

**THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND
FINANCIAL PERFORMANCE OF LISTED FIRMS IN THE MANUFACTURING
AND ALLIED SECTOR OF THE NAIROBI SECURITIES EXCHANGE**

BY

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**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI**

NOVEMBER 2016

DECLARATION

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

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DEDICATION

To my loving family, wife and baby Larissa Wanja Njeru.

God bless us.

ACKNOWLEDGEMENT

First, I thank the almighty God for granting me the energy and stamina to complete this project successfully. I also wish to thank my supervisors Dr. Chirchir and Dr. Karanja of the School of Business of the University of Nairobi for their able guidance that enabled me complete this research work. I also wish to extend my gratitude to the management of the firms in the Manufacturing and Allied segment of the NSE for their record keeping policies in their websites. It is with the data stored there that I was able to achieve the objectives of this research. I acknowledge the works done by other researchers and scholars concerning the matter of this research. It is with the revision of their literature that I was able to formulate the research problem and conduct the research. Finally, I thank my family for their encouragement while I burnt the midnight oil working on this research project.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	-	Analysis of Variance
CEO	-	Chief Executive Officer
CGT	-	Corporate Governance Theory
CMA	-	Capital Markets Authority
KSE	-	Karachi Stock Exchange
NSE	-	Nairobi Securities Exchange
ROA	-	Return On Assets
ROE	-	Return On Equity
TCT	-	Transaction Cost Theory
VIF	-	Variance Inflation Factor
VSE	-	Vietnamese Stock Exchange

ABSTRACT

Corporate Governance enthusiasts hold key interest how ownership structure affects firm performance. The financial performance of a firm is not just dependent on its investment projects but also on its ownership structure. This study aimed at establishing how ownership structure contributes to the financial performance of public manufacturing firms in Kenya. Ownership structure was the independent variable measured by the percentage shareholding of the top ten largest shareholders and foreign shareholders. Tobin's Q measured financial performance. The study was a panel study focusing on the 10 firms listed in the Manufacturing and Allied segment. The study covered the period between 2011 and 2015. Data used for the study were obtained from the NSE and from annual reports of the firms accessed from their websites. Regression analysis was done at 95 percent confidence level. The findings show a steadily increasing ownership by the top ten owners in the firms, but a constant 1.50% ownership by foreign owners. The shareholding by the top ten shareholders positively, but insignificant contributes to financial performance. Foreign ownership negatively, but not statistically significantly contributes to financial performance. Ownership structure does not significantly contribute to financial performance. The study recommends that both the largest shareholders and foreign owners use their strength to influence decision making in the firms to control agency for improved financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The effect of the ownership structure of a firm to its financial performance is an important but unresolved area of Corporate Governance. Interest is growing and drawing focus settles on managers, major shareholders' interests and, generally, ownership of firms. The relationship is studied with attention paid to what managers and owners of the firm want. The value of a firm is not just dependent on its investment projects. It also depends on its financial structure. The financial structure dictates control and ownership. In explaining the importance of ownership to a firm, focus can be placed on information asymmetry and agency dimensions. Regarding information asymmetry, ownership structure provides the channel to affect firm performance by reducing biased and inaccurate information disclosure in capital markets. In the latter, ownership structure contributes to firm performance through management of agency issues Wahla, Shah, & Hussain (2012).

The accurate relationship between firm ownership and financial performance has not been conclusively determined. There are two parallel and competing conclusions. On one hand scholars such as (Morck et al, 1988) found that managerial ownership non-monotonically affects firm performance. This indicates that increasing a measure of firm ownership does not automatically result in improved performance. On the other hand scholars like Jensen & Meckling (1976) found that investment decisions are based on ownership and directly affect the value of the firm.

According to Wahla, Shah, & Hussain (2012) the shareholders of a firm are owners who are relatively not involved in routine activities of the firm. It is in this shareholders' interest that managers should act after receiving the signal from capital markets. Since Shareholders cannot be separated in different identities financial performance of the firm is pegged on the separation of ownership between managers and outsiders. Later evolution in the ownership structure of a firm Stulz (1988) argued that insider ownership improved a firm's market value before decreasing it again. However, Morck, Sheilfer and Vishny (1988) saw the relationship as nonlinear.

1.1.1 Ownership Structure

Ownership of a firm can be interpreted in terms of Shareholder-Value or in terms of Stakeholder-Value. While the shareholder outlook perspective asserts that the corporation should serve the society through promoting one's self best interest, the stakeholder perspective adds on social responsibility. However, for both perspectives, shareholder own the firm as individuals and as owners of shares. The ownership type in the corporate model the fractionated ownership in which each individuals holds a fraction of the stakes. This ownership structure is used to mobilizing capital (Eddleston & Kellermanns, 2007).

Fractionated ownership is a western practice that has spread globally. However, the varying traditional notions about ownership, the financing means available, laws and rules, and the regulatory frameworks in place explain the varying patterns of ownership. Ownership structure is refers to pattern share ownership (Mathiesen, 2004).

In the classical Miller & Modigliani (1958) approach, capital is divided into equity and debt without going into the details of each. Jensen & Meckling (1976), identify inside

equity held by managers, the outside equity, and debt as the main components of ownership. A later view by Mathiesen (2004) argued that ownership structure is the distribution of equity according to voting, according to capital and according to shareholder identity.

According to Demsetz and Lehn (1985) ownership should focus on the proportion of shares held by the most significant five shareholders. After Demsetz and Lehn attention shifted to the fraction owned by management, the corporate board, the chief executive officer (CEO), and top management to follow up on agency issues. In other studies, Demsetz and Lehn used the Herfindahl Index of ownership concentration. In the method of Balling, Hennessy, & O'Brien (1998) used a model they called the Matrix of Governance by Sector which divides investors and financial markets into families & households, non-financial business, banks, other financial firms, government, institutional investors, and foreign holdings.

In conclusion, ownership structures is the identification of equity holder basing on size of shareholding by significant shareholder and the concentration of ownership. This ownership is determines the cash flow rights that arise. This study will adopt the Herfindahl Index with respect to the Miller & Modigliani (1958) definition of ownership structure basing on debt and equity.

1.1.2 Financial Performance

Financial performance measures of how well a firm employs to bring in its assets to make profit. It the measures the financial health of a firm and can be a method of comparing with financial health of other similar firms (Ongore & Kusa, 2013). Financial

performance measures are grouped into liquidity, solvency, profitability, repayment capacity and financial efficiency measures. Liquidity measures focus on capacity to meet financial obligations while maintaining normal operations. Such measures include current ratio and working capital. Solvency measures show the capacity to repay all debts using assets. Such measures include Debt-to-asset ratio and the equity-to-asset ratio (Chen, 2012).

Profitability indicators show the ability of a firm in generating profit from its factors of production. Such measures include, but are not limited to, return on assets (ROA) and return on equity (ROE). ROA shows the efficiency with which a firm utilizes its assets for profit. Investors use ROA to evaluate a company's leadership especially across different industries. ROE is the ratio of net operating income to shareholders' equity. It measure the profit generated by the firm for using shareholders' funds (Ross, Westerfield, & Jaffe, 2002).

In a securities exchange, the performance of a firm can be estimated by the response of investors to the shares of the firm as indicated by the price of the firm's shares. A measure that compares the performance of the firm using its market valuation is the Tobin's Q. Tobin's Q is found by dividing a firm's market value of equity by the book values of its total assets. A higher value indicates better performance (Demsetz & Villalonga, 2001). This study will measure financial performance using the Tobin's Q.

1.1.3 Ownership Structure and Financial Performance

In the view of the transaction cost theory (TCT) which relates transaction costs to costs related to corporation organization and therefore, firm performance and the corporate

governance theory (CGT) which discusses the relationship between principal and agent, and specifies the agency problems there is a relationship between ownership structure is believed to positively affect firm performance. However the relationship cannot be expressly generalized (Chen, 2012).

A study conducted by Gross (2007), established that ownership structure positively affected financial performance in listed firms in Germany. Dyck & Zingales (2004) who conducted an international study on how ownership structure affected financial performance, established a negative relationship. In another study, Bahng (2004) showed that ownership concentration did not significantly affect performance. In the study by Grosfeld (2006) ownership concentration improved firm performance. Basing on the findings of Grosfeld (2006) the study expects higher concentration to improve the financial performance of listed firms.

1.1.4 Manufacturing and Allied Sector at the Nairobi Securities Exchange

The Nairobi Securities Exchange is the only organization sanctioned by the Capital Markets Authority (CMA) to trade in shares of public companies in Kenya. Currently there are 64 listed firms divided into 12 segments. In the Manufacturing and Allied segment there are 10 firms. The performance of listed manufacturing firms, as suggested by the Efficient Market Hypothesis (Fama, 1970), is an embodiment of the manufacturing sector of a country. Assessing the performance of listed manufacturing firms can reveal representative information about the performance of the manufacturing sector in Kenya.

1.2 Research Problem

The ownership structure of listed organizations keeps varying as shareholders keep buying and selling stocks on the securities market. Thomsen & Pedersen (2000) posit that ownership structure affects firm performance depending on ownership concentration. The position was also held by Görg & Greenaway (2004) who argued that foreign ownership plays a crucial role in firm performance, especially in developing and transitional economies. This position was, however, disputed by Repei (2000) who cited lack of influence from government shareholders since benefits are channelled directly to the exchequer in Ukraine.

In Kenya listed firms have an ever-changing ownership structure due to trading in shares and use of credit in corporate bodies. Among the listed firms, there are those in the Manufactured and Allied Segment which are in the manufacturing business. According to Ndung'u, Thugge, & Otieno (2015) the performance indicators from the manufacturing sector in Kenya are not impressive. The real output for the sector expanded by only 3.4 per cent which was a drop as compared to 5.6 per cent in 2013. The volume of output increased by only 4.5 in 2014. The value of output at current prices expanded by 4.8 per cent in 2014 which was slower than the 7.3 per cent realized in 2013. This raises the need to get an explanation regarding how ownership is influencing the performance of firms in the manufacturing business and whose ownership keeps changing. Such firms are listed in the NSE.

An analysis of the following local studies shows little has been done to explain how ownership structure is affecting the financial performance of the listed manufacturing

firms. The study by Ongore (2011) focussed on generally explaining the relationship across all the listed firms in which the importance of the manufacturing sector was ignored. The study by Avulamusi (2013) focused of ownership and financial performance of commercial banks and so was the study by Ogega (2014). The study by Gitundu, Kiprop, Kibet, & Kisaka (2016) was done to establish how ownership structure affected the financial performance of privatized firms in Kenya. Clearly, no known study has been done to establish how ownership structure affects the financial performance of manufacturing firms listed in the NSE. This left the knowledge gap that this study addressed by answering the question: how does ownership structure affect the financial performance of firms listed in the NSE?

1.3 Research Objective

To establish the relationship between ownership structure and financial performance of listed firms in the Manufacturing and Allied Sector of the Nairobi Securities Exchange.

1.4 Value of the Study

Researchers may have the opportunity to find out how the performance of the list manufacturing companies on the Nairobi Securities Exchange respond to changes in ownership structure. The research will be used by future researchers to enhance discussions in scholarly spheres that will find it relevant to the dialogue at hand.

This research will provide the management of the Nairobi Securities Exchange with objectively researched information regarding the responsiveness of the performance of listed manufacturing firms to changes in ownership. This information will be relevant in

understanding and predicting the behaviour of investors in listed manufacturing firms as they respond to changes in ownership structure. As a result, policies put in place will be objectively informed.

Information that is important to investors is the information that is material in enabling them to make accurate decisions regarding where, when and how to invest their funds. This research will inform them of how ownership structure will affect the performance of the manufacturing firms listed in the Nairobi Securities Exchange and make appropriate investment decisions.

The government will benefit from this research by way of getting researched position on how the ownership of manufacturing firms in Kenya is affecting the achievement of vision 2030 through manufacturing policy. This will then enable the government to determine policies that will stimulate the performance of manufacturing firms by providing better ownership guidelines for manufacturing firms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review guiding the study. The theories forming the basis of the study include the agency theory, the stewardship theory and the resource dependency theory. The chapter also presents the determinants of firm performance. The empirical literature explores earlier findings regarding how ownership structure affects financial performance. The final section presents the conceptual framework.

2.2 Review of Theories

This section discusses the theories guiding this study. The theories are: the agency theory, the stewardship theory and the resource dependency theory. The theories explore how ownership structure affects financial performance.

2.2.1 Agency Theory

Agency theory was suggested by Jensen & Meckling (1976), but its adoption in corporate governance increased after 1980 when companies started replacing the corporate logic of managerial capitalism with the view of managers as shareholders' agents. The Agency Theory addressed a growing concern that the management of corporate bodies focused on empire building while disregarding shareholder interest. In the Agency Theory, the shareholders are the principals while the managers are the agents. The shareholders hold the primacy position of being the residual claimant and main stakeholder. While shareholders have a willingness to bear risk, they don't have time to actively participate

in management. This drives them into contracts with managers as agents to manage the risk and control the company (Brealey, Myers, & Allen, 2013).

Issues in agency issues arise due to the delegation of control by owners of firms. The issues are worsened by the divergent risk characteristics of concerned parties. This makes it difficult to expect risk-averse managers to promote the interests of the shareholders who are not concerned with risk. This is because maximizing shareholders' wealth might not a priority for manager (Bonazzi & Islam, 2007). According to Jensen & Smith (1985) the three top agency problems of agency are choice of effort, differential risk exposure, and differential time horizon..

In the first type of agency, managers derive utility from reducing the idiosyncratic risks. Usually, managers hold undiversified positions. Managers holding higher equity face risks from their incentives and are forced to diversify. May (1995) argues that chief executive officers with more shareholding conduct more diversification. In the second type of agency, managers diversify for private benefit firm (Stultz, 1990). Such benefits include prestige and better career prospects, increased perks and making themselves indispensable. However, this assertion was disputed by Lemmon & Lins (2003) who found that there was less diversification in some firms where managers had higher shareholding.

The benefits of revenue diversification vary, partly, due to the agency issues within the banks. The managers may diversify out of their own interests and not those of the shareholders. The employees may not effectively manage the revenue diversification policy since the success of the policy may not be beneficial to them though it may

maximize the wealth to the shareholders who are the principals. As a result the effect of ownership structure on financial performance of a listed manufacturing firm depends on the manifestation of the agency relationships (Stultz, 1990).

2.2.2 Stewardship Theory

Stewardship theory explains the agency relationship between the owner of a firm who is the principal and steward who is the manager (Davis, Schoorman, & Donaldson, 1997). Just like the agency theory, the stewardship theory examines the relationship between the principal and the steward. According to the theory, stewards will aim to benefit the principal (Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008). However, the behaviour depends on the principal relates to the steward and the environment they operate in (Corbetta & Salvato, 2004).

It is desired the stewardship relationship leads to maximum firm performance realized in improved sales and profitability. This can be achieved only when both the principal and the manager become stewards. The assumption is that the principal-steward relationship is voluntary in order to place the principal's interest first. This will positively affect performance (Eddleston & Kellermanns, 2007). The choice of stewardship behaviour is affected by psychological and situational factors. Psychological factors include intrinsic motivation, high identification, and personal power. Intrinsic motivation exists within individuals. Individuals who closely identify the organization choose stewardship because of their strong sense of membership with their organization. Personal power is based on interpersonal relationships, influence and empowers steward managers (Davis, Schoorman, & Donaldson, 1997).

Management philosophy and culture make up the situational factors (Craig & Dibrell, 2009). Involvement-oriented, collectivist, low power distance cultures influence stewardship behaviour. Involvement oriented management is manifest when workers are trusted. In organizations characterized by collectivism, individuals put organizational goals ahead of individual goals. Emphasis is on belonging and loyalty due to the tight-knit social framework in the organization (Nicholson, 2008). Low power distance describes an environment where equality is perceived between different levels of the organizational hierarchy.

Stewardship theory relevant to this study since it provides the humanistic environment within which the performance of the organization takes place. This is due to its founded upon sociology and psychology. When individuals are motivated by higher order needs fulfilment the organization also experiences higher performance. In the relationship between the principal and the steward, the steward should put the interests of the principal first. A principal should then create structure to enable stewardship to flourish. This indicates that the structure of ownership can positively influence the performance of the organization.

2.2.3 Resource Dependency Theory

This theory was posited by Lawrence and Lorsch (1967). The theory states that successful organizations have internal structures that match the environmental they operate in. The theory provided base for Pfeffer's (1972) argument that the composition and size of the management is a response to the external environment conditions facing an organisation. The resource dependency theory asserts that the directors bring resources

and legitimacy that will reduce the improbability facing the organization while stimulating performance (Gales & E Kesner, 1994).

This theory is relevant to this study because it accurately captures the context of listed firms that make the population of this study. The owners of the firms have appointed managers who run the listed firm on daily basis. The managers are mandated to assemble resources that will ensure goals of the owners are achieved within the environment they operate in.

2.3 Determinants of Financial Performance of Manufacturing Companies

Factors that determine the performance of manufacturing firms vary according to firm, or to country or to time. Different studies done in different contexts have identified various sets of factors that determine financial performance of manufacturing firms.

2.3.1 Initial Conditions

In a study conducted by Claessens, Djankov, & Pohl (1997) in Czech Republic, Hungary, Poland, and Slovakia, Bulgaria, Romania and Slovenia identified three factors that helped explain variation in the financial performance in the countries. Initial conditions such as firm size, sector, and level of productivity contributed greatly to the financial performance. For instance, the study found that firms dealing with tobacco, furniture, and paper industries recorded faster as compared to other firms in other sectors. Further, firms in sectors such as textile, lumber and petroleum refining, improve rather slowly. Financing by banks seemed to be biased to more productive firms except Bulgaria and Romania.

2.3.2 The status of privatization

Privatization is transfer of activities and assets to the private sector from the public. The transfer can be in the form of liquidation, subsidization, and contracting out. In liquidation, the government sells a state owned enterprise to the private sector. In subsidization, the government provides grants to non profit organizations that provide public utilities. Under contracting out the government retains responsibility for providing a service, but hires a private contractor to deliver it (Megginson, 2005)

In a study by Otieno (2012) whose aim was to explore and review the effect of privatization on firms' Performance in Kenya, formerly state owned firms were the focus. The aim was to find out whether privatization improved financial performance of the parastatals. The research showed a positive relationship between privatization and firms' performance.

2.3.3 Bank lending

Bank lending refers to funds granted to either individuals or organizations. Lending can be short term, medium term or long term. While lending seems to have weak effect on the performance of public organizations due to high chances of wastage, it can result to higher performance in private entities (Oluitan, 2009).

In a study conducted by Banafa, Muturi, & Ngugi (2015) the aim was to assess how leverage effected financial performance of listed non-financial firms. The study used causal research design on the 42 listed non - financial firms in Kenya. The study, using

regression analysis established that financial leverage had a negative and significant effect on effect corporate financial performance.

2.3.4 Financial Performance of Listed Firms

The financial performance of a firm can e estimated by Tobin's Q. Tobin's Q is regarded as a valuation measure not related to profitability as is the case with ROA and ROE. It is a measure that is highly correlated with the market-to-book ratio. Tobin's Q is a financial performance measure highly recommended by scholars such as (Chen, 2004).

Tobin's Q is calculated by dividing the market value of total assets divided by the replacement cost of total assets. According to Thomsen, Pedersen, & Kvist (2003) the simple Tobin's Q is found by dividing the sum of market value of equity and book value of total debt by the book value of assets. Since manufacturing firms that make the population of this study are listed, it is possible to establish the market value of total assets using share prices making it possible to calculate the Tobin's Q. As a result, the study opts for Tobin's Q as to measure financial performance

2.3.5 Other factors determining a firm's financial performance

In another study conducted by Griffin (2015) the focus on establishing real exchange rate affected the performance of firms in Colombia's manufacturing sector. The factors considered were real exchange rate, external and domestic demand, and structural changes covering a period of 13 years between 2000 and 2012. The study established that export intensive manufacturing companies were adversely affected by real exchange rate

appreciation. Trade disruption with Venezuela and increased trade with China negatively affected performance of the manufacturing sector since 2008.

The study by Mutuku, Muturi, & Abuga (2016) sought to establish the extent to which financial constraints, innovation constraints and management constraints influenced the financial performance of small manufacturing firms in Kisii County. The study established significant relationship between financial constraints, innovation constraints and management constraints on performance of small manufacturing firms. This indicates that financial constraints, innovation constraints and management constraints were factors contributing to financial performance of small manufacturing firms.

Other studies such as that by Nybakk & Jenssen (2012) cited innovation strategy, working climate as contributors to financial performance. The study by Muigbo (2013) identified employee motivation as a factor contributing to financial performance. Folinas & Shen (2014) connected firm performance to inventory management. The conclusion is that the performance of a firm can be driven by various types of factors.

2.4 Review of Empirical Literature

This section reviews past empirical studies with regard to the relationship between ownership structure and financial performance of firms. Ownership structure is about the share of debt and equities in the listed firms while financial performance refers to the return on equity of firms.

A study conducted by Lee (2008) sought to examine the how equity ownership structure affected firm financial performance. The study was done in South Korea. The study

focused on ownership concentration and identity of owners. The study used panel data analysis approach. Analysis was done for the period between 2000 and 2006. The study found that ROA improved as ownership concentration increased. However, the effects of foreign ownership were insignificant.

The study conducted by Lauterbach & Vaninsky (1999) examined how ownership structure affected firm performance on firms in Israel. The study separated family firms, firms controlled by partnerships of individuals, concern controlled firms, and firms where blockholders have less than 50% of the vote. The study was done on 280 firms in Israeli using the technique of Data Envelopment Analysis. The study found that ownermanager firms generated income less efficiently as compared to firms managed by a professional non-owners. Family firms managed by their owners had the worst performance.

In the study by Gugong, Arugu, & Dandago (2014) they examined how ownership structure affected financial performance of listed insurance firms in Nigeria. The study also employed the panel data approach. They used panel data for 17 firms over a 10 year period between 2001 and 2010. The study focused on managerial and institutional shareholding aspects of ownership. ROA and ROE measured performance. The study found a positive and significant relationship between ownership structure and firm's performance.

In Sweden a study conducted by Andersson, Nordwall, & Salomonsson (2001) explored the effect ownership structure on firm performance in listed companies. Data used for the study were from 87 listed companies for the period between 1999 and 2003. The study used stock return, ROA, ROE and Tobin's Q to measure performance. The results

showed that companies with wide ownership distribution and in which the largest owner held less than 20% of total shares, performance poorly considering stock return, ROA and ROE. The same firms were highly valued according to Tobin's Q.

In a study conducted by Avulamusi (2013) the focus was on finding how different ownership identity structures affected financial performance of commercial banks in Kenya. It was a descriptive study that employed survey methodology. It sampled 20 commercial banks with different ownership structures. Data were obtained from the Central Bank, from the Kenya Banking Surveys and from commercial banks' annual reports. The results indicated that foreign ownership positively affected financial performance.

In another study, Mutisya (2011) sought to find out how ownership structure affected the financial performance of firms listed at the NSE. The study was descriptive in nature. The study was done on all the 58 listed firms using data for the period between 2010 and 2014 obtained from the Nairobi Securities Exchange. Analysis was done using correlation analysis and multiple regression. The results revealed a weak positive relationship between the percentage of foreign shareholding and ROA. The study also revealed a weak negative relationship between local ownership and ROA. The regression indicated a statistically insignificant negative relationship between ROA and foreign ownership. Same was the case for local ownership and ROA.

In the study by Gitundu, Kiprop, Kibet, & Kisaka (2016) the aim was to establish how ownership structure affected the financial performance of privatized companies in Kenya. The study covered the period of 2007 to 2013. Data was obtained from the financial

reports of the privatized companies, from the Capital Markets Authority (CMA) and from NSE. The study found that ownership structure affected financial performance. Institutional shareholders and dispersed shareholders improved ROA.

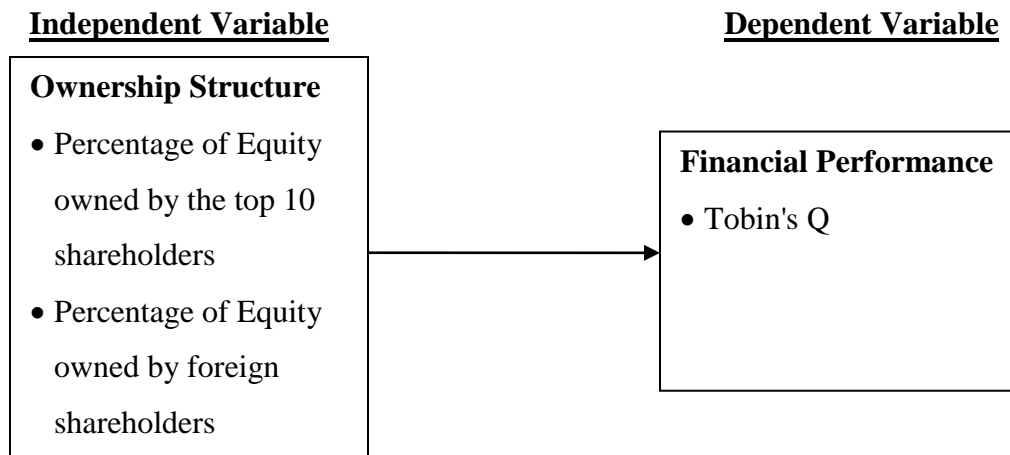
The study conducted by Chege (2011) sought to establish how ownership structure affected financial performance of listed commercial banks in Kenya. The study was a descriptive survey study on all the 10 listed commercial banks. Secondary data on financial performance (profit before tax) and the variables for ownership structure were sourced from the listed commercial banks' annual financial reports. The study showed a positive relationship between profitability and foreign shares and share capital. This indicated that ownership structure positively contributed to financial performance.

In another study, Mokaya & Jagongo (2015) aimed at establishing how ownership structure affected financial performance of listed firms. The study applied both cross sectional and descriptive survey method on all the 63 listed firms. Secondary data from financial statements were used in this study. The study applied content analysis. Regression analysis tested the how ownership structure affected financial performance. The study found a strong positive correlation between financial performances and ownership structure.

2.5 Conceptual Framework

Figure 1 below presents the conceptual framework of the study. The study had two variables; ownership structure and financial performance. Ownership structure was the independent variable while financial performance was the dependent variable. Equity held by top ten largest shareholders and equity held by foreign investors expressed as a

percentage of book values of total shares measured ownership structure. Tobin's Q measured financial performance.



Source: Researcher (2016)

Figure 1: Relationship between Ownership Structure and Financial Performance

2.6 Summary of Literature Review and Research Gap

The theoretical literature review clearly suggests strong relationship between ownership structure and a firm's financial performance. They suggest a positive relationship between ownership structure and financial performance. However, research findings have shown variation while most of the studies have shown relationship some, such as that by Mutisya (2011) showed a weak relationship. Further, while others show positive relationship, others such as Lauterbach & Vaninsky (1999) show ownership structure can worsen financial performance. The studies cited did not focus on how ownership structure affects the performance of manufacturing firms that are listed. Their findings can, therefore not expressly apply to all listed manufacturing firms. This research

addressed the research gap by assessing how ownership structure affected the financial performance of listed firms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of this study. It describes the research design, the target population and the sample. Further, the chapter describes the data collection techniques. Data analysis methods are also explained in this chapter.

3.2 Research Design

This research used the panel data analysis approach. According to Hsiao (2010) panel data or longitudinal data refers to data containing time series observations of a given number of individuals. Observations in panel data have at least two dimensions; the cross-sectional dimension and the time series dimension, indicated by subscript. Gujaratti (2004) argues that panel data analysis studies a phenomenon within multiple sites over time. Panel data analysis enables longitudinal analysis.

Panel data analysis was the appropriate research design for this study because the researcher intended to investigate how ownership structure affects financial performance across time and across firms. Only panel data can achieve this kind of analysis. The relationships are being studied in a heterogeneous setting of the firms under study. Such a design was used by Chen (2012) when investigating how ownership structure affected financial performance of non-financial listed firms in Scandinavia.

3.3 Target Population

The population of this study was made up of the 10 firms listed Manufacturing firms. The ownership of the firms keep changing as the trading of shares takes place. The constant variation in their ownership made them the best for conducting a study of how ownership structure affects their performance. Further, the firms were in the manufacturing sector fitting them directly into the subject under investigation. By studying all the 10 firms this made the study a census. However, the data to be used covered the 10 year period between 2011 and 2015.

3.4 Data Collection

Data required for this study was obtained from annual published records of the 10 firms listed in the Manufacturing and Allied Segment of the NSE. This was complemented by visiting the offices of the Nairobi Securities Exchange in Nairobi City to get comprehensive data from their database. The data required for this research included the book values of equity for each firm, market prices of equities percentage of ownership of the top 10 shareholders, percentage of foreign ownership. The data was collected for the five year period between 2011 and 2015. The data was collected electronically.

3.5 Data Analysis

Data on equity and book values of total assets was be processed into the variable of this research as shown below. For each firm the annual variable of ownership was calculated as ownership concentration which was calculated as below. The values of shares will be aggregate to the sector and processes into a percentage:

$$X_1 = \frac{\text{Number of shares owned by ten largest shareholders}}{\text{total shares}} \quad (1)$$

Percentage of foreign ownership for the segment was calculated by the formula below

$$X_2 = \frac{\text{Number of foreign owned shares}}{\text{total shares}} \quad (2)$$

While financial performance, measured by Tobin's Q was calculated as:

$$\text{Tobin Q} = \frac{\text{Market Value of Equity}}{\text{Book Value of Total Assets}} \quad (3)$$

Descriptive statistics such as mean, standard deviation, maximum and minimum were used to describe the data. The correlation between ownership structure and return on assets was assessed by calculating the Pearson's correlation. The relationship between ownership structure and annual returns was analyzed using regression analysis that took the format shown below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e \quad (4)$$

In the regression, the dependent variable Y represents the Tobin's Q, X_1 represents percentage of top shareholding to total shares, X_2 is percentage of Foreign Ownership to total shareholding. β_0 is the constant of regression, while β_1 , and β_2 are the sensitivities of Y to each of the independent variables while e is the error term. The regression analysis was done at 95 percent confidence level. The t statistic was used to test the statistical significance of each constant per company. The F - test was used to test the statistical significance of the regression. The coefficient of determination, R^2 was used to establish how much variation in Y is explained by variation in ownership the independent variables. Analysis was done in SPSS version 20 and MS Excel version 2007.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of data, presents the results and discusses the results. The first section provides the descriptive analysis of the data used in the study. In the second section, the chapter focuses on regression analysis to establish the effect of ownership structure of financial performance of listed firms. The final section of the chapter discusses the findings in comparison with other research findings on the same topic.

4.2 Descriptive Analysis

This section presents the descriptive analysis of the data used in this study. In the study, targeted 10 companies listed in the Manufacturing & Allied Segment of the NSE. However, the researcher was able to access data from only seven listed companies. The other three were disqualified from analysis due to data inconsistency. The descriptive analysis looks at the trend of ownership structure in the companies listed in the Manufacturing & Allied segment of the NSE. It also describes the data used in the regression analysis.

Figure 2 below shows the trend of shareholding in the Manufacturing & Allied segment by assessing the trend of the sum of all shares owned by top 10 largest shareholders for all the companies combined and the number of shares held by foreign firms and individuals. The diagram also shows the trend lines for each type of ownership. In the Manufacturing & Allied segment, there is a steady rise in the number of shares held by

the top 10 owners in the companies. The trend line show a steady positive slope from 1.20 Billion shares in 2011 to 1.40 Billion shares in 2015. This shows an increasing concentration of shareholding in the sector. Foreign ownership, on the other hand, has levelled off at less than 0.60 Billion.

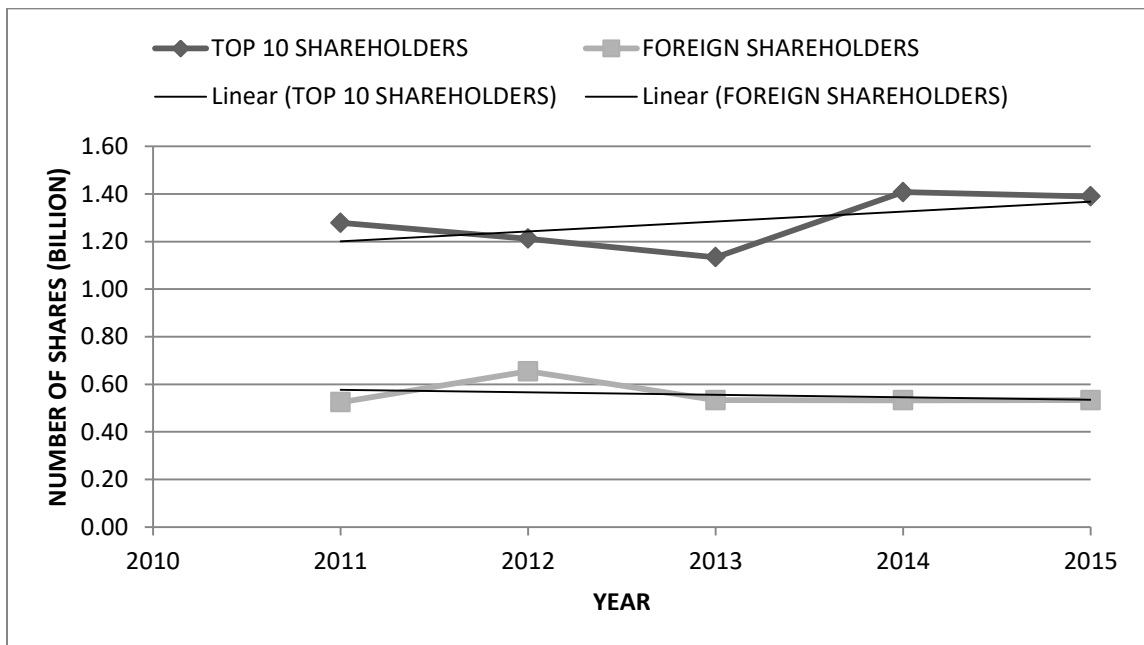


Figure 2: Trend of Shareholding in the Manufacturing and Allied Sector

Figure 3 assesses the ownership on comparative basis using percentages. As shown in the figure, the percentage of sector aggregated shareholding, the percentage of shares held by the top 10 largest shareholders is increasing. While it was 2.74 percent in 2011, it steadily rose to 3.80 in 2015. On the other hand percentage foreign ownership has stabilized at about 1.50 percent with marginal changes from 1.12 percent in 2011 to 1.46 percent in 2015. The percentage top 10 shareholding indicates that the ownership of firms in the Manufacturing & Allied segment is increasing indicating concentrated ownership.

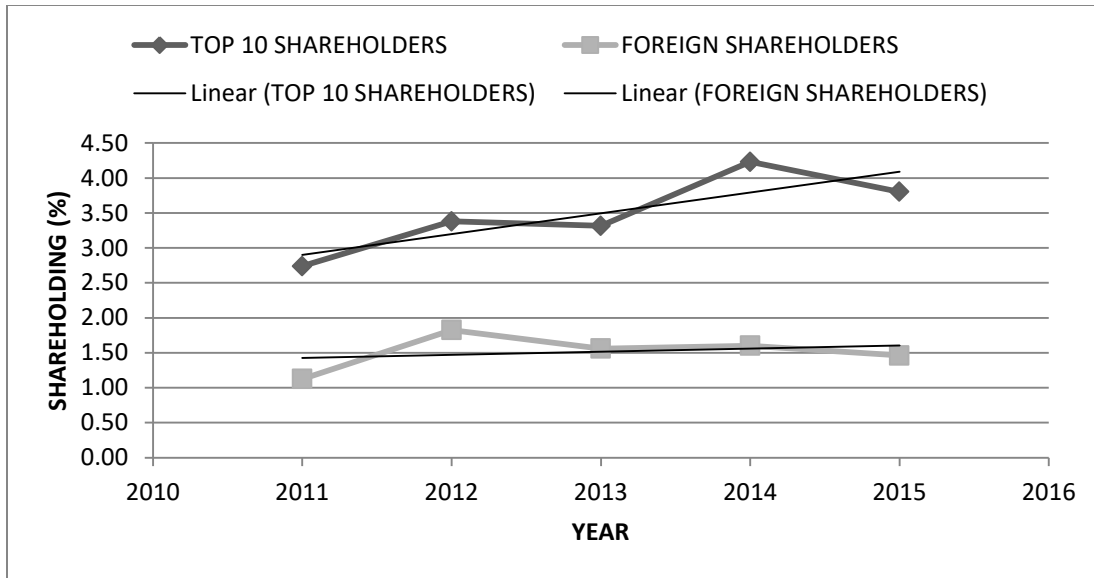


Figure 3: Trend of Percentage Foreign Ownership

Table 4.1 provides the summary statistics of the variables. As shown, the mean proportion of shares owned by to 10 shareholders on firms in the Manufacturing & Allied segment was 0.0349. The maximum proportion was 0.0423 in 2014 while the minimum proportion was 0.0274 in 2011. As for foreign ownership, the mean proportion was 0.0151. The highest proportion was 0.0182 in 2012 while the minimum was 0.0112 in 2011. The mean value of Tobin's Q was 110.3376. the maximum was 162.3761 in 2015 while the minimum was 77.5221 in 2011.

Table 4. 1: Descriptive Statistics

	TOP 10 SHAREHOLDERS	FOREIGN SHAREHOLDERS	TOBIN'S Q
Mean	0.0349	0.0151	110.3376
Median	0.0338	0.0156	93.8786
Standard Deviation	0.0056	0.0026	37.3153
Minimum	0.0274	0.0112	77.5221
Maximum	0.0423	0.0182	162.3761

4.3 Correlation Analysis

Correlation analysis was done to assess the co-variation in the variables of study. The correlation was assessed using Pearson Correlation. As shown in Table 4.2, the correlation coefficient between proportion of shares held by Top 10 Shareholders (X_1) and the proportion of shares held by Foreign shareholders (X_2) was 0.522 ($p = 0.367$) which was not statistically significant. The correlation between X_1 and Tobin's Q was 0.794 ($p = 0.109$) which was not significant while that between X_2 and Tobin's Q was 0.068 ($p = 0.914$) which was not significant.. The analysis shows that the variables are statistically independent and can be analyzed using regression analysis.

Table 4. 2: Correlation Analysis

		Correlations		
		X_1	X_2	Tobin's Q
X_1	Pearson Correlation	1	.522	.794
	Sig. (2-tailed)		.367	.109
	N	5	5	5
X_2	Pearson Correlation	.522	1	.068
	Sig. (2-tailed)	.367		.914
	N	5	5	5
Tobin's Q	Pearson Correlation	.794	.068	1
	Sig. (2-tailed)	.109	.914	
	N	5	5	5

4.4 Regression Analysis

Linear regression analysis established the relationship between X_1 , X_2 and Tobin's Q. The results of the linear regression analysis are presented in Table 4.3 below. As shown in the table, the constant term was -27.173 ($t = -0.324$, $p = 0.777$) which was not

statistically significant. The coefficient of X_1 was 6956.341 ($t = 2.786, p = 0.108$) which was not statistically significant. The coefficient of X_2 was -6968.576 ($t = -1.274, p = 0.331$) which was not statistically significant. The variance inflation factor (VIF) assessed multicollinearity in the linear regression. A VIF of about 1.00 indicates no multicollinearity in the variables making them independent. Tolerance is the inverse of VIF and the smaller it is, especially when less than 0.1, the higher the level of multicollinearity. In the regression, the VIF of 1.375 and Tolerance of 0.727 indicate no multicollinearity. The model of the relationship is as given below Table 4.3.

Table 4. 3: Regression Analysis

Model	Coefficients ^a						Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Tolerance	VIF
	B	Std. Error	Beta					
(Constant)	-27.173	83.874			-.324	.777		
1 X_1	6956.341	2497.182	1.043		2.786	.108	.727	1.375
X_2	-6968.576	5469.848	-.477		-1.274	.331	.727	1.375

a. Dependent Variable: Tobin's Q

The model is specified as:

$$\text{Tobin's } Q = -27.173 + 6956.341X_1 - 6968.576X_2$$

Table 4.4 below shows the Analysis of Variance (ANOVA) assessed the significance of the regression. As shown in the table $F=3.903(p = 0.204)$ which was not statistically significant.

Table 4. 4: Analysis of Variance

ANOVA ^a					
Model	Sum of Squares	d.f	Mean Square	F	Sig.
1 Regression	4433.647	2	2216.823	3.903	.204 ^b
Residual	1136.084	2	568.042		
Total	5569.730	4			

a. Dependent Variable: Tobin's Q

b. Predictors: (Constant), X_2 , X_1

The coefficient of determination $R^2 = 0.796$ was calculated to estimate how much of variation in Tobin's Q was explained by the regression model. The statistic measures the percentage of variation in a dependent variable is explained by variation in the independent variable. In this regression, 79.6 percent of variation in Tobin's Q is explained by variation in ownership.

Table 4. 5: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
1	.892	.796	.592	23.8336287	.204

4.5 Discussions

As shown in the findings from data analysis, the percentage of shares held by the top ten shareholders of firms in the Manufacturing and Allied segment of the NSE in increasing steadily since 2011 and so has the performance of the firms as measured by Tobin's Q. The regression analysis shows that the increasing ownership by top ten owners positively affected the performance of the firms though the effect was not statistically significant. The low statistical significant shows that this pattern of ownership does not affect the performance of the listed firms.

Regarding the positive effect, the findings agree with those of Eka (2015) who studied the impact of ownership concentration, structure, and corporate governance to the firm's performance and credit rating in Indonesia. The study was done by focusing on 271 firms listed in the Indonesian securities market as from 2006. The study established that Indonesia, companies were dominated by few large or majority shareholders. This ownership had a positive effect on firms' performance by minimizing agency cost. However, while the study by Eka (2015) found a significant relationship between concentration and firm performance, this study finds a statistically insignificant relationship.

The findings of this study agree with those of Sehrish, Saleem, Yasir & Shehzad (2012) who conducted a similar study on 100 non financial firms listed on the Karachi Stock Exchange (KSE). The study was done to determine the effect of concentrated ownership on firm performance. They established that concentrated ownership of listed firms did not affect the financial performance of the firms.

This study also established that foreign ownership has stabilized at 1.50 percent of the equity of firms in the Manufacturing and Allied segment of the NSE. The study established that the ownership by foreign firms and individuals negatively affected financial performance of the firms but the effect was not statistically significant. The findings of this study differ with those of Phung & Mishra (2015) who conducted a study on firms listed on Vietnamese Stock Exchange (VSE) and established that firm performance increased as foreign ownership increased. The findings also differ with those of Wah (2015) who established that increased inclusion of foreign ownership into

the ownership structure of listed firms improved the financial performance of 182 firms listed in Malaysian stock Market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings arising from the study. Further, the chapter presents the conclusions based on the findings. The chapter also presents the conclusions, recommendations, and limitations and makes suggestions for further research.

5.2 Summary of Findings

Basing on analysis, this study has made the following findings: First, ownership concentration in the few top 10 shareholders for each listed. The large shareholders increasingly own larger and larger shares of the companies. This ownership is positively affecting the financial performance of the firms but the effect is not statistically significant.

Secondly, foreign ownership of listed manufacturing firm has stagnated at a very low percentage. Further, this ownership seems to have a negative effect on financial performance of the listed firm though the negative effect is not statistically significant. Generally, ownership structure, in the name of concentration and diversity do not seem to improve the financial performance of the listed manufacturing firm.

5.3 Conclusions

Basing on the findings, this study makes the following conclusions. First, ownership concentration in listed manufacturing firm is steadily increasing as more shares move into

the hands of fewer top shareholders. The fewer large shareholders do not use their shareholding power to influence the performance of the firms. As a result, their ownership has an insignificant improvement on the financial performance of the firms.

Secondly, the study concludes that foreign ownership of listed manufacturing firms is static and has changed only marginally in the last five years starting 2011. The ownership has negatively affected financial performance of the firms though not significantly so. This indicates that the other segments of shareholders, the local shareholders are not having an effective contribution on the performance of the firms. Generally, this study concludes that ownership structure is not contributing to the performance of listed manufacturing firms.

5.4 Recommendations

The study recommends that the increased concentration of shares in the top ten owners of listed manufacturing firms should be utilized to drive performance. The shareholders should use their strength to influence decision to reduce the agency costs arising from management and ensure that their firms have expected top performance. The reason for such involvement is that in case of the failure of the firms, the large shareholders will be the greatest losers.

The study recommends the motivation of more foreign investors to put their funds in Kenyan listed firms. Inclusion of foreigners in Kenyan firms, will make them global firms which will aim to achieve global standards for the benefit of investors from any country.

5.5 Limitations

This study was limited by the fact that though it established that ownership structure did not affect the performance of the listed manufacturing firms, it did not show the causality relationship. It has not enabled the conclusion of whether or not ownership structure causes the financial performance of the listed manufacturing firms.

The study has not shown what the top ten shareholders and foreign shareholders do or fail to do in order to contribute or fail to contribute to the performance of the listed manufacturing firms. If what they do or fail to do was established, it would shed more light on why the results are as found.

The findings are limited in scope to listed manufacturing firms only. However, manufacturing goes beyond registered firms. There are many private entities active in the manufacturing sector in Kenya. These findings may not be expressly applied to these firms that are not listed.

5.6 Suggestions for Further Research

To address the issue of whether or not the financial performance of listed manufacturing firms, a study can be conducted to focus on causality. This will establish if the financial performance of the firms is caused or not caused by ownership structure.

To establish the role played by foreign owners and the large shareholders, a study can be conducted to establish how listed firms use the two types of shareholders in their decision making. The study should also establish how the large shareholders and foreign shareholders influence decisions in the listed firms.

To address the scope limitation, a study can be conducted to cover firms that are not listed in the NSE. This is because such firms have their own ownership structures. The owners, using their weight, pegged on their interest in the firms can influence decision making and, hence, the performance of the firms. This will enrich the argument of whether and how ownership affects the performance of a manufacturing firm.

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APPENDICES

Appendix I: Firms Listed in the Manufacturing and Allied Sector of the NSE

1. B.O.C Kenya Ltd
2. British American Tobacco Kenya Ltd
3. Carbacid Investments Ltd
4. East African Breweries Ltd
5. Mumias Sugar Co. Ltd
6. Unga Group Ltd
7. Eveready East Africa Ltd
8. Kenya Orchards Ltd
9. A.Baumann CO Ltd
10. Flame Tree Group Holdings Ltd

Appendix II: Financial Data

(Consolidated by Researcher From Various Sources)

COMPANY	YEAR	SHAREHOLDING		BOOK VALUE OF SHARES	SHARE PRICE (December)	MARKET VALUE SHARES	BOOK VALUE ASSETS
		TOP 10	FOREIGN				
B.O.C Kenya Ltd	2011	14,517,713	14446589	1,294,537,000	98	126,864,626,000	1,775,794,000
	2012	14,517,713	14446589	1,294,537,000	99	128,159,163,000	1,775,794,000
	2013	16,399,053	14446589	1,904,903,000	125	238,112,875,000	2,390,154,000
	2014	16,108,497	14592086	1,574,082,000	139	218,797,398,000	2,058,476,000
	2015	16,102,372	14900043	1,559,843,000	100	155,984,300,000	2,108,002,000
BAT Kenya Ltd	2011	75,355,996	70709872	6,412,067,000	246	1,577,368,482,000	8,409,916,000
	2012	73,041,680	76827579	7,097,917,000	492	3,492,175,164,000	9,123,815,000
	2013	72836520	77154201	7,571,608,000	595	4,505,106,760,000	10,204,821,000
	2014	76,884,232	76516833	8,126,922,000	913	7,419,879,786,000	11,070,605,000
	2015	63268334	76516833	8,853,178,000	725	6,418,554,050,000	12,080,481,000
Carbacid Investments	2011	18587421	76516833	1,467,365,000	95	139,399,675,000	1,739,985,000
	2012	18587421	76516833	1,652,770,000	115	190,068,550,000	2,012,816,000
	2013	18587421	76516833	1,924,429,000	50	96,221,450,000	2,204,399,000
	2014	138954055	76516833	2,156,883,000	20.5	44,216,101,500	2,533,163,000
	2015	144103638	76516833	2,118,508,000	15	31,777,620,000	2,968,727,000
East African Breweries	2011	474521084	267424798	21,300,971,000	171	3,642,466,041,000	34,202,944,000
	2012	474521084	267424798	8302835000	263	2,183,645,605,000	31687489000
	2013	474521084	267424798	7598600000	289	2,195,995,400,000	31113616000
	2014	474521084	267424798	9100848000	304	2,766,657,792,000	35405293000
	2015	464,513,691	267424798	15794602000	270	4,264,542,540,000	40,263,838,000

(Appendix II Cont...)

COMPANY	YEAR	SHAREHOLDING		BOOK VALUE OF SHARES	SHARE PRICE (December)	MARKET VALUE SHARES	BOOK VALUE ASSETS
		TOP 10	FOREIGN				
Mumias Sugar	2011	438400687	71,529,922	14,476,007,000	5.1	73,827,635,700	23,176,516,000
	2012	438400687	71,529,922	15,723,686,000	4.85	76,259,877,100	27,400,113,000
	2013	438400687	71,529,922	13,382,490,000	3.5	46,838,715,000	27,281,993,000
	2014	438400687	71,529,922	10,641,805,000	1.9	20,219,429,500	23,563,086,000
	2015	438400687	71,529,922	5932044000	1.55	9,194,668,200	6762973000
Unga Group	2011	47,362,272	1,602,059	1,450,073,000	8.8	12,760,642,400	1,575,425,000
	2012	48,440,895	3,065,012	1,448,815,000	13.45	19,486,561,750	1,606,589,000
	2013	49,961,695	3854618	1444178000	17.95	25,922,995,100	1599985000
	2014	52,694,612	3854618	1,438,524,000	37	53,225,388,000	1,565,332,000
	2015	53,291,326	3992622	1,442,936,000	34.25	49,420,558,000	1,597,021,000
Eveready East Africa	2011	210,000,000	22,584,143	279,405,000	1.75	488,958,750	1,010,864,000
	2012	144722886	144,722,886	349,489,000	1.95	681,503,550	1,144,374,000
	2013	63,679,850	22,572,443	393,593,000	2.8	1,102,060,400	933,687,000
	2014	210,000,000	22,601,943	232,181,000	5.45	1,265,386,450	942,129,000
	2015	210,000,000	22,730,043	838,407,000	2.8	2,347,540	1,543,025,000

Appendix III: Annual Summary of Financial Data

YEAR	SHAREHOLDING		BOOK VALUE OF SHARES	MARKET VALUE SHARES	BOOK VALUE ASSETS
	TOP 10	FOREIGN			
2011	1,278,745,173	524,814,216	46,680,425,000	5,573,176,060,850	71,891,444,000
2012	1,212,232,366	654,533,619	35,870,049,000	6,090,476,424,400	74,750,990,000
2013	1,134,386,310	533,499,404	34,219,801,000	7,109,300,255,500	75,728,655,000
2014	1,407,563,167	533,037,033	33,271,245,000	10,524,261,281,450	77,138,084,000
2015	1,389,680,048	533,611,094	35,701,949,407	10,929,476,083,740	67,324,067,000

Appendix IV: Table of Variables

YEAR	X_1	X_2	Tobin's Q
2011	0.027393606	0.0112427	77.52210487
2012	0.033795113	0.01824736	81.47686639
2013	0.033149997	0.01559037	93.8786019
2014	0.042305696	0.01602095	136.4340509
2015	0.038032249	0.014603671	162.3761273