THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

By

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DECLARATION

I declare this research project is my original work which has not been presented for examination to any other College, Institution or University.

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This research project has been submitted for presentation with my approval as University Supervisor

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DEDICATION

I dedicate this project to my mother and brother for the constant support they have provided me throughout my academic journey that resulted in the successful completion of my dissertation.

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ABBREVIATIONS AND ACRONYMS

CDSC - Central Deposit and Settlement Corporation

EMH - Efficient Monitoring Hypothesis

GDP - Gross Domestic Product

ROA - Return on Firms Assets

CMA – Capital Markets Authority

NSE - Nairobi Securities Exchange

ROE - Return on Equity

IPO - Initial Public Offering

ABSTRACT

The study aims at analysing the performance of firms in relation to ownership structure of companies at the Nairobi Securities Exchange (NSE). Period under research was from 2016 - 2020 and 51 listed firms were selected based on consistency of their data availability. The independent variables used were the major ownership structures which are local ownership, state ownership and foreign ownership. The study employed size of firm and age of firm as control variables for the listed entities. The measure of performance used for the listed firms is Return on Asset (ROA). Variables were analysed to provide empirical evidence that was used to identify how structural ownership impacts performance of listed companies. The study was centred on literature review from the agency theory, shareholders theory and market failure theory. The design selected for the research was correlation and cross-sectional data to examine the data collected. Secondary data which in this research is financial information from financial statements and annual reports was collected from Nairobi Securities Exchange and Capital Markets Authority (CMA) as listed entities as stipulated by law should release their annual financial statements. A multiple regression analysis was formulated where Pearson correlation was identified to establish the association between ROA for measuring firm performance and independent variables. This analysis was determined by the use of SPSS software. Results of the research presented that ownership structure tends to have a negative influence on ROA on firms listed at the NSE. Based on this study, state institutions should reduce their percentage of shareholdings in firms to enable privatisation and policies be enforced to regulate the ratio of foreign ownership which will significantly improve firm performance. Therefore, listed firms need to establish the optimal mix of ownership structure that yields the best outcome on their performance.

CHAPTER ONE: INTRODUCTION

1.1 Study Background

Shareholders are residual claimants while management which is the decision maker, make up a company's ownership structure. This results in an agency problem because it is inherently anticipated that management carry their daily operations with the intention of maximizing shareholder's wealth. A country's legal and institutional framework plays a crucial role on how ownership structures are developed in that country.

The impact of structural ownership in relation to company performance has been researched broadly in corporate finance where it has emerged as a key root of concern for management and shareholders (Jiang $ Wong, 2004). The United States resulted in establishing a federal law called Sarbanes–Oxley Act that ensured financial disclosures were more reliable and accurate to protect investors. This was necessitated by many incidences of corporate fraud activities by well-established publicly traded firms such as Enron. The same was witnessed up close in Kenya where Chase Bank and Imperial Bank were placed under receivership in 2016 and 2015 respectively. Uchumi, which was one of Kenya's biggest retail chains, was also placed under receivership in 2006. Other firms which collapsed were JCI in South Africa, Parmalat in Europe, and Chuo Aoyama in Asia (Ongore & K'Obonyo, 2011).

A common characteristic of the evolving corporate governance is the distinct separation between management and firm ownership (Jiang, 2015). Shareholders legally appoint management to make decisions to better maximize their wealth. Managers often tend to look after their own self-preservation, resulting in a misalignment of interests between shareholders and management. Managers become more concentrated in earning higher compensation while shareholders are interested in increased profits. Another conflict is the treatment of profits where shareholders want a higher dividend pay-out while management prefers to reinvest the profits into the firm. The main solution to align the parties' interests is introducing a performance-based compensation structure for management. The firm is thus able to achieve their set objectives in the long run (Matengo, 2008).

Cespedes, Gonzalez, and Molina (2010) carried out a study in Latin America which established the consequences of ownership structure on an organisation's capital structure. They discovered that enterprises with a high ownership concentration prevent dilution of control rights by not issuing shares. Foreign researchers have done a variety of studies, all of which

come to the same conclusion: structural ownership majorly impacts financial performance and share price on publicly traded organizations (Clarkson, Overell & Chapple, 2011).

It has been established by scholars that ownership structure is not homogenous. Specific ownership structures have a disproportionately significant impact on corporate governance. Kang (2008) identified that various well-established firms are dominated by a significant concentration of shareholders who have the biggest voting rights and decision making, some have shareholders who have held their position for a long time and others have families having the largest ownership.

1.1.1 Ownership structure

Corporate governance is significantly affected by the firm's ownership structure since it has a direct impact on the company's profitability (Daily & Thompson, 2004). Corporate shareholders, small and large private shareholders and institutional investors are the four types of shareholders that make up a company's ownership structure (Dalton et al. 2013). An investor with enough capital to invest into the company's stock is termed as an institutional shareholder. Institutions such as trust funds, open ended investment, insurance companies, pension funds are the most common institutional investors as they tend to pool resources which are then invested. Secondly, the small private shareholders involve individuals who hold shares in small trenches. They have very little communication from the firm. Small shareholders' votes are unlikely to influence the outcome of the shareholders' meeting; however, the voting of the general meeting of the firm varies, and institutional shareholders' block votes and large private shareholders' votes carry far more weight. Thirdly, large proportions of the company shares are held by the private shareholders (Dalton et al. 2003).

1.1.2 Financial performance

Non-financial or financial metrics are used to evaluate an organization's success. According to Ho (2008), financial performance can be measured by the efficiency and effectiveness with which goals are met. Financial success could be measured using financial metrics which include return on investment, sales growth, return on equity, profitability, organizational effectiveness, and company performance (Venkatraman et al. 1986). According to Delaney et al. (2006), financial performance of a firm is measured by aspects of performance which include customer satisfaction, quality of product, sales margin, capacity utilization and return on investment. A firm's performance is a strong indicator of market growth, sales increment, and a positive return on shareholders' investment (Green et al. 2017).

External and internal factors have a major impact on organizational effectiveness. Internal factors such as cost rationalization, access to funds, size of assets, corporate image, technological advancement, and debt leverage have an impact on a firm's profitability. External factors which include legal, economic, social, political, and competitive environment also affect the firm's performance. Variances in how listed firms performance is impacted by management styles and market size (Koch, 2015).

1.1.3 Relationship between ownership structure and financial performance

Effective institutional ownership enables large corporate stakeholders to reduce management monitoring costs which is well stated in Efficient Monitoring Hypothesis (EMH). It is evidenced by large corporate shareholders who participate more in decision making as they value effective managerial oversight (Grossman & Hart, 1986). A major indicator of good corporate governance is institutional ownership (Shleifer & Vishny, 1997). They continued to demonstrate that institutional ownership resulted in an increase in an organization's productivity, resulting in an increase in the concentration of major shareholders and in the company's stock value. As institutional ownership goes high, the firm profitability rises to an optimal position where it starts to diminish due to dilution of ownership (Kapopoulos & Lazaretou,2007). Thomsen and Pedersen (2000) identified that a large ratio of family ownership tends to have a positive implication on the finances of the company. Their study carefully monitored the parameters of capital structure, industry, and nationality of the firms to yield the best outcome.

Other scholars have claimed that institutional ownership reduces monitoring costs which consequently results in improved financial performance and firm productivity. This supports the claim that firm performance and institutional ownership are connected. Additionally, firms with a larger ownership ratio of private shareholders experienced an increase in performance compared to firms which are state owned. This led to the conclusion that key performance measures which include return on assets and return on equity are significantly impacted by the firm's ownership structure (Perrini et al, 2008). Reduction in the ratio of state ownership in a company has a positive impact on its profitability. Wei (2007) established that while state ownership is low, the effect on performance is not negative but up to a certain point. Performance decreases once the level of state ownership surpasses 50%.

1.1.4 Nairobi Securities Exchange

Its inception can be traced back to 1954 where it gained its official recognition, and it is presently managed by Capital Markets Authority (CMA). It is the leading securities exchange in Kenya that provides online space for buying and selling derivatives, debts, equities, and other financial securities by firms. In 2016, it received recognition from CMA to be self-listed and it is now the second self-listed exchange in Africa. As of 2020, there were 66 listed firms which were classified into sectors majorly agricultural, automobile, banking, commercial services, construction, energy and petroleum and insurance sectors.

NSE has experienced various changes as it tries to adapt to the ever-changing financial market. In 2015, it launched Real Estate Investment Trust (REITs) and made the first listing of Stanlib Fahari I-REIT. It also introduced Exchange Traded Funds (ETFs) in 2017 and listed Barclays New Gold ETF (NSE, 2020). To improve market efficiency, NSE upgraded its mobile applications in 2020 which allows real time exchange transactions. It also allows users to have personalized watch lists to keep track of selected securities thus eliminating the need to access multiple sources of information. Digitization has enabled equitable access of information to all participants which has eliminated the few stockbrokers who influenced the demand and supply of the securities market (Kihumba, 1993).

Nairobi Securities Exchange has grown and become the fourth among the Sub-Saharan Africa leading securities exchange based on trading volume and to fifth position based on the country's capitalization as a percentage of GDP. NSE reported that Kenya market capitalization for 2020 averaged approximately at 2 KES billion. As a strategy to grow its market share, NSE has been cross-selling with securities market in Uganda and Tanzania. According to a report done by World Bank's (2010) that analysed how shareholders decide to invest in foreign nations, Kenya in a bid to protect local ownership limits foreign ownership in its economy compared to other countries' economies found in Africa. In the year 2010, there was a significant increase in capitalization by 40% compared to 2009 in Kenya as there was progress in activities of both the primary and secondary market (Economic Survey, 2010). In the same year, Uganda Securities Exchange become the best with an index return of 53 % and NSE followed in second place. This was attributed to the fact that there was an improvement in market confidence due to return of foreign and institutional investors, the country was in economic recovery and increased participation of capital markets in the economy (Mule et al., 2013).

1.2 Research problem

The ownership structure of listed firms in Kenya is constantly changing. Firms previously with government holding are shifting to foreign and local ownership making it a bit sophisticated. This process has become more efficient with the digitization era where the shares are continuously being traded thus ownership structure is bound to change at any time (Anthony, 2016). The major shift observed has been from state owned to local or foreign owned because of the decline in firm performance. This is evidenced by negative performance of firms such as Kenya Airways and Kenya Power and Lighting Company (KPLC). The Government of Kenya has come up with various purposeful divestment policies to increase privatisation to inject modern technology and trained expertise to the firms. Firm's performance will eventually improve for the long run (Ndemo, 2009).

A study by Thanatawee (2021) established that foreign investors stabilized the share price especially when they have an active participation in the operations of listed firms. Kenya being a developing nation has been creating a conducive environment to attract foreign investors as there is a transfer of technology, improved capital structure and better corporate governance. To this effect, in July 2015, the government of Kenya lifted the cap of 75 percent foreign holding of listed firms. Foreign investors gained the freedom to own 100 percent of the shareholding of listed firms. Foreign holding yields positive performance of firms, but a high foreign ownership negatively impacts a firm's performance. QN Duong (2021) study identified that when the aggregate portion of foreign holding in a firm is too high, it reduces the firm's performance.

Trading on the NSE has increasingly become a popular avenue to raise funds through avenues such as primary initial offerings and secondary markets. Despite this, many listed firms are still struggling with challenges of ownership structure. This is brought about by the agency problem where shareholders are interested in maximizing their wealth while management is after a better compensation. The conventional approach to corporate governance and how a company performs has over time overlooked the value which shareholders bring to the firm (Anselm, 2014). Owners are vital as they make strategic decisions that determine the long-term sustainability of the firm as their main goal is to safeguard their wealth (Omran ,2001). They are the residual claimants. There is a significant change in corporate ownership structure to meet global demands and expectations and management needs to align themselves to the changes (Miring'u & Muoria,2011).

Various studies carried out in regard to financial performance are structured on leverage, firm size, corporate governance, corporate social obligations, capital structure and qualitative aspects that affect performance have been overlooked such as ownership structure. Varying ownership structures are certain to have implications on performance of a company's financials over time. Research project hopes to understand more on the structural ownership in relation to the firm performance by studying companies in NSE.

1.3 Research Objective

To determine the relationship between ownership structure and financial performance of listed firms at the NSE.

1.4 Value of study

The findings will enable regulatory bodies in Kenya which include Capital Markets Authority, Kenya Revenue Authority, Central Bank of Kenya to develop policies that will effectively govern how ownership holding influences performance of finances for the listed companies in Kenya. The regulations formulated shall be able to create an equal playing field for investors either local or foreigners. This will improve confidence of local investors especially small-scale investors who often feel that firms have an added competitive advantage when they have foreign ownership. The regulators will understand how varying ownership structures affect the firm’s performance. Foreign holding provides firms with access to skilled expertise and a higher borrowing power yields optimized financial performance.

The outcomes will assist firms’ management and personnel, who will receive insight into how their companies might restructure their ownership structure to achieve their goals more effectively. The study analyses the significance of a diversified structural ownership and its results on a company's long term financial success. In today's changing business climate, businesses must adapt to the changing needs of their present business setup as well as the requirements of numerous suppliers and service providers. As a result, the research will be extremely beneficial to these firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The impact of Performance on financials and structural ownership of a company is reviewed in this chapter. The sections that make up the literature review are as follows. The study's theoretical framework, as well as the causes and variables of financial success, are covered in the first section. The empirical reviews and chapter summary are covered in the second section.

2.2 Theoretical review.

A business entity's primary goal is to provide acceptable returns to its shareholders while also maximizing shareholder wealth. As a result, all firms' management will need to identify and control all elements that affect the firm's profitability. However, as one of the elements that influences the level of profitability, there are a variety of ways in which enterprises can manage their ownership structure. To put it another way, there are opposing theories about ownership structure. Agency theory, market failure theory, and shareholder theory are three conflicting ideas.

2.2.1 Agency theory

Existence of agency cost incurred by a firm due to owners delegating the management of the organization to managers results in agency cost theory (Jensen & Meckling,1976). Appropriate ownership will reduce the expenses associated with disputes between the parties concerned. They claim that because of the probability for conflict between debt holders and shareholders, agency costs play an essential role in financing decisions. The agency theory broadens the scope of the firm's examination to encompass issues such as ownership and control, as well as management motivation.

Agency concerns have been found to influence managerial attitudes when it comes to taking risks that surround the management of corporate field (Smith & Stulz, 1985). This theory discusses how lack of equivalence in income distribution causes interest’s misalignment between management, shareholders and debt holders. The consequences associated with the misalignment are risks taken by firms or lack of investment in positive net present value initiatives. As a result, hedging is one of the methods that the agency theory suggests can significantly impact value of business (Fite & Pfleiderer ,1995). A response to mismatch between interests of shareholders and incentives by management is supported well by agency theory through hedging strategy.

2.2.2 Shareholders theory

Leff (1976) proposed shareholder theory which states the main obligation of a company's managers is to ensure that shareholders' wealth is maximized. This idea has a great backing in the academic finance fraternity and its key component of corporate finance theory. According to the shareholder value maximization hypothesis, a company will participate in risk management measures if and only if it increases company's value and wealth of its shareholders. This aim is credited with the advantages of considering all of the firm's direct stakeholders, being a long-term goal that incorporates all cash flows, and also taking into account the unpredictability of returns because the discounting rate can be altered according to the project's riskiness (Manoes et al. 2007). The shareholder model, on the other hand, has been chastised for encouraging short-term management thinking and enabling unethical actions. According to Smith (2003), critics argue that shareholder theory is inclined towards short-term profit maximization without considering long-term goals i.e. sustainability of the firm.

Furthermore, he contends that shareholder theory entails utilizing one group of shareholders' prima facie rights claims to justify violating the rights of others. Such critics, according to Jensen (2004), are erroneous because wealth maximization is essentially a long-term goal—the corporation must maximize the value of all future cash flows and does not allow for the exploitation of other stakeholders. Most of those who support the shareholder theory, in a model kind of style, push for maximization of the existing firms stock price by managers, which is understandable.

2.2.3 The market failure theory

It was first proposed by Leff (1976), and it demonstrates how group-affiliated businesses might avoid market inefficiencies. Following research have consistently demonstrated that in emerging markets, group-affiliated enterprises outperform non-group-affiliated firms (Castaneda, 2007). Furthermore, Leff's (1976) theory was applied to the internal capital market hypothesis to explain why group-affiliated enterprises generally benefit in the initial phases of capital market growth. When faced with information asymmetries and external financing constraints, the internal capital market hypothesis proposes that group-affiliated enterprises can use internal capital 14 markets to receive the funding they require (Perotti & Gelfer, 2001). An efficient market accomplishes exchange efficiency, production efficiency, and product-mix efficiency all at the same time. There is no need for government intervention in such circumstances beyond the development of a framework of law and order, a monetary system, and international peace. This picture is analogous to Adam Smith's "invisible hand" in the

public domain, and hence presents a technical case for laissez-faire economic policy. Theorists like Stiglitz, in contrast to Fama and Miller, sought out to provide an alternative to the efficient-market theory. Stiglitz (1980) made a name for himself by proving the neoclassical model of market efficiency's vulnerability to modest departures from its restrictive assumptions. Stiglitz emphasizes flaws in actors' information as well as departures from perfectly competitive market settings.

2.3 Determinants of financial performance

2.3.1 Ownership Structure

The ownership structure of a firm is a fundamental aspect of corporate governance since it has a direct impact on the company's profitability (Daily & Thompson, 2004). Institutional investors, small private shareholders, large private shareholders, and corporate shareholders are the four types of shareholders that make up a company's ownership structure (Dalton et al). (2013). Institutional shareholders are businesses with significant quantity of money for investment and put into the company's stock. Pension funds, insurance companies, and collective investment institutions such as trust funds and open-ended investment firms are the most common institutional investors. Second, small private shareholders are persons who own small shares of stock. The corporation communicates with them infrequently. Small shareholders' votes are unlikely to influence the outcome of the shareholders' meeting; however, institutional shareholders' block votes and large private shareholders' votes carry far more weight in the voting of the general meeting of the firm. Thirdly, large proportions of the company shares are held by the private shareholders (Dalton et al. 2003). Increase in firm size is a good indicator of growth and it may result in increase in stock price.

2.3.2 Firm size

Firm size results in increase in performance because it can take advantage of economies of scale and have access to more financing sources. Simerly & Li (2000) stated that firm size is used to predict the future stock price of the firm. According to Tandelilin et al. (2007) the best measure of firm size is the book value of total assets as it is less influenced by external factors. Increase in company size results in better firm performance (Athanasoglou et al., 2005).

2.3.3 Age

The number of years a firm has been in existence is considered a crucial element because the firms tend to become more efficient in their operations. A study by Loderer et al (200)

identified that there is a positive relationship between age of a firm and firm performance. Firms are better able to adapt the ever-evolving technology more quickly and efficiently.

2.4 Empirical Review

Various studies established the authority responsible of making decisions which mainly comprises of insiders at managerial level, do establish the company's capital structure. According to Jensen and Meckling (1979), the firm's ownership structure, together with its technology and productive resources, is part of the firm's production function. This indicates that structural ownership may lead to distinct production possibility sets, so the classical theory's implicit assumption may not be valid. According to Kim and Sorensen (1986), when insider ownership grows, the agency cost of debt decreases. This is because according to lenders, negotiation with managers can lessen agency costs.

Evidence of the monitoring effects of collective institutional ownership is presented by Pound (1988) and McConnell & Servaes (1990). On the one hand, Pound discovers that companies with a huge amount of institutional shareholding are unlikely to be targeted. Profitability and return on investment (ROI), two commonly utilized profitability indicators that have been used in this stream of literature, were used to assess performance. To supplement the profitability metrics, an indicator of operational efficiency was utilized, which was calculated as a ratio of cost of commodities sold (materials, labour, and production overheads) to sales.

Jensen et al. (1992) claimed that debt ratio and insider ownership have a negative association. Insiders with large stakes, for instance, rarely diversify hence greater motivations to lower their financial risks. Secondly, is that increased insider ownership may result in greater debt agency expenses. Black (1992) praises the potential benefits of the political approach, but he is doubtful that institutions can effectively assist monitoring through facilitation, between dissidents and management, unless restrictions on institutional ownership are relaxed. He suggests that if individual institutions could easily own 5 to 10% stakes, then collectively they could influence corporate policy and elect a minority of board members without becoming too powerful. In the absence of such regulatory reform, Dispersed institutions, as per Black, have an incentive to stay passive or to support management in order to maintain valuable business relationships with the firm. There is, however, some evidence to suggest that collective institutional ownership provides facilitation between dissidents and managers.

Bethel and Liebeskind (1993) investigated how ownership structure affected the level of corporate restructuring. The study's findings reveal that institutional ownership was a driver of growth and increased investment in sample enterprises, not downsizing. This research also supports the claim that shareholders' influence grew in the 1980s, allowing them to more effectively prohibit managers from investing in overexpansion and diversification than before. Griffith (1999) investigated the association between CEO ownership and performance of a firm. The study revealed that Tobin's q grows when the CEO ownership is between 0 and 15% of the company, then fails when the CEO ownership rises to 50%, then picks up again thereafter, according to his findings. The drop in Tobin's Q backs up the entrenchment hypothesis, which states that the moment a manager gets effective control of the company, he or she becomes egocentric.

Group affiliated performance may not be so obvious but internal trade and party transactions can be exploited to become more profitable (Chang and Hong, 2000) . As a result, traditional performance indicators like return on equity and return on assets are easily influenced by managers to manipulate internal sales so as to improve net sales. Ramaswamy (2001) investigated the Indian Manufacturing Sector's organizational ownership, competitive intensity, and firm performance. The findings reveal that state-owned firms underperform their private-sector equivalents, and that the extent of the privately state-owned performance disparity grows as competitive intensity increases.

Short et al. (2002) discovered that growing insider ownership aligns insiders' and creditors' interests. Low debt agency expenses improve debt financing, indicating that insider ownership and debt financing have a considerable positive association. A study to establish the relationship between founding family ownership and S&P 500 firm financial performance was carried out by Anderson and Reeb (2003). According to the findings of the study, CEOs in family businesses receive roughly 10% less in equity-based compensation than CEOs in non-family businesses. A study to investigate the relationship between stock ownership and business value in 1433 developing market firms was carried out by Lins (2003). Tobin's Q was used as a measure to determine the ratio of control rights which were under the management. Higher management control rights are not connected to poorer business values, according to the model. Rostislav (2003) studied, “The Effects of Institutional Ownership on Investment and Performance for Russia”. Their evidence supports the proposition that institutional ownership may provide a negative effect on investment. They also found that dispersed ownership structures are more efficient compared to concentrated ownership in Russia.

On the contrary, Claessens et al. (2006) discovered benefits from group membership for East Asian enterprises; however, these benefits are not guaranteed because costs may arise due to agency issues. Companies with limited resources, such as tiny businesses, fast-growing businesses, and those with high R&D costs, can profit more from group affiliation. Intra-group loans, as established by Manos et al. (2007), are an essential mechanism of transferring capital among Indian group-affiliated enterprises. The availability of non-debt tax shelters and the illiquidity of their stocks have no impact on group affiliates.

Nevertheless, certain level factors like other group member's profits and the group's size influence the determinants of their capital structural views. The association between board composition and earnings management for Pakistani listed businesses was investigated by Zulfiqar et al. (2009). They looked at a group of publicly traded corporations and looked at the link between 2003 and 2007.

The earning management examined the discretionary accruals changed the cross sectional, while the board composition measured board independence and intuitional ownership. The earning management was determined using the Jones model (1995). Their findings demonstrate that, aside from institutional ownership, no other factors influence earnings management, with the exception of considerable value and performance. They came to the agreement that institutional shareholding had a detrimental impact on discretionary accruals. Discretionary accruals have no association with board independence.

Their control variables, company size and return on equity, had no effect on profit management. Kiruri (2013) did research in Kenya to look into how bank profitability is affected by ownership structure. It was concluded that institutional and ownership status had negative substantial consequences on the bank's gains, whereas global and local ownership had favourable and significant effects. This meant that banks with more foreign and local ownership saw an improvement in gains while banks with more state ownerships experienced reduced profits.

Chege (2013) investigated the association of ownership arrangements and firm performance across commercial banks listed on Nairobi Securities Exchange. Per beta coefficients, there is a positive link between profitability and log foreign shares, log local retail, log debt to equity, and log share capital. Log local corporations have a negative relationship. Log global shares emerged to be relevant in explaining profitability, with a unit shift in log foreign shares being found to be significant. Results indicate that a unit change in log foreign shares, log local retail,

log debt to equity and log share capital led to a positive change in profitability while the inverse is the case with log local corporate.

Alulamusi (2013) conducted research to identify how ownership structure affects financial performance of Kenya commercial banks and observed an association between foreign ownership and various financial performance metrics. This finding, together with previous studies, demonstrated the strong monitoring capacity and efficiency of foreign owners. Asset quality, earnings quality, and management efficiency all demonstrated a negative connection with government ownership, indicating a lack of appropriate credit management methods as well as operational inefficiencies and poor returns. With the exception of a few commercial banks, institutional ownership had a positive connection with most of the characteristics. Consequently, it was concluded that their financial performance is impacted negatively when block shareholders have a high percentage of shareholding.

2.5 Conceptual framework

This provides a roadmap of the researcher's conception of how different variables in the study interact with each other. In this study predictor variables will be ownership structure; foreign ownership, government ownership and management ownership with leverage and size as the control variables while dependent variable will be financial performance which will be measured using ROA.

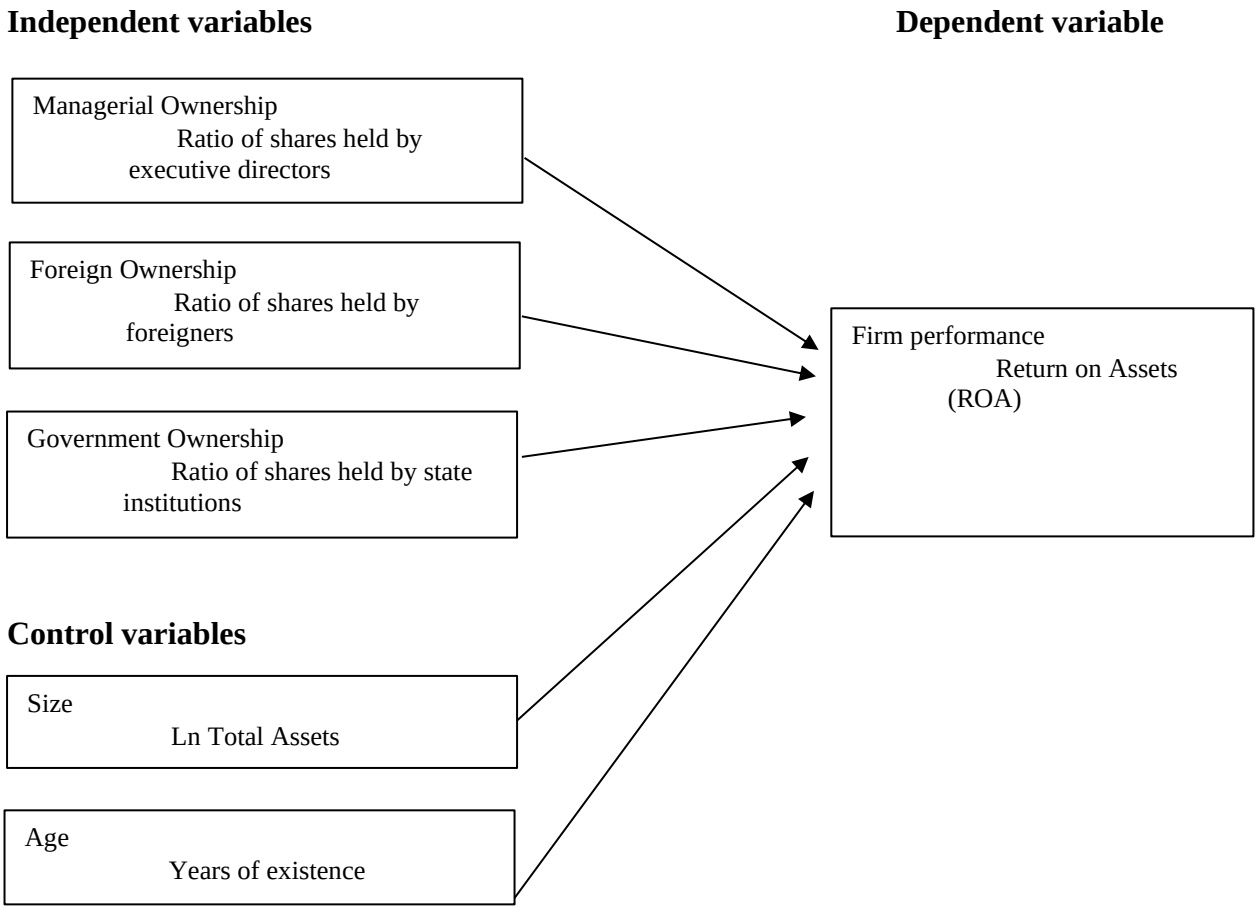

Figure 2.1 Conceptual framework Source: Research, 2021

2.6 Summary of Literature Review

The literature review's findings on institutional ownership and performance are mixed, which could be attributable to a variety of factors. Previous studies carried out which analysed the separation of ownership and control, according to one interpretation, did not employ suitable control parameters and hence could not adequately account for the complex social context in which ownership occurs. Furthermore, it's likely that surviving businesses have the level of institutional ownership that's optimal for their industry and environment. As a result, ownership organization is regarded as an endogenous rather than an independent factor influencing performance. A third interpretation based on evidence of institutional shareholding on business performance is that formal ownership rights may not reflect essential social characteristics of ownership. Additionally, most studies have focused on poor nations, and the ownership structure in such economies differs from that in a growing economy such as Kenya; these findings will attempt to narrow this gap by focusing on a developing country.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section details the project research design and types of secondary data used. Also explains target population, data collection methods and sample selection criteria and. It analysed the data analysis and tools that were adapted

3.2 Research design

The project employed correlation design of research. Correlation study is a process where two variables were measured and no modification was done to any of the variables to identify a relationship (Albright et al., 2022). The research personnel used a cross-sectional method where data was collected only once between 2016 and 2020, allowing for a causal investigation which was conducted. There was no researcher interference thus the study was in a non-contrived context. To identify the relationship between variables, a cross sectional study was selected. This ensured proper statistical inferences were observed and generalized the results to the target population thus improving its external validity.

3.3 Study population

Target demographic were all active firms listed on the NSE between 2016 and 2020. The NSE currently has 66 companies listed (Appendix I). The basis for this group's selection is due to the financial statements' accessibility and dependability, as they are required by law to be subjected to mandatory assessment by globally recognized audit firms and Kenyan regulators. The study used a census survey because the number of respondents were limited.

3.4 Data collection

The information was gathered via yearly reports filed with the NSE and the Capital Markets Authority. The researcher gathered information from the financial statements on ratio of shareholdings of management and directors, level of debt, dividend pay-out ratio, profitability ratios, and book value of assets. Once the population had been identified, a representative sample was selected from the population by applying a variety of filters. Firms exhibiting abnormalities such as negative fixed assets, currents assets, depreciation, capital, or divided paid were excluded from the analysis. Additionally, the study exclusively factored in companies that had continuously been operational in the period of study i.e. 2016 to 2020.

3.5 Data Analysis

During the study, multiple regression analysis models were used for determining how listed firms performed based on their various ownership structures.

3.5.1 Analytical model

Pearson's correlation coefficient together with multiple Regression analysis was utilized in analysing the data collected from the study.

Below regression model was formulated.

$$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \acute{\varepsilon}$$

Y = Firm performance measured by ROA

X_1 = Management ownership ratio of shares held by executive directors

X_2 = Foreign ownership ratio of shares held by foreigners

X_3= State ownership measured by ratio of shares held by state institutions

X_4= Size measured by natural log of total assets

X_5= Age measured by years of existence

$\acute{\varepsilon}$ = Error term

3.5.2 Test of significance

Internal consistency was determined using reliability analysis. This means establishing the degree of homogeneity between the variables. T- tests was the statistical test selected to study the remarkable contrast between two groups which was measured by Mean value. SPSS was used in determining t-tests. A 5% test of significance was decided on as the test for significance where a significant relationship was established where there is any P-value of less than 0.05.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The section describes data collected with analysis of the results. Information is structured to include descriptive statistics, correlation analysis and regression analysis. Last section of the chapter details interpretation of the presented results.

4.2 Data Validity

The source of the data used in the study was the annual reports of the listed firms at NSE which is a trusted and credible source of information. The data was checked for completeness and accuracy before being uploaded to excel and SPSS for computation and analysing.

4.3 Descriptive Statistics

The subsection portrays the descriptive statistics of the dependent and independent variables in terms of mean, standard deviation, minimum and maximum values. Table below illustrates the descriptive statistics of the variables, managerial ownership, foreign ownership, government ownership, age, and firm size.

Table 4.1 Descriptive statistics

	N	MEAN	STD DEV	MIN	MAX
ROA	51	0.0281	0.0819	-0.6937	0.3437
Foreign Ownership	51	0.3026	0.3051	0	0.95
Local Ownership	51	0.2351	0.2205	0	1.00
Government Ownership	51	0.4597	0.2949	0	0.90
Size	51	16.6752	2.1615	11.3991	20.74
Age	51	64.6471	31.36050	12	151

Source: Research findings

The five variables are analysed in table 4.1 in terms of mean, standard deviation, maximum and minimum. The mean age of existence of the firms is 64.6471 with a standard deviation of 31.3605. The firm with the longest age is 151 years and 12 as the shortest time of existence. Size was measures using natural logarithm of totals where mean was 16.6752 and a standard deviation of 2.1615 with a maximum of 20.74 and a minimum of 11.3991. Government ownership had a mean of 45.97% while foreign ownership had a mean on 0.3026 which indicated that 30.26% was owned by foreign investors. Local individuals had a stake of 23.51% on listed firms.

4.5 Correlation Analysis

Correlation analysis refers to the investigation of two or more variables to determine their degree of association (Higgins, 2005). The study utilized Pearson's correlation to establish the relation between the dependent, independent and control variables. It ranges from -0.1 to +0.1 which was summarized in table 4.2 below.

Table 4.2 Correlation analysis

		ROA	Foreign	Local	Govt	Size	Age
ROA	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	51					
Foreign	Pearson Correlation	-0.115	1				
	Sig. (2-tailed)	0.368					
	N	51	51				
Local	Pearson Correlation	-0.411	-0.5	1			
	Sig. (2-tailed)	0.003	0				
	N	51	51	51			
Govt	Pearson Correlation	-0.746	0.595	-0.954	1		
	Sig. (2-tailed)	0.032	0	0	0		
	N	51	51	51	51		
Size	Pearson Correlation	-0.332	-0.071	0.19	-0.126	1	
	Sig. (2-tailed)	0.074	0.58	0.136	0.325		
	N	51	51	51	51	51	
Age	Pearson Correlation	0.17	0.566	-0.971	0.974	-0.228	1
	Sig. (2-tailed)	0.351	0	0	0	0.72	
	N	51	51	51	51	51	51

Source: Research findings

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

According to the above table, foreign ownership has a negative impact on firm performance with a correlation of -0.115 and was significant with a p-value of 0.368. Age had a correlation of 0.17 meaning that increase in number of years of existence of the firm resulted in a 17% increase in firm performance. Government had a negative correlation with ROA of -0.746 with a p=value of 0.032. Size was negatively correlated to firm performance with an r of 0.332. Local ownership was negatively correlated with r value of -0.411. The coefficients were above 0.95 which indicated that none of the variables were highly correlated with firm performance measured by ROA.

4.6 Regression Analysis and Hypotheses Testing

Results of the regression shows whether there is a positive or negative or negative relationship between the dependent and independent variables. It also establishes if there exists a significant relation of the correlation coefficient. The regression model established was tabulated in table 4.3 below.

Table 4.3 Regression statistics

Regression Statistics	
Multiple R	0.20447
R Square	0.04181
Adjusted R Square	-0.06708
Standard Error	9.66425
Observations	51

Source: Research findings

As per the results tabulated in table 4.3, the independent variables explain 67% of the variation in firm performance measured by ROA. This was supported by findings of analysis of variance (ANOVA) shown in table 4.4 below.

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	179.3161	35.86322	0.383983	0.85708
Residual	44	4109.504	93.39782		
Total	49	4288.82			

Table 4.4 ANOVA

Source: Research findings

a. Dependent Variable: Performance ROA

b. Predictors: (Constant), Size, Age, Foreign ownership, Local ownership, Government ownership

The results shown in Table 4.4 display that the significance value of obtained the current research (0.85708) exceeds the crucial threshold used in the study (0.05). This means that the model of entailing foreign ownership, local ownership, government ownership and firm size is

insufficient to forecast firm performance. The critical F-value obtained in this research is 0.383983; the F-value is less than the critical value of 5.749831. This means that the model entailing; foreign ownership, local ownership, Government ownership and firm size is not adequate to forecast firm performance.

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	8.507952	14.52131	0.585894	0.56094	-20.7578	37.77374	-20.7578	37.77374
Foreign ownership	-0.00511	0.110316	-0.0463	0.963279	-0.22744	0.21722	-0.22744	0.21722
Local ownership	-0.07303	0.109112	-0.6693	0.506798	-0.29293	0.146871	-0.29293	0.146871
Government ownership	-0.05222	0.106085	-0.49224	0.624999	-0.26602	0.161581	-0.26602	0.161581
Assets	-0.13339	0.714635	-0.18666	0.852789	-1.57364	1.306862	-1.57364	1.306862
Age	0.015918	0.04762	0.334282	0.739755	-0.08005	0.111889	-0.08005	0.111889

Source: Research findings

Table 4.5 Estimated regression coefficients

Results in table 4.5 notes that foreign ownership has a negative effect on performance of firms listed at the NSE though it is insignificant at the 5% level of significance because it has a p-value of 0.96. The same applies to local and state ownership as their p-values are all greater than the critical value used in the research of 0.05. Firm size has a viable negative association with firm performance.

From the above the below model was established:

$Y = 8.50 - 0.005\ X_2 - 0.07\ X_3 - 0.05\ X_4 - 0.13\ X_5 + 0.016\ X_5 + \varepsilon$

Y = Firm performance measured by ROA

X_1 = Management ownership ratio of shares held by executive directors

X_2 = Foreign ownership ratio of shares held by foreigners

X_3= State ownership measured by ratio of shares held by state institutions

X_4= Size measured by natural log of total assets

X_5= Age measured by years of existence

ε = Error term

The model indicates that if all other factors held constant, the firm performance will be 8.50. When all other factors are held constant, an increase in foreign ownership will cause a unit decrease by 0.005 of performance. There will be a decrease in firm performance of 0.07 when local shareholders are increased. A unit change in govern ownership will consequently result in a 0.05 decrease in firm performance. An increase in year of existence of firms listed at NSE will result in a positive increase in firm performance by 0.016.

4.7 Discussion of Research Findings

Local ownership had a negative correlation with firm performance. A study by Margarits and Psillaki (2010) was contrary to the finding as it claimed that increased local holding resulted in more monitoring thus reduction of agency problem.

The analysis established that state ownership had a negative effect on firm performance. Kiruri (2013) identified that an increase in percentage of government shareholdings had a significant negative influence on firms listed at the NSE. This is also supported by a study done by Alfaraih (2012) on firms listed on Kuwait Stock Exchange which had a negative firm performance when there was more government ownership. State shareholders are influenced by political biases and their main aim is revenue collection.

Increase in local ownership also resulted in a significant decline in firm performance. This is majorly because management is looking after their self-interest and not on maximization of shareholders wealth. This is due to the shareholders wanting more returns in the form of dividends and interests.

According to the study findings it is noted that statistically there exists a negative and insignificant correlation between structural ownership and performance financially. The significance and positivity were observed between age of the bank and financial performance. while negativity significance witnessed between size of the bank and financial performance.

The findings disagree with Pradhan and Khadka (2017) who noted a positive correlation between size of bank and bank financial gains. Ndiba (2016) concluded that the performance of the company was mainly affected by sizes and their ownership structures with their age.

Going by empirical analysis, the study finds that age and size of firms have more impact on financial performance than ownership structures. This disagrees with the study by Fich, Harford and Tran (2015). They confirm that an increase in both size and age of firms could lead to gain in financial performance due to the positive impact shown by their analysis.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter outlines result from data analysis done in chapter four and provides recommendations based on the study objective which was to identify the relationship between ownership structure and performance of firms at the Nairobi Security Exchange.

5.2 Summary

Data collected and analysed identified that state ownership had a substantial negative influence on firm performance. Kenya over the years has experienced collapse of firms with large government shareholdings. Government ownership is associated with tribalism, poor work culture, employee laxity, nepotism, political influence, and ignorance of the country's legal framework.

Local ownership is meant to increase confidence of local investors. According to the study, unit rise in management shareholding yields 0.07 decline firm performance. Local ownership also includes managerial shareholding who become interested in self-preservation thus resulting in decline in firm performance. The misalignment in interests results in agency problem which causes firm performance to decrease in the long run.

Foreign ownership was established to have a negative effect on firm performance of firms listed at NSE. This is majorly due to brain drain, firms become monopolist which causes laxity, erosion of the host culture and risk of foreign government interfering.

Size has a negative relationship with firm performance where a unit increase in size causes a 0.13 decline in firm performance. This is brought about by inefficiencies in operations caused by firms increasing in size such as opening many branches. Age had a positive impact of 0.016 because increase in years of existence enables a firm to have access to quality resources such as skilled human capacity.

5.3 Conclusion of the study

Firstly, state ownership experiences a detrimental impact on financial performance of NSE listed companies. Government ownership essentially should support improvement of access to more human and financial resources. Most firms at the NSE have the biggest shareholders as state institutions. Secondly, foreign ownership possesses a negative effect on firm performance because of their strong influence in a companies' operations. Thirdly, local ownership has a significant decline in firm performance because of conflicting interests within shareholding members and management groups. There will always be trade-offs between shareholders' interests, company objectives and firm orientation when it comes to setting up of company strategies (Thomsen $ Pedersen, 1997).

Lastly, firm size and assets were used as the control variables, where at a significance level of 5%, firm age and ROA were noted to have a positive relationship. A research by Onaolapo & Kajola (2010) supported this finding that performance increases as the number of years since incorporation increases. Older firms tend to have more competitive advantages such as brand visibility and customer loyalty which significantly improves performance of the firms listed. Company size influences firm performance negatively. This results from high overhead costs and inefficiencies in operation which cause the ROA to decline.

5.3 Recommendation for policy makers

The research recommends that there be policies set that regulates the control that foreign investors can have on local companies. This will present erosion of culture and beliefs of the firm which will inevitably result in increase in firm performance. Foreign ownership brings along innovations, modern technology, access to expertise and better funding sources.

State institutions should allow for privatisation of state corporations which will enable the firms to be engaged in healthy competition, have democratic business decision making, allow optimum utilization of resources and reduce influence of politics. All this will enable a firm to have an increase in firm performance and growth. Firms should come up with strategies such as better compensation for managers so as to reduce agency problems. There will be a balance between interest of shareholders and management.

There should be an optimal mix in ownership structure based on type of company to ensure maximum returns are achieved. Some companies will thrive when local ownership concentration is the highest while others will perform well when foreign ownership ratio is the largest because of their global scale.

5.5 Limitations of the study

Research populations were firms listed on the Nairobi Securities Exchange. This was a limitation that some firms had not issued their financial results for some years. The analysis was based on the consistency of the listed firms issuing their results as required by the Central Bank of Kenya.

The data cannot easily be generalized to other firms such as non-governmental and academic institutions. It can also not be generalized to firms which are not listed on the NSE. Secondary sources of data from the Capital Markets Authority and NSE were used over the past 5 years which may not reflect the current trends in the global economy.

As per the study it only covered period of 2016 to 2020 using cross-sectional survey. However, there is need to perform the research using longitudinal methodology with time series analysis of data to identify the changing dynamics and trends of financial performance on the NSE listed firms as the ownership structures are so dynamic and unpredictable especially when firms issue shares and IPOs.

There was also a limitation whereby the study only focussed on performance of financials of the listed companies and overlooked non-financial aspects of the firms which can be of great importance to the management team and owners.

5.6 Areas for further research

The research was only done on firms on NSE. A study can be further extended to include non-listed firms to get a broader perspective on how different firm performance is impacted by ownership structure. Number of types of primary data such as questionnaires could be used to get a better perspective on issues which can be presented qualitatively to enrich the study. Further studies to understand impact of structural ownership on performance could be carried out at shorter intervals so as to get analysis with a reflection of the local and global trends.

The study was only carried out on financial performance ignoring non-financial factors which are equally critical and important when it comes to structural ownership. The study recommends researchers to look at both financial and non-financials factors in comparison with different ownership structures across the firms.

From the study, we note a remarkable relation between structural ownership and financial performance of the listed companies, more research to be done to ascertain the extent on which the governance, management and administration aspect has impacted the financial performance.

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APPENDICES

Appendix 1: listed firms at NSE

No	Firm name
1	Eaagads
2	Car and Genral
3	Kapchorua Tea
4	KenGen
5	Standard Group
6	Williamson Tea Kenya
7	Kakuzi
8	East African Breweries
9	BK Group
10	Flame Tree Group Holdings
11	Equity Group Holdings
12	Sanlam Kenya
13	I&M Holdings
14	KCB Group
15	National Bank of Kenya Ltd

16	Nation Media Group
17	Jubilee Holdings
18	BAT
19	The Co-operative Bank of Kenya
20	Deacons
21	Eveready East Africa
22	Express Kenya
23	E.A.Cables Ltd
24	Longhorn Publishers
25	Olympia Capital Holdings
26	Sameer Africa
27	Sasini
28	Liberty Kenya Holdings
29	B.O.C Kenya
30	WPP Scangroup
31	Mumias Sugar
32	Limuru Tea
33	Crown Paints

34	Safaricom Plc
35	E.A.P.C Ltd
36	Bamburi
37	Centum Investment
38	Atlas
39	HF Group
40	Umeme
41	Kenya Orchards Ltd
42	CIC Insurance
43	Stanbic Holdings
44	Kenya Re Insurance Corporation Ltd
45	TPS Eastern Africa
46	Kenya Airways
47	KPLC
48	Home Afrika
49	ARM Cement
50	NCBA
51	Trans-Century

52	Nairobi Securities Exchange
53	Uchumi
54	Standard Chartered Bank Kenya
55	Carbacid Investments
56	ABSA Bank Kenya
57	Diamond Trust Bank Kenya Ltd
58	Kurwitu Ventures
59	Britam Holdings
60	Unga Group Ltd
61	Total Kenya
62	Ilam Fahari I-REIT
63	New Gold ETF

Source: NSE (2020)