Signed……. Date……..

Davis Ombati Ogega

D63/80711/2012

This research project has been submitted for examination with my approval as the candidate's university supervisor.

Signed……. Date…….

Herick Ondigo

Lecturer, Department of Finance and Accounting.

University of Nairobi

ACKNOWLEDGEMENTS

I thank the Almighty God for bringing me this far and for His grace that has enabled me successfully complete this paper.

I sincerely appreciate my family and friends for their enormous support and endurance throughout my study.

I will always owe a great deal of gratitude towards my Supervisor Mr. Herick Ondigo who meticulously supervised my study and gave me great advice and support.

DEDICATION

I would like to dedicate this paper and everything I do to my dear mother Ruth Kwamboka Ogega who supported me through life with love and molded me to be who I am today.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

ALM	Assets and Liability Management
ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
KBA	Kenya Bankers Association
MNC	Multinational Company
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistics Package for Social Science

ABSTRACT

This paper makes a strong input to business literature by examining the effects of ownership structure on financial performance of commercial banks in Kenya. The divergence of shareholders voting right enables them to acquire and exercise control with considerably minimal involvement of equity. Zeitun and Tian (2007) underscored the significance of the study of the effect of ownership structure and concentration on a firm's performance to the literature of finance theory. The study therefore investigated whether there is an association between Ownership structure and the performance of the 43 commercial banks in Kenya and assess the impact of ownership to the outstanding performance by locally owned and government owned banks. The objective of the study was to determine the effect of ownership structure on the financial performance of commercial banks in Kenya.

Secondary data is on bank ownership and accounting data from financial annual reports of all the respective banks from the NSE and in the CBK website for a period of five years between the year 2009 and 2013. Multiple regression analysis was used to determine the effect of ownership structure on the financial performance of commercial banks in Kenya.

From the findings the study revealed that ownership structure positively affects the financial performance of commercial banks in Kenya. The study also revealed that there was strong positive relationship between ownership structure and financial performance of commercial banks in Kenya. The study further revealed that a unit increase in foreign ownership would lead to increase financial performance of commercial banks in Kenya. The study found that domestic ownership of the bank significantly affects the financial performance of commercial banks in Kenya. From the finding the study concludes that government ownership significantly affect the financial performance of commercial banks in Kenya. From the finding the study revealed that a unit increase in ownership concentration would lead to increase in financial performance of commercial banks in Kenya.

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

This paper makes a strong input to business literature by examining the effects of ownership structure on financial performance of commercial banks in Kenya. The paper dataset covers ownership details of 43 licensed commercial banks in Kenya for the period from 2009 to 2013. There are several researchers who have widely studied the relationship between ownership structure and performance of firms. Among the pioneers are Morck et al (1988) and McConnell and Servaes (1990) who empirically examined the effect of ownership structure on firm performance. Both results found a curvilinear relationship between Tobin's Q (The ratio between a physical asset's market value and its replacement value) and the fraction of shares owned by insiders, implying that there should be a maximum point where the ownership structure would generate the maximum corporate value. Andersson et al (2004).

The relationship has also been studied in Kenya. Ongore (2010) in his paper investigated the relationship between ownership structure and performance of listed firms in Kenya. The study found that Ownership Concentration and Government Ownership have noteworthy negative relationships with firm performance. Conversely, Foreign Ownership, Diffuse Ownership, Corporation Ownership, and Manager Ownership were found to have significant positive relationships with firm performance. The Board has no effect on firm performance.

The study strongly supports that on average, foreign owned companies have a better performance than their counterparts with leading local ownership.

This is in contrast with the standpoint held by advocates of ownership concentration (Moldoveanu & Martin, 2001; Fama & Jensen, 1983; Berle & Mean, 1932; Jensen & Meckling, 1976) who argue that ownership concentration affords the shareholders the motivation and ability to monitor and control management decisions. This, they hypothesize, ensures that managers make decisions that support the wealth creation interest of the shareholders.

Mbaabu (2010) on the other hand investigated the relationship between ownership, corporate governance structures and financial performance of forty one insurance companies in Kenya from 2005 to 2009. The study revealed a negative ROA when ownership was considered. The results further showed that the size of the board constitution and financial leverage have a significant impact on both ROE and ROA. It further showed there was a significant relationship between size, outside (non-executive) directorships and leverage with both ROE and ROA. The study also found that the relationship between ownership and financial performance of insurance companies was insignificant. Thomsen and Pedersen (1997) argued that preferences regarding company strategies will often involve a trade-off between the pursuit of shareholder values, orientation and other goals. Successful companies with an international presence tend to be large, with well established management systems that are replicated (with minimal modifications) in all their branches and affiliates abroad.

1.1.1 Ownership Structure

According to Jensen and Meckling (1976), ownership structure is described by the allocation of equity with respect to votes, capital and also by the equity owners' identity. This is referenced in their study on how the nature of agency costs relates with both debt and equity where they aimed at incorporating concepts into the beginnings of a theory of corporate ownership structure. In the recent years, there have been renewed interests on ownership structures due to the increased dynamics of corporate ownership portfolios.

Ownership concentration and owner identity are the two largely applied scopes of ownership structure. Ownership concentration describes the concentration degree of voting rights which is evaluated by the voting right of the largest shareholder, and also by the summation of voting rights of both the second and third largest shareholders. Ownership concentration can also be exemplified by the divergence ratio of the largest shareholder. Owner identity is measured by the type of the largest shareholder; whether foreign, domestic or state owners. La Porta, et al. (2002)

State-owned banks are established to promote both economic and financial development in a country but instead they turn out to being inefficient institutions that hamper development of efficient financial markets. According to Barth, et al. (2004) countries with majority of state-owned banks have lower GDP per capita growth, unproductive allocation of resources, higher interest rate spreads and low accessibility to credit.

Establishment of foreign-owned banks especially in developing countries such as Kenya enhances investment in capitalization and competitiveness of financial institutions which brings in better expertise which is copied by domestic banks thereby improving the quality of the financial system. Clarke, et al. (2003). Privatization of state-owned banks also leads to financial development but partial privatization is not sufficient to address problems of governance. (Beck et al, 2004).

1.1.2 Financial Performance

Financial performance is a vital tool to several stakeholders of commercial banks. The parties include shareholders and bond holders, direct competitors, regulators, financial markets, credit rating companies, depositors and other market participants (Casu et al, 2006). Banks play a fundamental role in finance. They determine the availability and interest rate of loans; hence they can determine firms' capital structure and cost of capital. Banks also oversee the companies that they lend money to, thereby providing important governance oversight to client companies. In some countries, banks additionally try to influence company decisions by directly owning company shares and appointing directors (Petersen and Rajan 1994, Santos and Rumble 2006).

According to the Central Bank of Kenya (CBK), commercial banks are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. Currently, there are forty three licensed commercial banks in Kenya out of which thirty are locally owned and thirteen are foreign owned. The locally

owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations.

1.1.3 Effects of Ownership Structure on Performance

The divergence of shareholders voting right enables them to acquire and exercise control with considerably minimal involvement of equity. Fama and Jensen (1983) highlighted that ownership concentration and financial performance are inversely related such that as ownership concentration of a firm increases, the financial performance decreases. The implication is that a rise in ownership concentration can decrease market liquidity as well as diversification of opportunities which consequently increases the cost of capital of a firm.

According to Jensen and Meckling (1976) the more equity owned by managers the more motivated they are to enhance the firm performance since the equity ownership serves as a monetary incentive. On the other hand, Morck, Shleifer and Vishny (1988) argue that managers with large equity ownership are very rich and powerful and they tend to have less interest in maximizing profit thereby decreasing the financial performance of the firm.

More equity ownership by the manager may decrease financial performance because managers with large ownership stakes may be so powerful that they do not have to consider other stakeholders interest. They may also be so wealthy that they no longer intend to maximize profit but get more utility from maximizing market share or technological leadership etc (Morck, Shleifer and Vishny [1988]). A firm with many shareholders or block owners is more competent and well positioned to monitor and control the management of the

firm which enhances efficiency and productivity thereby enhancing performance. Shliefer and Vishny (1997)

1.1.4 Commercial Banks in Kenya

The Kenyan banking sector comprising of forty three banks registered total net assets of Ksh. 2.7 trillion as at 31st December 2013. There are twenty six local private commercial banks with Ksh. 1.7 trillion net assets accounting for 61.4% of the total assets. There are fourteen commercial banks owned by foreigners with Ksh. 900 billion and accounted for 34% of the total net assets. The remaining three are local public commercial banks with Ksh. 100 billion which is 4.6% of the sector's total assets. (CBK, 2013)

According to CBK, in terms of Shareholding there are four institutions that are foreign owned and not locally incorporated. They include: Habib Bank A.G., Habib Bank Ltd, Zurich, Bank of India and Citibank N.A. Kenya. There are 8 banks that are foreign owned but locally incorporated institutions (Partly owned by locals).Namely: Bank of Baroda (K) Ltd, Barclays Bank of Kenya Ltd, Diamond Trust Bank Kenya Ltd, K-Rep Bank Ltd, Standard Chartered Bank (K) Ltd, Ecobank Ltd, Gulf Africa Bank (K) Ltd and First Community Bank. There are two banks in Kenya that are foreign owned but locally incorporated institutions; Bank of Africa (K) Ltd. and UBA Kenya Bank Limited.

There are six institutions with government of Kenya participation. They include: Consolidated Bank of Kenya Ltd, Development Bank of Kenya Ltd, Housing Finance Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd and CFC Stanbic Bank Ltd. Twenty five commercial banks in Kenya are locally owned. Namely: African Banking

Corporation Ltd, Jamii Bora Bank Ltd, Commercial Bank of Africa Ltd. Co-operative Bank of Kenya Ltd. Credit Bank Ltd, Charterhouse Bank Ltd, Chase Bank (K) Ltd, Dubai Bank Kenya Ltd, Equatorial Commercial Bank Ltd, Equity Bank Ltd, Family Bank Ltd, Fidelity Commercial Bank Ltd, Fina Bank Ltd, Giro Commercial Bank Ltd, Guardian Bank Ltd, Imperial Bank Ltd, Investment & Mortgages Bank Ltd, Middle East Bank (K) Ltd, NIC Bank Ltd, Oriental Commercial Bank Ltd, Paramount Universal Bank Ltd, Prime Bank Ltd, Trans-National Bank Ltd and Victoria Commercial Bank Ltd. (CBK, 2013)

According to NSE (2014), there are ten institutions in the banking sector in Kenya that are listed at the NSE. They include: Barclays Bank Ltd, CFC Stanbic Holdings Ltd, I&M Holdings Ltd, Diamond Trust Bank Kenya Ltd, Housing Finance Co Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank Ltd, Standard Chartered Bank Ltd, Equity Bank Ltd and Co-operative Bank of Kenya Ltd.

Notably bank stocks generated the most returns for investors at the NSE during the year 2013 compared to stocks in other sectors. As at 31 December 2013, all bank stocks closed in positive region with most rallying ahead of the NSE's All Share Index even increased twofold in market value. Moreover, their dividends were equally lucrative. Share performances for Housing Finance and CFC Stanbic Bank were the most rewarding in 2013 by recording 108.2% and 103.4% respectively. The lowest in the banking sector was Barclays Bank with 10.1%. Many bank stocks were undervalued as investors anticipated strong performance for the 2013 fiscal year, which, attached with lucrative dividend payouts,

will continue to keep the listed commercial banks at NSE attractive and propel the shares to further. This trend will be enhanced due to lack of a better alternative for NSE investors. (NSE Report, 2014).

The main performance indicators used by CBK are assets, loans and advances, deposits and liabilities, capital and reserves, asset quality, profitability and liquidity of the banking sector. According to CBK, the banking sector in Kenya recorded a 15.9% growth in total net assets from Ksh. 2.33 trillion in December 2012 to Ksh. 2.70 trillion in December 2013. Equally, customer deposits grew by 13.5% from Ksh. 1.71 trillion in December 2012 to Ksh. 1.94 trillion in December 2013. The growth was attributed to increased deposit mobilization by banks as they expanded their outreach and opened new branches to tap new customers. Adoption of agency banking model has also enabled banks to increase their deposit levels.

The banking sector pre-tax profit increased by 16% from Ksh. 107.9 billion in December 2012 to Ksh. 125.8 billion in December 2013. The growth was largely attributed to increased diversification of income sources including commissions and earnings from foreign exchange trading. Reduction in interest expenses and adoption of cost effective delivery channels also contributed to increased profits. For the period ended 31st December 2013, there were six large banks with a market share of 52.39%, fifteen medium banks with a market share of 37.95% and twenty two small banks with 9.66%.Gross loans increased by 18.7% from Ksh. 1,330.4 billion in December 2012 to Ksh. 1,578.8 billion in December 2013. The growth in loans is attributed to increased demand for credit by the various economic sectors. The

increase in gross loans contributed to the reduction in the banking sector's average liquidity ratio which declined from 41.9% in December 2012 to 38.6% in December 2013 but remained way above the statutory minimum of 20.0%. (CBK, 2013)

However, the ratio of non-performing loans to gross loans increased from 4.7% in December 2012 to 5.2% in December 2013. The increase in non-performing loans signaled an increase in credit risk which was largely attributable to the lag-effect of the high interest rates in the first half of 2012, and the slowdown in economic activities due to the Kenya general elections held in March 2013. (CBK, 2013)

Similarly, the sector's capital adequacy, which is measured by the ratio of Total Capital to Total Risk Weighted Assets, decreased from 23% in December 2012 to 21% in December 2013 but was way above the statutory minimum of 12.0%. The banking sector is expected to maintain its growth momentum supported by the rollout of full file credit information sharing, regional integration initiatives, advances in information and communications technology and the introduction of the devolved governance system in Kenya. (CBK, 2013)

Recently there has been remarkable growth of commercial banks in Kenya in the past five years which has seen further expansions and mushrooming of branches to the entire East African region. The banking industry in Kenya has also innovatively evolved tremendously in automation, moving from the traditional banking to better meet the growing multifaceted

needs of their customer and globalization challenges. There has been stiff competition from local banks as well as international banks. This has grown the Kenyan economy by benefiting most the customers and shareholders.

The banking sector in Kenya is dominated by five large banks which account for the substantial deposits namely: Equity Bank, Kenya Commercial Bank, Standard Chartered Bank, Barclays Bank of Kenya and Cooperative Bank who also provide a bulk of savings to finance the investments in the country that are productive (CBK, 2013). The Kenyan government will encourage commercial banks to merge going forward. This consolidation will increase the capacity and efficiency of Kenya's banks and in turn reduce costs and high interest rates spread. Kenya Vision 2030 (2007). For the past five years competition from local banks such as Equity and Kenya Commercial bank has become so stiff so much so that it has compelled conservative multinational banks such as Standard Chartered Bank and Barclays Bank of Kenya to also hawk and their services to remote areas and a develop tailored products to suit the low and informal income earners. All these efforts are in bid to enhance their asset base.

1.2 Research Problem

Zeitun and Tian (2007) underscored the significance of the study of the effect of ownership structure and concentration on a firm's performance to the literature of finance theory. Subsequently numerous studies have been conducted across the world in bid to understand the relationship between ownership of firms and their respective performances. Thuku (1992) in his study ownership structure and bank financial performance in Kenya established that

only foreign banks with local establishments had a significant relationship with financial performance. Banks normally strive to influence company decisions by directly owning company stocks and appointing directors who are involved in making strategic decisions for the bank thereby influencing the activities of the bank. Commercial banks with listed stock are better positioned in terms of debt financing because it boosts their lending books. Schmid and Gordon (2000). However, enhanced lending capability does not guarantee enhanced performance.

Ongore, Obonyo and Martin, (2011) in their study on implications of shareholder types on financial performance indicated a significant negative relationship between ownership and financial performance for government owned firms. Conversely, foreign, insider, diverse and institutional ownership showed significant positive relationships with financial performance. The results are consistent with Kiruri (2013) research on the effects of ownership structure on bank profitability in Kenya whose study concluded 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.

Foreign owned firms are believed perform better than the locally owned firms with the former having the ability to monitor managers, and give them performance based incentives, leading the unity of interests between the managers and the shareholders and also the superior ability to transfer new technology and quality standard management practices to the

firm, which in turn enhance efficiency by reducing costs related to operations hence and create more savings for the firm. Aydin, Sayim and Yalama (2007).

Recently the banking sector in Kenya has been so competitive so much so that a foreign institution such as Barclays Bank of Kenya which was the best bank in terms of profitability in 2008 has been surpassed within a period of 6 years by both Equity Bank Ltd which is a locally owned bank and Kenya Commercial Bank which is owned by government of Kenya. As at December 2013, Barclays Bank of Kenya was ranked fourth. Surprisingly Equity Bank Ltd that was in the sixth position in 2008 was the most profitable bank in the country with Kenya Commercial Bank taking the second slot (CBK, 2013).

Such an outcome where domestic banks are outshining foreign banks is at odds with findings on empirical studies such as the one done by Aydin, Sayim and Yalama (2007) on the relationship between ownership structure and firm performance. Hence, there is a gap in literature regarding the study on the effects of ownership structure on bank profitability in Kenya. The study therefore investigates whether there is an association between Ownership structure and the performance of the 43 commercial banks in Kenya and assess the impact of ownership to the outstanding performance by locally owned and government owned banks. Therefore the research question in this study was: Is there a relationship between Ownership structure and performance of commercial banks in Kenya?

1.3 Research Objective

The research objective of this study is to determine the effect of ownership structure on the financial performance of commercial banks in Kenya.

1.4 Value of the Study

This study will be valuable to enrich empirical studies in the field of banking which has been evolving constantly in terms of operations and ownership structure.

This research material will be very instrumental to various stakeholders in the banking sector in Kenya. For the government as the regulator through CBK who formulate and implement monetary policy and associations such as KBA who endeavor to standardize management practices so as to ensure harmony in the Industry will be able to take into account the impact of their capital decisions on the performance of the entire banking sector.

This study will enable investors in the banking sector to make informed decisions by empowering them with knowledge on how ownership structure of an institution can influence performance of their investment. The study will be so beneficial to institution managers and owners in the banking sector to establish the right capital mix and adjusting it accordingly to optimize the firm returns and enhance growth in the very competitive and dynamic industry.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter reviews a theoretical framework of ownership structure and firm financial. The chapter reviews different financial theories and literature related to the study discussing their proposition and implications to various variables in financial research.

2.2 Theoretical Framework

There are several theories done by scholars in the fields of banking, but the study will focus discussions on three financial theories in relation to the effect of ownership Structure on performance of commercial banks. Namely: institutional Theory, agency theory and the stakeholder theory.

2.2.1 Institutional Theory

This theory states that the institutional environment can highly impact the growth of formal structures in an organization, often more strongly than market pressures. Innovative structures that build up technical efficiency in early-adopting organizations are justified in the environment. Eventually, these innovations attain a level of legitimization where they become legal mandates. At this point organizations both new and existing will implement the structural form including schemes, rules, norms, and routines even if the form does not improve efficiency. Scott (1995)

Since MNCs operate in various regions across the world with discrete political, social and economical environment they normally encounter varied pressures which end up influencing their competitive strategy and human resource management practices. Martinsons (1993) and Zaheer (1995). Therefore, MNCs tend to react differently to challenges of the same nature.

In as much as emerging economies such as Kenya have growth potential there are myriad of political, social and economical challenges which are a huge impediment for institutions trying to operate in such emerging economies. According to Khanna and Palepu (2000) firms should develop business models that are less susceptible to problems. They highlighted that institution performance initially deteriorate with group diversification and afterwards increase once group diversification exceeds a certain threshold level. Since the methods applied in developed countries do not out rightly fit in the emerging markets, new tailored insights and strategies should be created. Both MNCs and local firms have divergent focus when faced with same challenges in emerging markets such as Kenya depending on the caliber of the company.

The implication of this theory to the study is that commercial banks with foreign ownership in Kenya tend to roll out products that have already been in use in other regions including the well developed countries in line with directives and policies from the parent company. The assumption is that such products mostly will not perform well since they are not tailored to suit the specific conditions of the Kenyan market thereby reducing the overall financial performance.

2.2.2 The Agency Theory

The agency problem was developed by Coase (1960), Jensen and Meckling (1976) and Fama and Jensen (1983). The theory states the relationship between principals such as a shareholders, and agents such as a firm's senior management. The principal delegates work to an agent. The theory attempts to deal with firstly, the agency problem where there is a conflict of interest between a company's management and the company's stockholders, and secondly, that the principal and agent settle for different risk tolerances.

There are two main agency relationships in a firm that are normally in conflict; those between the company's management and stockholders and between the stockholders and the debt holders. These agency conflicts have implications on corporate governance and business ethics. Such relationships have expensive agency costs that are incurred so as to sustain an effective agency relationship. Incentive fees paid to agents to encourage behavior consistent with the principal's goals are common examples of agency costs. Bowie and Edward (1992). One of the ways of reducing agency problems is debt financing which helps those problems that are normally related to free cash-flow and asymmetric information problems especially in the case of privately held debt. Secondly, Conflicts of interest between managers and shareholders also arise from the divisions between ownership and control.

Managerial ownership can align the interest between them, hence; reduce the total agency costs. The relationship between managerial ownership and agency costs is linear and the optimal point for the firm is achieved when the managers acquires all of the shares of the company. Jensen and Meckling (1976). Thirdly, Ownership concentration is the other option

of reducing agency costs by shareholders proactively taking active roles in monitoring. This is however dependent on the amounts of their equity stakes. The more the investor's stake, the more motivated they are to monitor and protect their investment. Gilson and Lang (1990). According to Agrawal and Knoeber (1996) agents such as company managers will highly unlikely venture into behaviors that are strictly profit maximizing where shareholders are not strictly monitoring their activities. The implication therefore is that, if owner-controlled firms are high performers than manager controlled firms. The assumption is that concentrated ownership of a commercial bank provides better monitoring which leads to better performance.

2.2.3 Stakeholder Theory

This theory states that managers react to pressures put forth by owner-stakeholders because of legitimacy, power, and urgency considerations. Freeman (1984) suggests that the firm stakeholders influence the top managers who are in charge of strategy development and implementation through resource usage and withholding mechanisms. Murtha and Lenway (1994) suggest that states are able to influence management because they control authority, markets, and property rights which are the main strategic resources by their involvement in the appointment of a firm's top management as well as board members and providing direct or indirect government subsidies and incentives. States involvement in the markets can negatively affect the degrees of openness (free market) or control (closed market). This influence can also manifest itself through property rights in countries where the government has undue powers in regard to property ownership.

The implication of this theory is that most of the policies and market approaches implemented by commercial banks owned by the government are highly subjective to government strategies being rolled out in that period. The assumption is that the state as the major stakeholder supplies resources to these banks but with a lot of 'strings attached'. Therefore, state owned banks will perform well if and only if the ruling government influences competitive strategies.

2.3 Determinants of Financial Performance

Apart from ownership of the firm, there are other factors that have been researched and are deemed to have significant influence on the performance of a firm. According to Aburime (2009) the significance of profitability of banks can be assessed both at the microeconomic and macroeconomic levels. At the microeconomic level, profit is the fundamental driving factor enhancing competition in banks and a necessity for successful banking in the highly competitive banking industry. The implication is that the main objective of every bank management is to capitalize on profit.

There are three major indicators used to measure profitability of commercial banks. The first one is Return on Assets (ROA) which is a ratio of Income to the total assets of the bank. ROA indicates the ability of the bank to realize return on its sources of fund to generate profits. Secondly, Return on Equity (ROE) is the net profit divided by shareholders' equity and is expressed in percent. It indicates how efficient the bank is utilizing funds invested by the shareholder. The thirdly, Net Interest Margin (NIM) indicates the difference between interest income and interest expense as a percentage of total assets. It reflects the gap

between the interest income the bank receives on loans and securities and interest cost of its borrowed funds (Khrawish, 2011)

CAMELS rating system was developed by the Federal regulators in United States of America to assess the overall condition of banks in 1979. Initially the rating was referred to as CAMEL which is an acronym of five component measures of performance namely: Capital adequacy, Asset quality, Management Quality, Earnings Quality, and Liquidity. In 1996 the sixth component- Sensitivity to market risk was added. Siems and Barr (1998)

The CAMELS approach has been adopted worldwide including CBK which uses it in measuring the financial soundness of financial institutions in Kenya. There are several studies that have been done on this approach of performance evaluation. Wirnkar and Tanko (2008) performed a study to establish whether CAMEL is adequate in evaluating the performance of banks on eleven commercial banks operating in Nigeria between 1997 and 2005. The findings revealed that there is inability of each component in CAMEL to comprehensively cover the full performance of a bank.

Dash & Das (2009) did a CAMELS analysis of the Indian Banking Industry by comparing the performance of twenty nine state owned banks with that of twenty nine foreign banks between 2003 and 2008. The findings concluded that foreign banks performed much better than state owned banks. The study underscored that the two factors of the CAMEL parameters that contribute to the best performance of the foreign banks were the management soundness and profitability.

2.3.1 Capital Adequacy

Capital adequacy is the capital level required to maintain balance with the operational, credit and market risks exposure of the financial institution in order to accommodate potential losses and safeguard the debt holders of the financial institution. Bank supervisors use the capital-risk asset ratio to measure the capital adequacy. Karlyn (1984)

Capital adequacy as a component of CAMELS rating focuses on the management ability to deal with marginal capital needs, the nature of the composition of the balance sheet, the quality of capital and ability to access sources of capital including capital markets, the volume of assets and capability of acquiring loans. (Uniform Financial Institutions Rating System, 1997)

2.3.2 Asset Quality

Most banks usually fail owing to poor quality of their assets. Loans are the riskiest assets of a bank with most of the loan losses arising from delinquent loans. Non-performing loans ratio and provision to loan losses reserve are the best indicators of asset quality. Financial institutions are regulated to cushion the bad debts by having adequate provisions to the loan loss reserve. Frost (2004)

Asset Quality is the extent of financial strength and risk in the assets of a bank which comprise of loans and investments. Asset quality indicates the credit risk levels associated with the assets. A comprehensive evaluation of asset quality is one of the most important components in assessing the current condition and future viability of the bank. Asset quality

as a component of CAMELS rating is based on the trend, comparison, quality, diversification and level of loans issued by the bank and investment portfolios, credit rating resulting from off-balance sheet transactions and the ability of the bank to identify and recover risky assets. Grier (2007)

2.3.3 Management Quality

Management quality refers to the ability and competency of the management to detect, evaluate, and mitigate the risks associated with the business activities of the financial institution and also ensure that the operations are compliant with the set rules and regulations. (Uniform Financial Institutions Rating System, 1997)

According to Grier (2007) management is regarded as an integral element in the CAMEL rating since it is fundamental in the success of a bank. Management quality is rated upon the quality and level of supervision by the institutions board of directors and management, adherence to internal policies and adequacy of the internal controls, the leadership and quality of the directors, tendencies towards self-dealing and overall performance of the bank.

2.3.4 Earning Quality

Earnings quality refers to the amount, trend and factors influencing the sustainability of earnings. Poor management can result in significantly high losses in loans leading to high level of market risks. Adequate management ensures that the financial institution registers better future performance in earnings which should be given equal or greater value than previous performances. (Uniform Financial Institutions Rating System, 1997)

Consistent profits develop public confidence in the financial institution, the earnings cushions the bank from loan losses and ensures that the allocated provisions are adequate and most importantly enhances shareholders' value. Profitability ratios are usually used to evaluate the ability of a bank to generate earnings from revenue and assets. As a CAMELS rating component the focus is mainly on the quality, level and sources of earnings, adequacy of retained earnings that provide enough capital to the bank, the efficiency of the bank in terms of levels of operational costs, ability of the bank to budget effectively and manage information systems and also the earnings exposure to foreign exchange, price and interest rates risks. Grier (2007)

2.3.5 Liquidity

Liquidity refers to the ability of the institution to cater for its financial obligations both in the present and in the future. Since financial institutions derive income by raising short-term deposits at lower interest rates and issuing loans and also investing these funds in long-term at higher rates; there is the risk of the bank mismatching its lending interest rates. Rudolf (2009)

A bank should always have sufficient liquidity sources compared to present and future needs, and also have assets that can easily be converted to cash without undue loss. Liquidity as a component of CAMELS rating is based on efficiency of the bank to convert its assets to cash without undue loss, the extent of diversification of funding sources, the stability of the deposits and competency of the bank to monitor and control its liquidity positions. Grier (2007)

2.3.5 Sensitivity to Market Risk

Market risk refers to risk of a change in the value of a financial position arising from changes in the value of factors such as foreign exchange rates, commodity prices, stock prices and bond prices. Market risk is measured as a likelihood of adverse changes in the value of a position with the current market price as a standard. Dowd (2005)

Sensitivity to Market risk reflects the extent to which changes in foreign exchange market rates, commodity prices, interest rates or equity prices affect the financial position and earnings of a financial institution. The sensitivity to market risk component in CAMELS rating focuses on the management ability to detect and control market risk exposures, the characteristics of risk exposures of interest rates occurring from non-trading positions and also characteristics of exposures of market risk occurring from foreign and trading business activities. MakDonald and Koch (2006)

2.3.6 Macroeconomic Factors Affecting Financial Performance

Macroeconomic factors are applicable to a broad economy at national or regional level and affect a large population and are key indicators of economic performance. There are three major macroeconomic factors that affect bank profitability. Namely GDP growth rate, inflation rate and real interest rate.

GDP growth is a measure of the total economic activity and it is adjusted for inflation. It affects to the demand and supply for banks deposits and loans. A positive GDP growth facilitates high demand for credit which in turn positively affects the bank's profitability.

Conversely, demand for credit is low during recession periods which negatively affect the profitability of financial institutions. Bikker and Hu (2002)

Inflation indicates the general price level in the economy and is indicated by the inflation rate. Inflation affects the real value of both costs and revenues. According to Perry (1992) the relationship between the inflation and profitability can have a positive or negative effect on profitability depending on whether inflation is anticipated or unanticipated. If an inflation rate is anticipated, financial institutions adjust interest rate to ensure that the revenues are more that the costs. Conversely, if inflation rate is not anticipated the costs increase more rapidly than revenues.

Real interest rate is the interest rate an investor expects to receive after allowing for inflation. It is the purchasing power growth rate resulting from an investment. Purchasing power is maintained constant by adjusting the nominal interest rate to compensate for inflation rate of growth. The relationship between interest rates and banks performance is positive. As interest rates rise bank profits tend to also increase. Samuelson (1945).

2.4 Empirical Review

The relationship between ownership structure and firm performance has been researched for the last forty years and produced very interesting debate in financial literature. The study will focus on some of the empirical studies conducted both locally and internationally on the relationship of ownership structure and firm performance.

2.4.1 International Evidence

Claessens et al. (1998) did a study on how foreign entry affects domestic banking markets in eighty countries across the world using seven thousand nine hundred observations. Using regression analysis they investigated how overhead, taxes, net interest margins, and profitability differ between foreign and domestic banks. They used accounting data and macroeconomic data for the period 1988-1995. The findings revealed that foreign owned banks are more profitable than the domestic owned banks in developing countries but in well developed countries, the domestic banks perform better than foreign banks.

Bonin et al. (2004) did a study on Bank performance, efficiency and ownership in transition countries. Using data from the period between 1996 and 2000 they investigated the effects of ownership, especially by a strategic foreign owner on bank efficiency for eleven transition countries in an unbalanced panel consisting of 225 banks and 856 observations. Applying stochastic frontier estimation procedures, they computed profit and cost efficiency taking account of both time and country effects directly. In second-stage regressions, they used the efficiency measures along with return on assets to investigate the influence of ownership type. The result revealed that privatization of banks is not enough to enhance their performance. They also concluded that state owned banks are not more inefficient that domestic and private owned banks.

Dadson (2012) did a study on concentrated share ownership and financial performance of listed companies in Ghana. Data on listed firms at the Ghana Stock Exchange over a period of ten years between 1999 and 2008 was used. The study used panel data regression analysis

and performance was measured by using Tobin's Q and ROA. Significant statistical relationships were found in this research. The findings showed that share ownership on the Ghana Stock Exchange is heavily concentrated in the hands of Ghanaians and that ownership concentration, institutional and insider ownership precipitate higher firm financial performance. He recommended that there is the need to encourage concentrated ownership structure and those investments by insider and institutional ownerships should be promoted in order to ensure proper monitoring, reduced agency costs and improve performance.

2.4.2 Local Evidence

Mwathi (2009) studied on the relationship between commercial banks' financial performance and their ownership structure. She categorized them as be private banks, government banks, foreign banks, domestic banks. Using regression analysis, the study was centered on banks where the top 10 shareholders hold more than 50% of the shares for the period between 2004 and 2008 in Kenya. Using ROA as the performance measure, the study revealed that bank ownership structure had a fair positive influence on performance. The findings also showed that both private and state owned banks had a negative correlation with performance. She underscored that both banks that are foreign owned and those owned domestically had a positive correlation with performance. The study hypothesized that commercial banks that are state owned perform dismally than the foreign or domestic commercial banks. The study concluded that widely held banks perform well than closely held ones.

Bwire (2012) did a correlation study to establish whether there are any differences between the profitability of foreign and local banks listed at the NSE by examining the determinants

of their profitability. The sample involved 3 foreign commercial banks and 6 local commercial banks listed at the NSE. Data was scrutinized using correlation analysis, descriptive analysis, and regression analysis. The study showed that there were no significant differences between the performance of foreign and domestic listed banks. The regression findings also revealed that foreign ownership did not affect bank profitability. The study also found that none of the variables had a significant influence on ROA or ROE. The study hypothesized that listed foreign banks in Kenya do not outperform the domestic listed banks.

Maina and Ondongo (2013) studied on the effect of capital structure on financial performance of firms listed at the NSE from year 2002 to 2011 using their financial statements as the secondary data. They conducted their research using Causal research design and Gretl statistical software to perform the panel regression analysis. Its output will be significant to the management of quoted companies and government. The results showed that debt and equity are the main determinants of financial performance of firms listed at the NSE. The findings demonstrated a negative and significant relationship between capital structure (debt equity) and performance implying that the more debt firms use as a financial source the more likely they will perform dismally. The study also showed that firms listed at NSE used more short-term debts than long term.

2.5 Summary of Literature Review

The three financial theories and empirical reviews have all revealed that there is relationship between ownership structure and firm performance and that there is significance influence of firm owners to the way it conducts its business activities. The agency theory has revealed that

agency conflicts can be reduced through ownership concentration which is more effective with investors with large stakes who proactively monitor and protect their investments thereby leading to a higher performance of the firm. This is in line with the recommendation in the study by Dadson (2012). According to the Stakeholder theory State-owned banks tend to implement plans that are subjective to the government strategies which restrict them to optimize their potential in the market which in tandem with the situation in Kenya. The study done by Bonin et al. (2004) further revealed that privatization of state-owned banks is not enough to enhance their performance.

Foreign banks tend to implement products that have been rolled out in other regions which do not automatically suite in the developing economies where they operate thereby resulting to poor performance according to the institutional theory. Nevertheless, there are some strategies that jell in well and turn out to be very successful. Bwire (2012) hypothesized that listed foreign banks in Kenya do not outperform the domestic listed banks; a position supported in the study done by Claessens et al. (1998) which showed that foreign banks are more profitable than the domestic owned banks in developing countries. These two empirical studies reveal a gap since we have seen the opposite outcomes in the recent years in Kenya where domestic banks are performing better than foreign banks.

Therefore this study focused on the effect of ownership structure on the financial performance of commercial banks in Kenya and tries to fill the gaps by establishing the reasons why domestic banks are performing better than foreign banks.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives details of the research design that was adopted in the study of the effect of ownership structure on the financial performance of commercial banks in Kenya, the population of the study, data collection technique and the data analysis technique that was used.

3.2 Research Design

A research design is a blue print through which research participants are obtained including collection of information from them. Heron (1998) defines a research design as a plan for gathering and using data so that desired information is obtained meticulously. According to Cooper (2007) a research design states either the research problem structure, organization or the relationship patterns among the variables of a study and the research plan used to obtain empirical evidence on those relationships.

This study adopted a descriptive study design. According to Maxwell (1998) descriptive study is where information was collected without changing the environment. The reason for using descriptive study in this research is because it is widely used to demonstrate associations between variables and especially in studies involving collection of data using existing record.

3.3 Population

This study focused on all the 43 commercial banks which are fully registered by CBK as at 31 December 2013. (Appendix 1)

3.4 Data Collection

The study used secondary data on bank ownership and accounting data from financial annual reports of all the respective banks from the NSE and in the CBK website for a period of five years between the year 2009 and 2013.

3.5 Data Analysis

Freund (2001) underscores that the main objective of any statistical investigation is to determine relationships that make it feasible to predict one or more variables in terms of other variables. The obtained data was analyzed using Microsoft Excel and the Statistical Package for Social Sciences (SPSS) and then presented in graphs, tables and pie charts to enable effective and efficient interpretation.

3.5.1 Analytical Model

To establish this relationship the study formulated the following regression equation. Model developed by Shojai (1999) is used in this paper to determine the effect of ownership structure on the financial performance of commercial banks in Kenya. The linear regression equation that was used in the study to determine the effect of ownership structure on the financial performance of commercial banks in Kenya was in the following form:-

$$PMC_{it} = \alpha 0 + \beta_1 FRN_{it} + \beta 2 DMT_{it} + \beta_3 GVT_{it} + \beta_4 BCN_{it} + \beta_5 BSZ_{it} + \beta_6 AGE_{it} + u_{it}$$

Where;

PMC_{it} = The measure of the financial performance of the ith bank. This was measured by ROA of the bank

$\alpha 0$ = A constant term which is the intercept of the regression equation

β = Coefficient of the variables where βi represents the sensitivity of a bank i's Performance to changes in the movements of the various variables

FRN_{it} = Foreign Ownership of the ith bank measured by shareholding percentage.

DMT_{it} = Domestic Ownership of the ith bank measured by shareholding percentage.

GVT_{it} = Government Ownership of the ith bank measured by shareholding percentage.

BCN_{it} = The ownership concentration of the ith bank measured by shareholding above 30%

BSZ_{it} = The size of the ith bank

AGE_{it} = The length of existence in years of the ith bank

u_{it} = Stochastic Error Term

i and t represent the bank and time respectively.

3.5.2 Test of Significance

Regression analysis was used. The ANOVA test was done to determine firstly, the impact of independent variables on the dependent variable in the regression analysis and secondly, test the mean score differences and then use T – statistic test to establish the likelihood that there is a link between ownership and performance which are the main data variables. A significance level of 5% was used.

CHAPTER FOUR:

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings on the effect of ownership structure on the financial performance of commercial banks in Kenya, where secondary data on bank ownership and accounting data from financial annual reports of all the respective banks from the NSE and in the CBK website for a period of five years between the year 2009 and 2013.

4.2 Regression Analsyis

In order to determine the effect of ownership structure on the financial performance of commercial banks in Kenya, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 22) to code, enter and compute the measurements of the multiple regressions.

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918[a]	.842	.817	.0193

Source; Research Finding

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.817 an indication that there was variation of 81.7 percent on finacial performance of commercial banks due to changes in foreign ownership, domestic ownership, government ownership, ownership concentration, size of the

bank and age of the bank at 95 percent confidence interval . This shows that 81.7 percent changes in financial performance of commercial banks could be accounted to changes in foreign ownership, domestic ownership, government ownership and ownership concentration, size of the bank and age of the bank. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.898.

Table 4.2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.285	5	0.457	2.126	.003[b]
	Residual	8.170	38	0.215		
	Total	10.455	43			

Source; Research Finding

From the ANOVA statics, the study established the regression model had a significance level of 0.03 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (2.126>1.997) an indication that foreign ownership, domestic ownership, government ownership, ownership concentration, size of the bank and age of the bank significantly influence financial performance of commercial banks. The significance value was less than 0.05 indicating that the model was significant at 5% level of significance.

Table 4.3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	1.350	1.635		.825	.419
	Foreign Ownership	.509	.311	.402	2.637	.017
	Domestic Ownership	.426	.184	.431	2.318	.031
	Government Ownership	.179	.219	.199	3.815	.024
	Ownership concentration	.247	.109	.051	2.266	.004
	Size of the bank	.120	.219	.138	2.546	.001
	Age of the banks	.216	.084	.114	2.401	.011

Source; Research Finding

From the data in the above table the established regression equation was:-

$$Y = 1.350 + 0.509 X_1 + 0.426 X_2 + 0.179 X_3 + 0.247 X_4 + 0.120 X_5 + 0.216 X_6$$

From the above regression equation it was revealed that holding foreign ownership , domestic ownership , government ownership , ownership concentration , size of the bank and age of the bank to a constant zero, financial performance of commercial banks would be at 1.350, a unit increase in foreign ownership would lead to increase in financial performance of commercial banks by a factors of 0.509, a unit increase in domestic ownership would lead to increase in financial performance of commercial banks by factors of 0.426, a unit increase in government ownership would lead to increase in financial performance of commercial banks by a factor of 0.179 , a unit increase in ownership concentration would lead to increase in financial performance of commercial banks by a factors of 0.247,a unit increase in size of the bank would lead to increase in financial performance of commercial

banks by a factors of 0.120 and further unit increase in age of the banks would lead to increase in financial performance of commercial banks by a factors of 0.216. All the variables were significant ($p<0.05$).

4.3 Correlation Analsyis

In this section, the study presents the research finding on the Pearson product moment correlation. Pearson product moment correlation was conducted to determine the strength of relationship between the study variables.

Table 4.4: Correlations

		ROA	FRN	DMT	GVT	BCN	BSZ	AGE
ROA	Pearson Correlation	1	.521	.616	.649	.612	.658*	.708
	Sig. (2tailed)		.868	.898	.694	.924	.035	.011
FRN	Pearson Correlation	.521	1	.253*	.197	.189	.085	.014
	Sig. (2tailed)	.868		.039	.111	.125	.495	.913
DMT	Pearson Correlation	.616	.253*	1	.087	.781**	.048	.048
	Sig. (2tailed)	.898	.039		.483	.000	.697	.697
GVT	Pearson Correlation	.649	.197	.087	1	.065	.465**	.330
	Sig. (2tailed)	.694	.111	.483		.600	.000	.006
BCN	Pearson Correlation	.612	.189	.781**	.065	1	.036	.036
	Sig. (2tailed)	.924	.125	.000	.600		.771	.771
BSZ	Pearson Correlation	.658*	.085	.048	.465**	.036	1	.749*
	Sig. (2tailed)	.035	.495	.697	.000	.771		.000
AGE	Pearson Correlation	.708*	.014	.048	.330**	.036	.749**	1*
	Sig. (2tailed)	.011	.913	.697	.006	.771	.000	

Source; Research Finding

On the correlation of the study variables, the researcher conducted a Pearson Product Moment correlation. From the findings on the correlation analysis between return on assets and foreign ownership, domestic ownership, government ownership and ownership concentration, size of the bank and age of the bank. The stduy revealed that there was no multicollinearity between the variables.

4.4 Interpretation of Findings

From the finding on Adjusted R squared , the study found that there was a variation of 81.7 percent on finacial performance of commercial banks due to changes in foreign ownership, domestic ownership, government ownership, ownership concentration, size of the bank and age of the bank, this shows that 81.7 percent changes in financial performance of commercial banks could be accounted to changes in foreign ownership, domestic ownership, government ownership, ownership concentration, size of the bank and age of the bank. The study further revealed that there was strong positive relationship between financial performance of commercial banks and foreign ownership, domestic ownership, government ownership, ownership concentration, size of the bank and age of the bank.

From the finding on the ANOVA, the study found that foreign ownership, domestic ownership, government ownership, size of the bank and age of the bank significantly influence financial performance of commercial banks. The established regression equation was:-

$$Y = 1.350 + 0.509 X_1 + 0.426 X_2 + 0.179 X_3 + 0.247 X_4 + 0.120 X_5 + 0.216 X_6$$

From the above regression the study revealed that holding foreign ownership , domestic ownership , government ownership , ownership concentration, size of the bank and age of the bank to a constant zero, financial performance of commercial banks would be at 1.350.The study further revealed that a unit increase in foreign ownership , domestic ownership, government ownership, ownership concentration , size of the bank and age of the banks would lead to increase in financial performance of commercial banks.

The study finding concur with finding of Claessens *et al.* (1998) , who found that foreign owned banks are more profitable than the domestic owned banks in developing countries but in well developed countries, the domestic banks perform better than foreign banks. The study finding also agree with the finding of Bonin *et al*. (2004) , who found that revealed that privatization of banks is not enough to enhance their performance. They also concluded that state owned banks are not more inefficient that domestic and private owned banks. Dadson (2012), found that significant statistical relationships were found in this research. The findings showed that share ownership on the Ghana Stock Exchange is heavily concentrated in the hands of Ghanaians and that ownership concentration, institutional and insider ownership precipitate higher firm financial performance. Shleifer and Vishny (1986) posited that equity concentration is more likely to have a positive effect on firm performance in situations where control by large equity holders may act as a substitute for legal protection in countries with weak investor protection and less developed stock markets where they also classify Continental Europe.

The finding of the study disagree with the finding of Mwathi (2009) , who found that both private and state owned banks had a negative correlation with performance. The finding of the study disagree with the finding of Fama (1983); Morck et al.(1988) point to the possibility of *negative entrenchment effects* on firm performance associated with high managerial ownership stakes. For example in areas where legal protection of minority ownership is absent, concentrated ownership is likely to be accompanied by weak and non-transparent disclosures with negative implication for firm performance. A study by Mayer, and Rossi (2007,) report that *"one of the best established stylized facts about corporate ownership is that ownership of large listed companies is dispersed . . . in the U.S. and concentrated in most other countries."* Dispersion of ownership arises when shares are distributed among numerous petty stock holders. However if there is an effective mechanism for legal protection of minority ownership rights, the problem of ownership dispersion may not be great.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to determine the effect of ownership structure on the financial performance of commercial banks in Kenya.

5.2 Summary

The objective of the study was to determine the effect of ownership structure on the financial performance of commercial banks in Kenya. Secondary data on bank ownership and accounting data from financial annual reports of all the respective banks from the NSE and in the CBK website for a period of five years between the year 2009 and 2013. The study had sought to determine the effect of ownership structure on the financial performance of commercial banks in Kenya. From the finding on Adjusted R squared , the study found that there was a variation of 81.7 percent on finacial performance of commercial banks due to changes in foreign ownership, domestic ownership, government ownership, size of the bank and age of the bank, this shows that 81.7 percent changes in financial performance of commercial banks could be accounted to changes in foreign ownership, domestic ownership, government ownership, size of the bank and age of the bank. The study further revealed that there was strong positive relationship between finacial performance of commercial banks and

foreign ownership, domestic ownership, government ownership, ownership concentration, size of the bank and age of the bank.

From the finding on the ANOVA, the study found that foreign ownership, domestic ownership, government ownership, ownership concentration size of the bank and age of the bank significantly influence financial performance of commercial banks. The established regression equation was:-

$$Y = 1.350 + 0.509 X_1 + 0.426 X_2 + 0.179 X_3 + 0.247 X_4 + 0.120 X_5 + 0.216 X_6.$$

From the above regression the study revealed that holding foreign ownership, domestic ownership, government ownership, ownership concentration size of the bank and age of the bank to a constant zero, financial performance of commercial banks would be at 1.350. The study further revealed that a unit increase in foreign ownership, domestic ownership, government ownership, ownership concentration, size of the bank and age of the banks would lead to increase in financial performance of commercial banks.

5.3 Conclusion

From the findings the study revealed that ownership structure positively affects the financial performance of commercial banks in Kenya. The study further revealed that there was strong positive relationship between ownership structure and financial performance of commercial banks in Kenya. Thus study concludes that ownership structure of the banks positively affects the financial performance of commercial banks in Kenya.

The study found that a unit increase in foreign ownership would lead to increase financial performance of commercial banks in Kenya , the study also found that the foreign ownership significantly affect the financial performance of commercial banks in Kenya.

The study established that domestic ownership of the bank significantly affect the financial performance of commercial banks in Kenya, the study also found that a unit increase in domestic ownership leads to increase in financial performance of commercial banks in kenya, thus the study concludes that domestic ownership of the bank significantly affect the financial performance of commercial banks in Kenya.

From the finding the study concludes that government ownership significantly affect the financial performance of commercial banks in Kenya, thus the study concludes that government ownership significantly affect the financial performance of commercial banks in Kenya.

The study concludes that a unit increase in ownership concentration would lead to increase in financial performance of commercial banks in Kenya. The study further revealed that size of the bank and age of the banks significantly affect that the financial performance of commercial banks in Kenya.

5.4 Policy Recommendations

From the finding the study recommends that there is need for commercial banks in Kenya to increase their ownership structure, as it was found that ownership structure positively affects the financial performance of commercial banks in Kenya.

The study recommends that there is need for commercial banks to increase their foreign ownership, as it was found that foreign ownership would lead to increase financial performance of commercial banks in Kenya.

From the finding the study recommends that there is need for the management of commercial banks in kenya to increase their domestic ownership , as it was found that domestic ownership significantly affect the financial performance of commercial banks in Kenya.

The study revealed that a unit increase in ownership concentration would lead to increase in financial performance of commercial banks in Kenya. Thus the study recommends that there is need for commercial banks management to increase ownership concentration.

5.5 Limitations of the Study

The study was limited to establishing the effect of ownership structure on the financial performance of commercial banks in Kenya. The study was limited to 43 commercial in Kenya, the study was limited to five year period from year 2009 to year 2013. The study was

limited to secondary data, which was collected from financial annual reports of all the respective banks from the NSE and in the CBK website.

5.6 Areas for Further Research

The study recommends that a study should be done on the effects of ownership structure on capital adequacy among commercial bank in Kenya. The study recommends that a study should be done on the effects of Central Bank Prudential Regulation on ownership structure of commercial banks in Kenya.

The study recommends that a study should be done on the effects of CBK prudential regulation on ownership structure of commercial banks in Kenya.

REFERENCES

Aburime, U. (2008). *Determinants of Bank Profitability: Company-Level Evidence from Nigeria*. Site: http://ssrn.com/abstract = 1106825

Agrawal, A. & Knoeber, C.R. (1996). "Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders", *Journal of Financial and Quantitative Analysis,* vol. 31, no. 3, pp. 377.

Andersson, J., J. Nordwall & D. Salomonsson (2004). *The link between ownership structure and firm performance: Evidence from Swedens listed companies.* Industrial and Financial Economics Master Thesis No 2004:37, 1-93

Annual Report (2013). *CBK Annual Reports.* April 9th, 2014 Press release from the Central bank of Kenya.Site:*https//www.centralbank.go.ke/index.php/cbk-annual-reports.*

Ansoff, H.I. & Macdonnel E.J. (1990*), Implanting Strategic Management*, Second Edition Prentice Hall.

Aydin, N., M. Sayim & A. Yalama (2007). Foreign Ownership and Firm Performance: Evidence from Turkey. *International Research Journal of Financial Economics,* Issue 11.

Barbara, C, Claudia.G, & Philip, M. (2006). *Introduction to Banking.* Pearson Education Limited.

Barth, J., Caprio, G., R. Levine. (2004). Bank Supervision and Regulation: What Works Best? *Journal of Financial Intermediation*.

Beck, T., Cull, R., Jerome, A., (2004*). Bank Privatization and Performance. Empirical Evidence from Nigeria*, World Bank mimeo.

Berle, A. & Means, G (1932). *The Modern Corporation and Private Property*. Harcourt, Race & World,

Jensen M., & Meckling W., (1976). Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics* 3, pp 305–360.

Maxwell. J.A. (1998). Designing a qualitative study, in L. Bickman & D.J. Rog (Eds.), *Handbook of Applied Social Science Research Methods.* Thousand Oaks, CA: Sage

Bikker, J.A. & Hu, H. (2002). *Cyclical Patterns in Profits, Provisioning and Lending of Banks and Procyclicality of the New Basel Capital Requirements*. BNL Quarterly Review, 221, 143-175.

Bonin J.P., Hasan,I., & Wachtel P.,(2004). Bank performance, efficiency and ownership in transition countries. *Journal of Banking & Finance* 29, pp 31-53

Bowie, N.E. & Edward, F.R (1992). *Ethics and Agency Theory: An Introduction*. New York/Oxford: Oxford University Press.

Bwire, Leslie Keith (2012). *The effect of foreign ownership on the profitability of commercial banks listed at the Nairobi Securities Exchange*. Unpublished MBA project, University of Nairobi.

Casu, B. & C. Giradone (2006). Bank competition, concentration and efficiency in the single European market. *The Manchester School* 74(4): 441-468.

Claessens, S. Asli, D., Harry, H. (1998). *How Does Foreign Entry Affect the Domestic Banking Market*? Revised: May 1998.

Clarke, G., Cull, R., Martinez-Peria, M. & Sancez, S., (2003). *Foreign Bank Entry: Experience, Implications for Developing Countries, and Agenda for Further Research*, World Bank Research Observer 18, 25-59.

Cooper, S. & Owen, D. (2007). Corporate Social Reporting and Stakeholder Accountability: The Missing Link, *Accounting, Organizations and Society*, Vol. 32, No.7-8, pp. 649 67.The Copenhagen Charter (1999). http://www.stakeholder.

Cyrus, W.N. (2013). *Determinants of commercial banks profitability in Kenya: the case of Kenyan quoted banks*. Unpublished MBA project, University of Nairobi.

Dadson Awunyo-Vitor (2012). Concentrated Share Ownership and Financial Performance of Listed Companies in Ghana. *Research Journal of Finance and Accounting*. ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol 3, No 2, 2012

David A Grigorian & Vlad Marole. (2006). Determinants of Commercial Banks Performance in Transition. *A review of commercial banks Performance*. 152-165.

Donald .R.C, & Pamela S.S (2006). *Business research methods* (9th ed.) Mc Graw Hill.

Dowd K. (2005). *Measuring Market Risk*. John Wiley & Sons, West Sussex, 2nd edition.

Duttweiler, Rudolf (2009). *Managing Liquidity in Banks: A Top down Approach*. John Wiley and Sons, p1.

Fama, E.F. & M. C. Jensen (1983). Agency Problems and Residual Claims. *Journal of Law Economics*, 26: 327-49.

Freeman, R. Edward (1984). *Strategic Management: A stakeholder approach.* Boston: Pitman.

Freund J.E (2001). Mathematics Statistics*: Regression and Correlation*, fifth edition. Eastern Economy Edition pg 494

Frost, Stephen M., (2004). *Chapter 20 - Corporate Failures and Problem Loans.* The Bank Analysts Handbook: Money, Risk and Conjuring Tricks. John Wiley and Sons.

Gilson, S., John, K. & Lang, L. (1990). Troubled Debt Restructurings: An Empirical Study of Private Reorganization of Firms in Default, *Journal of Financial Economics*, 27: 315-353.

Gorton, G., & F. A. Schmid, (2000). Universal banking and the performance of German Firms, *Journal of Financial Economics* 58, 29-80.

Grier, Waymond A. (2007). *Credit Analysis of Financial Institutions*. 2nd ed. Euromoney Institution Investor PLC.

Heron, C (1998). Working with Carers. Jessica Kingsley: London. Crystal, J., G. Dages and L. Goldberg. 2001. *Does Foreign Ownership Contribute to Sounder Banks in Emerging Markets: The Latin American Experience*. Staff Reports Series 137. New York, United States: Federal Reserve Bank of New York.

Jankowicz, A, D, (2007). *Business Research Projects* (4th ed.) Luton Business School, United Kingdom.

Jensen, M. (1986). Agency costs of free cash flow, corporate finance and takeovers, *American Economic Review*, Vol. 76 pp.323-9.

Karlyn, Mitchell (1984). Capital Adequacy at Commercial Banks. *The Journal of Economic* Review, p. 17-30. Federal Reserve Bank of Kansas City.

Kenya Bankers Association (2014). *Press Release: History of Banking*. Site: *http://www.kba.co.ke/historyofbanking*

Kenya Vision 2030 (2012). *Press release: The future of Banking* www.vision2030.go.ke/index.php/news/press/80

Kihara, M.N (2006). *Relationship between Ownership Structures, Governance Structure & Performance of Firms Listed at the Nairobi Stock Exchange*, *Unpublished MBA Project, University* of Nairobi.

Kiruri, R. M. (2013). The effects of ownership structure on bank profitability in Kenya. *European Journal of Management Sciences and Economics, 1*(2), 116-127.

Knetter, M.M. (1989). *Price discrimination by U.S. and German exporters*. American Economic Review 79, 198-210.

Khanna, T. & Palepu, K. (2000). The Evolution of Concentrated Ownership in India Broad Patterns and a History of the Indian Software Industry, *National Bureau of Economic Research* pp 18-22

Khrawish, H.A. (2011). Determinants of Commercial Banks Performance: Evidence from Jordan. *International Research Journal of Finance and Economics*. Zarqa University, 5(5), 19-45.

La Porta, Rafael, Florencio Lopez-de- Silanes, Andrei Shleifer, and Robert Vishny, (2002). Investor protection and Corporate Valuation, *Journal of Finance* 57,1147-1170.

MacDonald S.S. & Koch T.W. (2006). *Management of Banking (*6th ed.). Thomson Publisher South-Western, United Kingdom.

Maina L.1& K Ondongo. (2013). *Capital Structure and Financial Performance in Kenya: Evidence from Firms Listed At the Nairobi Securities Exchange***.** Unpublished MBA project, JKUAT.

MakDonald, S. & Koch, T. (2006). *Management of Banking*, (sixth edition), Thomson corporation, USA.

Martinsons, M G (1993). *Cultivating the Strategic Use of Information Technology: Lessons from Hong Kong*, Technology Analysis & Strategic Management.

Mbaabu, M.L. (2010). The Relationship between Corporate Governance, Ownership Structure and Financial Performance of Insurance Companies in Kenya. Unpublished MBA Project, University of Nairobi

McConnell, J.J. & Servaes, H. (1995). Equity ownership and the two faces of debt, *Journal of Financial Economics,* vol. 39, no. 1, pp. 131.

Morck, R., Shleifer, A. & Vishny, R.W. (1988). Management ownership and market valuation: an empirical analysis, *Journal of Financial Economics*, Vol. 20 pp.293-315.

Murtha, Thomas P. & Stefanie A. Lenway (1994). Country capabilities and the strategic state: How national political institutions affect multinational corporations strategies. *Strategic Management Journal* 15, 113-129.

Mwathi, Z.N. (2009). *Relationship between commercial banks financial performance and their ownership structure*. Unpublished MBA project, University of Nairobi.

Nairobi Securities Exchange (2013). Launch of the 2013 Financial Reporting (FiRe) Award. Site: https://www.nse.co.ke/media-center/press-release.html?start=20

Ongore, V.O & Kobonyo, P.O (2011). Effects of Selected Corporate Governance Characteristics on Firm Performance: Empirical Evidence from Kenya, *International Journal of Economics and Financial Issues* Vol. 1, No. 3, 2011, pp.99-122

Pedersen, T. & Thomsen, S. (1997). European Patterns of Corporate Ownership: a twelve-country study, *Journal of International Business Studies,* vol. 28, no. 4, pp. 759.

Perry, P. (1992). Do Banks Gain or Lose From Inflation. *Journal of Retail Banking*, 14(2), 25-30.

Prasad.E, Rajan .R, & Subramanian (2006). *Patterns of International Capital Flows and Their Implications for Economic Development* .New York, Research Dept. IMF.

Richard, H. F. (2005). Agency problems and debt financing: leadership structure effects *Journal of Business Finance & Accounting.* Vol. 43 pp.567-91

Samuelson, P. A. (1945). *The Effect of Interest Rate Increases on the Banking System.* American Economic Review, 35, 16-27.

Santos J., & A. S. Rumble, (2006). The American Keiretsu and Universal Banks: Investing, Voting and Sitting on Non Financials Corporate Boards, *Journal of Financial Economics*.

Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks, CA: Sage.

Schleifer & Vishny (1997). A Survey of Corporate Governance. *Journal of Finance,* Vol. 52(2): 737-783.

Siems, T.F. & Barr, R.S., (1998). *Benchmarking the Productive Efficiency of U.S. Banks*. Financial Industry Studies, Federal Reserve Bank of Dallas, 11-24.

Thuku David, 2002, *Ownership structure and bank financial performance in Kenya*. Unpublished MBA project, University of Nairobi.

Uniform Financial Institutions Rating System (1997). *Statements of Policy*. The United states: Federal Deposit Insurance Corporation (FDIC). *https://www.fdic.gov/ regulations/laws/rules*

Wahid, S. & Rehman, K. (2009). Foreign Banks are more efficient - a Myth or Fact. *International Journal of Business and Management*, 4(11), 116-126.

Wirnkar, AD & Tanko, M ,(2008). *CAMELS and banks performance evaluation:* The way forward, Working Paper, SSRN.

Zaheer S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2): 341-363

Zeitun, R. & Tian, G. G. (2007). Does Ownership Affect a Firms Performance and Default Risk in Jordan? *Corporate Governance* 7 (1), 66-82.

APPENDICES

Appendix I: Appendix II : Summary Data

Banks	SIZE	ROA	FRN	DMT	GVT	AGE	BCN
Kenya Commercial Bank Ltd	0.872	0.027	0.000	0.692	0.308	118	0
Barclays Bank of Kenya Ltd	0.637	0.114	0.566	0.434	0.000	97	0
Standard chartered bank	1.057	0.144	0.571	0.429	0.000	67	0
Co-operative bank	0.347	0.019	0.000	0.601	0.319	43	1
CFC Stanbic Bank Ltd	0.904	0.126	0.447	0.553	0.000	23	1
Equity Bank Ltd	0.963	0.094	0.000	1.000	0.000	30	0
Commercial Bank of Africa Ltd	0.761	0.077	0.000	1.000	0.000	26	1
National Bank of Kenya Ltd	1.029	0.034	0.000	0.000	1.000	46	0
Citibank N.A.	1.303	0.272	0.331	0.669	0.000	29	0
Diamond Trust Bank	1.183	0.187	0.000	1.000	0.000	21	0
NIC Bank Ltd	0.541	0.091	0.000	1.000	0.000	31	0
I&M Bank Ltd	0.862	0.138	0.476	0.424	0.000	21	1
Prime bank	1.067	0.263	0.356	0.724	0.000	27	0
Bank of Baroda	1.701	0.221	0.350	0.650	0.000	26	0
Bank of Africa	0.809	0.215	0.576	0.424	0.000	32	0
Bank of India	1.370	0.092	0.350	0.650	0.000	18	0
Imperial bank	1.079	0.186	0.495	0.505	0.000	31	0
Eco bank	0.716	0.125	0.581	0.419	0.000	29	1
Family bank	1.204	0.342	0.000	1.000	0.000	30	1
Chase bank	1.097	0.053	0.456	0.356	0.000	29	0
Fina bank	0.870	0.124	0.561	0.439	0.000	26	0
ABC Bank	0.942	0.072	0.000	1.000	0.000	19	0
Development bank of Africa	0.762	0.101	0.000	0.000	1.000	51	0
Gulf Africa	1.203	0.049	0.392	0.608	0.000	30	0
Habib AG Zurich	1.198	0.218	0.468	0.532	0.000	21	0

K-Rep Bank	0.747	0.236	0.000	1.000	0.000	30	1
Giro	0.532	0.081	0.487	0.513	0.000	23	0
Consolidated Bank	0.612	0.091	0.000	0.000	1.000	29	0
Guardian Bank	0.903	0.202	0.517	0.403	0.000	17	0
Fidelity Bank	1.629	0.225	0.158	0.842	0.000	15	0
Victoria Commercial Bank	0.942	0.072	0.333	0.667	0.000	24	0
Habib Bank	0.762	0.101	0.235	0.765	0.000	19	0
Southern Credit Banking Corporation	1.203	0.049	0.492	0.508	0.000	13	0
Equatorial Commercial Bank	1.198	0.218	0.468	0.532	0.000	31	1
First Community Bank Ltd	0.747	0.236	0.541	0.459	0.000	7	0
Credit Bank Ltd	0.532	0.081	0.167	0.883	0.000	31	0
Trans-National Bank Ltd	0.612	0.091	0.000	1.000	0.000	26	1
Middle East Bank Ltd	0.259	0.275	0.239	0.761	0.000	21	1
Paramount Universal Bank Ltd	0.848	0.059	0.412	0.588	0.000	17	1
Oriental Commercial Bank Ltd	0.960	0.061	0.179	0.821	0.000	13	0
Dubai Bank Ltd	1.146	0.055	0.304	0.696	0.000	16	1
UBA Kenya Bank Ltd	0.762	0.101	0.366	0.634	0.000	12	1
City Finance Bank Ltd	1.2033	0.0493	0.000	1.000	0.000	3	1

Appendix II: List of Commercial Banks in Kenya registered with CBK as at 31st Decenber 2013.

	BANK NAME
1	African Banking Corporation
2	Bank Of Africa Kenya Ltd
3	Bank Of Baroda(K)
4	Bank Of India
5	Barclays Bank Of Kenya Ltd
6	CFC Stanbic Bank Ltd
7	Charterhouse Bank Ltd
8	Chase Bank(K) Ltd
9	Citibank N .A Kenya
10	Commercial Bank Of Africa Ltd
11	Consolidated Bank Of Kenya Ltd
12	Co-Operative Bank Of Kenya
13	Credit Bank Ltd
14	Development Bank Of Kenya Ltd
15	Diamond Trust Bank Kenya Ltd
16	Dubai Bank Kenya Ltd
17	Ecobank Kenya Ltd
18	Equatorial Commercial Bank Ltd
19	Equity Bank Ltd
20	Family Bank Limited
21	Fidelity Commercial Bank
22	Fina Bank

	BANK NAME
23	First Community Bank Limited
24	Giro Commercial Bank Ltd
25	Guardian Bank Ltd
26	Gulf African Bank Ltd
27	Habib Bank A .G Zurich
28	Habib Bank Ltd
29	Imperial Bank Ltd
30	I & M Bank
31	Jamii Bora Bank Limited
32	Kenya Commercial Bank
33	K-Rep Bank
34	Middle East Bank(K)Ltd
35	National Bank Of Kenya Ltd
36	NIC Bank Ltd
37	Oriental Commercial Bank
38	Paramount Universal Bank Ltd
39	Prime Bank Ltd
40	Standard Chartered Bank Kenya Ltd
41	Trans-National Bank Ltd
42	UBA Kenya Bank Ltd
43	Victoria Commercial Bank