

**THE EFFECT OF OWNERSHIP STRUCTURE ON THE FINANCIAL
PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES
EXCHANGE**

BY

PETER KARIUKI WANJIKU

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DECLARATION

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

Signed..... Date.....

Peter Kariuki Wanjiku

D61/68366/2013

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

University Supervisor

Signed..... Date.....

Herick Ondigo

Lecturer,

Department of Finance and Accounting,

School of Business

University of Nairobi

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DEDICATION

I dedicate this research work to the Almighty God for His provision. To my Mum, Dad, Brothers and Sisters, they made me believe in myself. To my friends, for understanding my absence in many social activities. To my classmates and workmates for their constant morale

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENTS.....	iii
DEDICATION	iv
LIST OF ABBREVIATIONS.....	ix
ABSTRACT	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Ownership Structure	4
1.1.2 Financial Performance	6
1.1.3 The Effects of Ownership Structure on Performance	6
1.1.4 Nairobi Securities Exchange	8
1.2 Research Problem.....	9
1.3 Research Objective	11
1.4 Value of the Study	11
CHAPTER TWO: LITERATURE REVIEW	13
2.1 Introduction.....	13
2.2 Theoretical Review	13
2.2.1 Transaction Cost Theory.....	13
2.2.2 The Agency Theory	15
2.2.3 Stewardship Theory	16
2.3 Determinants of Financial Performance of Listed Firms.....	18
2.3.1 Leverage	18

2.3.2 Liquidity	19
2.3.3 Company Size	20
2.3.4 Companies' Age	20
2.3.5 Capital Structure	21
2.3.6 Risk Management	21
2.3.7 Market Position.....	22
2.4 Empirical Review	22
2.5 Summary of Literature Review	25
CHAPTER THREE: RESEARCH METHODOLOGY.....	27
3.1 Introduction.....	27
3.2 Research Design	27
3.3 Population	27
3.4 Data Collection.....	28
3.5 Data Analysis	28
3.5.1 Analytical Model	28
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION	30
4.1 Introduction.....	30
4.2 Descriptive Statistics	30
4.2.1 Ownership Structure	30
4.2.2 Ownership Concentration.....	30
4.2.3 Size of the Firm	31
4.2.4 Financial Performance	32

4.3 Inferential Statistics	33
4.3.1 Correlation Analysis	33
4.3.2 Regression analysis	34
4.3.3 Analysis of Variance	35
4.4 Interpretation of the Findings	37
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	43
5.1 Introduction	43
5.2 Summary of Findings	43
5.3 Conclusions	47
5.4 Recommendations for Policy and Practice	48
5.5 Limitations of the Study	49
5.6 Areas for Further Research	49
REFERENCES	51
APPENDIX I: FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE AS AT DECEMBER 2015	56
APPENDIX II: RAW DATA	59

LIST OF TABLES

Table 4.1: Descriptive Statistics on Ownership Structure	30
Table 4.2: Descriptive Statistics on ownership concentration	31
Table 4.3: Descriptive Statistics on Firm size.....	31
Table 4.4: Descriptive Statistics on Financial performance	32
Table 4.5: Correlations	33
Table 4.6: Model Summary	35
Table 4.7: ANOVA	35
Table 4.8: Table of Coefficients.....	36

LIST OF ABBREVIATIONS

NSE- Nairobi Securities Exchange

ROA-Return on Assets

ROE-Return on Equity

ROI-Return on Investment

SPSS-Statistical Package for Social Science

TCT-Transaction Cost Theory

UK-United Kingdom

USA-United States of America

ABSTRACT

The issue of corporate governance has become obverse and centre of the agenda for both business leaders and regulators all over the world. Shareholders are always regarded as the corporate owners, while directors are agents or representatives of shareholders who are supposed to allocate business resources in a way to increase their wealth. In Kenya, a number of problems relating to the way companies are controlled and directed have been identified. These problems range from errors, mistakes to outright fraud. The origins of these problems range from concentrated ownership, weak incentives, and poor protection of minority shareholders to weak information standards. The research sought to establish the effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange, the study was based on transactions cost theory, the agency theory and steward theory. Both cross sectional and descriptive survey method were employed. The target population consisted of all the stocks listed at NSE as at 31st December 2014. Secondary data was used in this study; specifically the study used financial statements the data was coded using SPSS (version 21). Descriptive statistics was used to summarize the data, this included the use of weighted means, standard deviation, SPSS (version 21) has descriptive statistics features that assisted in variable response comparison and gave clear indications of response frequencies. Pearson moment correlation was conducted to establish the linear relationship between study variables. Regression analysis was conducted to establish the nature of the relationship. The study noted that ownership structure is one of the most important factors in shaping the corporate governance system of any country and that study found ownership concentration alleviates the conflict of interest between owners and managers thus promoting better monitoring, capital requirements not only strengthen financial stability by providing a larger capital buffer, but also improve firm's efficiency, bigger firms are in better position to raise the barriers of entry to potential entrants as well as gain leverage on the economies of scale to attain higher profitability, older firms are better experienced in choosing and employing information, experience and organizational competencies provided by age help firms to develop their operations in more efficient way, especially the operations relating innovation. The study concludes that ownership structure, ownership concentration, increase in firm and firm size had a positive impact of financial performances of companies listed in NSE. The research recommends that the firms' should therefore strike a balance between their choice of capital structure and ownership concentration as they were found to effect on its performance as it affect the shareholders risks, returns and the cost of capital. firms should equally watch over growth in financial leverage as this would undermine their performance, the study recommend that, firm managers should monitor the institution's growth to ensure that both size and age increase with firm performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The issue of corporate governance has become obverse and centre of the agenda for both business leaders and regulators all over the world. Shareholders are always regarded as the corporate owners, while directors are agents or representatives of shareholders who are supposed to allocate business resources in a way to increase their wealth. The motivation of many shareholders for investment in businesses is profit not control (Kadivar, 2006). The principles of corporate governance include issues like measure of management, level of control and manner of interaction between the great and little shareholders. Ownership structure ranges from individual to collective; this causes new problems in the area of financial resource management. Berle and Means (1932) considered it as agency problem (Morey et al., 2008) opines that this may cause conflict of interest and agency problems.

A variable of corporate governance i.e. shareholders structure, and the relationship between shareholders structure (ownership structure) and the performance of firms is an important and continued subject in the field of financial management (Ezazi et al., 2011) for analyzing this relationship, up to now different aspects of ownership structure are considered, for instance being managerial or non-managerial shareholders, shareholders concentration or dispersion, being whole or retail, being internal (domestic) or being foreign shareholders, being institutional or individual shareholders.

It is generally accepted that there are distinct ownership structure differences between countries. Weimer and Pape (2009) have ranked countries in different systems (Anglo-

Saxon, Germanic, Latin and Japan). The basic differences are in orientation, ownership concentration and time horizon of economic relationships (Shleifer & Vishny, 2007). Ali et al. (2007) reported that family firms of the SP 500 firms, own on average the 11% of their firms, while in Continental Europe the ownership percentage is more than 35%. Franks et al. (2008) report that in UK ownership concentration is 18%, while in Germany the percentage is 43% and in Italy 68%. Faccio and Lang (2002) pointed that shareholder structures are quite diverse across countries, with dispersed ownership being much more frequent in US and UK listed firms, compared to Continental Europe, where controlled ownership is prevalent. Faccio and Lang (2002) report in a study of 5232 publicly traded corporations in 13 Western European countries that only 36.93 % were widely held firms. In addition, cross-country studies of La Porta et al. (2009) point out that ownership of large companies in rich economies is typically concentrated; that control is often exercised through pyramidal groups with a holding company at the top controlling one or more subsidiaries; and that the controlling shareholders are often actively involved in company management and sit on the board of directors.

Although some companies in the United States are controlled by large shareholders such as Microsoft, Ford and Wal-Mart, such firms are relatively few and have thus drawn less attention in the corporate governance debate (Anderson & Reeb, 2006). The differences in ownership structure have two obvious consequences for corporate governance, as surveyed in Gorga, (2008). 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. Enrique and Volpin (2007) for a detailed

description of the differences in the ownership structure of companies in the main economies of continental Europe with comparisons to the United States and the United Kingdom.

In Zambia, Fernando, (2009) pointed that ownership and control is rarely fully separated within any firm. The controllers often have some degree of ownership of the controlled firm's equity. Several owners also have some control over the firms they own, due to the size of their equity positions. Ownership structure, namely the identities of the firm's equity holders and the size of their equity positions is a potentially important element in corporate governance. An important step in understanding the reality of corporate governance in a given firm is thus to understand the ownership structure and the consequent potential to exercise power and influence over the firm.

Although Kenya does not generally set minimums for Kenyan ownership of private firms or require companies to reduce the percentage of foreign ownership over time, a number of sectors do face restrictions. According to the World Bank's (2010) Investing across Borders Report, Kenya restricts foreign ownership in more sectors than most other economies in sub-Saharan Africa. Foreign brokerage companies and fund management firms must be locally registered and have Kenyan ownership of at least 30% and 51%, respectively. Foreign ownership of equity in insurance and telecommunications companies is restricted to 66.7% and 80% respectively, although the government allows telecommunications companies a three-year grace period to find local investors to achieve the local ownership requirements. There is discussion of scrapping the local ownership policy in telecommunications entirely. Foreign equity in companies engaged in fishing activities is restricted to 49% of the voting shares under the Fisheries Act. At

least one area has seen increased restrictions on foreign ownership: as noted above, a law passed in June 2007 decreased the level of foreign ownership allowed for companies seeking a listing on the NSE from 75 to 60%. This change was not applied retroactively. Foreign investors are free to obtain financing locally or offshore. As noted above, there is no discrimination against foreign investors in access to government-financed research, and the government's export promotion programs do not distinguish between local and foreign-owned goods.

1.1.1 Ownership Structure

Ownership structure is the identity of company ownership. There are two types of ownership structure, dispersed ownership and concentrated ownership, (Gorga, 2008). Ownership concentration is determined by the number of shares that is held by the three biggest shareholders and counted with Herfindahl index which is the square amount of share proportion (in percent), (Firth et al., 2006). Ownership structure is widely accepted in the finance and economics literature as an instrumental determinant of firm performance. For example, a specific feature of ownership structure that has received much attention is how insiders versus outsiders can affect a firm's performance (Booth, 2007). In addition to insider versus outsider stock ownership, another important dimension of ownership structure is state or public ownership versus private ownership structure.

Zhuang (1999) argue that ownership structure is one of the most important factors in shaping the corporate governance system of any country. This is because it determines the nature of the agency problem. That is, whether the dominant conflict is between managers and shareholders, or between controlling and minority shareholders. Zhuang

identified two important aspects of corporate ownership structure as concentration and composition. According to him, the degree of ownership concentration in a firm determines how power is distributed between its shareholders and managers. When ownership is dispersed, shareholding control tends to be weak because of poor shareholder monitoring the author affirms. For instance, a small shareholder is unlikely to be interested in monitoring because he/she would bear all the costs of monitoring hence share a small proportion of the benefits (Zhuang, 1999). This raises the question, what if all small shareholders behave this way. Then no monitoring of managerial efforts would take place. Zhuang further argues that when ownership of a company is concentrated, large shareholders would play an important role to monitor the management. However, he says that the only problem with this form of ownership is how minority shareholders would be protected from exploitation by controlling shareholders who may act in their own interests at their expense. Secondly, ownership composition tries to define who the shareholders are and who among them belongs to the controlling groups.

It can be assumed that better overlap between ownership and control should indeed lead to a reduction in conflicts of interest therefore higher firm value (Holderness, 2009). He further states that it can be complicated when looking at how ownership, control and firm value are related. For example, management owning a company can serve to better put in line managers' interests with those of the shareholders of the company. On the other hand, if managers and shareholders' interests are not completely aligned, higher stake in the company can give managers greater freedom to pursue their own goals without fear of reprisal. Hence, the effect of managerial ownership on the value of the firm depends on

the trade-off between the alignment and entrenchment effects (Denis & McConnell, 2002).

1.1.2 Financial Performance

Financial performance is measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment (ROI), return on assets (ROA), value added, and growth in sales, profitability, organization effectiveness and business performance Venkatraman et al. (1986). Financial performance is measured using key ratios to evaluate the financial position and income of a firm. These include ratio of net income to average assets called return on assets or ROA, net income to equity called return on equity or ROE, net income to total investment called return on investment or ROI (Green et al. 2007).

Measuring financial performance accurately is critical for accounting purposes and remains a central concern for most organizations. Performance measurement systems provide the foundation to develop strategic plans, assess an organization's completion of objectives, and remunerate managers (Ittner&Larcker, 1998). While consensual measurement of performance promotes scholarly investigations and can clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged.

1.1.3 The Effects of Ownership Structure on Performance

One of the most important trademarks of the modern corporation is the separation of ownership and control. Modern corporations are typically run by professional executives who own only a small fraction of the shares. Firm performance is supposed to be

independent from the ownership structure in the absence of agency cost. However, in the real world, the agency cost generated from principal-agent problems exists widely. Equity ownership structure as an important mechanism in corporate governance (Denis and McConnell, 2003), influence the quality of corporate governance and its ability to reduce agency costs (Berk&DeMarzo, 2007). The path dependent argument (Coffee, 1999 &Dyck, 2004) state that the ownership structures are path dependent, and are determined by the vested interests. Therefore, the current ownership structure may not be the most efficient one. Thus, testing the relationship between ownership structure and financial performance could help the investors to gain value by optimizing the firm's ownership structure.

Thomsen and Pedersen (2000) have found that a positive association between ownership concentration and accounting profitability. Similarly, even in recent period there are evidence that ownership concentrated companies perform financially better than ownership dispersed firms. Lloyed, et al. (1987) finds that the company market value-to-sales ratio to be greater for ownership concentrated firms. Ownership structure has two implications; i.e. structure of ownership (share percents of state, legal or institution, domestic individual holders) and ownership concentration (share percents of top five or 10 holders). The typical achievement among ownership structure and firm performance researches are the results of Jensen and Meckling. They divided shareholders into internal (investors with management right) and external shareholders (investors without ballot right). The conclusion of their research was that value of a firm depends on the internal shareholder's share, which is called ownership structure. Theoretically, the more the internal shareholder's share the higher the firm value. The researchers also defined firm

value as a function of ownership structure. Because ownership structure has links with corporate governance, it can have both positive and negative effects on corporation governance (Jiang 2004).

Zechhouser and Pown (1990) find that price/ earnings ratio and ownership concentration has a positive relationship. Further, Thomsen and Pedersen (2000), taking a sample of 435 of largest European companies, find that after controlling for other variables, ownership concentration has a positive relation with market to-book value of equity as well as ROA. However, the effect is level off for high ownership shares. Further, they find that ownership identity has important implications for corporate strategy and performance. More recently, Leng (2004) finds that after controlling the effects of other factors, proportion of shares held by institutional investors significantly influenced on ROE in Malaysian listed companies.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange, which was formed in 1954 as a voluntary organization of stockbrokers, is now one of the most active capital markets in Africa. As a capital market institution, the Nairobi Securities Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The Nairobi Securities Exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares. Companies can also raise extra finance essential for expansion and development. To raise funds, a new issuer publishes a prospectus, which gives all pertinent particulars about the operations and

future prospects and states the price of the issue. Nairobi Securities Exchange also enhances the inflow of international capital. They can also be useful tools for privatization programmes.

Nairobi Securities Exchange also enhances the inflow of international capital. They can also be useful tools for privatization programmes. It is generally accepted that firms declaring stock distributions of 25 per cent or greater consider them as stock splits which, therefore, have no effect on retained earnings. Stock distributions of less than 25 per cent are considered as stock dividends that reduce the retained earnings account. Firm's at the Nairobi Securities Exchange are still characterized by higher ownership concentration providing the controlling shareholders with the opportunity to use their power to undertake activities intended to obtain personal gains to the detriment of minority shareholders and other stakeholders while adversely affecting the firms' performance.

1.2 Research Problem

Global events concerning high-profile corporate failures have put back on the policy agenda and intensified debate on the efficacy of corporate governance mechanisms as a means of increasing firm performance (Sanda et al., 2005). Since the beginning of the 21st century, serious financial scandals and many cases of corporate mismanagement brought about an increasing attention to corporate governance, in a close relation with business ethics issues. In academic literature, as well as in public policy debates, corporate governance is nowadays acknowledged as a critical factor in economic development and financial markets stability the researchers affirm (Sanda et al., 2005).

In Kenya, a number of problems relating to the way companies are controlled and directed have been identified. These problems range from errors, mistakes to outright fraud. The origins of these problems range from concentrated ownership, weak incentives, and poor protection of minority shareholders to weak information standards (Ongore & K'Obonyo, 2011). Despite impressive performance at the Nairobi Securities Exchange, firm's at the Nairobi Securities Exchange are still characterized by higher ownership concentration providing the controlling shareholders with the opportunity to use their power to undertake activities intended to obtain personal gains to the detriment of minority shareholders and other stakeholders while adversely affecting the firms' performance.

Given the importance of company's ownership concentration in corporate governance mechanisms, studies on ownership concentration and performance of firms have yielded non-conclusive empirical findings. Local studies done on ownership structure include Mbaabu (2010) who 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. Kiruri (2013) also did a study on the effects of ownership structure on bank profitability in Kenya. The study established that higher ownership concentration and state ownership lead to lower profitability in commercial banks. The study also found that higher foreign and domestic ownership lead to higher profitability in commercial banks. Others (Ongore, et al. 2011) carried out a study on implications of shareholder types on financial performance and

indicated a significant negative relationship between ownership and financial performance for government owned firms.

The study intends to address the research gap; that is the effect of ownership structure on financial performance of firms listed in Nairobi securities exchange. What are the effects of ownership structure on financial performance of a firm?

1.3 Research Objective

To establish the effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange.

1.4 Value of the Study

This study will be valuable to both the existing and potential investors in these listed firms to make informed decisions by enlightening them with knowledge of how ownership structure of an institution can influence performance of their investment. The study will be so beneficial to institution managers of these firms to establish the right capital mix and adjusting it accordingly to optimize the firm returns and enhance growth and increase the competitive advantage.

Findings of this study are expected to be of great importance to various researchers involved in policy making. The documented report of this study will be easily acquired in the library and it will equip the learners with more knowledge and skills on effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange. The study will further make a myriad contribution to the literature on effect of ownership structure on financial performance which will be part of articles that will be

useful to researchers who want to further in this study and to other wider stakeholders in academic circles.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter provides an extensive literature and research related to ownership structure and effect of ownership structure on organization financial performance. This literature review summarizes a diverse spectrum of views about ownership structure. The chapter is thus structured into theoretical and empirical review. The study also presents the knowledge gap the chapter seeks to fill.

2.2 Theoretical Review

Several theories have been done by scholars especially in the field of finance, but the study will focus discussions on three financial theories in relation to the effect of ownership Structure on listed firms. These theories are; transaction cost theory, agency theory and the stewardship theory.

2.2.1 Transaction Cost Theory

The transaction cost theory is based on the work of Coase (1937) where he explains the existence of firms as an organization that is able to undertake the certain transactions at a lower cost comparing to the market until it expands to the point where ‘the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm. Later Williamson (1971) and Alchian and Demsetz (1975) contribute to the TCT by introducing the market failures and firm inefficiency and come to the conclusion that there is a need to work out the trade-off that characterize firm and market organization as these vary with the attributes of transactions.

Williamson (1979) describes three aspects of transactions: the frequency of the transaction; the uncertainty of the transaction; the type and degree of asset specificity. Asset specificity refers to the extent the cost or investment in a transaction relationship is recoverable and can be used in another relationship. Thus high asset specificity brings risk in the contract because the party with higher bargaining power could try to renegotiate the contract by the threat of cancellation. Moreover, in the process of transaction, information asymmetry and bounded rationality lead to the fact that not all the contingencies can be predicted ex ante, and, as a consequence, incomplete contracts occur. Transactions will therefore have to yield high rents or not occur in the worst case due to unwillingness to take on inherent risk of opportunistic behaviour.

A way to overcome this dilemma is through governance mechanisms (economic organization), which varies in controlling instruments and consequently lead to different levels of incentive intensity and control property, and therefore has impact on the incurring transaction costs. Williamson (1991) further compares the cost-effective choice of three organization forms (market, hierarchy and hybrid) and found that market is optimal for the transactions that are 'sharp in by clear agreement; sharp out by clear performance, while hierarchy is optimal for the transactions with high asset specificity. Hybrid mechanism displays the intermediate characteristics comparing with market and hierarchy. The choice of the organization form depends on the characteristic of the transaction. TCT is applied in corporate governance theories to explain principal-agent problems and ownership structure. Holmstrom & Milgrom (1991) use TCT to analyze the multidimensional tasks in the principal-agent model. Different instruments including employment contracts, ownership assignment, private activities limitation, are analyzed

based on their cost and incentive benefit in solving the principal-agent problems. Considering the high performance measurement cost, the author suggests analyzing incentive problems in totality. To be more specific, the corporate governance instruments should be combined together in analyzing the opportunity cost and measurement cost of every aspect of the agent's performance to achieve the lowest uncertainty and cost.

According to Grossman and Hart (1986), asset specificity and ex post bargaining problems will drive the preference for integration of parties, to reduce opportunity costs. While in the process of integration, the allocation of ownership is accompanied by costs and benefits. The optimal ownership structure is thus to minimize the overall loss in surplus due to investment distortions [instead of maximizing] the total ex ante net benefits. In another word, the optimal ownership structure is in place when transaction costs are minimized in the long run.

2.2.2 The Agency Theory

According to the agency theory of the firm espoused by Jensen and Mekling (1976), the modern corporation is subject to agency conflicts arising from the separation of the decision-making and risk-bearing functions of the firm. In this setting, Jensen and Mekling (1976) show that managers have a tendency to engage in excessive perquisite consumption and other opportunistic behavior since they receive the full benefit of such activity but bear less than their full share of the costs. Jensen and Meckling (1976) refer to this as the agency cost of equity and show that it could be mitigated by increasing managerial ownership in the firm, thus forcing managers to bear the wealth consequences of their actions. More importantly, the seminal work of Jensen and Meckling (1976), suggest that the managerial ownership could serve as a positive monitoring substitute in

the agency relation in aligning the managerial interest with those of outside shareholders. They further argued that if there were no debt contracts, agency problem reduces to moral hazard between the manager and owners.

Managerial interests may prevail when governance mechanisms are weakly placed, as is exemplified by allowing managers a significant amount of autonomy to make strategic decisions. Ownership concentration as a governance mechanism has received considerable interest because large-block shareholders are increasingly active in their demands that corporations adopt effective governance mechanisms to control managerial decisions. While, diffuse ownership (a large number of shareholders with small holdings and few, if any, large-block shareholders) produces weak monitoring of managers' decisions. Diffuse ownership (individual owners) also makes it difficult for owners to effectively coordinate their actions. Higher levels of monitoring could encourage managers to avoid strategies decisions that harm shareholder value. In fact, research evidence shows that ownership concentration is associated with lower levels of firm product diversification. Thus, with high degree of ownership concentration, the probability is greater that managers' strategic decisions will be intended to maximize shareholder value. Much of this concentration has come from increasing equity ownership by institutional investors.

2.2.3 Stewardship Theory

Stewardship theorists, suggest that directors frequently have interests that are consistent with those of shareholders. Donaldson and Davis (1991) suggest an alternative model of man where organizational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently

challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses (Donaldson & Davis, 1991). They observed that where managers have served a corporation for a number of years, there is a merging of individual ego and the corporation (Donaldson & Davis, 1991). Equally, managers may carry out their role from a sense of duty. Citing the work of Silverman (1970), Donaldson and Davis argued that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige. Davis, et al. (1997) argued that a psychological and situational review of the theory is required to fully understand the premise of stewardship theory. Stewardship theory holds that there is no inherent, general problem of executive motivation (Cullen, et al. 2006). This would suggest that extrinsic incentive contracts are less important where managers gain intrinsic satisfaction from performing their duties.

The stewardship perspective suggests that the attainment of organizational success also satisfies the personal needs of the steward. The steward identifies greater utility accruing from satisfying organizational goals than through self-serving behaviour. Stewardship theory recognizes the importance of structures that empower the steward, offering maximum autonomy built upon trust. This minimizes the cost of mechanisms aimed at monitoring and controlling behaviours (Davis, et al. 1997). Daily et al. (2003) contend that in order to protect their reputations as expert decision makers, executives and directors are inclined to operate the firm in a manner that maximizes financial performance indicators, including shareholder returns, on the basis that the firm's performance directly impacts perceptions of their individual performance. According to Fama (1980), in being effective stewards of their organization, executives and directors

are also effectively managing their own careers. Similarly, managers return finance to investors to establish a good reputation, allowing them to re-enter the market for future finance (Shleifer & Vishny, 1997).

2.3 Determinants of Financial Performance of Listed Firms

There are several determinants of financial performance of listed firms. This study focuses on seven of these determinants which are; leverage, liquidity, company size, companies' age, capital structure, risk management and market position.

2.3.1 Leverage

Leverage refers to the proportion of debt to equity in the capital structure of a firm. The financing or leverage decision is a significant managerial decision because it influences the shareholder's return and risk and the market value of the firm. The ratio of debt-equity has implications for the shareholders' dividends and risk, this affect the cost of capital and the market value of the firm (Pandey, 2007). Gupta et al (2010) cited some studies showing contradictory results about the relationship between increased uses of debt in capital structure and financial performance. Ghosh, Nag and Sirmans (2000), Berger and Bonaccorsi di Patti (2006) reported a positive relationship between leverage and financial performance, while Gleason et al (2000), Simerly and Li (2000) showed negative relationship between financial performance and leverage level. Similarly, Zeitun and Tian (2007) found that debt level is negatively related with financial performance.

Several researchers have studied firms' debt use and suggested the determinants of financial leverage by reporting that firm's debt-equity decision is generally based on a trade-off between interest tax shields and the costs of financial stress (Upneja&Dalbor,

2001). According to the trade-off theory of capital structure, optimal debt level balances the benefits of debt against the costs of debt (Gu, 1993) hence, use of debt to a certain debt ratio results in higher return on equity, however, the benefit of debt would be lower than the cost after this level of capital structure. In other words, the more a company uses debt, the less income tax the company pays, but the greater its financial risk. Based on the trade-off theory for capital structure, firms can take advantage of debt to make a better return on equity.

2.3.2 Liquidity

The International Financial Reporting Standards (2006) define liquidity as the available cash for the near future, after taking into account the financial obligations corresponding to that period. Liargovas and Skandalis, (2008) argues that firm can use liquid assets to finance its activities and investments when external finance are not available. On the other hand, higher liquidity can allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings.

Almajali et al (2012) found that firm liquidity had significant effect on Financial Performance of insurance companies. The result suggested that the insurance companies should increase the current assets and decrease current liabilities because the positive relationship between the liquidity and financial performance. In contrast to the above reasoning, based on a theoretical model by Jovanovic (1982) suggested that a moderate amount of liquidity may propel entrepreneurial performance, but that an abundance of liquidity may do more harm than good. Therefore, they concluded that the effect of liquidity on firms' financial performance is ambiguous.

2.3.3 Company Size

Previous studies in finance have shown that company size can predict the future stock price (Simerly & Li, 2000). For instance, Hvide and These (2007) in their study concluded that larger firms have better performance. Flamini et.al (2009) suggested that bigger firms are more competitive than smaller firms in harnessing economies of scale in transactions and enjoy a higher level of profits. Athanasoglou et al., (2005) assert that increase in company size increases the performance of the bank. Almajali et al (2012) argued that the size of the firm can affect its financial performance. However, for firms that become exceptionally large, the effect of size could be negative due to bureaucratic and other reasons (Yuqi, 2007).

2.3.4 Companies' Age

Examining the relation between firm age and financial performance would seem to be relevant for both theory and practice. If performance declines as firms grow older, it could explain why most of them are eventually taken over (Loderer et al., 2009). Age could actually help firms become more efficient. However, old age may also make knowledge, abilities, and skills obsolete and induce organizational decay (Agarwal & Gort, 2002).

Sorensen and Stuart (2000) argued that companies age affect the firm's performance. They further argued that organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment. Liargovas and Skandalis (2008) reported that older firms are more skilled since they have enjoyed the benefits of learning and not prone to the liabilities of newness, hence they have a superior performance. Loderer et al, (2009) found a positive and significant relationship between

the age of a company and profitability. Malik (2011) in his Pakistan study found that there is significantly positive relationship between company size and profitability.

2.3.5 Capital Structure

Every industry requires a substantial amount of resources, whether it is land, labor or capital employment of all required finances. These finances can either be generated internally (retained earnings) or hired from outside sources (loans and bonds). The decision of selection of the source of finance is based on the cost associated with them and the capital structure of firm. Capital structure is also an important factor that determines the performance of a firm. Capital structure refers to the ratio of debt and equity financing. In case if more debt financing the company has to face certain bankruptcy risk, but there are also some tax and monitoring benefits associated with debt financing (Su & Vo, 2010). It also mitigates the agency conflict by reducing the free cash flow of the firm. There should be an appropriate capital structure that generates the maximum profit for the organization, as too less equity financing increases the control of the owners to a large extent (Abu-Rub, 2012).

2.3.6 Risk Management

Risk management of a firm may also impact its performance. Risky firms tend to attract only risk taking investors. The relationship of risk and returns has to be managed so that the investors do get the return associated and expected with the risk they are bearing. Organizations have come to recognize the importance of managing all risks and their interactions, not just the familiar risks, or the ones that are easy to quantify. Even seemingly insignificant risks on their own have the potential, as they interact with other events and conditions, to cause great damage. According to Saunders and Cornett (2006)

suggested that modern institutions are in the risk management business as they undertake the functions of bearing and managing risks on behalf of their customers through the pooling of risks and the sale of their services as risk specialists. Given the importance of risk management in a company's functioning, the efficiency of a company's risk management is expected to significantly influence its performance (Harker & Satvros, 2008).

2.3.7 Market Position

A company's financial performance is directly influenced by its market position. Profitability can be decomposed into its main components: net turnover and net profit margin. Ross et al. (1996) argues that both can influence the profitability of a company one time. If a high turnover means better use of assets owned by the company and therefore better efficiency, a higher profit margin means that the entity has substantial market power.

2.4 Empirical Review

Some studies investigate the effect of ownership concentration on growth and risk. For example, Larner (1966) did a study on the effect of ownership concentration on growth and risk in the largest 500 US non-financial firms using a sample of 187. He used the variance in profit/equity ratio as an expression of risk and tested its dependence on the ownership concentration. The study found that there is an insignificant positive relationship between manager-controlled firms (as opposed to owner-controlled) and a high variance in profit/equity. In other words low ownership concentration may imply higher risk.

Radice (1971) did a study in the UK using a sample of 86 large UK firms to test the relationship between the growth in net assets and ownership concentration. The study finds that owner-controlled firms tend to have higher profit rates and growth rate. La Porta (2002), also did a study on Investor protection and Corporate Valuation. The study found out that low investor protection will lead to higher ownership concentration in order to protect the benefits of minority shareholders, even at the cost of increased private control benefits for block holder. The cost-efficiency of monitoring by block holders yields a better performance of the firm. However, in the cases where there is a large divergence of control right and cash flow right, block holder has less incentive to monitor the managers to pursue profit-maximization goal.

Most other studies like Brailsford, et al. 2002; Holderness 2003; Edwards and Weichenrieder, 2004 investigate the effect of ownership concentration on profitability and valuation rather than growth and risk. Positive effect of ownership concentration on corporate performance (measured by profitability and valuation) is found in many studies. The main explanation of the positive effect is that block holders has both the ability and the incentive to monitor and control agents, in order to operate the firm for the good of the shareholders. This is defined as incentive alignment.

Having analyzed the panel data of 47 firms listed in Nairobi Stock Exchange during 1999 to 2003, Coolman and Biekpe (2006) revealed that firms with larger board of directors enjoy more debts for financing and firms in which CEO plays the role of chairman or vice chairman enjoy less debt for financing. Dadson (2012) also did a study on concentrated share ownership and financial performance of listed companies in Ghana. He used Data on listed firms at the Ghana Stock Exchange over a period of ten years

between 1999 and 2008. His 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.

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.

A correlation study was also done by Bwire (2012) to establish whether there are any differences between the profitability of foreign and local banks listed at the Nairobi stock exchange. In doing so he examined 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.

Maina and Ondongo (2013), also did a study 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.

2.5 Summary of Literature Review

This Chapter looked at the literature review which included the discussion of the theoretical framework. The study focused agency theory that posits that the effect of good corporate governance on expected returns is more profound for firms with higher free cash but poor investment opportunities and for firms with lower insider ownership. Stewardship theory, suggests that managerial opportunism is not relevant. The aim of management is to maximize the firm's performance since that speaks of the success and achievements of management while the transactional cost theory posits that the existence of firms as an organization that is able to undertake the certain transactions at a lower cost comparing to the market until it expands to the point where the costs of organizing an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organizing in another firm.

The chapter also has presented empirical studies that found no statistically significant relationship (positive or negative) between ownership structure and performance. Finally, the chapter shows the research gap that this study aims to bridge. Demsetz and Villalonga (2001) for instance, find little evidence that ownership structure is correlated with firm performance. Thomsen, Pedersen and Kvist (2006), on the other hand, report that there is

a positive relation between firm value and ownership by institutional investors. Seifert, Gonenc and Wright (2005) study does not find a consistent relationship across countries. They conclude that their inconsistent results may reflect the fact that the influence of institutional investors on firm performance is location specific. The above studies generally consider institutional investors as a monolithic group. However, Andersen and Reeb (2003) as well as La Porta, Lopez de Silanes, Shleifer and Vishny (2000) theorizations suggest that shareholders are differentiable and pursue different agendas. Thomsen et al. (2006) also show that ownerships structure by different groups have different effects on the firm performance. Therefore, it is important to explore the effect of segmented ownership structure on firm value. Thus this study aims to bridge this knowledgeable gap by investigating the effect of ownership structure on financial performance of firms listed at the Nairobi securities exchange.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the method that was adopted by the study in establishing the effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange. The chapter also describes and explains the research instruments that were used in the study.

3.2 Research Design

The research design that was used in this study is both cross sectional and descriptive survey method. Cross sectional survey is a study that aims to describe the relationship between one factor and other factors of interest as they exist in a specified population at a particular time, without regard for what may have preceded or precipitated at the time of the study (Abramson & Abramson, 2000). These surveys are used to study a sample of a population at a single point in time. A cross sectional study compares quantitative reasoning of a sample of firms. These methods have been preferred because they allow for prudent comparison of the research findings. A cross sectional and descriptive survey attempts to describe or define a subject often by creating a profile of a group of problems, people or events through the collection of data and tabulation of the frequencies on research variables or their interaction as indicated.

3.3 Population

The target population consists of all the stocks listed at NSE as at 31st December 2014. Currently there are 63 firms who are members of the Nairobi Securities Exchange (NSE website); therefore the target population for the study is 63 firms. This is an appropriate

population and therefore gave a clear picture of the situation in the market with all participants included. This was a census study where all firms listed at Nairobi Securities Exchange were included. This helped to achieve comprehensive coverage.

3.4 Data Collection

Secondary data was used in this study. Specifically the study used financial statements. All the data was collected by review of documents, annual reports of the companies, the Nairobi Securities Exchange Handbooks and published books of accounts.

3.5 Data Analysis

Collected data was validated, coded and checked for any errors and omissions. Later the data was run through the statistical Package for Social Science (SPSS) Version 21. Content analysis was used to determine the score for ownership structure based on the number of sentences dedicated to each component of ownership structure in the listed firm's annual report. The financial performance was measured using return on assets. Regression analysis was used to test the relationship between ownership structure and financial performance of firms listed in the NSE.

3.5.1 Analytical Model

The following multiple regression model was used in the analysis;

$$FP = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + u$$

Where; FP = the measure of the financial performance of the listed firm. This will be measured by ROA of the firm. ROA= [Net Income / Average Total Assets]

α = A constant term which is the intercept of the regression equation

β = Coefficient of the variables where β_1 - β_4 represents the sensitivity of a firm performance to changes in the movements of the various variables

X1 = Ownership structure measured by shareholding percentage of (Foreign Ownership, Domestic Ownership and Government Ownership) of the firm

X2 = Ownership concentration of the firm measured by shareholding above 30%

X3 = the size of the firm, measured as the natural log of total assets

X4 = the length of existence in years of the firm (age)

u = Error Term

3.5.2 Test of Significance

The results are said to be statistically significant within the 0.05 level, which means that the significance value must be smaller than 0.05. The significance was determined by the t-value, which indicates how many standard error means the sample diverges from the tested value (Kothari, 2004). In addition, the Pearson Product Moment Correlation Coefficient was used to test the direction and magnitude of the relationship between the dependent and independent variables at 95% confidence level.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the research. The objective of this study was to establish the effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange.

4.2 Descriptive Statistics

Descriptive statistics are numbers that are used to summarize and describe data.

4.2.1 Ownership Structure

Table 4.1: Descriptive Statistics on Ownership Structure

Year	Median	Minimum	Maximum	Mean	Std deviation
2010	42.35	48.23	46.93	30.14	0.47
2011	50.13	47.14	52.41	32.34	0.25
2012	53.16	48.36	54.14	33.28	0.18
2013	50.14	46.81	53.78	35.44	0.24
2014	52.07	50.41	56.90	34.67	0.21

Source; Research Findings

From the findings, it can be noted that the year 2013 recorded the highest value in ownership structure as shown by a mean of value 35.44 of while the year 2010 recorded the lowest value for ownership structure and at 30.14. In addition, values for standard deviation depict variability in ownership structure during the five –year period with the highest deviation of 0.47 in the year 2010 and the lowest 0.18 in the year 2012. The findings revealed that there has been an equity in ownership ratio in the five-year period.

4.2.2 Ownership Concentration

Table 4.2: Descriptive Statistics on ownership concentration

Year	Median	Minimum	Maximum	Mean	Std deviation
2010	42.35	48.23	46.93	45.42	0.11
2011	50.13	47.14	52.41	51.12	0.18
2012	53.16	48.36	54.14	53.06	0.22
2013	50.14	46.81	53.78	50.10	0.36
2014	52.07	50.41	56.90	54.01	0.04

Source; Research Findings

From the findings, it can be noted that the year 2014 recorded the highest value in ownership concentration as shown by a mean of value of 54.01 while the year 2010 recorded the lowest value for ownership concentration at 45.42. In addition, values for standard deviation depicts variability in ownership concentration during the five –year period with the highest deviation of 0.36 in the year 2013 and the lowest 0.04 in the year 2014. The findings revealed that there has been a significant increase in ownership concentration during the five-year period.

4.2.3 Size of the Firm

Table 4.3: Descriptive Statistics on Firm size

Year	Median	Minimum	Maximum	Mean	Std deviation
2010	.0243	.0198	.0285	.0221	.0146
2011	.0351	.0284	.0398	.0344	.0178
2012	.0546	.0527	.0569	.0541	.0215
2013	.0631	.0593	.0703	.0628	.0782
2014	.0769	.0742	.0801	.0779	.0697

Source; Research findings

From the summary 2010 recorded the lowest value for Firm size at 0.0221 while 2014 recorded the highest value for Firm size at 0.0779, In addition, values for standard deviation depicts variability in value for Firm size during the five –year period with the highest deviation of 0.0782 in the year 2013 and the lowest at 0.146 in the year 2010. The findings revealed that there has been a significant increase in Firm size during the five-year period. The findings revealed that there has been a significant increase in value for Firm size during the five-year period.

4.2.4 Financial Performance

Table 4.4: Descriptive Statists on Financial performance

Year	Median	Minimum	Maximum	Mean	Std deviation
2010	0.11	0.24	0.07	0.13	0.23
2011	0.21	0.21	0.23	0.19	0.14
2012	0.32	0.51	0.56	0.36	0.31
2013	0.44	0.02	0.34	0.46	0.24
2014	0.46	0.15	0.92	0.47	0.39

Source; Research Findings

From the findings, it can be noted that the year 2010 recorded the lowest value in financial performance of companies listed in NSE as shown by a mean value of 0.13 while the year 2013 recorded the highest value in financial performance of companies listed in NSE as shown by a mean value of 0.47 in addition, values for standard deviation depicts variability in financial performance of companies listed in NSE during the five – year period with the highest deviation of 0.31 in the year 2012 and the lowest at 0.23 in the year 2010. the findings revealed that there have been a significant increase in financial performance of companies listed in NSE during the five-year period.

4.3 Inferential Statistics

Inferential statistics is used to make judgement of the probability that an observed difference between groups observed.

4.3.1 Correlation Analysis

Table 4.5: Correlations

		Financial Performance	Ownership Structure	Ownership Concentration	Age The Firm	Size Of The Firm
Financial performance	Correlation Coefficient	1.000	.512	.601	.231	.757
	Sig. (1-tailed)	.	.425	.541	.225	.968
	N	63	63	63	63	63
Ownership Structure	Correlation Coefficient	.512	1.000	.033	.435	.001
	Sig. (1-tailed)	.022	.	.000	.003	.002
	N	63	63	63	63	63
Ownership Concentration	Correlation Coefficient	.601	.122	1.000	.026	.008
	Sig. (1-tailed)	.014	.001	.	.000	.000
	N	63	63	63	63	63
Age The Firm	Correlation Coefficient	.231	.037	.026	1.000	.124
	Sig. (1-tailed)	.012	.000	.001	.	.002
	N	63	63	63	63	63
Size Of The Firm	Correlation Coefficient	.757	.001	.008	.114	1.000
	Sig. (1-tailed)	.003	.001	.003	.000	.
	N	63	63	63	63	63

Source; Research findings

On the correlation of the study variable, the researcher conducted a Pearson moment correlation. from the finding in the table above, the study found that there was strong positive correlation coefficient between financial performance of companies listed in NSE and Ownership structure, as shown by correlation factor of 0.512, this strong

relationship was found to be statistically significant as the significant value was 0.022 which is less than 0.05, the study found strong positive correlation between financial performance of companies listed in NSE and Ownership concentration as shown by correlation coefficient of 0.601, the significant value was 0.014 which is less 5% study found weak positive correlation between financial performance of companies listed in NSE and the age of the firm as shown by correlation coefficient of 0.231, this weak relationship was found to be statistically significant as the significant value was 0.012 which is less than 0.05 and finally the study found strong positive correlation between financial performance of companies listed in NSE and the size of the firm as shown by correlation coefficient of 0.757, this strong relationship was found to be statistically significant as the significant value was 0.003 which is less than 0.05.

The findings concur with Flamini et.al (2009) who found out that strong positive correlation between the size of the firm and financial performance of companies listed in NSE, it further concurs with Radice (1971) who established a strong positive correlation between ownership structure and financial performance of companies listed in NSE.

4.3.2 Regression analysis

Regression analysis is a statistical process for estimating the relationships among variables. It includes many techniques for modelling and analyzing variables

Model Summary

The study used coefficient of determination to evaluate the model fit. The model summary are presented in the table below

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876 ^a	.767	.734	.37290

Source; Research findings

The adjusted R2, also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average coefficient of determination (R2) of 0.734 and which implied that 73.4% of the variations in financial performance of companies listed in NSE are caused by the independent variables understudy (Ownership structure, Ownership concentration, size of the firm and Age).

4.3.3 Analysis of Variance

It is a statistical method used to test differences between two or more means.

Table 4.7: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	14.841	3	4.947	4.291	.012 ^b
Residual	68.027	59	1.153		
Total	82.868	62			

Source; Research findings

Critical value = 2.75

From the ANOVA statics, the study established the regression model had a significance level of 1.2% 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 ($4.291 > 2.75$) an indication that

holding ownership structure, ownership concentration and size of the firm, all have a significant effects on financial performance of companies listed in NSE. The significance value was less than 0.05 indicating that the model was significant.

Coefficients

The following tables gives the coefficients which helps in establishing the regression line

Table 4.8: Table of Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.739	.432		4.025	.000
Ownership structure	.761	.132	.231	5.765	.004
Ownership concentration	.398	.098	.243	4.061	.021
Age of the firm	.159	.032	.232	4.969	.009
Size of the firm	.459	.112	.232	4.098	.016

Source; Research findings

The established regression equation becomes

$$Y = 1.739 + 0.761X_1 + 0.398X_2 + 0.159X_3 + 0.459X_4$$

From the regression model below, it is can be deduced that, holding ownership structure, Ownership concentration and size of the firm, the financial performance of companies listed in NSE would be 1.739. it's was also established that a unit increase in ownership structure while holding other factors at constant would cause an increase in financial performance of companies listed in NSE by a factor of 0.761, a unit increase in ownership concentration, while holding other factors at constant would cause an increase in financial performance of companies listed in NSE by a factor of 0.398, unit increase in age of the firm would cause increase in financial performance of companies listed in NSE

a factor of 0.159, while a unit increase in size of the firm would cause increase in financial performance of companies listed in NSE a factor of 0.459.

This clearly shows that there is a positive relationship between financial performance of companies listed in NSE and ownership structure, ownership concentration and size of the firm. The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and $\alpha=0.05$. If the probability value was less than α , then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than $\alpha=0.05$.

4.4 Interpretation of the Findings

The study found that a strong positive correlation coefficient between financial performances of companies listed in NSE and Ownership structure, (correlation factor of 0.512, significant value 0.022) the research also revealed that Ownership structure influence the decision making segment of the firm, the degree of ownership concentration in a firm determines how power is distributed between its shareholders and managers. When ownership is dispersed, shareholding control tends to be weak because of poor shareholder monitoring, a small shareholder is unlikely to be interested in monitoring because he/she would bear all the costs of monitoring hence share a small proportion of the benefits and that ownership composition tries to define who the shareholders are and who among them belongs to the controlling groups. The findings confirm with Zhuang (1999) argue that ownership structure is one of the most important factors in shaping the corporate governance system of any country.

Further the research revealed that better overlap between ownership and control should indeed lead to a reduction in conflicts of interest therefore higher firm value, management owning a company can serve to better put in line managers' interests with those of the shareholders of the company, if managers and shareholders' interests are not completely aligned, higher stake in the company can give managers greater freedom to pursue their own goals without fear of reprisal. Hence, the effect of managerial ownership on the value of the firm depends on the trade-off between the alignment and entrenchment effects. The findings support the literature by Denis & McConnell, 2002). That the divergence of voting right and capital right allow shareholders to gain control with little equity involvement through mechanisms such as dual class equity, pyramiding, etc. Thus, divergence should be taken into consideration when analyzing the effect of ownership structure on firm performance.

Study found strong positive correlation between financial performance of companies listed in NSE and Ownership concentration (correlation factor of 0.601, significant value 0.014), the research also established that ownership concentration is one of the main corporate governance mechanisms influencing the scope of a firm's agency cost. Jensen and Meckling (1976) suggested that ownership concentration has a positive effect on performance because it alleviates the conflict of interest between owners and managers further it was established that the ownership concentration of the firm is an endogenous outcome of the competitive selection in which various cost advantages and disadvantages are balanced to arrive at an equilibrium organization of the firm, concentrated ownership provides better monitoring incentives, and lead to superior performance.

The research also established that ownership of a company is concentrated, large shareholders would play an important role to monitor the management when managers also double up as shareholders; they are motivated to work towards realization of the wealth creation objective of the shareholders of whom they are part. On the other hand, managers who are not shareholders are more likely to engage in insider dealings as a way of enhancing their personal wealth and prestige. These results appear to vindicate the findings of Foroughi and Fooladi (2011), who found that high level of ownership concentration can create operational and financial risk and cause the major shareholders to expropriate the firm's resources for their own interests. Therefore, the benefits of ownership concentration such as monitoring management and aligning their interest with shareholders' interests may be compromised.

The study found strong positive correlation between financial performance of companies listed in NSE and size of the firm as shown by correlation (coefficient factor 0.757, P-value 0.003) the research also established that The size of the company can have a positive effect on financial performance because larger firms can use this advantage to get some financial benefits in business relations. A large firm can get a better interest rate and also a better discount rate due to a large quantity that it buys, absolute firm size plays an important role in explaining profitability, large companies have easier access to the most important factors of production, including human resources. Also, large organizations often get cheaper funding, The findings confirms with the findings Majumdar (1997), who investigated the impact that firm size has on profitability and productivity of a firm and found evidence that larger firms are less productive but more profitable.

Relatively bigger firm is expected to cope better with changes and it has better chances to offset random losses, i.e. due to market uncertainties bigger firms have lower riskiness. Larger firms have more market power that provides them the possibility to charge higher prices and earn higher profits, larger firms can due to their size benefit from lower costs; size brings, bargaining power over the suppliers and when products are standardized and produced on a mass scale with longer production-runs, a large firm will be more efficient, small firms often suffer from borrowing constraints; however they may not require large amounts of capital; therefore, the capital constraints might not be severe as the firm grows larger and that bigger firms have an advantage in the R&D process by enjoying economies of scale in the R&D effort and have a superior ability to exploit the outcomes of research. The findings confirm with the findings by Lee (2009) examined the role that firm size plays in profitability, and found that absolute firm size plays an important role in explaining profitability.

Based on the secondary material sort, the study found evidence that the variability of stock returns is negatively related with incorporation age declining risk implies declining required rates of return. Hence, profitability could appear to deteriorate with age when in fact the driving factor is declining uncertainty. The findings seem to support the findings by (Loderer, Neusser, and Waelchli, 2009) that If performance declines as firms grow older, it could explain why most of them are eventually taken over.

Further the research established that efficient and effective supply of market information in older firms is influenced by firm age, older firms are better experienced in choosing and employing information, experience and organizational competencies provided by age help firms to develop their operations in more efficient way, especially the operations

relating innovation. Therefore, the financial performance of companies listed in NSE increases with firm age as they efficiently use information, Organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment, according to Harrington, (200) Newer and smaller firms, as a result, take away market share in spite of disadvantages like lack of capital, brand names and corporate reputation with older firms, older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can, therefore, enjoy superior performance further the research revealed that Older firms may also benefit from reputation effects, which allow them to earn a higher margin on sales. The study also noted that on the other hand, older firms are prone to inertia, and the bureaucratic ossification that goes along with age; they might have developed routines, which are out of touch with changes in market conditions, in which case an inverse relationship between age and profitability or growth could be observed.

Based on the secondary material sort, the study found evidence that Measuring performance accurately is critical for accounting purposes and remains a central concern for most organisations, consensual measurement of performance promotes scholarly investigations and can clarify managerial decisions, managers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged, higher ownership by managers aligns the interest of the managers with that of the company. In other words, the greater the managerial ownership (i.e. larger the percentage of shares held by the directors of the company), the better will be the company's performance the findings concurs with Shleifer and Vishny (1988) that managerial ownership that high managerial ownership may entrench managers, as they

are increasingly less subject to governance by board of directors and to discipline by the market for corporate control.

The research also revealed that Profitability of firms significantly supports return on assets and market capitalization but not the return on equity, the size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale and scope and thus being more efficient compared to small firms. In addition, small firms may have less power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets. On the other hand, as firms become larger, they might suffer from inefficiencies, leading to inferior financial performance. Theory, therefore, is equivocal on the precise relationship between size and performance (Majumdar, 1997).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study findings, conclusion and recommendations. The chapter is presented in line with the objective of the study which was to establish effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange.

5.2 Summary of Findings

The study investigated the relationship between financial performances of companies listed in NSE and Ownership structure, the study found that a strong positive correlation coefficient between financial performances of companies listed in NSE and Ownership structure, (correlation factor of 0.512, significant value 0.022) the research also revealed that Ownership structure influence the decision making segment of the firm, the degree of ownership concentration in a firm determines how power is distributed between its shareholders and managers. When ownership is dispersed, shareholding control tends to be weak because of poor shareholder monitoring, a small shareholder is unlikely to be interested in monitoring because he/she would bear all the costs of monitoring hence share a small proportion of the benefits and that ownership composition tries to define who the shareholders are and who among them belongs to the controlling groups The findings confirm with Zhuang (1999) argue that ownership structure is one of the most important factors in shaping the corporate governance system of any country. The findings support the literature by Denis & McConnell, 2002). That the divergence of voting right and capital right allow shareholders to gain control with little equity

involvement through mechanisms such as dual class equity, pyramiding, etc. Thus, divergence should be taken into consideration when analyzing the effect of ownership structure on firm performance.

On the relationship between financial performances of companies listed in NSE and Ownership concentration, Study found strong positive correlation between financial performance of companies listed in NSE and Ownership concentration (correlation factor of 0.601, significant value 0.014), the research also established that ownership concentration is one of the main corporate governance mechanisms influencing the scope of a firm's agency cost. Jensen and Meckling (1976) suggested that ownership concentration has a positive effect on performance because it alleviates the conflict of interest between owners and managers further it was established that the ownership concentration of the firm is an endogenous outcome of the competitive selection in which various cost advantages and disadvantages are balanced to arrive at an equilibrium organization of the firm, concentrated ownership provides better monitoring incentives, and lead to superior performance, ownership of a company is concentrated, large shareholders would play an important role to monitor the management when managers also double up as shareholders; they are motivated to work towards realization of the wealth creation objective of the shareholders of whom they are part. These results appear to vindicate the findings of Foroughi and Fooladi (2011) who found that high level of ownership concentration can create operational and financial risk and cause the major shareholders to expropriate the firm's resources for their own interests. Therefore, the benefits of ownership concentration such as monitoring management and aligning their interest with shareholders' interests may be compromised.

The study found strong positive correlation between financial performance of companies listed in NSE and size of the firm as shown by correlation (coefficient factor 0.757, P-value 0.003) the research also established that The size of the company can have a positive effect on financial performance because larger firms can use this advantage to get some financial benefits in business relations. The findings confirms with the findings Majumdar (1997) who investigated the impact that firm size has on profitability and productivity of a firm and found evidence that larger firms are less productive but more profitable. Relatively bigger firm is expected to cope better with changes and it has better chances to offset random losses, i.e. due to market uncertainties bigger firms have lower riskiness. larger firms have more market power that provides them the possibility to charge higher prices and earn higher profits, larger firms can due to their size benefit from lower costs; size brings, bargaining power over the suppliers and when products are standardized and produced on a mass scale with longer production-runs, a large firm will be more efficient, small firms often suffer from borrowing constraints; however they may not require large amounts of capital; therefore, the capital constraints might not be severe as the firm grows larger and that bigger firms have an advantage in the R&D process by enjoying economies of scale in the R&D effort and have a superior ability to exploit the outcomes of research. The findings confirms with the findings by Lee (2009) examined the role that firm size plays in profitability, and found that absolute firm size plays an important role in explaining profitability.

The study the study found evidence that the variability of stock returns is negatively related with incorporation age declining risk implies declining required rates of return. Hence, profitability could appear to deteriorate with age when in fact the driving factor is

declining uncertainty. The findings seems to support the findings by (Loderer, Neusser, and Waelchli, 2009) that If performance declines as firms grow older, it could explain why most of them are eventually taken over. Further the research established that efficient and effective supply of market information in older firms is influenced by firm age, older firms are better experienced in choosing and employing information, experience and organizational competencies provided by age help firms to develop their operations in more efficient way, especially the operations relating innovation. Therefore, the financial performance of companies listed in NSE increases with firm age as they efficiently use information, Organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment, according to Harrington, (200) Newer and smaller firms, as a result, take away market share in spite of disadvantages like lack of capital, brand names and corporate reputation with older firms, older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can, therefore, enjoy superior performance further the research revealed that Older firms may also benefit from reputation effects, which allow them to earn a higher margin on sales.

The study the study found evidence that Measuring performance accurately is critical for accounting purposes and remains a central concern for most organisations, consensual measurement of performance promotes scholarly investigations and can clarify managerial decisions, managers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged, higher ownership by managers aligns the interest of the managers with that of the company. In other words, the greater the managerial ownership (i.e. larger the percentage of shares held by the

directors of the company), the better will be the company's performance the findings concurs with Shleifer and Vishny (1988) that managerial ownership that high managerial ownership may entrench managers, as they are increasingly less subject to governance by board of directors and to discipline by the market for corporate control.

5.3 Conclusions

The study revealed a strong positive correlation coefficient between financial performances of companies listed in NSE and ownership structure, (correlation factor of 0.512, significant value 0.022), the study also noted that ownership structure is one of the most important factors in shaping the corporate governance system of any country and that When ownership is dispersed, shareholding control tends to be weak because of poor shareholder monitoring therefore the study concludes that strong Ownership structure had a positive impact of financial performances of companies listed in NSE.

Study found strong positive correlation between financial performance of companies listed in NSE and Ownership concentration correlation factor of 0.601, significant value 0.014), further the research noted that alleviates the conflict of interest between owners and managers thus promoting better monitoring. Thus the study concludes that Ownership concentration had a positive impact of financial performances of companies listed in NSE

The study found strong positive correlation between financial performance of companies listed in NSE and size of the firm as shown by correlation (coefficient factor 0.757, P-value 0.003), the research also revealed that capital requirements not only strengthen financial stability by providing a larger capital buffer, but also improve firm's efficiency,

bigger firms are in better position to raise the barriers of entry to potential entrants as well as gain leverage on the economies of scale to attain higher profitability. Thus the study concludes that increase in firm size had a positive impact of financial performances of companies listed in NSE

The study revealed that older firms are better experienced in choosing and employing information, experience and organizational competencies provided by age help firms to develop their operations in more efficient way, especially the operations relating innovation, on the other had the study also established that , older firms are prone to inertia, and the bureaucratic ossification that goes along with age and that Organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment. Bases on the revelation, the study concludes that Age may have a positive or negative impact on depending on management tactics employed.

5.4 Recommendations for Policy and Practice

Based on the study findings the research recommends that the management of the firms listed in NSE should therefore strike a balance between their choice of capital structure and ownership concentration as they were found to effect on its performance as it affect the shareholders risks, returns and the cost of capital.

The policy makers should ensure that strategies are directed at ensuring that firms do not just grow in age but rather grow faster in size and that ownership does not grow among few owners(higher ownership concentration) but rather spread out to many owners(diffused ownership)

Firms should equally watch over growth in financial leverage as this would undermine their performance, the study recommend that, firm managers should monitor the institution's growth to ensure that both size and age increase with firm performance.

5.5 Limitations of the Study

A number of limitations could be pointed out for this study. Firstly, this descriptive and correlation study relied on secondary data which had already been compiled by NSE. Data was used as they were obtained from the sources and the researcher had no means of verifying for the validity of the data which were assumed to be accurate for the purpose of this study.

The study results are therefore subject to the validity of the data used, the study used the ordinary least square regression method of analysis which may have its own weaknesses compared to other methods which may limit the general applicability of the study results.

There was the challenge of accessing past records due to poor record keeping hence there was scant information that could be accessed in terms of published financial statements, however the researcher used other relevant documentation to collect the required information despite the fact that it took longer than anticipated. The research was also difficult to carry as the researcher had work and family commitments to attend to. This proved to be very destructing during the course of the research.

5.6 Areas for Further Research

The study sought to determine the effect of establish effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange. The study variables

(Ownership structure, Ownership concentration, length of existence and size of the firm) only accounted for 73.4 % of the variations in performance of firms listed at Nairobi securities exchange. There is need to investigate on the effect of equity financing on financial performance of firms listed in NSE and that There is need to investigate on the effect of Long term debt financing on firm financial performance.

The study also proposes that an investigation should be done on the level of shareholding, beyond which there would be, accelerated firm performance arising from commitment of managers.

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APPENDIX I: FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

AS AT DECEMBER 2015

AGRICULTURAL

1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

AUTOMOBILES AND ACCESSORIES

8. Car and General (K) Ltd
9. Sameer Africa Ltd
10. Marshalls (E.A.) Ltd

BANKING

11. Barclays Bank Ltd
12. CFC Stanbic Holdings Ltd
13. I&M Holdings Ltd
14. Diamond Trust Bank Kenya Ltd
15. Housing Finance Co Ltd
16. Kenya Commercial Bank Ltd
17. National Bank of Kenya Ltd
18. NIC Bank Ltd
19. Standard Chartered Bank Ltd
20. Equity Bank Ltd
21. The Co-operative Bank of Kenya Ltd

COMMERCIAL AND SERVICES

- 22. Express Ltd
- 23. Kenya Airways Ltd
- 24. Nation Media Group
- 25. Standard Group Ltd
- 26. TPS Eastern Africa (Serena) Ltd
- 27. Scangroup Ltd
- 28. Uchumi Supermarket Ltd
- 29. Hutchings Biemer Ltd
- 30. Longhorn Kenya Ltd

CONSTRUCTION AND ALLIED

- 31. Athi River Mining
- 32. Bamburi Cement Ltd
- 33. Crown Berger Ltd
- 34. E.A.Cables Ltd
- 35. E.A.Portland Cement Ltd

ENERGY AND PETROLEUM

- 36. KenolKobil Ltd
- 37. Total Kenya Ltd
- 38. KenGen Ltd
- 39. Kenya Power & Lighting Co Ltd
- 40. Umeme Ltd

INSURANCE

- 41. Jubilee Holdings Ltd
- 42. Pan Africa Insurance Holdings Ltd
- 43. Kenya Re-Insurance Corporation Ltd
- 44. Liberty Kenya Holdings Ltd
- 45. British-American Investments Company (Kenya) Ltd

46. CIC Insurance Group Ltd

INVESTMENT

47. Olympia Capital Holdings Ltd

48. Centum Investment Co Ltd

49. Trans-Century Ltd

MANUFACTURING AND ALLIED

50. B.O.C Kenya Ltd

51. British American Tobacco Kenya Ltd

52. Carbacid Investments Ltd

53. East African Breweries Ltd

54. Mumias Sugar Co. Ltd

55. Unga Group Ltd

56. Eveready East Africa Ltd

57. Kenya Orchards Ltd

58. A.Baumann CO Ltd

TELECOMMUNICATION AND TECHNOLOGY

59. Safaricom Ltd

GROWTH ENTERPRISE MARKET SEGMENT

60. Home Afrika Ltd

61. Flame Tree Group Holdings Ltd

62. Kurwitu Ventures

63. Atlas Development and Support Services

Source: Nairobi Securities Exchange

APPENDIX II: RAW DATA

	SIZE	ROA	OS	AGE	OWCO
Kenya Power & Lighting Co Ltd	0.872	0.027	0.692	118	1
Eaagads Ltd	0.637	0.114	0.434	97	0
Kakuzi	1.057	0.144	0.429	67	0
Limuru Tea Co. Ltd	0.347	0.019	0.601	43	1
Rea Vipingo Plantations Ltd	0.904	0.126	0.553	23	1
Sasini Ltd	0.963	0.094	1.000	30	0
Express Ltd	0.761	0.077	1.000	26	1
Kenya Airways Ltd	1.029	0.034	1.000	46	0
Nation Media Group	1.303	0.272	0.669	29	0
Standard Group Ltd	1.183	0.187	1.000	21	0
TPS Eastern Africa (Serena) Ltd	0.541	0.091	1.000	31	0
Scangroup Ltd	0.862	0.138	0.424	21	1
Uchumi Supermarket Ltd	1.067	0.263	0.724	27	0
Hutchings Biemer Ltd	1.701	0.221	0.650	26	0
AccessKenya Group Ltd	0.809	0.215	0.424	32	0
Safaricom Ltd	1.370	0.092	0.650	18	1
	1.079	0.186	0.505	31	0
Car and General (K) Ltd					
CMC Holdings Ltd	0.716	0.125	0.419	1	
Sameer Africa Ltd	1.204	0.342	1.000	30	1
Barclays Bank Ltd	1.097	0.053	0.356	29	0

CFC Stanbic Holdings Ltd	0.870	0.124	0.439	26	0
Diamond Trust Bank Kenya	0.942	0.072	1.000	19	0
Kenya Commercial Bank Ltd	0.762	0.101	1.000	51	1
National Bank of Kenya Ltd	1.203	0.049	0.608	30	1
Standard Chartered Bank Ltd	0.747	0.236	1.000	30	1
Equity Bank Ltd	0.532	0.081	0.513	23	0
Jubilee Holdings Ltd	0.612	0.091	0.000	29	0
Pan Africa Insurance Holdings Ltd	0.903	0.202	0.403	17	0
CIC Insurance Group Ltd	1.629	0.225	0.842	15	0
Olympia Capital Holdings ltd	0.942	0.072	0.667	24	0
Centum Investment Co Ltd	0.762	0.101	0.765	19	0
Trans-Century Ltd	1.203	0.049	0.508	13	0
British American Tobacco Kenya Ltd	1.198	0.218	0.532	31	1
Carbacid Investments Ltd	0.747	0.236	0.459	7	0
East African Breweries Ltd	0.532	0.081	0.883	31	0
Unga Group Ltd Ord	0.612	0.091	1.000	26	1
Kenya Orchards Ltd	0.259	0.275	0.761	21	1
Bamburi Cement Ltd	0.848	0.059	0.588	17	1
E.A.Cables Ltd	0.960	0.061	0.821	13	0
E.A.Portland Cement Ltd	1.146	0.055	0.696	16	1

Total Kenya Ltd	0.762	0.101	0.634	12	1
KenGen Ltd	1.2033	0.0493	1.000	3	1

Source: Research Findings