

**EFFECT OF OWNERSHIP STRUCTURE ON  
FINANCIAL PERFORMANCE OF COMPANIES  
LISTED AT THE NAIROBI SECURITIES EXCHANGE  
IN KENYA**

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## DECLARATION

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

Signature ..... Date .....

**Peter Ndungu Ng'ang'a**

This thesis has been submitted for examination with our approval as University Supervisors.

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## **DEDICATION**

My dedication for this research project goes to my family for their unrelenting support and their encouragement throughout my study at the Jomo Kenyatta University of agriculture and technology. Many thanks go to my mother who laid a solid foundation for my education and inculcated a culture of hard-work. Special thanks go to my son Tony who sacrificed his holiday to accompany me to the final defense and stayed in adjacent room throughout praying for me to go through. His prayer were heard and was the first family person to meet his father who went to defense room in the morning as Mr Nganga and came out as Dr. Nganga. Further dedication goes to my pastor who supported my idea of pursuing doctorate degree and encouraged me with prayers all through. Finally to my classmate who we worked together even during difficult times.

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## **ABBREVIATIONS AND ACRONYMS+**

<b>ANOVA</b>	Analysis Of variance
<b>CCG</b>	Centre for Corporate Governance
<b>CEO</b>	Chief Executive Officer
<b>CMA</b>	Capital Market Authority
<b>CSR</b>	Corporate Social Responsibility
<b>EBIT</b>	Earnings Before Interest and Tax
<b>EPS</b>	Earnings Per Share
<b>GOC</b>	Government Owned Companies
<b>IBM</b>	International Business Machine
<b>IPO</b>	Initial Public Offering
<b>KMO</b>	Kaiser-Meyer-Olkin Measure
<b>KCB</b>	Kenya Commercial Bank
<b>NPM</b>	Net profit Margin
<b>NSE</b>	Nairobi Securities Exchange
<b>OECD</b>	Organisation for Economic Co-operation and Development.
<b>OLS</b>	Ordinary Least Square
<b>PCM</b>	Performance Component Matrix
<b>PLC</b>	Public Listed Companies
<b>PM</b>	Profit Margin
<b>RDT</b>	Resource Dependent Theory
<b>ROA</b>	Return on Assets
<b>ROCE</b>	Return On Capital Employed
<b>ROE</b>	Return On Equity
<b>ROI</b>	Return On Investment
<b>SME</b>	Small and Medium Enterprises
<b>SOE</b>	State Owned Enterprises
<b>TSR</b>	Total Shareholders Return
<b>UK</b>	United Kingdom
<b>USA</b>	United States of America
<b>VIF</b>	Variance Inflation Factors

## OPERATIONAL DEFINATION OF KEY TERMS

<b>Capital structure</b>	Capital structure refers to the approach a firm uses in financing their assets through the mixture of debt, equity or hybrid securities (Saad, 2010).
<b>Corporate governance</b>	Corporate Governance entails process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002).
<b>Debt/Leverage</b>	Debt financing refers to percentage of debt used in forming the capital structure of a company (Averkamp, 2016).
<b>Foreign owned firm</b>	Foreign ownership refers to companies with a higher percentage of stock owned by foreign partners, foreign financial entities and foreign nationalities (Herdjionol <i>et al.</i> , 2016).
<b>Financial performance</b>	Financial performance refers to general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Ngumi, 2016).

**Government owned firm** Firm in which government has controlling shareholding (Mutisya, 2015).

**Managerial shareholding** Managerial shareholding refers to the ownership of shares held by the company's management who actively participate in the making of corporate decisions.(Irine Herdjionol *et al.*, 2016)

**Ownership structure** Ownership structure relates to the decision making segment of the firm and is defined by the distribution of equity with regard to votes and capital (Anthony, 2014).

**Return on Equity (ROE)** Return on equity measures a corporation's profitability by dividing profit by equity. (Saleem, & Saeed, 2011).

**Return on Assets(ROA)** Return on assets is the total resources owned and controlled by a firm divided by profit before tax (Dew, 2007).

## ABSTRACT

There is a direct link between ownership structure and firm's financial performance because performance of firms mostly depends upon the strategic decisions carefully designed and taken by the owners. Owners are part of decision making segment as they have economic relations with the firm and have powers to influence firm's decisions. However the traditional approach to corporate governance has typically ignored the unique influence that firm owners exert on the board, and by extension, the top management in making firms decisions. Therefore the question of what may be the most efficient ownership structure is relevant. This study aimed to determine the effect of ownership structure on firm's financial performance and was guided by the following specific objectives: to determine the effect of state ownership on firm's financial performance; establish the effect of local ownership on firm's financial performance; investigate whether foreign ownership affect firm's financial performance and finally determined whether managerial shareholding affect firm's financial performance. The study adopted cross-sectional survey design. A sample of 39 firms was drawn using stratified random sampling. The target populations of the study were the 61 companies listed in Nairobi Securities' Exchange. Primary data was collected using Questionnaires while secondary data collection sheet was used to collect secondary data. The study focussed on listed firms only. Using collected data, univariate tests were used to provide an insight using both parametric (t-test) and non-parametric test (Pearson correlation coefficient). In multivariate analysis, multiple regression analysis models were used to determine the type of the relationship that existed between the independent and dependent variables. Hypotheses were tested by regressing independent variables against dependent variable, financial performance. The study findings indicated that all types of ownerships structures had a significant positive influence on the firm's financial performance. When all independent variables were analysed together, foreign ownership and Managerial shareholding had the highest positive significant contribution on firm's performance. This can be attributed to the fact that foreign owners have the ability to control and monitor managers. For managerial shareholding it's backed by the fact that managers work better in an environment where they are afforded an opportunity to own shares of the firm, have freehand to exercise their professional judgment without undue influence from shareholders. For local ownership better understanding of local environment enhances performance while government ownership boosts confidence among investors. Therefore it can be concluded that each type of ownership structure has a significant positive contribution on firm's financial performance. The study recommends that the policy makers and government should create favourable policies to encourage balanced investment from all categories of investors and ensure that ownership does not only grow among few owners but rather spread out reasonably to diversify and attract skills and competencies to improve firm performance. Government should also retain some ownership in foreign and local firms to enhance shareholders confidence. This study included only listed firm and a further study is recommended to include even private firms and evaluate how ownership structures affects their financial performance.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background

In the age of globalization and open market, companies all over the world are now exposed to more intense competition from other nations around the world. Gomez (2005) pointed out that from the global perspective the past two decades have witnessed significant transformations in corporate governance structures, leading to increased scholarly interest in the role of board of directors in driving corporate performance. The last two decades the relationship of ownership structure and firm performance has become an area of interest among investors and has developed considerable attention in the broader field of corporate finance and among other stakeholders (Jiang and Wong, 2004). This is evidenced by Treadway Commission Report of 1987 in U.S.A which addressed the issue of fraudulent company financial reporting resulting to Sarbanes –Oxley Act (SOX) due to collapse of reputable firms like Enron and WorldCom in U.S.A. The trend was replicated across the globe as evidenced by collapse of Parmalat Company in Europe, Chuo Aoyama in Asia, JCI and Randgold in South Africa, Cadbury company in Nigeria, Uchumi, imperial bank and Chase bank in Kenya (Ongore & K’Obonyo, 2011).

Berk and DeMarzo (2007) argued that the corporate governance framework aimed to enhance accountability and transparency to facilitate increased efficiency of a firm, in its current form is evidently lacking in a monitoring system to align the interest of the firm owners, board of directors and managers towards wealth creation of the firm and the welfare of all the stakeholders. The financial performance of the firm mostly depends upon the strategic decisions carefully designed and taken by their owners. According to Nahila *et al.* (2016), Benjamin *et al.* (2015) and Maina (2014) Ownership structure is defined by the distribution of equity in addition to the identity of the equity owners and is system within corporate governance which has influenced firm’s performance for many years.

Jiang (2015) argue that a typical feature of ownership structure in modern corporate governance is the separation of company ownership and management. In order to better the development of firms, business owners take the companies operating rights to professional managers to manage and only retain the power of the residual value of the company to obtain rights. The disagreement between shareholders and management will lead to manager's selfish behavior of short term profit harming the interest of owners and destroying the contractual relationship. Therefore in addition to incentive pay the shareholdings of managers are also good incentive mechanism as it can help the management and the shareholders to become united to promote the interest of both so that the managers will pay attention to the development of long-term interests of the company besides considering themselves, thus contributing to achievement of the contract objectives (Matengo, 2008). Therefore shareholding of managers will make them pay more attention and emphasis on long term development of the firm.

Liouiand *et al.* (2012) and Qui (2012) argue that firms' ownership is organized in order to maximize firm value and suggested that firms' ownership and capital structure decisions reflect attempts to mitigate agency problems between various stakeholders to avoid potential conflicts of interest between a controlling shareholder and minority investors. According to Hassan and Butt (2009) the relationship between ownership structure and firm performance is laid on the issue of corporate governance. Srivastava (2011) noted that since the initiation of economic reforms, various laws and government policies relating to corporation have changed resulting to several changes in ownership structures, stakeholder expectations and the corporate environment. The changes are aimed to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the firm.

Berghe and Levrau (2007) notes that ownership structure is the primarily driving factor both to investors and creditors because owners of a firm have economic relations with the firm and influences the types of decisions taken by a firm to decrease the level of financial risk and improve financial performance. This is because ownership structure has the capacity to put good governance mechanisms structures in place and to boost company's capacity to attract outside capital (Trien &

Chizema, 2011). Cespedes, Gonzalez and Molina (2010) evaluated the ownership-structure determinants and firms' performance of Latin American firms and concluded that ownership structure has a strong impact on firm's performance as it influences the allocation of resources and control of the firm. Clarkson, Overell and Chapple (2011) many foreign scholars have verified that ownership structures have significant effects on market value and financial performance of listed firms.

Villalonga and Amit (2006) argued that there is a direct link between ownership structure and corporate financial performance because the board of directors elected by the owners' acts as the intermediary between them and their agents, as the board is charged with four main responsibilities: leadership; stewardship; monitoring; and reporting back to the owners which has a direct bearing on financial performance. Jensen (1989) and Lins (2002) argues that the effectiveness of the board help to mitigate the agency problems whenever investment ideas and preferences of principals are at variance through controlling and monitoring the managerial actions. The internal influence imposed by the board reinforces the external role of the markets in monitoring and disciplining managers (Jensen, 1989). Brown (2004) the constraints imposed by the board to the management makes them to be extra vigilance as they exercise their discretion to avoid managerial ineptitude, which leads to poor financial performance and erodes confidence of potential investors.

Zhuang (1999) and Lawrence (2010) argue that ownership structure is one of the most important factors in shaping the corporate governance system of any firm. Good ownership structure makes the manager have appropriate and sufficient authority to carry out their duties in the company management (Oman, 2001). This is attributed to the fact that ownership structure is the decision making segment of a firm, which makes and influences the firm's decisions. The main objective of a firm is to maximize the wealth of shareholders, which highly relies on decisions made by the owners. Alipour (2013) and Singh (2014) argued that corporate ownership structures encourage firms to create value in industry in terms of advanced innovations, technology, and skilled workforce development in devising control system that affects the firm's financial performance. Eisenhardt *et al.* (1988) and Shah (2009) the relationship between firm's performance and how managers view

their discretion is systematically related to ownership structure ability to select an effective board and the type of corporate governance structure adopted.

Anselm (2014) points out that the traditional approach to corporate governance has typically ignored the unique influence that firm owners exert on the board, and by extension, the top management in decisions that affects firm's performance. Due to agency cost firm's performance is not independent from the ownership structure and according to Denis and McConnell (2003) Equity ownership structure as an important mechanism in corporate governance as it influence the quality of corporate governance and its ability to reduce agency costs which has long term bearing on firm's financial performance.

Child (1972) Ownership structure is one dimension of corporate governance which influences firm's performance through its influence on the principal-agent relationships. This is attributed to the fact that the effectiveness of the board is a positive predictor of managerial efficacy and performance. Ndemo (2009) observed that to improve state firms performance through ownership structure, the Kenyan Government has pursued a deliberate policy of divestiture, aimed at reducing state ownership, infusing modern management styles into the public sector by attracting private sector participation in management of the state corporations that would ultimately improve their financial performance. According to Norman (2010) it is not only the government companies which are changing ownership structure the trend has resulted to private companies converting to public companies to be able to raise more capital while loss-making government owned firms result to privatization to offload the financial burden from the government. Mule *et al.* (2013) noted also that the NSE as an entity was demutualized in attempt to diversify ownership structure, increase competitiveness, and allow it to raise capital from the public.

Anselm (2014) emphasizes that the question of what may be the most efficient ownership structure is relevant as the owners of a firm have economic relations with the firm. Owners of the firm priority is to protect their interests even though this may lead to low investment returns, and low profitability as their investment choices are influenced by the extent to which they can take risks (Berk & DeMarzo, 2007).

According to Aggarwal (2003) the principals and management in an effort to combine their interests and result to a structure-conduct-performance framework aimed to facilitate increased efficiency of a firm, the principals and management engages in a trade-off strategy through the incentives to reduce agency problems and maximize wealth creation of the firm.

### **1.1.2 Nairobi Securities Exchange**

The Nairobi Securities Exchange was formed in 1954 through incorporation into a company as a voluntary organization of stock brokers, now is one of the most active markets in Africa. Currently there are 61 quoted companies representing different sectors namely the Agricultural, Commercial and Services, Finance and Investment, and Industrial and Allied sectors. There have been rapid changes in the NSE to facilitate smooth functioning of the market. Among some of the key changes include the introduction of the Central Depository and Settlement Corporation (CDSC) which increased the market efficiency. Buying and selling shares became easier as investors open electronic accounts similar to their bank accounts to buy shares and bonds. Demutualization, deregulation and automation of the market activities removed control of the market from the hands of few brokers who could send signals among themselves to influence the activities of the market and ensured that the market was demand/supply driven (Kihumba, 1993).

NSE has grown to become the continent's fourth-largest exchange by trading volume and fifth largest by market capitalization as a percentage of GDP. This is evidenced by many firms raising new equity from the stock market for the first time and consequently many investors investing in their shares through primary initial offering and secondary markets. Further there has been a number of cross-listing with East African securities markets like the Uganda Securities Exchange and the Dares Salaam Securities Exchange in Tanzania (NSE Report, 2010). However the World Bank's (2010) Investing across Borders Report found that Kenya restricts foreign ownership in more sectors than most other economies in sub-Saharan Africa. According to the Economic Survey (2010) Kenya's equities market recorded marked improvement in activity in both primary and secondary markets where capitalization

rose by 40% in the year 2010 compared to 2009. In 2010 NSE was among the best performing equity markets in Africa after the Uganda Securities Exchange, which recorded an index return of 53 %. This impressive performance was due to improved business confidence in the market because of economic recovery, adoption of best practice within capital markets, as well as resumed participation by foreign and institutional investors (Mule et al., 2013; Nahla *et al.*, 2012).

From the African perspective the concept of ownership structure is gradually warming itself to the top of policy agenda. According Sirtaj (2016) ownership structure should put good governance structures in place to increase the accountability by fundamentally improving transparency within the existing systems, build investors confidence as their investment patterns have impact in the overall performance of the economy. Wan Ahamed *et al.* (2014) argued that there is positive relationship between ownership, corporate governance and financial performance of a firm and is supported by a study of Ofori *et al.*, (2014) of Banks in Ghana which concluded that ownership structure and corporate governance practices are strategic tool which has a bearing in overall performance of the banks. Mokaya *et al.* (2015) recommends that better overlap between ownership structures and control should be implemented to reduce conflicts of interest between management and shareholder, to curtail management greater freedom to pursue their own goals without fear of reprisal which can lead to poor performance of the company.

Agency theory contends that private shareholders influence performance by monitoring the managers to protect their investments, while resource based theory recognizes that private shareholders bring in resources and expertise required by a company to improve governance and financial performance of corporate entities. Namusonge (2011) argues that agency theory focuses on the structure of managerial compensation contracts that mitigate agency problems. It also analyses the impact of conflict between managers and firms, conflict between claimholders on issues relating to optimum levels of investments.

In supporting compensation contracts Sang *et al.* (2013) pointed out that share option is one of the components adopted by owners of the firm as agents remunerations package designed to encourage agents to take more risks and move away from selfish behavior.

Smith (2014) argues that stakeholder's theory not only represents a shift in the business and accounting profession but a paradigm shift in how the business is conducted at large. Stakeholder's theory underpins the alternative financial reporting trend that is set to revolutionize how the business operates and interacts with the external business environment. In order to effectively implement stake-holders – oriented approach organizations must be able to think, plan, and act strategically in an interconnected business environment. Stake holders emphasizes that shareholders and management must engage each other in making managerial decision as part of the strategic planning process which is imperative to successful long-term planning and imitativeness.

Agency theory has been applied in firm performance to reduce agency problems between shareholders, management and claim holders hence improving corporate governance within a firm. However Allayannis *et al.* (2012) concentrated on monitoring pressure on managers from shareholders and its impact on firm financial performance and found that increased pressure in a firm where managers have limited power to make autonomous decision financial performance is compromised. This is supported by Ongore (2011) study findings in Kenya which stipulates that managers work better in environment where they are afforded an opportunity to own shares of the firm then allowed freehand to exercise their professional judgments without undue influence from shareholders. However Hill and McDonnel (2015) asserts that controls must be put in place as managements can be bad agents using their position to get unwarranted leisure and unwarranted perquisites at the expense of their principal. However Wanjugu *et al.* (2016) recommends resource based theory approach that recognizes that private shareholders bring in resources and expertise required by a company to improve governance and financial performance of corporate entities rather than monitoring pressure and controls on managers advocated by the urgency theory.

From Kenyan perspective, scholars have raised issues on ownership structures and corporate failures, Iravo, Ongori and Munene (2013) in a study of hotels and restaurants in Kisii raised concern as to why some business succeeding while others failed. According to Uzel *et al.* (2015) the concept of organizational performance is core issue to business owners and other investors because the major objective of businesses is to make profits. The fundamental insight into the issues dates back to Berle (1932) who argue that the separation of ownership and control of modern companies naturally reduces management incentives to maximize corporate efficiency since the nature of relationship between ownership structure and firm performance is laid on the issue of corporate governance.

Mokaya *et al.* (2015) argue that Ownership structure is one of the key pillars in shaping the corporate governance system adopted by any company and concluded that policy makers should ensure that ownership does not grow among few large owners but rather spread out to many owners as strong ownership structure have a positive impact on financial performances. Good corporate governance should entail processes and structures which facilitate the creation of shareholder value through management of the corporate affairs in such a way that ensures the protection of individual and collective interest of all the stakeholders of company (Hu & Izumida, 2008). Uzel *et al.* (2015) observed that stakeholders can either take a cooperative potential or a competitive threat depending on how an organization treats them and recommended that organizations should develop strategies for stakeholder management such as educating, collaborating, and motivating them.

Mukulu, Nteete and Namusonge (2012) pointed out that performance measurement is important for organizations as a means of continuous improvement and also as a means of determining whether or not organizations are achieving their objectives. According to CMA Act (2002) Corporate Governance should entail the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders. The Stakeholders theory asserts that organization invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure

that each stakeholder receives some degree of satisfaction (Enz, 2008). Alhaji and Yuseff (2012) argue that the stakeholder theory is good in explaining the purpose of corporate governance by describing different stakeholders that constitute an organization and understanding how they influence financial performance of organizations.

Ezazi *et al.* (2011) noted that that ownership structure is a core to corporate governance and that there is a great relationship between ownership structures, corporate governance adopted and financial performance of the firm. Gursoy and Aydogan (2002) notes that ownership can be viewed along two dimensions: ownership concentration and ownership mix. Ownership concentration refers to the shares of the largest owner while ownership mix refers to distribution of firm's shares with regard to the identity of the major shareholders. Gonzalez and Molina (2010) observed that, higher ownership-concentration improve firm's performance and concluded that Ownership structure is the basic factor that affect firms' ownership and control allocation, and it has a strong impact on firm performance. However studies by Chen *et al.* (2013), Zahoor (2014) and Iqbal *et al.* (2014) pointed out that key factors that influences firm's financial performance are corporate social responsibility activities adopted by a company and that expenses on social course have an effect on financial performance of commercial banks in Kenya. However according to Friedman (1953), Becker (1962) and Saunders *et al.* (2000) corporations perform equally well under different ownership structures because market competition will eliminate all inefficient forms in the long run. Therefore there is no effect of ownership structure on performance and that optimal ownership structure and performance depends on the environment.

A number of scholars such as Hasan (2005) Holderness and Sheehan (2009), Mang'unyi (2011), Miring'u and Muoria (2011), Wanyama (2012), Peters and Bagshaw (2014) links financial performance to corporate governance structure put in place by the owners of the firm as it affects the firm's ability to respond to external factors that have some bearing on its performance. Their argument is supported by Hansmann (2000), Tong *et al.* (2007) and Wang *et al.* (2003) who pointed out that ownership structure is a platform of corporate governance which influences the

firm's performance. Blair (1995) and White (2009) attributed the poor level of development in developing nations to the low level of good corporate governance practices and argue that issues in corporate governance and firm's performance revolve around ownership and control and that the economic well-being of a nation is reflected by good performance of its companies.

However Mulili and Wong (2010) noted that a variety of Corporate Governance frameworks have been developed and adopted in different parts of the world but firms are still faced with financial scandals. According to Nyong'o (2005) Kenya has experienced turbulent times with regard to its corporate governance practices in the last two-and-a-half decades, resulting in generally low corporate profits across the economy as evidenced by spectacular business failures such as the brokerage houses, collapse of banks such as Euro bank, Trust bank and Daima bank and routine suspension of listed companies from trading at NSE due to compromised financial results released by firms in Kenya. This is supported by Nafula (2012) study on the relationship between corporate governance and performance of listed firms in NSE and which found a less significant effect between corporate governance and corporate performance. However Mbaabu (2013) in his study about relationship between corporate governance, ownership structure and financial performance of insurance companies in Kenya observed that there were positive relationship between corporate governance and dispersed ownership on the financial performance of the insurance firms.

Kanwal *et al.* (2013), Cherobon (2014) ignored corporate governance and emphasized that there is a considerable positive relationship between the CSR and financial performance. Uzel *et al.* (2015) in a study of strategic management drivers in hotel industry in Kenyan coast observes that in this error of economic and competitive environment achieving sustainable competitive advantage in organizations requires clear interaction between strategy and performance measures. These links need to move from mere financial and non-financial data collection to identification of causal relationships among measures, outcomes and strategies (Cuccia & Rizzo, 2011). Existing literature generally support the position that good Corporate governance has a positive impact on organizational performance; OECD

(2009), Gompers, Ishii and Metrick (2003), Claessens *et al.* (2002). However Nambiro (2007) poses a challenge on a corporate governance mechanism to make management accountable to the shareholders, whose investment is at risk, maintaining a harmonious relationship as well as giving them the freedom and the incentives to control over the resources they need to create and seize investment opportunities in a competitive market environment.

Bruton and Filatotchen *et al.* (2010), Margaritis and Psillaki (2010) Wang, Guthrie and Xiao (2012), and Lee (2008), argued that that higher concentrated ownership have an overall significant impact on firms' financial performance .This is further supported by Zhuang (1999), Tsionas, Merikas and Merika (2012) and Xu, X., and Way, Y (1999) who pointed out that with more dispersed ownership shareholding control tends to be weak because of poor shareholder ability to monitor the management of the firm. According to Dharwadkar *et al.*(2000); Sun *et al.* (2003) and Young *et al.*(2003), Mureithi (2009), (Kariuki, *et al.*, 2011), Munyua and Ragui (2013) small shareholders share a small proportion of the benefits and may not be interested in monitoring because they are unable to bear all the costs of monitoring. Mwega (2009) concludes that this may lead to benefit-seeking – agent who has access to confidential company information from the insider taking advantage of small individual investors who have no access to such information to serve their opportunism self-interest. Dispersed shareholders have little or no role to play in key decisions affecting the companies in which they have invested in shares contributing to a negative effect on firm's financial performance (Ersay, 2015).

Dennis and McConnell (2003) advocated for widely- dispersed ownership structure where shares of publicly-traded firms are widely-held like in US and UK while Krivogorsky (2006) advocated for large block holders mostly institutions as he observed that more than 50% of shareholdings of listed industrial companies of Australia, Belgium, Germany and Italy are held by large block holders, mostly institutions. According to Pallathitta ( 2005), Short ( 2002), Shleifer and Vishny(1986), Wei and Liang (2002) and Barucci (2005) and large shareholders in a firm's capital structure positively impacts on the firm's financial performance as they have ability to access information from different sources independent of the company

hence reducing the information asymmetry. According to Ozkan (2006) they also have the incentive and financial ability to monitor the performance of management through their representation on the board, remove non-performing managers from office and through their activities they are able to increase the financial performance of the firm.

Mureithi (2009) notes that competition has become a strong driving force to every government in the world to move towards the creation of an effective capital markets which will supplement the financial systems required to support economic development and enhance their companies to compete effectively. However, Munyua and Ragui (2013) observed that in Kenya lack of adequate regulation, continued traditional approach to control of corporations by directors and other representatives of large shareholders and lack of adequate information have led to loss of confidence among small investors who lost substantial amounts of money due to conflict of interests by brokerage firms and large shareholders (Tauringana *et al.* 2008; Tien *et al.* 2008; Juma 2010; Kariuki, 2011). George and Nyambonga (2014) despite the impressive performance at the Nairobi Securities Exchange, firm's at the NSE are still dogged with challenges of ownership structure, with higher ownership concentration giving the controlling shareholders opportunities to use their powers to undertake activities for personal gains at the detriment of minority shareholders adversely affecting the firms' performance.

## **1.2 Statement of the problem**

Ownership structure and financial performance of the firms trading in the securities market is a unique and quite complex area given the fact that the firms are always changing ownership from one majority shareholder to another. According to Anthony (2014) as long as the company's shares are trading, their ownership is bound to change at any time. By a click of the mouse many companies in Nairobi Securities Exchange have changed hands from government ownership to foreign ownership or to public ownership.

This is evidenced by a deliberate policy of divestiture pursued by Kenyan Government aimed at reducing state ownership of corporations with a view of attracting private sector participation in management of the state corporations by infusing modern management styles that would ultimately improve performance of these companies (Ndemo, 2009).

Sirtaj Kaur, (2016) since the initiation of economic reforms, several changes have taken place in the corporate environment, corporate structure and even government policies relating to corporations. Namusonge(2014) managers need to review and position themselves strategically in order to cope up with changes brought by economic reforms. Miring'u and Muoria (2011) observe that the ownership structures of companies are rapidly changing to match the global challenges and demands. Further Heubischl (2006) argues that the ability of a firm to make acceptable returns in this competitive environment determines its ability to survive in the future as the economies of the world are becoming more and more globally integrated.

The different ownership structures over time are bound to make some effects on the firm's financial performance, a phenomenon the study desires to get an insight and send more light to corporate finance. Berk and DeMarzo (2007) argue that the owners of a firm have economic relations with the firm as their priority is to protect their interests. According to Omran (2001) owners form the decision making segments of a firm and that the financial performance of a firm mostly depends upon the strategic decisions carefully designed and taken by their owners. Anselm (2014) points out that the traditional approach to corporate governance and firm's performance has typically ignored the unique influence that firm owners exert on the board and by extension, the top management in decisions that affects firm's performance. However the corporate governance framework aimed to facilitate increased efficiency of a firm, in its current form is evidently lacking in a monitoring system and structures, aligning the role of the firm owners, board of directors and managers' interests and actions towards the wealth creation and welfare of all stakeholders(Aggarwal, 2003).

Kihumba (1993) pointed out that trading on the securities exchange has become a fashionable tool for raising capital. Investors have become increasingly aware of the potential of the Nairobi securities exchange as witnessed by many firms raising new equity from the stock market for the first time and consequently many investors investing in their shares through primary initial offering and secondary markets. However George and Nyambonga (2014) pointed out that despite the impressive performance of the NSE , firms listed at NSE are still dogged with challenges of Ownership structure where some shareholder(controlling shareholders) took the opportunity to use their powers to undertake activities of personal gain at the expense of minority shareholders. This has resulted to financial scandals as evidenced by collapse of some reputable firms such as Daima bank, Trust Bank Imperial bank, uchumi supermarket, and Chase Bank among others. Further there is trend of firms operating in the same market selling similar products or services but with diverse performance where some are excelling where others are collapsing and getting de-registered from securities exchange.

Most of the studies conducted in this area concerning financial performance are based on capital structure, corporate governance, leverage, size of the company and corporate social responsibilities. Further in this area there has been an overlook of qualitative factors that affect performance as most of the studies have been based on quantitative factors derived from secondary data of published financial statements. Therefore there is need for a study linking ownership structures and financial performance of listed firms as their financial performance mostly depends upon the strategic decisions carefully designed and taken by their owners.

### **1.3 Objectives of the Study**

#### **1.3.1 General objective**

To establish the effect of ownership structures on the financial performance of companies listed in Nairobi Securities Exchange in Kenya.

### **1.3.2 Specific objectives**

The study pursued the following specific objectives;

1. To evaluate the effect of government ownership on financial performance of firms listed in the Nairobi Securities Exchange in Kenya
2. To analyse the effect of local ownership on financial performance of firms listed in the Nairobi Securities Exchange in Kenya
3. To establish the effect of foreign ownership structure on financial performance of firms listed in the Nairobi Securities Exchange in Kenya
4. To determine the moderating effect of managerial shareholding on ownership structures and financial performance of firms listed in the Nairobi Securities Exchange in Kenya

### **1.4 Research questions.**

The study was anchored on the following research questions.

1. What is the effect of government ownership on financial performance of firms listed in the Nairobi Securities Exchange in Kenya?
2. What is the effect of local ownership on financial performance of firms listed in the Nairobi Securities Exchange in Kenya?
3. What is the effect foreign ownership structure have on financial performance of firms listed in the Nairobi Securities Exchange in Kenya?
4. What is the moderating effect of managerial shareholding on ownership structures and financial performance of firms listed in the Nairobi Securities Exchange in Kenya?

### **1.5 Research Hypotheses**

This study sought to test the following null hypotheses;

1. **H<sub>01</sub>** Government ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

2. **H0<sub>2</sub>** local ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.
3. **H0<sub>3</sub>** Foreign ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.
4. **H0<sub>4</sub>** Managerial shareholding moderating effect on ownership structures have no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

### **1.6 Significance of the study**

Improving the investors' confidence and encouraging them to invest is one of the most significant steps that NSE can take towards facilitating the achievement of the nation's vision for competitiveness and prosperity. The fact that Kenyans economy is undergoing transition from emerging to developed market and majority of small individual investors are expressing interests in investing in the stock markets, the study is relevant to the following stakeholders;

This study is of help to the government of Kenya and policy makers as they seeks to create a conducive environment and design policies to strengthen and build confidence across all categories of investors to build an economy that is inclusive. One of the key drivers of growth in a developing economy is inclusion of both large and small scale investors in mobilizing the scarce resources. Through the findings of the study, the government of Kenya is able to appreciate mobilization of resources across the divide by all categories of investors in support of economic development to achieve the vision 2030 either by reducing information asymmetry or increasing investors' awareness campaign through trainings workshop and seminars.

The study findings can help companies' management and shareholders in evaluating the importance of contribution by different categories of investors on their financial performance in terms of reducing agency costs and bolstering the relationship between the principals and the agents. Further firm management will benefit from the study as they will acquire information that directly relates to their decision-making paradigm and be able to carry out their day-to-day operations. Companies especially Government owned are swiftly becoming more aware of the importance of divesting

their investment portfolios through IPOs as evidenced from 2003 to 2009 through Ken-Gen, KCB and Mumias sugar company IPOs. Divesting to bring private investors on board in this era adds impetus to knowledge, expertise in monitoring and control that reduces agency problems and link between ownership structure and financial performance.

Other companies in developing countries will learn from this Kenyan study and understand the diversity in ownership structure that they can replicate in their companies in order to improve their financial performance. The study findings inform them on which ownership structure have better link to financial performance and hence save on the costs of conducting cost benefit research in their companies.

Regulatory bodies such as, Capital Markets Authority, Central Bank of Kenya and the Kenya Revenue Authority can use the study findings to; improve on the framework for regulation to make a level platform for all categories of investors especially domestic small scale investors. The Nairobi Securities Exchange (NSE) and Capital Market Authority (CMA) can use the study findings to regulate the operations of listed companies in the stock exchange by developing and adopting policies to enhance confidence to small investor and public at large on their investments and boost equality and stability of the economy. Financial advisors can use the findings to advice and direct their clients to invest in companies that will yield highest returns on their investments.

Activities of securities market affects investment patterns which have impact in the overall performance of the economy, and therefore the findings of the study would provide an insight to the Government and NSE on how different ownership structure causes the market to react through adjustment in stock prices and their effect on corporate financial performance. This can result to devising of the appropriate ownership structure threshold for better market valuation through share price change.

To the scholars, the study is value-added to the existing body of knowledge as it recommends ways for improvement of financial performance by having inclusive investors who reduce agency costs and fosters empowering structures to all stakeholders in participating in decision making and stewardship of the companies'

resources in enhancing financial performance. Nevertheless, this study serves as a stepping stone for newer research on ownership structures and financial performance of listed firms

### **1.7 Scope of the study**

The study investigated the effect of ownership structure on financial performance of listed companies in NSE for a period between 2010 and 2014. The study was limited to only companies' listed in the Nairobi Securities Exchange in Kenya because of reliable and consistent source of information needed for comparison purposes. According to companies Act, it's a legal requirement for all registered companies to submit audited published final accounts on yearly basis and this made this study to have access to the required data. Further for the company to qualify in the sample, it must have been listed at the NSE between 2010 and 2014 and had compiled their financial reports for the relevant period of the study to enable the researcher to establish trends, patterns and relationship of the conceptualized study variables.

### **1.8 Limitations of the study**

Due to time and resource constraints the study only reviewed a sample of only publically listed firms. Therefore generalization of our results to private or small firms must be made with this limitation in mind. However this provides an opportunity for further research.

The fixed sample quantitative data obtained from secondary data of the qualifying 39 firms implied that there was need for a similar response rate from the questionnaire used for the construction of the qualitative primary information collected using the questionnaires for the purpose of comparison. To ensure a 100% response rate, drop and pick method of administrating questionnaires could not work effectively. Administration of the questionnaires was therefore personally done with the help of the research assistant and intensive follow-up which was costly and took a longer time than forecasted in the research plan. However this enhanced the achievement of all the intended study objectives. Further the study used questionnaires limited to likert scale questions and secondary information from published financial statements;

therefore there is need in future studies to include open ended questions to bring more qualitative information in terms of views and opinions of different categories of the investors.

The study used a cross-sectional survey design which only covered a short period however there is need to carry out a longitudinal study using time series data to establish trends and patterns of financial performance of listed firms as the ownership structures keep on changing each time a firm issues shares or IPOs. This is evidenced by a period between 2003 and 2009 where a number of firms issued IPOs and their ownership structures significantly changed as they brought on board different categories of shareholders.

Finally, the study focused on only the financial performance of firms and ignored the non-financial goals which can be of equal importance for managers and owners. Therefore, future studies should take into account both financial and non-financial goals and assess them in firms having different ownership structures. Further the study only collected information and views from the company's financial statements and their employees and ignored other interested stakeholders and therefore there is need to bring on board views of other outside stakeholders and investors.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviewed literature of the studies carried out in this area, discussed theoretical and conceptual framework; Critiqued the existing literature relevant to the study and come up with research gaps filled by the study as well as summary.

#### **2.2 Theoretical framework**

This study was based on four theories, Agency theory, Resource Dependence, Stewardship theory and Stakeholder theory which analyses the relationship between ownership (shareholders/principals), management (agents) and the conflict between them and how such conflict affects performance of the firm.

##### **2.2.1 Agency Theory**

The Agency theory was advanced by Jensen and Meckling (1976) and rests on the assumption that the role of organizations is to maximize the wealth of the shareholders (Blair, 1995). Further the Agency theory explains a fundamental problem for absent or distant owners who employ professional executives to act on their behalf. Eisenhardt (1989) observes that most businesses operate under conditions of incomplete information and uncertainty which exposes them to two agency problems: adverse selection and moral hazard. Adverse selection occurs when owners cannot ascertain whether an agent accurately represents his ability to do the work for which he is paid to do while moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort. The conflicting demands justify actions that may be criticized as immoral or unethical depending on the stakeholder group and this study focuses how such conflict affects the financial performance of the firm. These professionals may be more interested in their personal welfare than in the welfare of the firm's shareholders (Berle & Means, 1967) and by the fact that superior information is available to them; they take the advantage over owners of firms. The agency theory is then adopted for this study

because according to Eisenhardt (1989) agency theory is concerned with analysing and resolving problems that occur in the relationship between shareholders and their professional agents. Further it tries to understand how to best organize relationships between the principal(owners) and the agents(Professionals) and determines the work, which the agent should undertake and the measures the owners should put in place to maximize their returns (Eisenhardt, 1989).

Donaldson and Davis (1991) argue that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders. According to Wheelen and Hunger (2002) the problems arise because agents (professional) are not willing to bear responsibility for their decisions since they don't own a substantial amount of stock in the firms and hence don't stand to benefit by pursuing wealth maximizing objective. Mallin (2004) advocates that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management. However Australian Stock Exchange Corporate Governance Council (2003) associates good corporate governance with people of integrity and not with amount of stock they hold. Justifying importance of understanding how ownership structure affects corporate governance and performance of the firm which is the focus of this study, we consider views of Jensen and Meckling (1976) who argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns and that the firm's top management becomes more powerful when the firm's stock is widely held (Diverse ownership) especially when the board of directors is composed of people who know little of the firm.

Sanda *et al.* (2005) points out that the problem can also be observed within Government owned firms where it involves the citizens (principals) and bureaucrats (agents appointed politically). The problem is worsened by the fact that, the citizens perceive their individual voice to be insignificant in initiating change and are usually unwilling to monitor as it may involve seeking costly information and therefore disinclose and opt to internalize part of the government failures.

However Donaldson and Davis (1991) argues that the demands of private firms such as foreign or institutions owned are different as they are ready to seek costly information and put stringent measures to monitor the actions of the top management.

In summary, Rhoades (2000) observed that managers will not act to maximize the returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interests of shareholder and recommends that selection of appropriate governance mechanisms between owners and managers will insure an efficient alignment of the principal and agent's interest.

According to Eisenhardt (1989) agency theory is concerned with analyzing and resolving problems that occur in the relationship between shareholders and their professional agents. Agency theory is therefore adopted in this study because the study focuses on relationship between shareholders and their professional agents existing in different ownership structure and how they affects the financial performance of listed firms in Nairobi securities Exchange.

### **2.2.2 Stakeholder Theory**

Stakeholders' theory challenges the primacy assumption of shareholder interests and advocates that a company should be managed in the interests of all its stakeholder (Freeman, 1994).The theory is based on the assumption that values are necessarily and explicitly a part of doing business and that managers need to articulate the shared sense of value they create to bring its key stakeholders together. When stakeholders get what they want from a firm, they return to the firm for more (Freeman, 1984; Freaman & McVea, 2001). Ulrich *et al.* (2008) argues that stakeholders can be instrumental to corporate success and therefore, corporate leaders have to consider the claims of stakeholders when making decisions and conduct business responsibly towards the interests of all stakeholders. The stakeholder theory argues that managers should make decisions so as to take account of the interests of all stakeholders in a firm including not only financial claimants, but also employees, customers, communities and governmental officials (Manville & Ober, 2003; White, 2009).

Freeman (1994) argues that advocates of stakeholder theory refuse to specify how to make the necessary trade-offs among these competing interests, they leave managers with a theory that makes it impossible for them to make purposeful decisions. According to Kaptein and Van Tulder (2003) with no way of keeping a balanced score, stakeholder theory makes managers unaccountable for their actions making them adopt a reactive approach which does not integrate stakeholders into corporate decision making processes. This results into a misalignment of organizational goals and stakeholder demands (Mackenzie, 2007). Turnbull (2002) and Watkins (2003) attribute scandals such as those of Enron and WorldCom to the failure of the managers to consider stakeholder concerns in decision making.

Following these scandals, Adams (2002) observes that some governments set up new regulations to align the interests of stakeholders with corporate conduct giving example of the Sarbanes-Oxley Act (SOX) which was passed as a result of the collapse of Enron and WorldCom. Cornett (2007) advocates that a proactive approach should be used by corporations to integrate stakeholders' concerns into their decision-making processes and to the necessary governance structures and recommends that the stewardship theory remains the theoretical foundation for much regulation and legislation. Rothman & Friedman (2001) argues that involving participation of stakeholders in corporate decision-making can enhance efficiency and reduce conflicts.

Wheelen and Hunger, (2002) argues that the choice of value maximization as the corporate scorecard must be complemented by a corporate vision, strategy and tactics that unite participants in the organization in its struggle for dominance in a competitive arena. Freeman (1994) concludes that a firm cannot maximize market value if it ignores the interest of its stakeholders in the long-term. Clarke (2004) over time, a firm's board of directors and its CEO, acting as stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests as they tend to view a firm as an extension of themselves.

Mallin,(2004) argues that compared to agency theory, enlightened stakeholders theory which utilizes much of the structure of shareholders theory advocates that, a firm's top management cares more about the firm's long term success and accepts maximization of the long run value of the firm as the criterion for making the requisite trade-offs among its stakeholders.

Freeman (1994) concludes that a firm cannot maximize market value if it ignores the interest of its stakeholders in the long-term. Stakeholders' theory is therefore adopted in this study to help us analyse and understand how different ownership structures adopts a proactive approach to integrate all stakeholders' concerns into their decision-making processes and to lay the necessary governance structures to maximize firms financial performance in the long- term.

### **2.2.3 Stewardship Theory**

Donaldson and Davis (1991) advanced this theory as an alternative to the agency theory. He argued from the view of managerial motivation by stating that management far from being an opportunistic shirker essentially wants to do a good job, to be a good steward of the corporate assets. The basic idea behind the stewardship theory is that it states humans to be in greater needs than the neo classical view in the sense of them to be opportunistic, untrustworthy and focused on personal gains. Therefore, it is considered that the manager's behaviour is organization centered (Arthurs & Busenitz, 2003), whose main aim is to improve the organizations performance by satisfying its principals. The theory tries to identify the situation where both the principal and the steward are aligned. Its utility is maximized when the stewards' goals are coordinated with the principals' (Arthurs & Busenitz, 2003). The theory accepts that agents are opportunistic but that human motives are more than just self-actualization. Therefore agents that are driven by organizational and collectivistic motives have a higher utility by aiming for goals that are the best for the business which often align with the interest of its principal (Bender, 2011). This situation is attained more readily where the CEO is also chair of the board.

Further the stewardship theory states that monitoring and controls that are proposed by the agency theory interfere with the motivation of the steward. This could lead to a loss of productivity and incite opportunistic behaviour. Since there is no conflict between the principal and the steward the theory suggests that the agents receive empowerment and autonomy from their principals. This leads to an increase in productivity, and in this form they can create an environment where the agents could proceed effectively (Bender, 2011). If both parties decide for a stewardship relationship, this would be a true stewardship relationship. Here no agency costs occur because the stewards act in the interest of its principal (Bender, 2011) Thus, stewardship theory focuses on facilitating, empowering structures, and holds that fusion of the incumbency of the roles of chair and CEO will enhance effectiveness and produce, as a result, superior returns to shareholders than separation of the roles of chair and CEO.

Stewardship theory was adopted in this study to enable analyse how different ownership structures have put in place, facilitating and empowering structures rather than monitoring and controls, that are proposed by the agency theory which interferes with the motivation of the steward instead of ensuring that both the principal and the steward interests are aligned to enhance effectiveness of agent in pursuit of improved firms financial performance in the long-term.

#### **2.2.4 Resource Dependence Theory**

Resource dependence theory by Barney (1986), proposition is based on the premises that a firm's board, and in particular the constitution of the non-executive element of a board, can provide the firm with a vital set of resources. Although agency theory is the predominant theory used in the research on boards of directors (Dalton *et al.*, 2007; Ellstrand & Daily, 1996; Zahra & Pearce, 1992), this is the area of RDT's greatest research influence. Pfeffer *et al.* (1978) asserts that boards enable firms to minimize dependence or gain resources. RDT is less commonly used to study boards than agency theory but empirical evidence to date suggests that it is a more successful lens for understanding boards (Zahra & Pearce, 1992).

Pfeffer and Salancik (1978) suggest that directors bring four benefits to organizations: information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy. Significant empirical evidence supports these proposed benefits and suggests that “resource-rich” directors should be the focus of board composition. Thus, it’s not just the number, but the type of directors on the board that matters. Early studies using RDT to examine boards focus on board size and composition as indicators of the board’s ability to provide critical resources to the firm. Pfeffer (1972) finds that board size relates to the firm’s environmental needs and those with greater interdependence require a higher ratio of outside directors. He concludes “that board size and composition are not random or independent factors, but are, rather, rational organizational responses to the conditions of the external environment”.

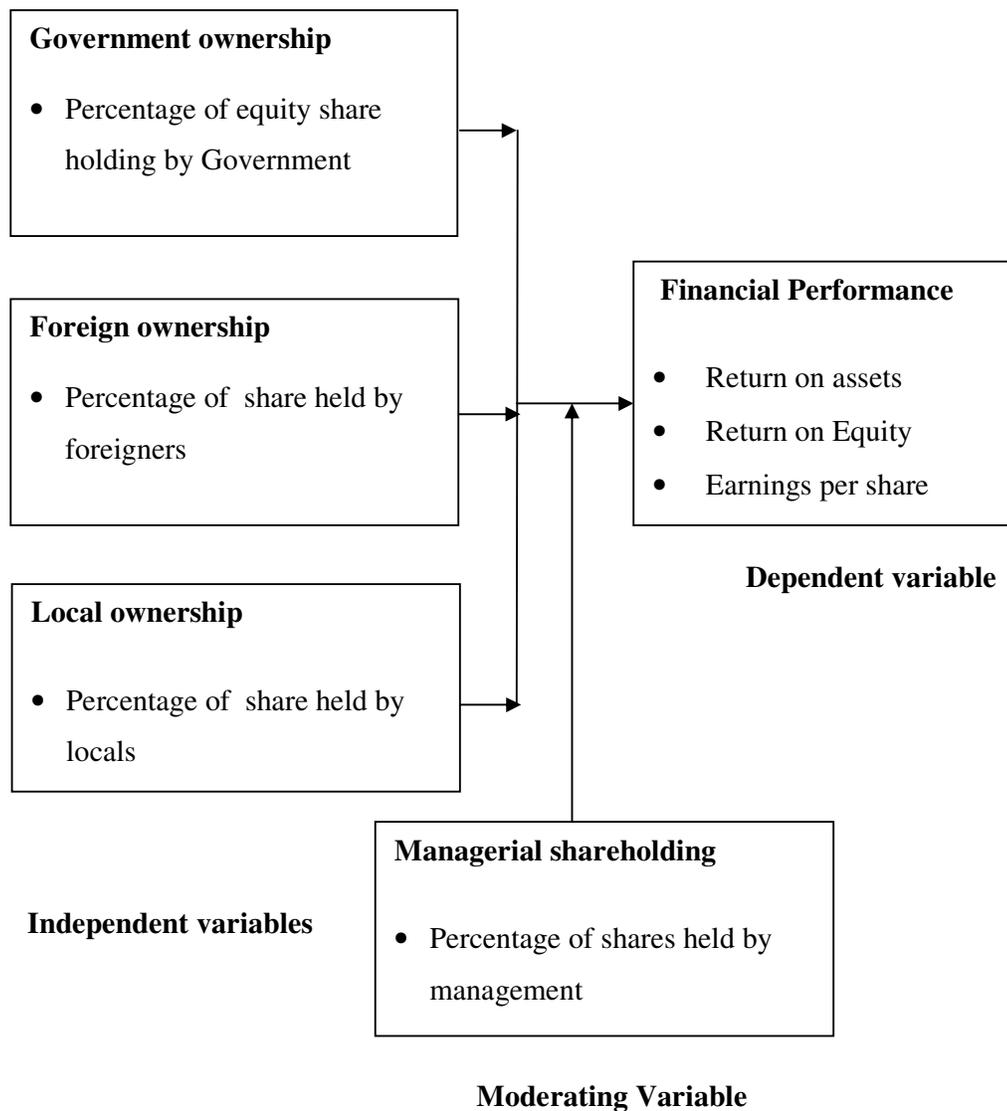
Pearce and Zahra (1992) advocates that board composition and size are contingent not only on the external environment but also on the firm’s current strategy and prior financial performance. Eisenhardt (1989) found a positive relationship between board size and firm financial performance. However, many scholars are quick to question the simplistic answer provided by board size, suggesting that a more complex understanding is necessary.

In summary, Resource dependence theory is therefore adopted in this study to creates a background used as basis for analysing and giving an insight on how different ownership structures creates governance structures that enable their management to provide the firm with a vital set of resources in terms of; information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy which in the long-term enhances firms financial performance.

### **2.3 Conceptual Framework**

A conceptual framework is a concise description of the phenomenon under study represented by graphical depiction of the major variables of the study (Mugenda, 2003). Young *et al.* (2003) defines conceptual framework as a diagrammatic

representation of the relationship between the dependent and independent variables. Odhiambo and Waiganjo (2014) the conceptualization of variables in academic study is important because it forms the basis for testing hypothesis and coming up with generalizations in the findings of the study. For this study the conceptual framework looked at the relationship between ownership structures of companies listed in NSE and how they affected their financial performance.



**Figure 2.1: Conceptual Framework**

### **2.3.1 Government ownership**

Government ownership is expected to influence performance through political appointment of the managers who may not be very effective and may be interested with perusing political agendas Mutisya (2015) observes that Government ownership is inefficient and bureaucratic and that the ownership rights of government firms do not have clear incentives to improve firm performance. Boubakri *et al.* (2005) argued that government owned firms are advantaged as the government can allocate capital to them for investments to trigger economic and financial development, especially, for countries that have underdeveloped economic institutions and are undertaking government finance projects with social benefits. However he points out that government should transfer control rights of the decision making process from politicians to managers to improve firm performance as managers are more concerned with firm performance than the politicians.

Ongore, K'Obonyo and Ogutu (2011) analysed ownership identity of forty-two firms in Kenya based on five elements: government; foreign; institution; diverse; and manager (insider). The study found a significant positive relationship between insider ownership, foreign ownership, institutions ownership, diverse ownership and firm performance. However there was a significant negative relationship between government ownership and firm performance. Alulamusi (2013) supported their findings that Government ownership had a negative relationship with financial performance and attributed this to asset quality and low management efficiency due to laxity in prudent credit management practices and inefficiency of operations and poor returns.

### **2.3.2 Foreign ownership**

Foreigners appoint qualified managers who may have positive impact on performance. Azzam *et al.* (2013) asserts that despite the generally accepted hypothesis that foreign-owned firms out-perform domestic firms in many financial and production measures, several authors have proved the opposite in their research; opinion on this matter is therefore divided. Clarkson, Overell and Chapple (2011) argues that many foreign scholars have verified that ownership and capital structure

have significant effects on firm performance and that the effect of ownership structure on financial performance mainly considers ownership type, ownership concentration and capital market value of listed firms. Djankov and Simeon (2008) in their study had found a positive relationship between foreign ownership and the provision of generic and specific knowledge to the local company. However Ochieng and Ahmed (2014) examined the performance of Kenya Airways before and after privatization which brought on board foreign investors and found that the financial performance had not met the expectation and doubted whether the emerging ownership structure following privatization has secured the benefits associated with private ownership.

Chege (2013) examined the relationship between ownership structures and financial performance among commercial banks listed in the NSE in Kenya. He found out that there is a positive relationship between profitability and foreign shares ownership and observed that, foreign shares were significant in explaining results as a unit changes in foreign shares were found to be significant in explaining profitability. However local ownership both retail, and corporate, has a negative relationship with profitability. Chege findings were consistent with Alulamusi (2013) study on the relationship between ownership structure and financial performance of commercial banks in Kenya which established that there is a significant relationship between foreign ownership and the different parameters of financial performance. He attributed the significant relationship to high monitoring capabilities of foreign owners.

Aydin, Sayim and Yalama, (2007) argued that on an average foreign owned firms have performed better than the domestically owned firms because foreign owners are more likely to have the ability to monitor managers and give them performance based incentives to avoid behaviours' that undermine the wealth creation motivation of the firm owners and by the fact that transfer of new technology and globally tested management practices to the firm, which help in enhancing the efficiency by decreasing operating expenses, generating savings for the firm and significantly impacting on their financial performance. Foreign ownership goes beyond financial contribution and extends to provision of managerial expertise and technical

collaboration which helps them to increase the efficiency and effectiveness of the operational processes leading to improved performance (Pallathitta, 2005).

However Aguilera and Cuerra (2004) argued that foreign shareholders may only have a moderate impact on firm performance despite being endowed with good monitoring capabilities because their financial focus and emphasis on liquidity making them unwilling to commit to a long-term relationship with the firm that engages in a process of restructuring in case of poor performance. Most of them prefer strategies of exit rather than voice to monitor management. This is supported by Zemplerová (2010) in a study of the Czech Republic of research and development employee that showed that a negative relationship exists between foreign ownership and firms' performance. However Uwuigbe and Olusanmi (2012) in a study of Nigerian firms found that foreign ownership had a positive relationship on listed firms in the financial sector.

Halkos and Tzeremes (2010) observed that foreign ownership had a positive impact on firm's financial performances. Huang and Shiu (2009), and Caves (2007) supported the findings of Halkos and Tzeremes by pointing out that foreign-owned firm possess firm-specific advantages that are not available to domestic firms. Greenaway, Guariglia, and Yu (2014) study on the degree of foreign ownership and performance in Chinese firms found that joint ventures perform better than wholly foreign-owned firms do. Huang, Shiu (2009) argued that local investors may be more knowledgeable about the local environment than foreign investors which may eventually lead to better performance of local owned firms. However Azzam, Fouad and Ghosh (2013) argue that generally foreign-owned firms out-perform domestic firms in financial performance.

### **2.3.3 Local ownership**

Locals by perfect knowledge of local market may influence firm's performance positively. Local ownership refers to the companies owned by locals and can be viewed in terms of diverse ownership and institution ownership. Diverse ownership refers to companies owned by local individuals with no single controlling shareholder. Margaritis and Psillaki (2010) using a sample of French manufacturing

firms investigated the relationship between capital structure, ownership structure and firm performance and their empirical results showed that listed firms with more dispersed ownership face greater agency costs which lowers their financial performance while listed firms with more concentrated ownership have sound controls which improves financing efficiency and lower agency costs leading to good financial performance.

Czarnitzki (2015) study observed that the dispersed ownership percentage affects performance indicators but not stock market performance indicators, which suggest that there might be some other factors affecting firm's performance other than ownership structure. Kiruri (2013) researched on the effects of ownership structure on banks profitability in Kenya and found local ownership and foreign ownership had positive and significant effects on the banks profitability while institutional ownership and state ownership had negative and significant effects on the banks profitability. He concluded that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and local ownership lead to higher profitability in commercial banks.

Bruton and Filatotchen *et al.* (2010) examine the effects of ownership structure and firm governance on the financial performance with the initial public offering (IPO) in the United Kingdom and France, and their empirical results showed that higher concentrated ownership improves firms' IPO performance and have an overall significant impact on firms' financial performance. Jensen and Fama (1986) argue that dispersed ownership leads to the creation of a hold-up problem, in which the shareholders cannot prevent manager's opportunistic behaviour even though they are able to recognize it. Morck *et al.* (2000) and Stulz (1988) sighted this as a managerial entrenchment, where management is able to undertake value-destroying activities at low personal cost because of the low risk of sanction and lack of adequate control of the shareholders due to lack of capacity and motivation to monitor management decisions.

### **2.3.4 Management shareholding**

Managers holding shares may ignore selfish behaviour and pursue positive activities to improve performance. According to Bozec *et al.* (2002) the agency theory assumes that managers seek to maximize their own advantage rather than that of the owners of the firm or the firm itself. However, Cuervo and Villalonga, (2000) argues that managers are disciplined by a number of external control mechanisms, such as the market forces and also by internal control mechanisms, such as compensation and rewards incentives which prevents the managers from seeking their own advantages. Wang & Fang (2011) argued that to increase firms value you must align managerial interests with the interests of capital suppliers. For instance Allayannis *et al.* (2012) concentrated on monitoring pressure on managers from shareholders and its impact on firms value and found that use of excessive pressure reduces the firm value as the managers have limited freedom to exert control on financial performance of the firm but rather results to peruse self-interests.

Wang, Guthrie and Xiao (2012), Tsionas, Merikas and Merika (2012) found that ownership concentration has a significantly positive impact on firm performance, minority equity-controlled shareholders strengthen the ability of supervising and controlling managers with an increase of ownership concentration of listed firms ,conversely if the decrease in managerial incentive is dominant, greater ownership concentration results in less cost control. However Brown Governance, (2004) had observed that, the last two decades have witnessed increased levels of Foreign Direct Investments in the developing economies and the main reasons have been put forward to explain the phenomenon of high performance associated with foreign ownership of firms is that foreign owners are more likely to have the ability to monitor managers, and give them performance based incentives, leading the managers to manage more seriously, and avoid behaviours and activities that undermine the wealth creation motivations of the firm owners.

### 2.3.5 Financial performance

This study focused on those measures that are strategically important for the success of the company. From reviewed studies many Scholars had used various measures to measure financial performance of Firms such as; Return on Asset (ROA) and Return on Equity (ROE) (Peters & Bagshaw, 2014; Ahamed *et al.* 2014; Ofori *et al.* 2014), Return on asset (ROA) while Mujahid and Abdullah (2014) employed accounting terms like ROA and ROE and shareholders wealth measures like EPS and stock price. Flammer (2013) employed Return on Asset (ROA) and Net Profit Margin (NPM). Morais (2014) used company's stock return and Chetty *et al.* (2015) considered stock return performance over time, Cherobon (2014) employed volume of sales, number of customers and employee retention, Singh (2014) used assets (ROA) and Tobin's Q, and total shareholder returns (TSR), Cavaco and Crifo (2013) considered return on assets (ROA) and Tobin's Q

Therefore, the study measured the financial performance of the companies by looking at profitability (Return on Assets, and Return on Equity). Return on Assets (ROA) refers to the amount of net income returned as a percentage of total assets. Matolcsy and Wright (2011) measured firm performance by using return on assets. It was decomposed as follows: Return on Assets =  $\text{EBIT} / \text{Average total Assets}$  – in book value.

Return on Equity (ROE) refers to the amount of net income returned as a percentage of shareholders equity. Yasser *et al.* (2011) used return on equity (ROE) and profit margin (PM) for the measurement of firm performance as it measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It's computed as: ROE (Return on Equity =  $\text{net profit} / \text{equity}$  - in book value).

## **2.4 Empirical Review**

Norman (2010) argues that choosing the 'right' form of ownership structure, one must understand the characteristics of each and how well those characteristics facilitates the firm to have a competitive edge in the globally integrated competitive economies.

### **2.4.1 Government ownership and financial performance**

Mrad and Hallara (2012) examined the relationship between the government ownership and performance of privatized firms in France. The study found that high state ownership had a positive relationship with ROA and the Tobin's Q, while the relationship on both indicators was negative when state ownership was low. Mishari *et al.* (2012) also explored the effects of ownership structure on the ROA and Tobin's Q of firms listed in Kuwait and found a positive relationship between institutional investors and firm performance while the government had a negative relationship. Netter *et al.* (2001) examined the relationship between the government ownership and performance of privatized firms in France, Netter study was in line with Mrad and Hallara (2012) as he found that high state ownership had a positive relationship with ROA and the Tobin's Q, while the relationship on both indicators was negative when state ownership was low. Esther *et al.* (2016) argues that government companies should restructure to reduce government ownership to pass more control and decision making to private investors. However she recommends that the government should retain some ownership in privatized firms to enhance shareholders confidence, protection of investments and managerial monitoring.

Earnhart and Lizal (2010) using Czech listed firms in a transition economy observed that more concentrated ownership makes minority larger shareholders control firms' decision rights while ignoring medium and small investors' interests. According to their study institution shareholders actively monitor and govern listed firms with more ownership-concentrated firms and then improve operation performance, while mistake decision directly bring listed firms about credit crisis and firms performance decline. However Huyghebaert and Wang, (2012) noted that Chinese public listed companies typically have a large controlling shareholder who has the ability to

supervise and the power to tunnel wealth from small outside investors and therefore the goal of maximizing private benefits becomes easier to realize as the power of the dominant owners in the listed companies rises and concluded that lower levels of state ownership have negative implications for firm performance. When the state ownership level is high, bureaucrats put more effort into firms in which they have large holdings. However government owned firms can use the feedback on performance to make adjustments to policies and other modes of organizational operations to avoid negative implications for firm performance (Wadongo, Odhuno & Kambona, 2010). However Ongore, K'Obonyo and Ogutu (2011) in their study observed that the presence of state ownership has a negative impact on ROE, though insignificant.

Zeng *et al.* (2012) analysed publicly listed manufacturing firms in China from 2006 to 2008 and observed that state-owned firms actively disclose more environmental information in order to achieve better social reputation, good organizational image and reputation and this has a significant negative impact on their financial performance. However Farinós (2007) argued government owned companies due to their relationship with the government they enjoy the advantages against private companies in terms of operations, resources and business opportunities and by the fact that they are under constant vigilance by both government and public investors they are well governed making them likely to perform better than private companies.

However Sun and Tong (2002), Wei and Varela (2003) observed that government owned companies' management officers are mainly civil servants who are inadequate in entrepreneurial skills and business acumen making them have disadvantage in terms of management. Further, some of their investment decisions are possibly politically motivated rather than market based as these companies may need to allocate some of their resources and human capitals for social responsibilities obligation to support the government's policies making them less competitive.

Yan and Zhong (2012) present that coexistence of economic decentralization and political centralization and excessive competition among local governments firms guided by central government are core essence of Chinese-government owned firms

and have significant impacts on their financial performance. Contrary Shleifer (1998) argued that firms in the hands of the government are inferior in performance to firms in private hands due to their institutional relationship with the government, the market structure in which they operate, or the management systems applied within them. They have also been criticized for being too risk-averse and lacking sufficient entrepreneurial drive.

Dewenter and Malatesta (2001) points out government ownership enhances firms performance as apart from government controlling, the government has the ability to appoint board members, senior management and make major decisions such as contract awards, strategy, restructuring and financing, acquisitions and divestments which enhances performance. However Shleifer (1998) points out that certain government linked investments have been politically rather than commercially motivated resulting to the inefficient financial system that gives bad returns to the shareholders resulting to poor financial performance. Anderson *et al.* (2002) argues that state-owned firms are not subject to capital market scrutiny. As a result, managerial performance is inadequately monitored leading to poor financial performance of the firms. However, Ng *et al.* (2009) and Hess *et al.* (2010) who examine Chinese listed firms from 1996 to 2003 and 2000 to 2004, respectively, both find a convex relationship between state ownership and market performance. This is inconsistent with the relationship found by Sun *et al.* (2002) and therefore, the relationship between state ownership and firm performance is unresolved.

Beltratti *et al.* (2012) argued that in government owned firms, the standard principal-agent problem is compounded by a multiple-principal problem, as government owners may pursue different objectives that do not necessarily relate to profit maximization and this may have significant impact on their financial performance. Performance information must be used in day-to-day for decision making so that performance-oriented reforms can be made to enhance performance (Taylor, 2011). However Shleifer (1998) and Vishny (1986) articulated out that, state-owned firms are technically “controlled by the public,” but they are run by political bureaucrats. Political bureaucrats have goals that are often dictated by political interests and may

be in conflict with social welfare improvements and firm value maximization leading to poor financial performance.

Fred (2011) argued that Goal Setting theory highlights the positive relationship between goals and performance. It provides that performance in organizations is enhanced when goals are specific and challenging. Goals are also used in organizations to evaluate performance and therefore state-owned firms should avoid goals that are often dictated by political interests and adopt goal setting theory in setting their firms short-term and long term goals. Literatures have proven that goal-setting theory improves the performance of individuals, teams and organizations (Thorgren & Vincent, 2013).

Wanjugu *et al.* (2016) argued that Government firms are deemed inefficient due to wide separation between ownership and control which makes it difficult to monitor managers. The agency theory contends that private shareholders influence performance by monitoring the managers to protect their investments which lacks in government firms. Dewenter and Malatesta (2001) noted that firms in the hands of the government are inferior in performance to firms in private hands and attributed this to their institutional relationship with the government, the market structure in which they operate, or the management systems applied within them. Megginson and Netter (2001) notes that Government owned firms are not directly subject to the capital markets disciplinary laws and that most of their decisions are not decided by market forces, but by the politicians. However Netter (2001) observed that capital markets constantly monitor the private firms and may respond by withdrawing capital, taking over the company, re-allocating its resources or ultimately shutting down the company if it employs its resources inefficiently.

#### **2.4.2 Foreign ownership and financial performance**

Douma *et al.* (2006) analysed the effect of foreign ownership on the financial performance of Indian corporations with a distinction between foreign institutional and foreign corporate shareholders. This study found that foreign firms perform better than domestic ones in terms of Return on Assets (ROA) and Tobin's Q. The same study concludes that ownership by foreign corporations has a positive and

significant impact on both performance measures. These performance differences arise from advanced technological know-how, marketing and managing skills, export contacts, coordinated relationships with suppliers and customers and reputation (Aitken & Harrison, 1999). Boardman *et al.* (1997) using a sample of Canadian firms found significant performance differences among multinational enterprises or their subsidiaries and domestic firms. Willmore (1986) analysing a matched sample of foreign and domestic firms in Brazil and found foreign firms to have higher ratios of value-added to output, higher labour productivity and greater capital intensity among others. Wiwattanakantang (2001) on a study of Thai firms found that foreign controlled firms exhibit superior performance. However Aneta (2016) on a study of effect of the degree of foreign ownership on firms' performance observed that a firm's performance increases as its foreign ownership increases, up to the range 61-65 % foreign investment, depending on the measurements of performance, and declines when foreign investment continues to rise beyond this level. These findings support the suggestions made by Greenaway, Guariglia and Yu (2014), and Akimova and Schwödiauer (2004).

Stulz (1988) stipulated that foreign investors come to invest with expectations of a good return on their investment and therefore ensure effective monitoring of management to avoid any managerial expropriation by instituting stringent control mechanisms which are expected to improve the corporate governance practices, lower agency costs and improve performance of the company.

Lee (2008) using panel data for South Korea in 2000 – 2006, found that firm's financial performance generally improves as ownership concentration increases and that effect of foreign ownership is insignificant to firm's financial performance. His findings were further supported by Cespedes, Gonzalez and Molina (2010) who evaluated the ownership-structure determinants and firms' performance of Latin American firms and observed that, higher ownership-concentration improve firm's performance and concluded that Ownership structure is the basic factor that affect firms' ownership and control allocation, and it has a strong impact on firm performance.

### **2.4.3 Local ownership and financial performance**

Earnhart and Lizal (2010) using Czech listed firms in a transition economy observed that more concentrated ownership makes minority larger shareholders control firms' decision rights while ignoring medium and small investors' interests. According to their study institution shareholders actively monitor and govern listed firms with more ownership-concentrated firms and then improve operation performance, while mistake decision directly bring listed firms about credit crisis and firms performance decline. However Jensen and Meckling (1976) observed that where there is no single large shareholder or a group of shareholders that can control the firm, managers under the assumption of information asymmetry and opportunity behaviour, are believed to take control over the firm.

Wiwattanakantang (2001) evaluates the impact of controlling shareholders on the financial performance of firms in Thailand and his study revealed that firms with controlling shareholders are better performers. Kapopoulos and Lazaretou (2006) study on 175 Greek firms investigating the impact of the structure of ownership on corporate performance found that a more concentrated ownership structure positively relates to higher firm performance. Del Guercio (1996) attributed this to the fact that institutional investors' gravitation toward stocks of companies that have better governance structure is likely to be stronger than that of individual investors as they have strong fiduciary responsibilities and therefore prefer prudent investments. However Lee (2008), using panel data for South Korea in 2000 – 2006, found that firm financial performance generally improves as ownership concentration increases, but the effect of institutional ownership is insignificant. Al-Najjar (2010), Wang (2007) study found negative relationship between institutional shareholdings and firm performance.

Antonio (2007) in a study in Spanish market titled, " Does ownership structure affect value?" examined the impact of ownership structure on firm value and found that there is no significant relationship between ownership block holders and firm's value, concluding that the amount of control is not effective on firm's value. His study was in line with the study of Domsetz and Villalonga (2001) which suggested

that there is no systematic relationship between firm performance and ownership structure to be expected. However Osman (2010) conducted a study titled, corporate governance and financial performance, with empirical evidence from Turkey and found a positive influence of corporate governance and institutional ownership on firm's performance, especially the impact of institutional investors was found to be more strongly pronounced on firms listed on the corporate governance index.

Fazlzadeh and Tobhaz (2011) study in Iranian Stock Market examined the role of ownership structure in defining firm performance. They analysed institutional ownership and ownership concentration and found a mix of results. Ownership concentration showed a positive effect on firm performance while institutional ownership shown a significant negative impact on firm performance. According to Daskalakiset *et al.* (2014) the ownership structure may also be influenced by the size of the firm, and that the size of the firm was found to have a significant and positively relationship with financial performance. He concluded that larger firms were associated with higher performance as found and supported by theoretical considerations. He pointed out that Size of a firm was a proxy for financial robustness, due to the fact that larger firms are more diversified and thus bear lower risk of facing financial distress problems.

Miring'u and Muoria (2011) analyzed the effects of corporate governance on performance of commercial state corporations in Kenya and found a significantly negative relationship. His findings were in support of the study by Nafula (2012) studied the relationship between corporate governance and ownership structures of firms listed at the Nairobi stock exchange and found a less significant effect between the ownership structure and corporate structure and concluded that regulatory bodies had a greater effect on the observance of corporate governance tenets by these institutions and that they had a significant impact on firms performance. However their study findings contradicted the findings of Wanjiku (2011) who carried out a study to establish the Corporate Governance practices of firms and its relationship with the growth of Companies and found a positive linear dependence of growth and Corporate Governance.

#### **2.4.4 Managerial Shareholding and financial performance**

Michael (2006) argued that agency problems arise whenever investment ideas and preferences of shareholders are at variance with those of their agents and commented that monitoring and incentive alignment mechanisms are needed to change management to support the interests of the firm. However Gloria (2007) explains in her study findings is that in Kenya, managers work better in an environment where they are afforded an opportunity to own shares of the firm, then allowed freehand to exercise their professional judgment without undue influence from shareholders. Krivogorsky (2006) in his study of listed industrial companies in Australia, Belgium, Germany and Italy found that because of their economic interest more than 50% of shareholdings in are held by large block holders. However a study by Huyghebaert and Wang, (2012) on Chinese public listed companies observed that these companies have a large controlling shareholder who has the ability to supervise and the power to tunnel wealth from small outside investors and therefore the goal of maximizing private benefits becomes easier to realize as the power of the dominant owners in the listed companies rises and concluded that lower levels of state ownership have negative implications for firm performance.

Margaritis and Psillaki (2010) using a sample of French manufacturing firms investigated the relationship between capital structure, ownership structure and firm performance and their empirical results showed that listed firms with more dispersed ownership face greater agency costs which lowers their financial performance while listed firms with more concentrated ownership have sound controls which improves financing efficiency and lower agency costs leading to good financial performance. The findings were in line with the study of Bruton and Filatotchen *et al.* (2010) who examined the effects of ownership structure and firm governance on the financial performance and their empirical results showed that higher concentrated ownership have an overall significant impact on firms' financial performance.

## **2. 5 Critique of existing literature relevant to the study**

Literature reviewed gave a mixed result with no clear cut line whether different ownership structure affects financial performance of public companies listed in security exchange. The most contradicting outstanding studies reviewed include: Fazlzadeh and Tobhaz (2011) in Iranian market found a mix of report while Shira and Shahid (2003) in Egyptian stock market found that ownership structure only affect certain aspects of accounting performance but not value of the firm in the stock market.

Domsetz and Villalonga (2001) found that there was no systematic relationship between firm's ownership structure and financial performance while Vera and Ugendo (2007) had found that the degree of ownership control had positive effects on the firms' value.

The other category of the studies reviewed emphasized on integration of shareholders on firms decision making process as evidenced by studies of Bender (2011), Rothman and Friedman (2001) and Cornett (2007). Most of these studies were based on stewardship theory and focused on how true stewardship relationship reduces agency costs, enhances efficiency and reduces conflicts and advocated that a proactive approach should be used by corporations to integrate stakeholders' concerns into their decision-making processes and the necessary governance structures for the growth of the firm. Further the studies recommend that the stewardship theory remains the theoretical foundation for much regulation and legislation of a firm.

However the only studies which have been done close to the current study include Antonio (2007) which examined the impact of ownership structure on firm value, Munyua and Ragui (2013) which examined diverse shareholders, Pallathitta (2005) and Short (2002) in their study concentrated only in the presence of large shareholders in a firm's capital structure, Shleifer and Vishny, 1986; Barucci, 2005) analyzed institutional investors , Miring'u and Muoria (2011) who focused only on performance of commercial state corporations in Kenya and Ongore and K'Obonyo (2011) whose study examined the interrelations among ownership, board size and

manager characteristics and firm performance but many scholars are quick to question the simplistic answer provided by board size, suggesting that a more complex understanding is necessary.

This study therefore intended to fill those pertinent gaps in literature by using a comprehensive approach to study how different ownership structures affects financial performance of firms, give an insight and shed light into corporate finance on the effects of ownership structures on financial performance of companies listed in NSE in Kenya. The study further added value to the existing literature by providing empirical evidence.

## **2.6 Research Gaps**

From empirical literature reviewed, there are several literature gaps that are filled by this study. Firstly, there is lack of knowledge with respect to the level ownership structure thresholds among Kenyan listed firms. George and Nyambonga (2014) pointed out that despite the impressive performance of the NSE; firms listed at NSE are still dogged with challenges of ownership structure where the controlling shareholders took the opportunity to use their powers to undertake activities of personal gain at the expense of minority shareholders. The studies done on the effect of ownership structure on financial performance have almost exclusively been derived from securities' markets outside of Kenya particularly USA, UK (Dennis and McConnell ,2003), Belgium, Germany Italy Australia( Krivogorsky,2006) and similar advanced financial markets, Pallathitta,( 2005) , Short ( 2002), Shleifer and Vishny(1986), Barucci (2005). From this perspective, studying ownership structures and its effect on financial performance among Kenyan firms helps expose the inter-linkage between ownership structures and their effects on financial performance of listed firms in an environment with unique attributes like those in the Kenyan environment and other emerging markets.

From a methodological perspective, empirical literature Sirtaj Kaur (2016), Esther *et al.*(2016), Mutisya (2015); Anselm (2014); Alulamusi, (2013); Thorgren & Vincent (2013); Mishari *et al.*(2012); Mrad and Hallara (2012); Aggarwal (2003); Earnhart and Lizal (2010) and Omran (2001) has focused on the quantitative measures

derived from financial statements. These studies have totally ignored the qualitative aspects and the fact that owners have an economic relation with financial performance of listed firms.

Incorporating these aspects, which are more critical to small scale investors who rely on herding behaviour rather than financial statement, is likely to provide a new empirical dimension on investment patterns among the small scale investors

Most of the studies carried out had both empirical and methodological conflicting results. Nahila *et al.* (2016), Benjamin and Czarnitzki (2015), Ersoy (2015); Pervan *et al.* (2012); Mishari *et al.* (2012) and Namusonge (2011) found that state ownership negatively influences firm performance. However, studies by Sirtaj Kaur (2016) Daskalakis *et al.* (2014) Ochieng and Ahmed (2014) Mokaya and Jagongo (2015) Zahoor (2014) Ofori *et al.* (2014); Mei, (2013) found that large state ownership influences performance positively. While Mishari *et al.* (2012); Uwuigbe and Olusanmi (2012) concluded that institutional ownership influences financial performance positively. However, Wei *et al.* (2005); Alipour and Amjadi (2011) studies reported a negative relationship. Omran *et al.* (2008) found that foreign investors had no significant influence on performance while Wei *et al.* (2005) found a positive influence. Ongore *et al.* (2011) found that dispersed shareholders had a positive impact on performance while Mei (2013) found a negative relationship. Lack of consensus on empirical evidence is not surprising as performance depends on the effectiveness of ownership adopted and may differ not just by firms but national institutional specificities.

Finally, literature is still in complete darkness with regard to how the Kenyan capital markets reacts to ownership structures because World Bank's (2010) Investing across Borders Report found that Kenya restricts foreign ownership in more sectors than most other economies in sub-Saharan Africa. This is a significant literature gap given that Kenya is an emerging market and the fact that the economies of the world are becoming more and more globally integrated. This is even more critical given that ownership structures are expected to have a direct consequence on expected returns to investors in public companies (Heubischl, 2006). This study wants to bridge

this gap as there is overwhelming evidence of knowledge gap in ownership structures in developing economies, where the markets are undercapitalized with few listed companies.

## **2.7 Summary**

The chapter reviewed the theories related to the study which included the Agency theory, Resource Dependence, Stewardship theory and Stakeholder theory which analyses the relationship between ownership (shareholders/principals), management (agents) and the conflict between principal and agents and how such conflict affects performance of the firm. It also covered the different types of ownership structures and their effect on financial performance of listed firms in Nairobi securities exchange. The conceptualized ownership structures of listed firms are: government ownership, local ownership, foreign ownership and a moderating variable of management shareholding. The linkages among the variables were determined and a conceptual framework was hypothesized and relevant gaps explained.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter describes the techniques and procedures used in conducting and accumulating the data for the study. It comprises of the description of the population of the study, sampling techniques, sample size, methods of data collection and method of data analysis.

#### 3.2 Research Design

The study adopted cross-sectional survey design for obtaining data. The design was preferred due to its ability to combine quantitative and qualitative methods (Weeks & Namusonge, 2016). Cross sectional studies data are usually collected at once perhaps over a period of days, weeks or months in order to answer research questions (Namusonge, 2010).

Across sectional study design is concerned primarily in establishing whether there is a relationship among the variables by comparing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes. The design was chosen since it was deemed to be the most effective to significantly contribute of to the depth and specificity of the study (Mbuvi *et al.*, 2016). Once the sample is representative of the relevant population, cross sectional study design ensure that any subsequent assessments of the attributes of that population are accurate and the findings are generalizable – in other words, they have population validity (John & Johnson, 2002).

The companies were categorized into three major categories; Government owned, Foreign owned, and Local owned companies. In cross-sectional survey design design, the research attempts to determine if there is an existing relationship between the study variables at any point in time and establish reasons for an existing relationship among the groups or individuals by attempting to identify the main factor for a difference between groups or individuals. In cross-sectional survey design

no variable can be manipulated as it deals with existing groups already discriminated by the independent variable.

### **3.3 Target Population.**

The population of interest in this study was all the firms that have been listed at the NSE between 2010 and 2014 and had compiled their financial reports for the relevant period of study. The population should have some observable characteristics, to which the researcher intends to generalize the results of the study (Mugenda & Mugenda, 2003). According Nairobi Stock Exchange (NSE) Handbook on profiles and performance of listed companies (2010-2014) there were 61 firms listed at the NSE (Appendix I).

**Table 3.1: Target Population**

<b>S/no</b>	<b>Category of company</b>	<b>Number of companies</b>
1	<b>Government owned</b>	<b>8</b>
2	<b>Local owned</b>	<b>31</b>
3	<b>Foreign owned</b>	<b>22</b>
<b>Total</b>		<b>61</b>

The reason as to why listed companies were chosen was due to the availability and the reliability of the financial statements as they are subject to the mandatory audit by internationally recognized audit firms as well as regulators.

### **3.4 Sampling Frame**

The sampling frame for this study consist of all the registered firms in the Nairobi securities Exchange as at December, 2014 as they appear in the NSE listing manual(2014) and also as laid on appendix IV. Polit and Beck (2003) refer to a sampling frame as the technical name for the list of the elements from which the sample is chosen from while Mugenda and Mugenda (2003) and Kothari (2004) define the term sampling frame as a list that contains the names of all the elements in a universe.

The major reason for choosing firms listed in Nairobi Securities Exchange is due to accessibility to the required data by the fact that it's a legal requirement of the companies Act Cap 482 for listed companies to publish their audited financial statements which provided data required by this study.

### 3.5 Sample and Sampling Technique

The study sample was derived from all firms listed in the Nairobi Securities Exchange in Kenya. Using the NSE listing manual (2014) 61 firms were listed. For a company to be included in the study sample it was screened to satisfy the following selection criteria. The company should have been listed before 2010 and has not been suspended for trading during the period under review. The company should also have consistently posted audited reports in the NSE during the period under review. Polit and Beck (2003), strongly recommend that it is more practical and less costly to collect data from a sample than from an entire population.

The study adopted two sampling techniques; first it adopted stratified random sampling to stratify the firms into Government owned, Foreign owned and Local owned. The following formula used by Saunder *et al.* (2009) was adopted to arrive at the study sample.

$$P\% \times q\% \times \frac{(z)^2}{e\%}$$

Where p= No. of target population that conforms to the characteristic of the sample required

q= No. of target population that don't conforms to the characteristic of the sample required

$(z)^2$  = Confidence level required at 95%

$e$  =Margin of error at 5%

Using the above formula a study sample of 39 companies was derived. To ensure equal representation of all the strata's proportionate random sampling was then applied to select samples from each stratum. The actual respondent from the selected companies is, the finance director from each firm. The main reason for choosing finance director is to complement the financial statement prepared by the accountant and by the fact that he uses the statement for decision making giving a wide scope of understanding them. Further responses from the financial manager were used in ascertaining the truthfulness and fairness of the general quality of financial statements prepared by the firms.

Since a sample size of 39 firms were selected and we had one respondent from each firm, then our actual sample size was thirty nine respondents. Table 3.2 highlights how the sample size of the study was arrived at.

**Table 3.2: Sample size**

<b>Classification of Companies</b>	<b>Number of sampled Companies</b>	<b>Number of respondents from each company</b>	<b>Sample size</b>
Government Owned	5	5	5
Local Owned	20	20	20
Foreign Owned	14	14	14
<b>Total</b>	<b>39</b>	<b>39</b>	<b>39</b>

### **3.6 Data Collection Instruments**

The studies used both primary and secondary data collection sources and were gathered as follows:

#### **3.6.1 Primary data**

The primary data was collected through self-administered questionnaires. The structured questionnaire had a customized five-part likert scale which was used to collect qualitative data on the independent variables from the respondents. Respondents were asked to indicate agreement with each item. Each item had a five-point scale ranging from 1=strongly disagree, 2=disagree, 3=indifferent, 4=agree, and 5=strongly agree. The data collected was edited to ensure consistency across respondents and detected omissions. Schwab (2005) defines questionnaires as measuring instruments that ask respondent to answer a set of questions or respond to a set of statement to beef up facts and information of interest to the researcher.

Mugenda and Mugenda (2003) and Kothari (2004) agree that questionnaires have various merits, like; there is low cost even when the universe is large , it is free from the bias of the interviewer; answers are in respondents' own words; respondents have adequate time to give well thought out answers; respondents who are not easily approachable can also be reached conveniently. Most of our respondents were busy and could not be easily accessible and therefore the choice of the questionnaires was most appropriate for the study.

#### **3.6.2 Secondary data**

Secondary data collection sheet was developed and adopted to collect quantitative secondary data using document analysis method. The data was extracted from annual reports of listed companies for the period 2010 to 2014. The audited annual reports were obtained from CMA and ownership variables extracted from the reports were the percentage of shares owned by Government, Locals, Foreigners and management. This was possible as the public offers, listing and disclosures regulations require listed companies to disclose the identity of major shareholders

(CMA, 2002). The values of profit after tax, Equity and total assets were extracted from the NSE handbooks for 2010 to 2011; 2012 to 2013 and 2013 to 2014. These values were used to facilitate computation of parameters of financial performance such as ROA, ROE and EPS. To supplement published annual financial statements, other important quarterly business journals, manuals and in-house magazines were used. The purpose for collecting secondary data was to cross validate the primary data collected.

### **3.7 Data Collection Procedure**

Primary data was collected through the administration of questionnaires to the finance manager in each firm. Two research assistants were engaged mainly to assist the researcher to self-administer the questionnaires and where they faced the challenges the researcher made a personal follow up through telephone contact given at the appendix. The entry point to the firms was mainly through public relation officer and research departments for those firms which had research department. Louis, Lawrence and Morrison (2007) describes primary data as those items that are original to the problem under study while Ember and Ember (2009) describe primary data as data collected by the investigator in various field sites explicitly for a comparative study.

Secondary data was obtained from the company's annual reports submitted to the CMA. Dawson (2009) states that secondary research data involves the data collected using information from studies that other researchers have made of a subject. Ember and Ember (2009) describe secondary data as data collected by others and found by the comparative researcher in ethnographies, censuses and histories.

### **3.8 Pilot Test Study**

The study carried out a pilot test to test the validity and reliability of the questionnaires in gathering the data required for purposes of the study. The questionnaire was validated by discussing it with the supervisor and two randomly selected finance managers of the listed firms. Their views were evaluated and incorporated to enhance content and construct validity of the questionnaire. The two

selected firms formed 5% of the target sample. The pilot test sample was within the recommended range as the rule of the thumb suggests that 5% to 10% of the target sample should constitute the pilot test (Cooper and Schilder, 2011; Creswell, 2003; Gall and Borg, 2007).

The major purpose for pilot testing was to test whether the questionnaires could obtain the required results (Dawson, 2002). According to Wheeler and Hunger (2002), pilot studies also known as pre-exercise are not usually used in qualitative studies but are used by novice researchers who often conduct interviews to get used to the type of data collection for their research. This being a study which involved qualitative and quantitative data, a pilot study was necessary. According to Beck *et al.* (2003), a pilot study is a small scale version, or trial run, done in preparation for a major study. Beck *et al.* (2003) states that the purpose of a pilot study is not so much to test research hypotheses, but rather to test protocols, data collection instruments, sample recruitment strategies, and other aspects of a study in preparation for a larger study.

The advantages of conducting the pilot test include enhancing the training of field staff, review of the instrument, prevention of wasteful expenditures on a full blown survey whose results may not be applicable. Piloting involves testing the validity and reliability of the data collection instrument and in this case the questionnaire. Validity in qualitative research refers to credibility and trustworthiness of the data presented (Johnson & Christensen, 2008). Reliability in relation to qualitative research data is the measure that the data provided is consistent with what previous research literature has said or if similar research with a different group of participant's yields a similar set of data.

### **3.8.1 Reliability**

Reliability is a measure of the degree to which a research instrument yields consistent result after repeated trials (Mugenda & Mugenda, 2003). According to Sekaran and Bougie (2010) the measurement of the reliability and the validity of a data instrument help the researcher to gauge the goodness of the variables of measurement. Reliability was measured using Cronbach's Alpha coefficient which is

used to measure the internal consistency of the variable measures. Factor Analysis was further used to determine the underlying dimensions of variables and to determine the key factors from a large number of variables.

Reliability in research is influenced by random error. According to Zikmund (2010), errors may arise from inaccurate coding, ambiguous instruction to the subjects, interviewers fatigue, interviewee fatigue, interviewer's bias etc. These errors results to inconsistencies in the measurement, which ultimately affect the reliability of the data collected (Mugenda & Mugenda, 2003).

Cronbach's Alpha which measures how well a set of items or variables, measure a single uni-dimensional latent construct that is a coefficient of reliability or consistency was used for this study. Cronbach alpha was adopted since it was used with continuous and non-dichotomous data. In particular, it was used for testing questionnaires using a Likert scale. The formula is given below

Given variable  $x_1, \dots, x_k$  and  $x_0 = \sum_{j=1}^k x_j$  and Cronbach alpha is defined to be

$$\frac{k}{k-1} \left( \frac{\sum_{i=j}^k cov(x_i, x_j)}{var(x_0)} \right) = \frac{k}{k-1} \left( 1 - \frac{\sum_{j=1}^k var(x_j)}{var(x_0)} \right)$$

where each  $e_j$  is independent of  $t_j$  and all the  $e_j$  are independent of each other.

Also let  $x_0 = \sum_{j=1}^k x_j$  and  $t_0 = \sum_{j=1}^k t_j$ . Then the reliability of  $x_0 \geq \alpha$  where  $\alpha$  is Cronbach alpha.

Cronbach alpha will generally increase when the correlations between the items increase. The coefficient measures the internal consistency of the test. A commonly-accepted rule of thumb is that an alpha of 0.7 indicates acceptable reliability and 0.8 or higher indicates good reliability. Very high reliability (0.95 or higher) is not necessarily desirable, as this indicates that the items may be entirely redundant.

Kinyua and Ali (2016) argued that Cronbach's Alpha determines if each objective would produce consistent result should the research be replicated later. The

reliability of the questionnaire was tested using the Cronbach's alpha correlation coefficient with the aid of Statistical Package for Social Sciences (SPSS) software. The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.867 while specific findings indicated that, government ownership had a coefficient of 0.813, local ownership had a coefficient of 0.869, foreign ownership had a coefficient of 0.917, managerial shareholding had a coefficient of 0.859 and financial performance had a coefficient of 0.88. Reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. According to Cronbach (1951) a threshold of a Cronbach Alpha of 0.7 and above is acceptable. For this study all constructs depicted a value for Cronbach Alpha which were greater than 0.7. Karihe *et al.* (2016) asserts that Cronbach alpha reliability coefficient value of 0.7 or higher is considered sufficient thus, all the study constructs were reliable

**Table 3.3: Reliability Test Results**

No	Variable	No. of Items	Cronbach Alpha
1	Government Ownership	10	0.813
2	Local Ownership	10	0.869
3	Foreign Ownership	10	0.917
4	Managerial shareholding	10	0.859
5	Financial performance	7	0.88

### 3.8.2 Validity

Validity measure ensures that the research tool is measuring what researcher intends to measure (Polit & Hunger, 1985). There are three methods to measure the validity of the research tool, which are: content validity, criterion related validity, and construct validity. Evidence of validity is reported as a validity coefficient, which can range from 0 to +1.00. The validity scores approaching 1 provide strong evidence that the tests scores are measuring the construct under investigation (Kurpius & Stafford, 2006). Kurpius and Stafford (2006) further point out that the validity coefficient for a test's score cannot be greater than the square root of the test's reliability. The study adopted content validity and the questionnaire was

validated by discussing it with two randomly selected senior finance managers of the two listed firms. Further with the help of the supervisor their views were evaluated and incorporated to enhance content and construct validity of the questionnaire.

### **3.9 Data management**

Data collected was initially screened with the purpose of cleaning any errors that could have occurred either due instruments of data collection and procedures, mistakes of research assistants or fatigue due to pressure of the respondents on deadline of collecting the instruments. Before data was exposed to statistical procedures and tests such as multiple regressions, researcher checked the assumptions that the study variables were normally distributed and whether samples selected were adequate. The following tests were undertaken.

#### **a) The Kolmogorov- Smirnov Test**

The Kolmogorov- Smirnov Test was carried out to test whether the score of the samples were normally distributed with the same mean and standard deviation. If the test is significant ( $P < 0.05$ ) then the distribution is not significantly different from a normal distribution, but if the test is non- significant ( $P > 0.05$ ) then the distribution of the sample is significantly different from a normal distribution (Kilungu *et al.*, 2015).

The findings of K-S analysis carried out are presented on Table 4.3, Table 4.5, Table 4.7, Table 4.9, and Table 4.11. The probabilities of all the variables tested were less than 0.05 and therefore the data was normally distributed and hence parametric method were applicable to test the hypothesis.

#### **b) KMO and Bartlett's tests for Sample Adequacy**

The KMO and Bartlett's tests were used on the samples to test whether the samples taken were adequate for statistical analysis. The KMO index in particular is recommended when the cases to variables ratio are less than 1; 5 The KMO index ranges from 0 to 1 with 0.50 considered suitable for factor analysis. The Bartlett's test of Sphericity should be significant ( $p < 0.05$ ) for factor analysis to be suitable (Castello & Osborne, 2015).

The findings of KMO and Bartlett's tests carried out in the study were presented on Table 4.3.1, Table 4.3.2, Table 4.3.3, Table 4.3.4 and Table 4.3.5. In all the cases none of KMO test index ranged above 0 to 1 meaning all of them met the required threshold. All the Bartlett's test of Sphericity were significant at ( $p < 0.05$ ) and hence the entire samples were significant and were considered suitable for factor analysis.

### **c) Multicollinearity test**

To test for multicollinearity, the study adopted the variance inflation factors and the tolerance levels. Variance Inflation Factor (VIF) and the Tolerance are indicators of multicollinearity. Low levels of VIF are preferred since higher levels are deemed to adversely affect the results from the regression analysis. VIF indicates the magnitude of the inflation in the standard errors associated with Multicollinearity (Ayeko & Wamalwa, 2015). A VIF of more than 10 ( $VIF \geq 10$ ) indicates a problem of multicollinearity (Montgomery, 2001).

The VIF presented in the Table 4.28 does not suffer from multicollinearity since the values are less than 10 as it is recommended that the VIF values should not be in excess of 10 and therefore the estimated variables in the model, Local ownership, Government ownership, Foreign ownership and Managerial shareholding can be measured in one linear equation.

### **d) Autocorrelation for secondary data**

The Durbin-Watson test was used to test autocorrelation among the dependent variables using the null hypothesis. The Durbin-Watson statistic ranges in value from 0 to 4. A value towards 0 indicates positive autocorrelation while a value towards 4 indicates negative autocorrelation. The Durbin-Watson results are presented in Tables: 4.17, 4.19 and 4.21.

### **e) Test of Significance**

Correlation will be used to test the relationship of the variables in the study. The study will also use ANOVA (model goodness of fit) to test the statistical significance of the variables in satisfying the set objectives, which will be calculated using SPSS software.

### **3.10 Data Analysis and Presentation**

Data was analysed through statistical procedures which covered a broad range of descriptive analysis, from simple procedures that are used regularly like computing an average to complex and sophisticated methods. Besides using frequencies and descriptive analysis, the study used multiple linear regression analysis to test the statistical significance of the various independent variables. According to Faraway (2002) multiple linear regressions is used in situations where the number of independent variables is more than one and hence was suitable for this study as it had more than one independent variable. According to International Business Machines (IBM) (2010), the assumptions of linear regression must be met by the data to be analysed, these assumptions state that the coefficients must be linear in nature, the response errors should follow a normal distribution and the errors should have a common distribution. The study applied normality tests which included One-Sample Kolmogorov-Smirnov test to test whether the data was normally distributed.

The study sought to ascertain the causal effect of one variable upon another and to explore such issues; the researcher collected data on the underlying variables of interest and employed regression to estimate the quantitative effect of the causal variables upon the variable that they influence. The study assessed the statistical significance of the estimated relationships, through (t -test) to check whether there was a significance difference between the means of the two groups in the dependent variable when the independent variable was held constant. IBM Base (2010), states that a paired samples t-test compares the means of two variables for a single group. Analysis of Variance (ANOVA - F test) was also used to determine the effect of independent variable and the control variable on the dependent variable, separately and in combination. According to Jackson (2009) multiple regression analysis

involves combining several predictor variables in a single regression equation. Therefore with multiple regression analysis; the study was able to assess the effects of multiple predictor variables on the dependent measure.

### **3.10.1 Qualitative Data Analysis**

Qualitative data collected through questionnaires was first edited and response rate calculated. The data was then categorized into different themes according to research variables and descriptive statistics such as mean, standard deviation and frequency distribution which according to Kothari (2012) measure the point about which items have a tendency to cluster and also describes the characteristics of the data collected were computed. Qualitative data for the study was derived from the questionnaires and the purpose for analyzing them was to describe, explain and establish the effects of ownership structure on financial performance of firms listed in NSE.

### **3.10.2 Quantitative Analysis**

Quantitative data was analyzed using inferential statistics where both parametric (Chi-Square test) and non- parametric (Pearson correlation coefficient) test were used. Chi-square test was used to test statistically significant difference between large and mutually unrelated parametric samples. The aim was to determine if the means of two unrelated samples differ.

Pearson correlation test was conducted to test level of significance between all independent variables and dependent variables. Pearson's correlation coefficient was used as a measure of linear correlation. The measure is symbolized by letter (r) and varies between -1 and +1, with 0 indicating no linear relationship while Coefficient of determination ( $R^2$ ) measures the amount of variation in the dependent variable explained by independent variables. The closer the  $R^2$  is to 1 the better the regression line to the actual data (Sekaran, 2000).

Chi-square was used to test null hypothesis ( $H_0$ ) at statistic of 0.05 level of significance. The decision rule was that the null hypothesis ( $H_0$ ) was to be rejected if the calculated value in each hypothesis is greater than the critical value which implies existence of a significant positive relationship. The statistical test on all the hypotheses of the study were cross-examined against a threshold of alpha is equal to 0.05.

Factor analysis was used to group together variables which have something in common. In factor analysis; the goal of extraction is to remove as much common variance in the first factor as possible (child, 2006).

Anova was used to test whether the regression analysis model used is fit or the relationship of the variables just occurred by chance. Significance of F ratio was used to determine whether model used was fit or not. When the F ratio is significant the model used is considered fit and vice versa (weeks & Namusonge, 2016). A P value of less than 0.05 indicates that the F statistics is high and that the null hypothesis of independent needs to be rejected since it's not true.

### **3.10.3 Empirical Model**

In multivariate analysis, multi-linear regression model was used in explaining decision to financial performance by testing variables used as the independent variables of the study. The idea was to identify meaningful, stable relationship among the sets of data. Multiple regressions was therefore adopted to measure the effects of multiple independent variables on the dependent variable (Okello *et al.*, 2015)

The study builds on the models developed by Kajola (2008) and advanced by Okougbo (2011) in his study of corporate governance and firm performance: empirical evidence from selected listed companies in Nigeria which specifies the model given below:

$$Y = \beta_0 + \beta_1 \text{GovernmentOwnership} + \beta_2 \text{ForeignOwnership} + \beta_3 \text{LocalOwnership} + \beta_4 \text{Managerialshare holding} + \varepsilon$$

Dependent variable **Y** represents Financial Performance while independent variables were Government Ownership, Foreign Ownership, Local Ownership, and the moderating variable was Managerial shareholding.  $\beta_0$  is the constant or intercept while  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$  are the corresponding coefficients for the respective independent variables and moderating variable.  $\varepsilon$  is the error term which represents residual or disturbance factors or values that are not captured within the regression model.

**Table 3.4: Variable Definitions and Measurement**

Variable	Indicators	Measurements scale
Government shareholding;	<ul style="list-style-type: none"> <li>• Shares held by government</li> </ul>	5-point Likert Scale <ul style="list-style-type: none"> <li>• Government should be among the top five shareholders.</li> <li>• In the scale of 1-5 used, 5 was the highest scale of the ownership of the firm.</li> </ul>
Foreign Ownership	<ul style="list-style-type: none"> <li>• Share held by foreigners</li> </ul>	5-point Likert Scale <ul style="list-style-type: none"> <li>• Foreigners should be among the top five shareholders.</li> <li>• In the scale of 1-5 used, 5 was the highest scale of the ownership of the firm.</li> </ul>
Local ownership	<ul style="list-style-type: none"> <li>• Shares held by locals</li> </ul>	5-point Likert Scale <ul style="list-style-type: none"> <li>• Locals should be among the top five shareholders.</li> <li>• In the scale of 1-5 used, 5 was the highest scale of the ownership of the firm.</li> </ul>
Managerial Share holding	<ul style="list-style-type: none"> <li>• Shares held by management</li> </ul>	5-point Likert Scale <ul style="list-style-type: none"> <li>• Management should be among the top five shareholders.</li> <li>• In the scale of 1-5 used, 5 was the highest scale of the ownership of the firm.</li> </ul>
Financial performance	<ul style="list-style-type: none"> <li>• Return on Assets</li> <li>• Return on Equity</li> <li>• Earnings per Share</li> </ul>	Discrete Measure 5-point Likert Scale

**Table 3.5: Measurement of Firms Financial Performance**

<b>Variable Definition</b>	<b>Indicators</b>	<b>Measurement</b>
Financial Performance	Return on assets	<b>ROA</b> = EBIT / Average total Assets.
	Return on equity	<b>ROE</b> = EBIT/ equity.
	Earnings Per Share	<b>EPS</b> = EBIT/ordinary shares

**Table 3.6: Summary of Statistical Tests and Hypotheses**

Hypothesis statement	Hypothesis testing	Model and anticipated results
	$H_{01}\beta_1 \neq 0$	$y = \beta_0 + \beta_1 X_1 + \epsilon$
<b>H<sub>01</sub></b> There is no relationship between Government ownership and financial performance of a firm	i) Anova -To test the overall Robust of simple regression ii)T-test-to test significance relationship of the variables iii)Pearson correlation to test the partial correlation between the variables.	To reject H <sub>0</sub> when the P-value is $\leq 0.05$ otherwise fail to reject when p-value is $>0.05$
	$H_{02}\beta_2 \neq 0$	$y = \beta_0 + \beta_2 X_2 + \epsilon$
<b>H<sub>02</sub></b> There is no relationship between Foreign ownership and financial performance of a firm	i) Anova -To test the overall Robust of simple regression ii)T-test-to test significance relationship of the variables iii)Pearson correlation to test the partial correlation between the variables	To reject <b>H<sub>02</sub></b> when the P-value is $\leq 0.05$ otherwise fail to reject when p-value is $>0.05$
	$H_{03}\beta_3 \neq 0$	$y = \beta_0 + \beta_3 X_3 + \epsilon$
<b>H<sub>03</sub></b> There is no relationship between local ownership and financial performance of a firm	i) Anova -To test the overall Robust of simple regression ii)T-test-to test significance relationship of the variables iii)Pearson correlation to test the partial correlation between the variables	To reject H <sub>0</sub> when the P-value is $\leq 0.05$ otherwise fail to reject when p-value is $>0.05$
	$H_{04}\beta_4 \neq 0$	$y = \beta_0 + \beta_4 X_4 + \epsilon$
<b>H<sub>04</sub></b> There is no relationship between managerial shareholding and financial performance of a firm	i) Anova -To test the overall Robust of simple regression ii)T-test-to test significance relationship of the variables iii)Pearson correlation to test the partial correlation between the variables	To reject H <sub>0</sub> when the P-value is $\leq 0.05$ otherwise fail to reject when p-value is $>0.05$

All the hypotheses were tested at 95 per cent confidence level (level of significance,  $\alpha = 0.05$ ).

## CHAPTER FOUR

### RESEARCH RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter represents the empirical findings and results of the variables using techniques mentioned in chapter three in methodology. Data analysis was in line with specific objectives where patterns were investigated, interpreted and implications drawn on them. The general objective of this study was to establish the effect of ownership structure on the financial performance of public companies listed in Nairobi securities Exchange in Kenya. In an attempt to address the specific objectives of the study, this chapter provides detailed description of descriptive and inferential statistics and research findings and discussions, clearly outlining how each of the hypothesis as stated in chapter three was tested.

#### 4.2 Response Rate

Response rate was critical for this study due to the fact that the fixed sample quantitative data obtained from secondary data of the qualifying 39 firms implied that there was need for a similar response rate from the questionnaire used for the construction of the qualitative primary information for the purpose of comparison. Out of the 39 questionnaires administered the researcher ensured a 100% response rate by personally administering the questionnaires with the help of research assistants. It was a costly and involving process which took longer time than allocated in the time plan. However this enhanced the achievement of all the intended study objectives. The response rate is presented in Table 4.1 below

**Table 4.1: Response Rate**

<b>Response Rate</b>	<b>Frequency</b>	<b>Per cent</b>
Returned	39	100
Unreturned	0	0
Total	39	100

### 4.3 Normality Results

In this section normality test were performed for both dependent and independent variables before subjecting the study variables to other statistical tests.

#### 4.3.1 Sample Adequacy for Financial Performance Factors

Financial performance was the dependent variable of the study and the researcher was interested in testing whether the sample taken was adequate for statistical analysis. According to Field (2000) for a sample to be considered adequate it must be above the minimum threshold of 0.5. Therefore financial performance factors were subjected to KMO and Bartlett's Test to find out whether they met the minimum threshold of 0.5 required for a sample adequacy and results were presented on Table 4.2 below.

**Table 4.2: KMO and Bartlett's Test for Financial Performance Factors**

<b>Indicator</b>	<b>Coefficient</b>
Kaiser-Meyer-Olkin Measure	.789
Bartlett's Chi- Square	730.470
Bartlett's df	45
Bartlett's Sig.	0.000

The KMO measure of sample adequacy was 0.789 which indicated that the set of variables were suitable for factorization. Bartlett's test of Sphericity was significant (Chi-square 730.470,  $p < 0.000$ ) which implied that the variables were not correlated hence suitable for factorization.

Financial Performance being the dependent variable of the study was further subjected to a One-Sample Kolmogorov-Smirnov Test to further test its normality. The following null hypothesis was used:

H0: The data is not normally distributed

The results obtained in Table 4.3 indicated that Kolmogorov-Smirnov Z is 1.933 (p-value=.001) the p-value is less than 0.05; we fail to accept the null hypothesis and accept the alternative hypothesis and conclude that the data was normally distributed.

**Table 4.3: One-Sample Kolmogorov-Smirnov Test**

<b>Indicator</b>		<b>Financial Performance</b>
N		39
Normal Parameters <sup>a,b</sup>	Mean	3.8638
	Std. Deviation	.80550
	Absolute	.183
Most Extreme Differences	Positive	.123
	Negative	-.183
Kolmogorov-Smirnov Z		1.933
Asymp. Sig. (2-tailed)		.001

a. Test distribution is Normal.

b. Calculated data

K-S test was used to decide if a sample comes from a population with a completely specified continuous distribution. Decision making process in K-S test is if the value  $Sig < 0.05$  then the data is normal and if the value  $Sig > 0.05$  then the data is not normal (Costello & Osborne, 2015). Based on the output coefficient, the obtained value of sig of the firm financial performance is 0.001, meaning that the value of the variable  $sig < 0.05$ . It can be concluded that the data is normal and that the data did not deviate significantly from the normal distribution and for this reason it was safe to use statistical tests and procedures that assume normality of the variables.

#### **4.3.2 Sample Adequacy for Government Ownership Factors**

KMO and Bartlett's Test were conducted to test sample adequacy for government ownership measures before factor analysis was carried out. The KMO index in particular is recommended when the cases to variables ratio are less than 1:5. The KMO index ranges from 0 to 1 with 0.50 considered suitable for factor analysis. The

Bartlett's test of Spherity should be significant ( $p < 0.05$ ) for factor analysis to be suitable (Castello & Osborne, 2015).

The findings in Table 4.4 showed that the KMO statistic for Government ownership measures was 0.731 which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 (Field, 2000). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 355.915 with 45 degrees of freedom, at  $p < 0.05$ ). The results of the KMO and Bartlett's Test provided justification for conducting factor analysis.

**Table 4.4: KMO and Bartlett's Test for Government ownership Factors**

<b>Indicator</b>	<b>Coefficient</b>
Kaiser-Meyer-Olkin Measure	.731
Bartlett's Chi- Square	355.915
Bartlett's df	45
Bartlett's Sig.	0.000

Government Ownership factors were further subjected to a One-Sample Kolmogorov-Smirnov Test to further test its normality. The following null hypothesis was used:

H0: The data is not normally distributed

The results obtained in Table 4.5 indicated that Kolmogorov-Smirnov Z is 1.5801 ( $p$ -value=.014) the  $p$ -value is less than 0.05; we fail to accept the null hypothesis and accept the alternative hypothesis and conclude that the data was normally distributed.

**Table 4.5: One-Sample Kolmogorov-Smirnov Test**

Indicator		Government Ownership
N		39
	Mean	3.8518
Normal Parameters <sup>a,b</sup>	Std.	.67557
	Deviation	
Most Extreme Differences	Absolute	.149
	Positive	.098
	Negative	-.149
Kolmogorov-Smirnov Z		1.580
Asymp. Sig. (2-tailed)		.014

a. Test distribution is Normal.

b. Calculated from data.

Based on the output coefficient, the obtained value of sig of the firm financial performance is 0.014, meaning that the value of the variable sig<0.05. Therefore it can be concluded that the data is normal as it did not deviate significantly from the normal distribution and for this reason it was safe to use statistical tests and procedures that assume normality of the variables.

#### **4.3.3 Sample Adequacy for Local Ownership Factors**

KMO measures on Local ownership factors was conducted and yielded a result of 0.731. According to Field (2000) for a data set to be regarded as adequate and appropriate for further statistical analysis, the value of KMO should be greater than 0.5. Therefore the KMO of 0.73 represented great acceptability for the use of factor analysis. Bartlett's test which checks whether the observed correlation matrix diverges significantly from the identity matrix was also conducted. The results of Bartlett's test of Sphericity were significant (chi-square=707.652, p<0.000) with 45 degrees of freedom. The results for both tests presented on Table 4.6 below were significant for conducting factor analysis.

**Table 4.6: KMO and Bartlett's Test for Local Ownership Factors**

<b>Indicator</b>	<b>Coefficient</b>
Kaiser-Meyer-Olkin Measure	0.731
Bartlett's Chi- Square	707.652
Bartlett's df	45
Bartlett's Sig.	0.000

Local ownership factors were further subjected to a One-Sample Kolmogorov-Smirnov Test to further test its normality. The following null hypothesis was used:

H0: The data is not normally distributed

The results obtained in Table 4.7 indicated that Kolmogorov-Smirnov Z is 1.311 (p-value=.041) the p-value is less than 0.05; we fail to accept the null hypothesis and accept the alternative hypothesis and conclude that the data was normally distributed.

**Table 4.7: One-Sample Kolmogorov-Smirnov Test**

<b>Indicator</b>	<b>Local Ownership</b>
N	39
Mean	3.4839
Normal Parameters <sup>a,b</sup> Std. Deviation	.80310
Most Extreme Absolute	.124
Differences Positive	.088
Negative	-.124
Kolmogorov-Smirnov Z	1.311
Asymp. Sig. (2-tailed)	.041

a. Test distribution is Normal.

b. Calculated from data.

Based on the output coefficient the obtained value of sig of the firm financial performance is 0.041, meaning that the value of the variable sig<0.05. It can be concluded that the data is normal did not deviate significantly from the normal distribution and therefore it was safe to use statistical tests and procedures that assume normality of the variables.

#### 4.3.4 Sample Adequacy for Foreign Ownership Factors

Foreign ownership measures were subjected to KMO and Bartlett's Test to find out whether they met the threshold required of greater than 0.5 and the results are presented in Table 4.8 below:

**Table 4.8: KMO and Bartlett's Test for Foreign Ownership Factors**

<b>Indicator</b>	<b>Coefficient</b>
Kaiser-Meyer-Olkin Measure	.820
Bartlett's Chi- Square	997.196
Bartlett's df	45
Bartlett's Sig.	0.000

KMO measures on Foreign ownership measures yielded a result of 0.82 while Bartlett's test of Sphericity results were (chi-square=997.196, p<0.000) with 45 degrees of freedom. The results for both tests were significant for factor analysis to be conducted.

Foreign ownership factors were further subjected to a One-Sample Kolmogorov-Smirnov Test to further test its normality. The following null hypothesis was used:

H0: The data is not normally distributed

The results obtained in Table 4.9 indicated that Kolmogorov-Smirnov Z is 1.588 (p-value=.013) the p-value is less than 0.05; we fail to accept the null hypothesis and accept the alternative hypothesis and conclude that the data was normally distributed.

**Table 4.9: One-Sample Kolmogorov-Smirnov Test**

<b>Indicator</b>		<b>Foreign Ownership</b>
N		39
Normal Parameters <sup>a,b</sup>	Mean	3.7536
	Std. Deviation	.85981
	Absolute	.150
Most Extreme Differences	Positive	.091
	Negative	-.150
Kolmogorov-Smirnov Z		1.588
Asymp. Sig. (2-tailed)		.013

a. Test distribution is Normal.

b. Calculated from data.

Based on the output coefficient, the obtained value of sig of the firm financial performance is 0.013, meaning that the value of the variable sig<0.05. It can be concluded that the data is normal and did not deviate significantly from the normal distribution and for this reason it was safe to use statistical tests and procedures that assume normality of the variables.

#### **4.3.5 Sample Adequacy for Management Shareholding Factors**

Management shareholding measures were subjected to KMO and Bartlett's Test to find out whether they met the minimum threshold of 0.5. The results are presented on Table 4.10 below. The KMO measure of sample adequacy was 0.826 while Bartlett's test of sphericity was significant (Chi-square 985.525, p<0.000) with 55 degrees of freedom which indicated that the set of variables were suitable for factor analysis.

**Table 4.10: KMO and Bartlett's Test for Management Shareholding Factors**

<b>Indicator</b>	<b>Coefficient</b>
Kaiser-Meyer-Olkin Measure	.826
Bartlett's Chi- Square	985.525
Bartlett's df	55
Bartlett's Sig.	0.000

Managerial Shareholding factors were further subjected to a One-Sample Kolmogorov-Smirnov Test to further test its normality. The following null hypothesis was used:

H0: The data is not normally distributed

The results obtained in Table 4.11 indicated that Kolmogorov-Smirnov Z is 1.424 (p-value=.035) the p-value is less than 0.05; we fail to accept the null hypothesis and accept the alternative hypothesis and conclude that the data was normally distributed.

**Table 4.11: One-Sample Kolmogorov-Smirnov Test**

<b>Indicator</b>	<b>Managerial shareholding</b>	
N	39	
Normal Parameters <sup>a,b</sup>	Mean	4.0813
	Std. Deviation	.82588
Most Extreme Differences	Absolute	.135
	Positive	.133
	Negative	-.135
Kolmogorov-Smirnov Z	1.424	
Asymp. Sig. (2-tailed)	.035	

a. Test distribution is Normal.

b. Calculated from data.

Based on the output coefficient, the obtained value of sig of managerial shareholding is 0.035, meaning that the value of the variable sig<0.05. It can be concluded that the data is normal and did not deviate significantly from the normal distribution and for this reason it was safe to use statistical tests and procedures that assume normality of the variables.

#### **4.4 Financial performance**

This section presents the findings and discussion on dependent variable, Financial Performance both in primary and secondary data. The analysis includes descriptive analysis, factor analysis and correlation analysis.

##### **4.4.1 Descriptive results for financial performance**

###### **a) Primary data**

The general objective of this study was to establish the effects of Ownership Structures on the Financial Performance of public companies listed in Nairobi securities Exchange in Kenya. Result in Table 4.12 indicated that their firm revenue has increased over the last five years with a mean of 3.61. This is due to share ownership policy for management which have reduced agency problems of the firm. Strictly adherence to International Financial Reporting standards and hardly engaging in window dressing and manipulation of financial information has contributed to profitability improving over the last five years with a mean of 4.04. Strictly adheres to legal stipulations and guidelines when procuring assets has resulted to a tremendous increase on asset growth over the last five years with a mean of 3.78. Opportunities and risks information provided in the annual report has greatly contributed to increase in investors' base in our organization for the last five years with a mean of 3.58. Forward-looking information providing balanced highlights of positive and negative events have resulted to earning per share has increasing over the last five years with a mean of 3.82. Inclusion and participation in company financial decision making has resulted to return on equity has increasing over the last five years with a mean of 4.04, while return on assets has increased over the last five years with a mean of 3.90 due to sound acquisition, usage and

disposal policy on assets. The average mean for all the responses was 3.82 and an overall mean of standard deviation was 0.756 Based on the scale Of 1 to 5 the average mean of all the responses was 3.82 meaning that most of the respondents agreed with the statements on financial performance.

**Table 4.12: Financial Performance Descriptive**

<b>Statement</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>
<b>1</b> Share ownership policy for management have reduced agency problems resulting to increase of revenue for the last five years	39	3.61	0.665
<b>2</b> Strictly adherence to International Financial Reporting standards and hardly engaging in window dressing and manipulation of financial information has led to increased profitability for the last five years	39	4.04	0.960
<b>3</b> The Company strictly adheres to legal stipulations and guidelines when procuring assets has resulted to increase of quality assets for the last five years	39	3.78	0.675
<b>4</b> The Company's opportunities and risks information provided in the annual report has greatly contributed to the increase of investor for the last five years	39	3.58	0.657
<b>5</b> The company's forward-looking information providing balanced highlights of positive and negative events has helped our Earnings per share to improve for the last five years	39	3.82	0.687
<b>6</b> Shareholders inclusion and participation in company financial decision making has resulted to increase of return on equity for the last five years	39	4.04	0.961
<b>7</b> Company's sound acquisition, usage and disposal policy on asset has led to increase of return on assets for the last five years	39	3.90	0.685

**Key:** Scale 1.0- 1.8 strongly disagree, 1.9- 2.6 Disagree, 2.7- 3.4 Neutral, 3.5- 4.2 Agree, and 4.3- 5.0 strongly agree

The results findings are supported by Mukulu, Nteete and Namusonge (2012) who argued that performance measurement is important for organizations as a means of continuous improvement and also as a means of determining whether or not organizations are achieving their objectives. Nambiro (2007) argues that the firm performance can be improved by putting up mechanisms in place to make management accountable to the shareholders whose investment is at risk, maintaining a harmonious relationship as well as giving them the freedom and the incentives to control over the resources they need to create and seize investment opportunities in a competitive market environment. Such mechanism should embrace both internal and external mechanism, further she advances a number of mechanisms which can be used to align the interests of the executives and those of the shareholders which include but not limited to boards of directors, executive compensation, active use of ownership prerogatives by large shareholders like institutional investors (internal mechanisms) and the market for corporate control like acquisitions (external mechanisms).

#### **4.4.2 Factor results for Financial Performance**

Factor analysis was performed on seven (7) financial performance measures in order to examine their dimensionality on financial performance and also to find out if all the variables were significant to firm's financial performance. Bartholomew, Knott and Moustaki (2011) argued that factor analysis operates on the notion that measurable and observable variables can be reduced to fewer latent variables that share a common variance and are unobservable which is known as reducing dimensionality.

Factor analysis was conducted using Principal Components Method (PCM) approach. The extraction of the factors followed the Kaiser Criterion where an Eigen value of 1 or more indicates a unique factor. The other objective was to group the common factors and to retain a small number of factors which had the highest influence (Noor, Chen, & Romiza, 2011).

The results were presented on table 4.13 below.

**Table 4.13: Total Variance Explained for Financial Performance Factors**

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.071	58.151	58.151	4.071	58.151	58.151
2	.960	13.720	71.871			
3	.866	12.370	84.241			
4	.424	6.063	90.303			
5	.340	4.862	95.165			
6	.214	3.058	98.224			
7	.214	77.16	100.000			

Extraction Method: Principal Component Analysis.

The seven measures of financial performance were subjected to factor analysis but only four factors attracted coefficients of more than 0.4. Therefore, only the four (4) statements were retained for analysis. According to Rahn (2010) and Zandi (2006) a factor loading equal to or greater than 0.4 is considered adequate. Further the results showed that there was only one critical factor influencing financial performance which accumulated to 58.151% of the total variance in this construct.

**Table 4.14: Rotated Component Financial Performance measures**

Statement	Component
	1
<b>1</b> Reduced agency costs has resulted to increase revenue for the last five years	.607
<b>2</b> Strictly adherence to International Financial Reporting has resulted to increased profitability for the last five years	.685
<b>3</b> Strictly adheres to legal stipulations and guidelines when procuring assets has resulted to increase of quality assets for the last five years	.847
<b>4</b> Opportunities and risks information provided in the annual report has greatly contributed to the increase of investors for the last five years	.741
<b>5</b> Forward-looking information providing balanced highlights of positive and negative events has helped our Earnings per share to improve for the last five years	.851
<b>6</b> Inclusion and participation of shareholders in company financial decision making has resulted to increase of return on equity for the last five years	.731
<b>7</b> sound acquisition, usage and disposal policy on asset has led to increase of return on assets for the last five years	.842
<b>Cronbach Alpha.....</b>	<b>.707</b>
<b>Mean</b>	<b>3.86</b>

**Key:** Scale 1.0- 1.8 Strongly disagree, 1.9- 2.6 Disagree, 2.7- 3.4 Neutral, 3.5- 4.2 Agree, and 4.3- 5.0 Strongly agree

From the rotation matrix in Table 4.14 there was one major factor which deemed to be influencing financial performance. This factor had seven items with very high loadings and significance namely tremendous increase on asset at 0.847 increased customer base at 0.741, increased Earnings per share at 0.851, revenue has increased at 0.607 and profitability has improved at 0.685 while increase in return assets was at 0.842 and finally increase in return on equity at 0.731 . Using the factors, a scale was created using the average means of each construct. A scale of 1-5 was created and all the means of all the items in each component were analyzed. Any factor not included in this group was not included in further analysis because it was deemed to have a low mean and as such much of its influence could be explained by the other factors.

#### **4.4.3 Correlation Result for financial performance**

##### **b) Secondary Data**

Correlation analysis was conducted on the secondary data to determine the relationship that existed between financial performance and different ownership structures. Financial performance was measured in terms of return on assets (R.O.A), return on equity (R.O.E.) and earnings per share (E.P.S).The results were presented in Table 4.15 below.

**Table 4.15: Correlations Coefficients**

	R.O.A	R.O.E	E.P.S	Gov't ownership	Local ownership	Foreign ownership	Mgerial Shareholding
Pearson correlation							
Return on Assets	1.000						
Return on Equity	0.42	1.000					
Earnings per Share	0.46	0.34	1.000				
Government ownership	-0.18	0.13	0.17	1.000			
Local ownership	0.36	0.20	0.18	0.32	1.000		
Foreign ownership	0.75	0.62	0.55	0.45	0.34	1.000	
Managerial Shareholding	0.67	0.62	0.54	0.38	0.42	0.66	1.000
<b>Sig.</b>							
<b>(2-tailed)</b>							
Return on Assets	1.000						
Return on Equity	0.032	1.000					
Earnings per Share	0.041	0.32	1.000				
Government ownership	0.086	0.046	0.048	1.000			
Local ownership	0.033	0.035	0.037	0.042	1.000		
Foreign ownership	0.000	0.005	0.015	0.038	0.040	1.000	
Managerial Shareholding	0.000	0.000	0.003	0.039	0.044	0.020	1.000

Table 4.15, the correlation coefficient between return on assets, return on equity and earnings per share and foreign ownership was found to be 0.75, 0.62 and 0.55 respectively. This indicated a positive relationship between financial performance of listed companies and foreign ownership

The significance probability for this relationship was found to be 0.000, 0.005 and 0.015 respectively and all of them were less than 0.05 indicating that the relationship between financial performance and foreign ownership was statistically significant at 5% level of significance.

The correlation coefficient between return on assets, return on equity and earnings per share and local ownership was found to be 0.360, 0.20 and 0.18 respectively. This reflects a weak positive relationship between financial performance and local ownership. This correlation had a significance probability of 0.033, 0.035 and 0.037 respectively. Noting that all of them are less than 0.05, the relationship between financial performance and local ownership was statistically significant at 5% level of significance.

The correlation coefficient between return on assets, return on equity and earnings per share and Government ownership was found to be -0.18, 0.13 and 0.17 respectively. This reflects a weak negative relationship between return on asset and government ownership. This is attributed by the fact most government have either excess idle or absolute assets which are under-utilized due bureaucratic disposal procedures. However return on equity and earnings per share indicate a weak but positive relationship between financial performance and Government ownership. This correlation had a significance probability of 0.086, 0.046 and 0.48 respectively. Noting that only one was slightly above 0.05 while other were below we can conclude that at least the relationship between financial performance and government ownership was partially statistically significant at 5% level of significance.

The correlation coefficient between return on assets, return on equity and earnings per share and managerial shareholding was found to be 0.67, 0.62 and 0.54 respectively. This reflects a moderate positive relationship between financial performance and managerial shareholding. This correlation had a significance

probability of 0.000, 0.000 and 0.003 respectively. All of them are less than 0.05, and therefore the relationship between financial performance and managerial shareholding local was statistically significant at 5% level of significance.

#### 4.4.4 Anova for Independent variables and Return on Assets

Analysis for variance was conducted for all independent variables and return on assets and the results were presented on Table 4.16 below

**Table 4.16: Analysis of Variance results**

Model	Sum of squares	df	Mean square	F	Sig
1 Regression	5163.925	7	1142.431	16.941	.0213
Residual	17868.107	210	87.354		
Total	23032.032	217			

a. Predictors: (Constant), Government Ownership, Local Ownership, Foreign Ownership, and Managerial shareholding

b. Dependent Variable: Return on Assets

Table reported analysis of variance. From the Table 4.16 the F statistic was found to be 16.941 with a significance probability of 0.0213. Because significance probability of 0.0213 is less than 0.05, the overall regression was found to statistically significant at 5% level.

**Table 4.17: Model summary for return on assets**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson	Sig. F Change
	.462	.224	.104	.1273746		2.878

Table 4.17 reported the coefficient of determination R-square to be 0.224. This meant that variations in the percentage of foreign ownership, local ownership, government ownership and Managerial shareholding jointly explained 22.4% of the variations in return on assets. This indicated that the variables were statistically significant in explaining the financial performance of companies listed on the NSE. The Durbin-Watson test was used to test autocorrelation among the dependent variables using the null hypothesis. The Durbin-Watson statistic ranges in value from 0 to 4. A value towards 0 indicates positive autocorrelation while a value towards 4 indicates negative autocorrelation. The Durbin-Watson results were of 2.816 then it was concluded that there was no autocorrelation among the model residual.

#### **4.4.5 Anova for Independent variables and Return on Equity**

Analysis for variance was conducted for all independent variables and return on equity and the results were presented on Table 4.16 below

**Table 4.18: Anova for Independent variables and Return on Equity**

Model	Sum of squares	df	Mean square	F	Sig
1 Regression	4823.532	7	.031	15.941	.032
Residual	16297.313	208	.016		
Total	21120.845	215			

a. Predictors: (Constant), Government Ownership, Local Ownership, Foreign Ownership, and managerial shareholding

b. Dependent Variable: Return on Equity

The results of analysis of variance reported in Table 4.18 indicate that the F statistic was 15.941 with a significance probability of 0.032. Because significance probability of 0.032 is less than 0.05, the overall regression was found to statistically significant at 5% level; therefore we conclude that different ownership structures had positive contribution on return on equity of listed firms.

**Table 4.19: Model summary for independent variables and return on Equity**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
						Sig. F Change
	.478	.327	.196		9.73265	2.316

Table 4.19 reported the coefficient of determination R-square to be 0.327. This meant that variations in the percentage of different ownership structures and Managerial shareholding jointly explained 32.7% of the variations in return on Equity. This indicated that the variables were statistically significant in explaining the financial performance of companies listed at the NSE. The Durbin-Watson test was used to test autocorrelation among predictor variables using the null hypothesis. The Durbin-Watson statistic ranges in value from 0 to 4: a value toward 0 indicates positive autocorrelation while a value toward 4 indicates negative autocorrelation. A value from 2 and above indicates non autocorrelation and Since the Durbin-Watson value results were 2.316, then it was concluded that there was no autocorrelation among the predictor variables.

#### **4.4.6 Anova for Independent variables and Earnings per Share**

Analysis for variance was conducted for all independent variables and Earnings per share and the results were presented on Table 4.16 below

**Table4.20: Anova for independent variables and Earnings per Share**

Model	Sum of squares	Df	Mean square	F	Sig
1 Regression	4.22.306	7	1023.77	11.931	.002
Residual	17611.235	202	88.257		
Total	18033.541	2 59			

a. Predictors: (Constant), Government Ownership, Local Ownership, Foreign Ownership, and managerial shareholding

b. Dependent Variable: Earnings per Share

From the Table 4.20 the results of variance analysis indicates that the F statistic was 11.931 with a significance probability of 0.002. The significance probability of 0.002 is less than the critical value of 0.05, hence the overall regression was found to be statistically significant at 5% level.

**Table4.21: Model summary for independent Variables and Earnings per Share**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	Sig. F Change
	.456	.276	.194	10.7364123		2.937

Results in Table 4.21 reported the coefficient of determination R-square of 0.276. This meant that variations in the percentage different ownership structures and Managerial shareholding jointly explained 27.6% of the variations in earnings per share. This indicated that the variables were statistically significant in explaining variation on the financial performance of companies listed at the NSE. The Durbin-Watson test was used to test autocorrelation among the predictor variables using the null hypothesis.

The results of the Durbin-Watson test were 2.937; therefore it was concluded that there was no autocorrelation among predictor variables as the results of the test were above 2.

#### 4.47 Regression Analysis for ownership structure and financial performance

Financial performance in terms of return on assets, return on equity and earnings per share were collapsed to form the overall financial performance and regression analysis conducted to test the relationship with different ownership structures. Table 4.22 below therefore represents the regression results of different ownership structures and financial performance.

**Table 4.22: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std Error	Beta	T	Sig
1 Constant	4.27	14.07		.345	.747
Government ownership	.024	.091	.042	.364	.048
Local Ownership	.037	.077	.108	.742	.026
Foreign Ownership	.587	.721	.541	1.370	.000
Managerial shareholding	.442	.725	.1630	1.024	.011

a. Dependent Variable: Financial Performance

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

$$\text{Financial Performance} = 4.27 + 0.24 \text{ Government Ownership} + 0.37 \text{ Local Ownership} + 0.587 \text{ Foreign Ownership} + 0.442 \text{ Managerial Shareholding}$$

The Y- intercept is 4.27 which is the predicted value of the effectiveness of financial performance when all the others variables are 0, implying that without inputs of the independent variables the effectiveness of financial performance would be 4.27.

The other coefficients tell about the relationship between independent and dependent variables.

The relationship between government ownership structure and financial performance was positive and significant with ( $X_1 = 0.24$ , p-value, = 0.048). Results further indicated that local ownership structure had a positive and significant relationship with financial performance ( $X_2 = 0.37$ , p value= 0.026). The results further indicate that the relationship between financial performance and foreign ownership was positive and significant ( $X_3 = 0.587$ , p value =0.000). This implies that an increase in foreign ownership structure by 1 unit leads to an increase in financial performance by 0.587units.

The results further indicate that the relationship between managerial shareholding and financial performance was positive and significant ( $X_4 =0.442$ , p value, 0.011) respectively. This implies that an increase in managerial shareholding by 1 unit leads to an increase in financial performance by 0.442.

#### **4.5 Effect of Government ownership on financial performance**

##### **a) Primary data**

The first objective was to evaluate the effect of Government Ownership on Financial Performance of firms listed in Nairobi Securities Exchange in Kenya. The analysis that were done include descriptive analysis, factor analysis and correlation analysis.

##### **4.5.1 Descriptive results for Government Ownership Factors**

Descriptive statistics for government shareholding were conducted and presented on Table 4.23 below. The results indicates that government shareholding is pivotal in making financial decisions of the company with a mean of 3.96, merging government policy with strategic plan influences the financial decisions of the company with a mean of 3.67, Government pronouncement are likely to affect financial performance with a mean of 3.89, Government shareholding enables the company to get government tenders which improves our financial performance with a mean of 3.88, Government shareholding influences the stability of their share

prices with a mean of 3.84, Government shareholding reduces agency costs which influences the company financial performance positively with a mean of 4.0, Government shareholding participates in control and monitoring of management which improves the company financial performance with a mean of 3.96, Government shareholding enables the company to get government loans and subsidies which improves financial performance with a mean of 3.78, and finally Government shareholding gives a positive public image and confidence which enhances the company financial performance with a mean of 3.62.

**Table 4.23: Government Ownership and Financial performance**

	<b>Statement</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>
1	Government plays a pivotal role in making the company's financial decision.	39	3.96	0.887
2	Government policies are merged with strategic plan when making company financial decisions	39	3.67	0.487
3	Government pronouncement affects company financial performance	39	3.89	0.485
4	Government facilitates the company to get government tenders.	39	3.88	0.478
5	Government influences the stability of the company share prices	39	3.84	0.468
6	Government reduces agency costs of the company	39	4.00	0.867
7	Government participates in control and monitoring of management.	39	3.96	0.887
8	Government enables the company to get government loans and subsidies.	39	3.78	0.665
9	Government gives a positive public image and confidence to investors.	39	3.62	0.678
10	Government employs qualified professional in management	39	3.43	0.567

**Key:** Scale 1.0- 1.7 Strongly disagree, 1.8- 2.5 Disagree, 2.6- 3.3 Neutral, 3.4- 4.1 Agree, and 4.2- 5.0 Strongly agree.

The mean score of responses regarding Government ownership was 3.85 on a 5 point scale which indicates that majority of the respondents agreed that Government ownership affects the financial performance of a firm. The average overall standard deviation of 0.656 infers that 68% of the responses were spread within one standard deviation of the overall mean. The standard deviation for each response line is also shown on the Table 4.16. The standard deviation statistical rule of 68%, 95% and 99.7% applies in all the interpretations in the rest of the document. This means that one standard deviation has 68% of the data spread around the mean and 95% for two standard deviations and 99.7% for three standard deviations.

The study findings are supported by a number of studies which includes Mei Yu (2013) found that a higher degree of state ownership is superior to a dispersed ownership structure because of the benefits of government support and political associations. Mrad and Hallara (2012) examined the relationship between the government ownership and performance of privatized firms in France and found that high government ownership had a positive effect on financial performance. Dewenter and Malatesta (2001) who points out government ownership enhances firms performance due to: government controlling, ability to appoint board members, senior management and make major decisions such as contract awards, strategy, restructuring and financing, acquisitions and divestments which enhances performance. Government owned companies are under constant vigilant by both government and public investors and that they enjoy the advantages of massive government resources and business opportunities making them to perform better than private companies (Farinós, 2007).

Wadongo, Odhuno and Kambona, (2010) supported study findings that when the government ownership level is high, government can use the feedback on performance to make adjustments to policies and other modes of organizational operations to avoid negative implications for firm performance. Huyghebaert and Wang, (2012) noted that in Chinese public listed companies when the state ownership level is high, bureaucrats put more effort into firms leading to improved financial performance.

Zeng *et.al* (2012) study of publicly listed manufacturing firms in China from 2006 to 2008 observed that state-owned firms actively disclose more environmental information in order to achieve better social reputation, good organizational image and reputation and this has a significant negative impact on their financial performance. Government owned companies due to their relationship with the government they enjoy the advantages against private companies in terms of operations, resources and business opportunities and by the fact that under constant vigilant by both government and public investors they are well governed making them likely to perform better than private companies (Farinós, 2007).

However the study findings contradicts the findings of Beltratti *et al.* (2012) in government owned firms, government may pursue different objectives that do not necessarily relate to profit maximization and this may have significant impact on their financial performance. Shleifer (1998) argued that state-owned firms are run by political bureaucrats who have goals that are often dictated by political interests and may be in conflict with social welfare improvements and firm value maximization leading to poor financial performance.

Ongore, K'Obonyo and Ogutu (2011) analysed ownership identity of forty-two firms in Kenya based on five elements: government; foreign; institution; diverse; and manager (insider) and found that there was a significant negative relationship between government ownership and firm performance. His findings were consistent with Alulamusi (2013) who pointed out that Government ownership had a negative relationship with financial performance and attributed this to asset quality and low management efficiency due to laxity in prudent credit management practices and inefficiency of operations and poor returns.

Other conflicting study findings includes Dewenter and Malatesta (2001) who also noted that firms in the hands of the government are inferior in performance to firms in private hands and attributed this to the market structure in which they operate and management systems applied within them. This is supported by Megginson and Netter (2001) who pointed out that Government owned firms are not directly subject to the capital markets disciplinary laws and that most of their decisions are not

decided by market forces, but by the politicians. Further according to Sun and Tong (2002), Wei and Varela (2003) government owned companies' management officers are mainly civil servants who are inadequate in entrepreneurial skills and business acumen making them have disadvantage in terms of management and performance. Anderson *et al.* (2002) argues that state-owned firm's managerial performance is inadequately monitored due to lack of capital market scrutiny leading to poor financial performance. However, Ng *et al.* (2009) and Hess *et al.* (2010) who examine Chinese listed firms from 1996 to 2003 and 2000 to 2004, respectively, both found a convex relationship between state ownership and market performance. This is inconsistent with the relationship found by Sun *et al.* (2002).

#### **4.5.2 Factor results for Government Ownership**

To find out the variables with greater significant to financial performance and to examine their dimensionality on financial performance of listed firms, all the ten (10) Government ownership factors were subjected to factor analysis which was conducted using Principal Components Method (PCM) approach. The other objective was to group the common factors and to retain a small number of factors which had the highest influence (Noor, Chen, & Romiza, 2011).

According to Erika (2010) analysis of principle components is a descriptive method which describes interdependencies among both independent and dependent variables and mostly is aimed at identifying a few factors which explains most of the information contained in the original values. The extraction of the factors followed the Kaiser Criterion where an eigen value of 1 or more indicates a unique factor. The results were presented on Table 4.24 below.

**Table 4.24: Total Variance Explained for Government Ownership Factors**

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.767	37.666	37.666	3.767	37.666	37.666
2	1.605	16.052	53.718	1.605	16.052	53.718
3	.927	9.273	62.991			
4	.826	8.259	71.250			
5	.764	7.639	78.889			
6	.617	6.166	85.056			
7	.500	4.995	90.051			
8	.448	4.477	94.527			
9	.314	3.137	97.664			
10	.34	2.336	100.000			

Extraction Method: Principal Component Analysis.

When all the ten factors were exposed to factor analysis only 8 factors attracted coefficients of more than 0.4 hence only 8 statements were retained for further statistical analysis. Child(2006) in factor analysis ,the goal of extraction is to remove as much common variance in the first factor as possible.According to Rahn (2010) and Zandi (2006) a factor loading equal to or greater than 0.4 is considered adequate. This is also supported by Black (2002) who asserts that a factor loading of 0.4 has good factor stability and deemed to lead to desirable and acceptable solutions.

Further the results showed that there were two critical factors of Government ownership measures that influenced financial performance of listed firms which accumulated to 53.718% of the total variance in this construct. Factor I had the highest variance of 37.666% while factor 2 had 16.052%. These two factors had the greatest influence on financial performance of listed firms.

These factors were grouped into 2 as GO1 and GO2. Factor one had seven items with very high loadings and significance namely government tenders with 0.789 and stability of share prices with 0.798. This factor was named government policies. Factor two had high loadings on attraction of qualified professionals at 0.916, and giving positive public image and confidence with 0.729. This factor was named government controls.

**Table 4.25: Rotated Component Matrix for Government ownership factors**

Government Ownership factors		Component	
		1	2
1	Government plays pivotal role in making the company financial decision.	.703	
2	Government policies are merged with strategic plan in making financial decisions of the company	.573	
3	Government pronouncement affects financial performance of the company	.584	
4	Government facilitates the company to get government tenders	.789	
5	Government influences the stability of the company share prices	.798	
6	Government reduces agency costs of the company	.668	
7	Government participates in control and monitoring of management.	.597	
8	Government enables the company to get government loans and subsidies.		.692
9	Government gives a positive public image and confidence to investors.		.729
10	Government employs qualified professional in management		.916
Mean .....		3.89	3.77
Cronbach Alpha		0.527	...0.527

**Key:** Scale 1.0- 1.7 Strongly disagree, 1.8- 2.5 Disagree, 2.6- 3.3 Neutral, 3.4- 4.1 Agree, and 4.2- 5.0 Strongly agree

Using the two factors a scale of 1-5 was created and the means of all the items in each component were analyzed .The factors had mean scores of 3.89 and 3.77 respectively. The reliability analysis showed that all the coefficients were above 0.5, (i.e.0.527) positive and significant. These findings confirmed that government ownership of this study had two main dimensions which was government policies and government controls and formed the independent variable of this study. Other factors which were not captured in factor one and two were excluded from further analysis because they were deemed to have low means and as such much of their influence could be explained by the other factors.

#### 4.5.3 Correlation Results

The correlation analysis was carried out to establish the relationship between government policies, government controls and financial performance. Maina *et al.* (2016) argued Pearson Correlation Coefficient is the most widely used method of measuring the degree of relationship between two variables. This ranges from -1 to +1, where -1 indicates a perfect negative correlation, 0 no correlation and +1 a perfect positive correlation. This assists a researcher in determining the magnitude and direction of the relationship between two variables.

**Table 4.26: Government OwnershipCorrelation matrix**

Variable		Government policies	Government controls	Financial Performance
Government policies	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	39		
Government controls	Pearson Correlation	.358**	1	
	Sig. (2-tailed)	.000		
	N	39	39	
Financial Performance	Pearson Correlation	.262**	.448**	1
	Sig. (2-tailed)	.005	.000	
	N	39	39	39

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

The findings in Table 4.26 above indicates that there is a relationship between government policies and financial performance with coefficient of 0.262 while government controls and financial performance had a relationship with a coefficient of 0.448. This confirms that there is a positive and significant relationship between Government ownership and Firms financial performance. This confirms the positive effect of government ownership on financial performance.

The study supports the findings of Mei Yu (2013) who found that a higher degree of state ownership is superior because of the benefits of government support and political associations. Dewenter and Malatesta (2001) points out government ownership enhances firm's performance as apart from government controlling, the government has the ability to appoint board members, senior management and make major decisions such as contract awards, strategy, restructuring and financing, acquisitions and divestments which enhances performance.

#### **4.6 Effect of Local Ownership on Financial Performance**

The second objective of the study was to analyse the effect of Local Ownership on Financial Performance of firms listed in Nairobi Securities Exchange in Kenya. The analysis which were done include descriptive analysis, factor analysis and correlation analysis.

##### **4.6.1 Descriptive results for Local Ownership Factors**

Descriptive statistics' analysis for local ownership was conducted for the ten factors. Results are presented in Table 4.27 below: Local shareholding enables the company to win local tenders which improves the company financial performance with a mean of 3.75, Local shareholding promotes public images which attracts good investors who influences the company performance with a mean of 3.67, local shareholding enables the company to get funding from local financial institutions which reduces working capital problems and improves performance with a mean of 3.37, Local shareholding enhances company reputation which increases the company turnover with a mean of 3.51, and local shareholding helps their company to dominate local markets which enhances their performance with a mean of 3.43.

Further the results agreed that local shareholding ownership helps their company to get tax exemptions and subsidies from the government which promotes our financial performance with a mean 3.65, local shareholding facilitates their company products to do very well locally improving our performance with a mean of 3.53, local shareholding attracts qualified personnel which improves financial performance of the company with a mean of 3.53, while local shareholding facilitates their company to have local networks and collaborations which promotes our turnover with a mean of 3.12. The mean score of responses regarding local ownership was 3.60 on a 5 point scale which indicates that majority of the respondents agreed that local ownership is a key determinant on financial performance of a firm. The average overall standard deviation of 0.688 infers that 68% of the responses were spread within one standard deviation of the overall mean. The standard deviation for each response is also shown on the Table 4.27 below.

**Table.4.27: Local Ownership and Financial Performance**

	<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>
<b>1</b>	Local shareholding enables the company to win local tenders	39	3.75	0.653
<b>2</b>	Local shareholding promotes public images which attracts good investors.	39	3.67	0.487
<b>3</b>	Local shareholding enables the company to get funding from local financial institutions	39	3.37	0.775
<b>4</b>	Local shareholding enhances company reputation	39	3.51	0.675
<b>5</b>	Local shareholding helps our company to dominate local markets	39	3.43	0.735
<b>6</b>	Local ownership helps company to get tax exemptions and subsidies from the government	39	3.65	0.765
<b>7</b>	Local shareholding facilitates our company products to do very well locally	39	3.53	0.665
<b>8</b>	Local shareholding influences the share prices of our company	39	3.29	0.565
<b>9</b>	Local shareholding attracts qualified personnel in management	39	3.53	0.665
<b>10</b>	Local shareholding facilitates our company to have local networks and collaborations	39	3.12	0.895

**Key:** Scale 1.0- 1.7strongly disagree, 1.8- 2.5 Disagree, 2.6- 3.3 Neutral, 3.4- 4.1 Agree, and 4.2- 5.0 strongly agree

The findings of the study are in line with Kiruri (2013) study on ownership structure on banks profitability in Kenya which found that local ownership had positive and significant effects on the banks profitability and concluded that higher local ownership can lead to higher profitability in commercial banks. Bruton and Filatotchen *et al.* (2010) examined the effects of ownership structure and firm governance on the financial performance with the initial public offering (IPO) and their empirical results showed that higher concentrated local ownership improves firms' IPO performance and have an overall significant impact on firms' financial performance. Kapopoulos and Lazaretou (2006) study for 175 Greek firms found that a more concentrated local ownership structure positively relates to higher firm performance. Huang, and Shiu (2009) observed that local investors may be more knowledgeable about the local environment than foreign investors which may eventually lead to better financial performance of locally owned firms.

However the study findings contradicts the studies of Greenaway, Guariglia, and Yu (2014), who examined the relationship between the degree of local ownership and performance in Chinese firms, and found that joint ventures perform better than both wholly locally-owned and wholly foreign firms. Jensen and Fama (1986) argue that dispersed ownership leads to the creation of a hold-up problem, in which the shareholders cannot prevent manager's opportunistic behaviour even though they are able to recognize it. Earnhart and Lizal (2010) using Czech listed firms in a transition economy observed minority larger shareholders control firms' decision at the expense of local medium and small investors' interests and this negatively affects financial performance of the firm. Del Guercio (1996) argued that institutional investors' prefer investing their stock in companies that have better governance structure which are stronger than those of local individual investors who may not have strong fiduciary responsibilities to monitor prudent investments.

Al-Najjar (2010), Wang (2007) in their studies found negative relationship between local shareholdings and firm performance. Further Domsetz and Villalonga (2001) in their study suggested that there is no systematic relationship between firm performance and ownership structure to be expected. Fazlzadeh and Tobhaz (2011) on the study of Iranian Stock Market examined the role of ownership structure in

defining firm performance and found mix of results. However Osman (2010) study with empirical evidence from Turkey found a positive influence of ownership on firm's performance, especially the impact of institutional investors was found to be more strongly pronounced on firms listed on the corporate governance index.

#### 4.6.2 Factor results for Local Ownership

Further, to group the common factors and to retain a small number of factors which had the highest influence, all the ten (10) Local ownership measures were subjected to factor analysis. The main objective was to examine the local ownership measures on dimensionality on firm's financial performance and also to find out if all the variables were significant to financial performance.

Factor analysis was conducted using Principal Components Method (PCM) approach. The extraction of the factors followed the Kaiser Criterion where an Eigen value of 1 or more indicates a unique factor and represented on Table 4.28 below.

**Table 4.28 Total Variance Explained for Local Ownership Factors**

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.783	47.827	47.827	4.783	47.827	47.827
2	1.529	15.290	63.117	1.529	15.290	63.117
3	1.089	10.886	74.003	1.089	10.886	74.003
4	.771	7.713	81.716			
5	.725	7.253	88.969			
6	.374	3.744	92.713			
7	.283	2.829	95.542			
8	.213	2.128	97.670			
9	.135	1.348	99.018			
10	.098	.982	100.000			

Extraction Method: Principal Component Analysis.

When the ten measures of Local ownership factors were subjected to factor analysis, only five factors attracted coefficients of more than 0.4. From the results presented in Table 4.28 above there were three major factors which were deemed to be affecting financial performance.

These factors were grouped into: LO1, LO2 and LO3. Factor one had three items with very high loadings and significance namely company products at 0.978, share prices with 0.821 and funding from local institutions with 0.572. These variables had the highest loadings which translated to the highest influence on financial performance and this factor was named local tenders. Factor two had high loadings of three factors, local public images with 0.964; win local tenders at 0.87 and tax exemptions and subsidies from the government at 0.423. This factor was named tax exemptions and subsidies

The third factor had attracts qualified personnel at 0.974, local networks and collaborations at 0.768 enhances company reputation at 0.764 and dominates local markets at 0.666. The factor was named network and collaborations. The results meant that all the questions in this construct were correlated to the three factors.

Using the three factors a scale of 1-5 was created and all the means of all the items in each component were analysed. The three factors, that is, attracts qualified personnel had mean scores of 3.40, local networks and collaborations had a mean of 3.69, while dominates local markets mean was 3.35 respectively. The items also reached the threshold value of the Cronbach alpha of 0.595, 0.613 and 0.755 respectively and thus verified reliability of the questionnaire that was used in this study. Other factors not captured in the three factors henceforth were not included for further analysis because they were deemed to have low means and as such much of their influence could be explained by the other factors. The results are presented in Table 4.29 below.

**Table 4.29: Rotated Component Local ownership factors**

	<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>1</b>	Local shareholding enables the company to win local tenders		.837	
<b>2</b>	Local shareholding promotes public images which attracts good investors		.964	
<b>3</b>	Local shareholding enables the company to get funding from local financial institutions	.572		
<b>4</b>	Local shareholding enhances company reputation			.764
<b>5</b>	Local shareholding helps our company to dominate local markets			.666
<b>6</b>	Local shareholding ownership helps our company to get tax exemptions and subsidies from the government		.423	
<b>7</b>	Local shareholding facilitates our company products to do very well locally	.978		
<b>8</b>	Local shareholding influences the share prices of our company	.821		
<b>9</b>	Local shareholding attracts qualified personnel in management			.974
<b>10</b>	Local shareholding facilitates our company to have local networks and collaborations			.768
	Cronbach alpha	0.505	0.613	0.755
	Mean	3.40	3.69	3.35

**Key:** Scale 1.0- 1.7 strongly disagree, 1.8- 2.5 Disagree, 2.6- 3.3 Neutral, 3.4- 4.1 Agree, and 4.2- 5.0 strongly agree

### 4.6.3 Correlation matrix of local ownership and financial performance

A correlation test was further conducted to test the relationship between the three factors of local ownership, that is, local tenders, tax exemptions and subsidies, network and collaboration with financial performance of listed firms in Nairobi securities exchange. The results were presented in Table 4.30 below.

**Table 4.30: Correlations matrix of Local Ownership and Financial Performance**

Variables		Local tenders	Tax exemptions and subsidies	Network and collaboration	Financial Performance
Local tenders	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	39			
Tax exemptions and subsidies	Pearson Correlation	.609**	1		
	Sig. (2-tailed)	.000			
	N	39	39		
Network and collaboration	Pearson Correlation	.442**	.424**	1	
	Sig. (2-tailed)	.000	.000		
	N	39	39	39	
Financial Performance	Pearson Correlation	.709**	.542**	.324**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	39	39	38	39

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

Correlation analysis was conducted to empirically determine whether local ownership structure was related to financial performance of firms listed in NSE. The results indicated that local tenders had a coefficient of 0.709, tax exemptions and subsidies 0.542 and network and collaboration 0.324 respectively. This was an indication that there was a significant relationship between independent variables and the dependent variable confirming that there was positive relationship of local ownership and financial performance. This was also evidenced by the p-value of 0.000 which is less than that of critical value (0.05).

Study findings are supported by Kiruri (2013) study on the effects of ownership structure on banks profitability in Kenya and found local ownership had positive and significant effects on the banks profitability and concluded that higher local ownership lead to higher profitability in commercial banks. Further the results collaborates with that of Margaritis & Psillaki (2010) using a sample of French manufacturing firms, empirical results showed that listed firms with more dispersed ownership face greater agency costs compared with firms with more concentrated ownership which have sound controls which improves financing efficiency and lower agency costs leading to good financial performance.

#### **4.7 Effect of Foreign Ownership Structure on Financial Performance**

The third objective of the study was to establish the effect of Foreign Ownership Structure on Financial Performance of firms listed in Nairobi Securities Exchange in Kenya. The analysis which were done include descriptive analysis, Factor analysis and correlation analysis

#### 4.7.1 Descriptive results for Foreign Ownership

Descriptive analysis was done for foreign ownership factors and results are presented in table 4.31 below.

**Table 4.31: Foreign Ownership Structure on Financial Performance**

	<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>
<b>1</b>	Foreign shareholding enables our company to penetrate foreign markets	39	3.76	0.676
<b>2</b>	Foreign shareholding enables our company to attract highly qualified professional in management	39	3.91	0.688
<b>3</b>	Foreign shareholding enables our company to get foreign funding	39	3.58	0.675
<b>4</b>	Foreign shareholders contribute expertise and experience	39	3.65	0.625
<b>5</b>	Foreign shareholding emphasises on company setting performance targets	39	4.01	0.95
<b>6</b>	Foreign shareholding helps in monitoring and evaluation of management activities	39	3.37	0.735
<b>7</b>	Foreign shareholding helps company in establishing collaborative linkages and network	39	3.84	0.659
<b>8</b>	Foreign shareholding influences the stability of share prices	39	3.75	0.653
<b>9</b>	Foreign shareholding reduces the agency costs by setting standard systems and procedures	39	3.71	0.655
<b>10</b>	Foreign shareholding advices on adoption of new technology which is highly productive	39	3.72	0.675

**Key:** Scale 1.0- 1.7Strongly disagree, 1.8- 2.5 Disagree, 2.6- 3.3 Neutral, 3.4- 4.1 Agree, and 4.2- 5.0 strongly agree.

There results in Table 4.31 above indicated that that foreign shareholding enables the company to attract highly qualified professional who improves the financial performance of the company with a mean of 3.91,Foreign shareholding enables their company to get foreign funding which improves their financial performance with a mean of 3.58,foreign shareholding helps company to set performance targets which

makes the company to improve its performance with a mean of 4.01,foreign shareholding helps in monitoring and evaluation of the company which leads to improved performance with a mean of 3.37,foreign shareholding helps company in collaborative linkages and network which improves company performance with a mean of 3.84,Foreign shareholding helps company in stability of share prices with a mean of 3.75, foreign shareholding reduces the agency costs by setting systems and procedures which improve company performance with a mean of 3.71and finally foreign shareholding advices on adoption of new technology which leads to high productivity and improved performance with a mean of 3.72.

The overall mean score of responses regarding Foreign ownership was 3.75 on a 5 point scale which indicates that majority of the respondents agreed that foreign ownership structure was a key determinant on financial performance of a firm. The average overall standard deviation of 0.872 infers that 68% of the responses were spread within one standard deviation of the overall mean.

Hintošová (2016), Greenaway, Guariglia, and Yu (2014), and Huang, and Shiu (2009) Caves (2007), Sayim and Yalama (2007) argued that foreign-owned firms can possess firm-specific advantages that are not available to domestic firms, and thus achieve superior performance. They also pointed out that foreign owners have the ability to monitor managers and give them performance based incentives to avoid behaviours' that undermine the wealth creation and by the fact that transfer of new technology and globally tested management practices to the firm, which help in enhancing the efficiency by decreasing operating expenses, generating savings for the firm and significantly impacting on their financial performance. Foreign ownership goes beyond financial contribution and extends to provision of managerial expertise and technical collaboration which helps them to increase the efficiency and effectiveness of the operational processes leading to improved performance (Pallathitta, 2005).

Foreign investors come to invest with expectations of a good return on their investment and therefore ensure effective monitoring of management that helps to improve financial performance of the company (Stulz, 1988).Chege (2013) in a

study ownership structures and financial performance among commercial banks listed in the NSE in Kenya found that there is a positive relationship between profitability and foreign shares ownership and concluded that, foreign shares were significant in explaining results as a unit changes in foreign shares were found to be significant in explaining profitability

Chege findings were consistent with Alulamusi (2013) whose study on the relationship between ownership structure and financial performance of commercial banks in Kenya established that there is a relationship between foreign ownership and the different parameters of financial performance. Alulamasi concluded that high monitoring capabilities of foreign owners led to improved financial performance. This is further supported by Halkos and Tzeremes (2010) on a study of SMEs operating in the Greek manufacturing sector, which derived the general conclusion, that foreign ownership had a positive impact on foreign equities' performances

However the study findings contradicts studies of Aguilera and Cuerra (2004) argued that foreign shareholders may only have a moderate impact on firm performance despite being endowed with good monitoring capabilities because their financial focus which emphasis on liquidity making them unwilling to commit to a long-term relationship with the firm that engages in a process of restructuring in case of poor performance. Most of them prefer strategies of exit rather than voice to monitor management. According to Lee (2008) using panel data for South Korea in 2000 – 2006, found that effect of foreign ownership is insignificant to firm's financial performance but firm's performance generally improves as ownership concentration increases.

#### **4.7.2 Factor results for Foreign Ownership**

To group the common factors and to retain a small number of factors which had the highest influence, Factor analysis was performed on ten (10) Foreign ownership measures. This was done in order to examine the dimensionality of foreign ownership and financial performance and also to find out if all the variables were significant to firm's performance.

Factor analysis was conducted using Principal Components Method (PCM) approach. The extraction of the factors followed the Kaiser Criterion where an Eigen value of 1 or more indicates a unique factor. Eigen value is the variance of each factor or component in comparison with the total variance of all the items in the construct. Other elements in the analysis of variance include the percentage of variance and also the cumulative percentages which were explained by the extracted factors before and after the rotation. Total variance for foreign factors is presented on Table 4.32 below.

**Table 4.32: Total Variance Explained for Foreign Ownership Factors**

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.913	59.132	59.132	5.913	59.132	59.132
2	1.499	14.992	74.124	1.499	14.992	74.124
3	.853	8.528	82.653			
4	.443	4.432	87.085			
5	.401	4.014	91.099			
6	.342	3.416	94.516			
7	.222	2.221	96.737			
8	.177	1.775	98.512			
9	.100	1.001	99.513			
10	.049	.487	100.000			

Extraction Method: Principal Component Analysis.

When the ten measures of foreign ownership were subjected to factor analysis, only five factors attracted coefficients of more than 0.4 hence not all the statements were retained for analysis. According to Rahn (2010) and Zandi (2006) a factor loading equal to or greater than 0.4 is considered adequate. Therefore only five factors were retained for further analysis. Further analysis showed that among the five factors retained, there were two critical factors from foreign ownership measures that were affecting financial performance of listed firm which accumulated to 74.124% of the

total variance in this construct. Factor I had the highest variance of 59.132 % while factor 2 had 14.992%. These two factors had the greatest influence on financial performance of firms listed in Nairobi Securities Exchange. Table 4.33 depicts the rotated component factor loadings for foreign ownership factors.

Table 4.33: Rotated Component Foreign ownership factors

Statements	Component	
	1	2
1 Foreign shareholding enables our company to penetrate foreign market	.949	
2 Foreign shareholding enables our company to attract highly qualified professional in management		.520
3 Foreign shareholding enables our company to get foreign funding		.574
4 Foreign shareholding contributes their expertise and experience		.859
5 Foreign shareholding emphasizes on the company setting performance targets	.84	
6 Foreign shareholding helps in monitoring and evaluation of the company		.811
7 Foreign shareholding helps company in establishing collaborative linkages and network		.716
8 Foreign shareholding influences the stability of share prices of a company	.969	
9 Foreign shareholding reduces the agency costs by setting standard systems and procedures	.950	
10 Foreign shareholding advices on adoption of new technology which leads to high productivity	.610	
<b>Cronbach Alpha</b>	<b>0.778</b>	<b>0.778</b>
<b>Mean</b>	<b>3.78</b>	<b>3.73</b>

**Key:** Scale 1.0- 1.7 Strongly disagree, 1.8- 2.5 Disagree, 2.6- 3.3 Neutral, 3.4- 4.1 Agree, and 4.2 - 5.0 Strongly agree

From the rotation matrix in Table 4.33 all the Foreign shareholding factors were grouped in to two factors namely FO 1 and FO 2. FO 1 had stability of share prices at 0.969, agency costs at 0.950, foreign market at 0.949, performance targets at 0.842 and new technology at 0.610. This factor was named Performance. The second factor had expertise and experience at 0.859, monitoring and evaluation at 0.811, collaborative linkages and network at 0.716, foreign funding at 0.574 and highly qualified professional at 0.520. This factor was named Foreign linkages. The explanation is that most of the foreign ownership factors effects on financial performance of listed firms were explained by these two factors. Using the two factors a scale was created using the average means of each construct. A scale of 1-5 was created and all the means of all the items in each component were analyzed. The factors had mean scores of 3.78 and 3.73 respectively. Similarly, reliability analysis for testing the internal consistency of all the items in each dimension was conducted in this research. The items in this factor achieved Cronbach alpha of 0.7 or higher suggesting that the questionnaire had higher reliability. Other factors not included in group one or two were excluded from further analysis because they seemed to have low means and as such much of their influence could be explained by the other factors.

#### **4.7.3 Correlation matrix of Foreign Ownership Structure and Financial Performance**

A correlation study was conducted to test the relationship between foreign ownership and financial performance of firms listed in Nairobi Securities Exchange. The results were presented on Table 4.34 below. The correlation results indicated that there was a positive and significant relationship between foreign ownership and financial performance. The relationship was illustrated by the correlation co-efficient of 0.433 between performance and financial performance and co-efficient of 0.546 between foreign linkages and financial performance. This further supported by the p-value of 0.000 which is less than that of critical value (0.05). The results indicated that there is a significant relationship between independent variable and the dependent variable.

**Table 4.34: Correlation matrix of Foreign Ownership and Financial Performance**

Variable		Foreign Performance	linkages	Financial Performance
Performance	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	39		
Foreign linkages	Pearson Correlation	.636**	1	
	Sig. (2-tailed)	.000		
	N	39	39	
Financial Performance	Pearson Correlation	.433**	.546**	1
	Sig. (2-tailed)	.000	.000	
	N	39	39	39

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

Bijsterbosch and Kolasa (2010) supported the study findings by noting that the catching-up process in Central and Eastern Europe coincided with large inflows of foreign direct investment while Huang and Shiu (2009) stipulates that foreign investors may have better technological, financial, or human expertise, experience, or resources, which give them more credibility and a stronger reputation than domestic entrepreneurs. Sayim and Yalama (2007) asserted that on an average foreign owned firms performs better than the domestically owned firms because foreign owners are more likely to have the ability to monitor managers and give them performance based incentives to avoid behaviour's that undermine the wealth creation motivation of the firm owners. Foreign ownership goes beyond financial contribution and extends to provision of managerial expertise and technical collaboration which helps them to increase the efficiency and effectiveness of the operational processes leading to improved performance (Pallathitta, 2005).

Douma *et al.* (2006) analysed the effect of foreign ownership on the financial performance of Indian corporations with a distinction between foreign institutional and foreign corporate share-holders found that foreign firms perform better than domestic ones in terms of Return on Assets (ROA) and Tobin's Q. The same study concludes that ownership by foreign corporations has a positive and significant impact on both performance measures. The findings collaborate with those of Djankov & Simeon (2008) in their study who had found a positive relationship between foreign ownership and financial performance of listed firms.

However Guariglia and Yu (2014) argue that firms achieve optimal performance when they are not wholly foreign, but have some portion of domestic ownership. Azzam, Fouad and Ghosh, (2013) despite the generally accepted hypothesis that foreign-owned firms out-perform domestic firms in many financial and production measures their finding were foreigners have no significance contribution in financial performance of local firms.

#### **4.8 Managerial Shareholding and Financial Performance**

The fourth objective of the study was to establish the effect of Managerial shareholding on Financial Performance of firms listed in Nairobi Securities Exchange in Kenya. The analysis conducted included descriptive analysis, factor analysis and correlation analysis.

##### **4.8.1 Descriptive results for Managerial Shareholding and Financial performance**

Descriptive analysis was conducted for all the factors affecting managerial shareholding and financial performance and result presented in Table 4.35 below. The finding indicates that: the company has embraced Share ownership policy scheme in the organization with a mean of 3.96. Further Share ownership policy scheme for management has encouraged management to own shares in the organization with a mean of 4.12. As a result management influences the distribution of shares in our firm with a mean of 4.07. Shares held by management have been increasing for the last five years with a mean of 4.13. Respondent agreed

that management incorporates shareholder views in decision making with a mean of 4.24. Management constantly reviews financial decisions to cope up with changing environment with a mean of 4.14. Management in our company are highly committed in implementing financial decisions with a mean 4.13 as majority of management are shareholders representatives with a mean of 3.98 However a numbers of respondent agreed that majority of management are independent members outside with a mean of 4.02. Finally respondents pointed out that management are highly qualified professional employed on merit with a mean of 3.78.

**Table .4.35: Managerial Shareholding and Financial Performance**

Statement	N	Mean	Standard Deviation
1 Our company has Share ownership policy scheme for management	39	3.96	0.878
2 Share ownership plan scheme encourages management to own company shares	39	4.12	0.945
3 Management influences the distribution of shares in our firm	39	4.07	0.885
4 Shares held by management has been increasing for the last five years	39	4.13	0.94
5 Management of our firm incorporates shareholder views in decision making	39	4.24	0.944
6 Management constantly reviews financial decisions to cope up with changing environment	39	4.14	0.943
7 Management in our company are highly committed in implementing financial decisions	39	4.13	0.925
8 Majority of our management are shareholders representatives	39	3.98	0.875
9 Majority of management are independent members outside owners and shareholders	39	4.02	0.789
10 Management are highly qualified professional employed on merit	39	3.78	0.863

**Key:** Scale 1.0- 1.8 Strongly disagree, 1.9- 2.6 Disagree, 2.7- 3.4 Neutral, 3.5- 4.2 Agree, and 4.3- 5.0 Strongly agree

The average mean score of responses regarding managerial shareholding was 4.08 on a 5 point scale which indicates that majority of the respondents agreed that managerial shareholding is a key determinant on financial performance of a firm. The average overall standard deviation of 0.909 infers that 68% of the responses were spread within two standard deviation of the overall mean.

Mokaya and Jagongo (2015) research revealed that management owning a company's shares can serve to better put in line managers' interests with those of the shareholders of the company, reducing the conflicts of interest therefore higher firm value. Managerial shareholding contributes positively to firm's financial performance as managers are disciplined by a number of external control mechanisms, such as the market forces and also by internal control mechanisms, such as compensation and rewards incentives which prevents the managers from seeking their own advantages but concentrate on better performance of the firm (Cuervo & Villalonga, 2000). However Gloria (2007) explains in her study findings, in Kenya managers work better in an environment where they are afforded an opportunity to own shares of the firm, then allowed freehand to exercise their professional judgment without undue influence from shareholders.

However the study finding contradicts Wang, Guthrie and Xiao (2012), Tsionas, Merikas and Merika (2012) who found that if there is decrease in managerial incentive, the managers concentration on their own opportunistic behaviour and results in less cost control which negatively affects the firm financial performance and concluded that there is need to strengthen the ability of supervising and controlling of managers to protect firms performance.

Michael (2006) argued that whenever investment ideas and preferences of shareholders are at variance with those of management, firm's financial performance is compromised and concluded that monitoring and incentive alignment mechanisms are needed to change management to support the interests of the firm. However Stulz (1988) advocated that investments with expectation of good returns, the investors must ensure effective monitoring of management to avoid any managerial expropriation by instituting stringent control mechanisms which are expected to

improve the corporate governance practices, lower agency costs and improve performance of the company.

Mang'unyi (2011) emphasized that sound corporate governance should entail an internal system comprising of policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. This is further supported by Wanyama (2012) argued that there should be a set of relationships between company managements and other stakeholder's so as addresses the powers of management and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders and concluded that a good corporate governance should lay sound system by which organizations are managed and controlled.

#### **4.8.2 Factor results for Management Shareholding**

According Noor, Chen, and Remiss (2011) factor analysis is conducted to facilitate grouping of the common factors and ensure retention of a small number of factors which had the highest influence. Therefore Factor analysis was performed on ten (10) Management shareholding measures using Principal Components Method (PCM) approach. The main objective was to examine the dimensionality of Management shareholding measures on financial performance and to find out whether all the variables were significant to firm's financial performance.

The analysis of variance identified the Eigen values are the elements that describe the degree of change in each variable in relationship to the total overall variables. Other elements in the analysis of variance include the percentage of variance and also the cumulative percentages which were explained by the extracted factors before and after the rotation. The extraction of the factors followed the Kaiser Criterion where an Eigen value of 1 or more indicates a unique factor and was presented on Table 4.36 below.

**Table 4.36: Total Variance Explained for Management Shareholding Factors**

Component	Initial Eigen values			Extraction Sums of Squared		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.744	52.217	52.217	5.744	52.217	52.217
2	1.888	17.165	69.383	1.888	17.165	69.383
3	.842	7.654	77.036			
4	.557	5.062	82.098			
5	.449	4.086	86.184			
6	.446	4.051	90.235			
7	.414	3.766	94.001			
8	.305	2.773	96.774			
9	.186	1.693	98.467			
10	.140	1.533	100.00			

Extraction Method: Principal Component Analysis.

The goals for factor analysis are typically to reduce the number of variables used to explain a relationship or to determine which variable shows a relationship (Ahmed, 2016). When the ten measures of management shareholding were subjected to factor analysis and only seven factors that attracted coefficients of more than 0.4 were retained. According to Black (2002) a factor loading of 0.4 has good factor stability and deemed to lead to desirable and acceptable solutions and therefore only seven (7) factors were retained. Further analysis showed that there were two critical factors from management shareholding that were affecting financial performance of listed firm which accumulated to 69.383% of the total variance in this construct. Factor 1 had the highest variance of 52.217 % while factor 2 had 17.165%. These two factors had the greatest influence on financial performance of listed firms. Table 4.37 below illustrates rotated component factor loadings for management shareholding factors.

**Table 4.37: Rotated Component matrix Management shareholding**

Management shareholding factors	Component	
	1	2
<b>1</b> Our company has Share ownership policy scheme for management		.988
<b>2</b> Share ownership plan scheme encourages management to own company shares		.991
<b>3</b> Management influences the distribution of shares in our firm	.645	
<b>4</b> Shares held by management has been increasing for the last five years	.873	
<b>5</b> Management of our firm incorporates shareholder views in decision making	.807	
<b>6</b> Management constantly reviews financial decisions to cope up with changing environment	.735	
<b>7</b> Management in our company are highly committed in implementing financial decisions	.822	
<b>8</b> Majority of our management are shareholders representatives	.788	
<b>9</b> Majority of management are independent members outside owners and shareholders	.816	
<b>10</b> Management are highly qualified professional employed on merit	.792	
Cronbach Alpha		0.439
0.439		
Mean		4.08
2.61		

Key: Scale 1.0- 1.8 Strongly disagree, 1.9- 2.6 Disagree, 2.7- 3.4 Neutral, 3.5- 4.2 Agree, and 4.3- 5.0 Strongly agree

From the rotation matrix in Table 4.37 there were two components which had the greatest influence on financial performance. The first component was commitments in the organization at 0.873, influences the distribution of shares at 0.836, managerial discretion at 0.822, highly committed at 0.816, set critical level at 0.807, shareholders representatives at 0.792, highly qualified professional 0.789, internal constraints at 0.788, bear the cost of mismanagement 0.735 and own shares in the organization at 0.645. The variables that had the highest loadings are the ones which had the highest

influence on financial performance. This factor was named commitment. Factor two had management influences the financial performance at 0.991 and management holds shares at 0.988. This factor was named shares held. The results indicate that all the questions in the managerial shareholding construct were correlated to the two factors. Using the two factors, a scale of 1-5 was created and all the means of all the items in each component were analysed. The two factors had a scale of 4.08 and 2.61. Therefore factor one had a higher mean score. Other factors not included in group one or two were excluded from further analysis because they had low means and as such much of their influence was explained by the other factors.

#### 4.8.3 Correlation matrix of management shareholding and financial performance

A correlation test was conducted to test the relationship between management shareholding and financial performance of listed firms in Nairobi securities exchange in Kenya. The correlation results are presented on Table 4.38.

**Table 4.38: Correlation matrix of Managerial Shareholding and Financial Performance**

Components		Commitment	Shares held	Financial Performance
Commitment	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	39		
Shares held	Pearson Correlation	-.206*	1	
	Sig. (2-tailed)	.029		
	N	39	39	
Financial Performance	Pearson Correlation	.246*	.273**	1
	Sig. (2-tailed)	.012	.004	
	N	39	39	39

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

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

The correlation results in Table 4.38 above indicate that there is a positive and significant relationship between management Shareholding and financial performance. This reveals that any positive change in management Shareholding led to increase in financial performance. The results of correlation analysis indicate that commitment had a coefficient of 0.246 and shares held had a coefficient of 0.273. This is an indication that there is a significant relationship between independent variable and the dependent variable and was evidenced by the p value of 0.012 and 0.004 respectively which are less than that of critical value (0.05).

The findings of the study are supported by Merikas and Merika (2012) and Patrica *at al.* (2012) who observed that a firm can have good financial performance if it has the ability to monitor managers, and give them performance based incentives, leading the managers to manage more seriously, and avoid behaviours and activities that undermine the wealth creation motivations of the firm owners. This is further supported by Gloria (2007) in her study findings that pointed out that in Kenya, managers work better in an environment where they are afforded an opportunity to own shares of the firm, then allowed freehand to exercise their professional judgment without undue influence from shareholders. Cuervo and Villalonga, (2000); Pedersen *et al.* (2000) and Shirly *et al.* (2001) also argued that managerial shareholding contributes positively to firms financial performance as managers are disciplined by a number of external control mechanisms, such as the market forces and also by internal control mechanisms, such as compensation and rewards incentives which prevents the managers from seeking their own advantages but concentrate on better performance of the firm.

#### **4.9 Moderating Effect of Managerial Shareholding**

This section provides results of analysis on the effect of the independent variable on the dependent variable before and after introducing a moderating variable. The independent variable herein is; ownership structure with managerial shareholding as the moderating variable. R-Square also referred to as coefficient of determination and significance tests were done to determine the effects of the predictor variables on the dependent variable.

The R-square and the overall significance of the model were analysed before and after introducing the moderating variable to independent variable. The introduction of the moderating variable introduces an interaction effect on the prediction strength of the independent variable on the dependent variable. The interaction effect leads to either a stronger or weaker prediction power of the independent variable on the dependent variable.

Table 4.39 shows the results of the R-square before involving the moderating variable (managerial shareholding) and after incorporating the moderating variable to the independent variable (ownership structure).

**Table 4.39: Moderation Tests Using R Square and Significance Change**

<b>Estimate</b>	<b>Value</b>	<b>t-Statistic</b>	<b>P value</b>	<b>Estimate</b>
Constant	1.348	2.976	0.004	Constant
Ownership structure	0.409	1.782	0.077	Ownership structure
Managerial Shareholding*Ownership	0.065	2.241	0.027	Managerial Shareholding*Ownership
F	134.898		0.000	F
Change in F	72.425			Change in F
R	0.755			R
R square	0.571			R square
Adjusted R square	0.563			Adjusted R square
Change in R <sup>2</sup>	0.020			Change in R <sup>2</sup>

The results indicate that managerial shareholding has a positive moderating effect on ownership structure (R squared change of 0.020) which translates to 3.5% change in the R-square. Results show that after introducing the moderating variable (managerial shareholding) the significance level of ownership structure (0.077) improved to 0.027. This means managerial shareholding moderates ownership structure positively and statistically significant.

#### 4.10 Multicollinearity Test

Due to high correlation coefficient among the predictors variable, the researcher further conducted a multicollinearity test to ascertain whether there was multicollinearity among the predictor's variables. Multicollinearity occurs when two or more predictors in the model are correlated. This can bring a problem because it leads to increased standard error of estimates and it can give misleading and confusing results in a study. Moderate multicollinerity may not be a problem but a severe one can increase the variance of the coefficient of estimates and make them sensitive to minor changes. If this happens the results will be unstable and difficult to interpret.

To test for multicollinearity the study adopted the variance inflation factors and the tolerance levels. Variance Inflation Factor (VIF) and the Tolerance are indicators of multicollinearity. According Ayeko and Wamalwa (2015) Low levels of VIF are preferred since higher levels are deemed to adversely affect the results from the regression analysis. VIF indicates the magnitude of the inflation in the standard errors associated with a particular beta weight that is due to Multicollinearity. A VIF of more than 10 ( $VIF \geq 10$ ) indicate a problem of multicollinearity. According to Montgomery (2001) the cut off threshold of 10 and above indicate the existence of multicollinearity while tolerance statistic values below 0.1 indicate a serious problem while those below 0.2 indicate a potential problem.

**Table 4.40: Multicollinearity Test**

Variable	Collinearity Statistics	
	Tolerance	VIF
1Governmentownership	0.234	4.267
2Local ownership	0.495	2.018
3 Foreign ownership	0.267	3.751
4 Managerial shareholding	0.166	6.04

The results in Table 4.40 indicate that the VIF value for government ownership was established to be 4.267 while its tolerance statistic was reported to be 0.234. VIF value for level of local ownership was established to be 2.018 while its tolerance statistic was reported to be 0.495 VIF value of foreign ownership was established to be 3.751 while its tolerance statistic was reported to be 0.267 and VIF value of managerial shareholding was established to be 6.04 while its tolerance statistic was reported to be 0.166. Based on these the findings there was no multicollinearity between predictor variables as the reported VIF and tolerance statistics were within the accepted range. This justified for a multiple regression analysis to be conducted to show the relationship among the study variables.

#### **4.11 Multiple Regression**

A multiple regression analysis was conducted to investigate the joint causal relationship between the independent variables and dependent variable financial performance. This is represented by the overall model  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$

The coefficient of multiple determinants denoted by R Squared is a measure of proportion of the variation of the regress and explained by the corresponding explanatory variables. The values of R squared lies between zero and unity,  $0 \leq R^2 \leq 1$ . A value of unity implies that 100% of the variation of Y has been explained by the explanatory variables. On the other hand a value of zero implies that no variation have been explained at all (Ithai, 2013). The overall goodness of fit was obtained through regressing the goodness of fit for all the independent variables. The results of the multiple regression indicate  $R^2 = .584$  and adjusted  $R = .568$  as shown in Table 4.41. This is an indication that there is a strong relationship between independent variables and financial performance. From the model summary table below adjusted  $R^2$  was 0.584 this indicates that ownership structure explain 58.4% of financial performance of firms listed in the Nairobi securities exchange.

**Table 4.41: Model Summary for independent and dependent variables**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764 <sup>a</sup>	.584	.568	.29888

a. Predictors: (Constant), Shares Held, Tax Exemptions and Subsidies, Marketing strategy, Government Policy, Commitment, Network and Collaborations, Control, Local Tenders, Foreign Linkages

The overall model significance was presented using the ANOVA test. Results in Table 4.42 shows that the significance of the F-statistic 0.009 is less than 0.05 for all independent variables meaning that null hypothesis is rejected and concludes that there is a relationship between different ownership structures and firms financial performance. The findings therefore imply that all independent variables were statistically significant in explaining financial performance of firms listed in Nairobi securities exchange.

**Table 4.42: ANOVA for independent and dependent variables**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.194	9	1.577	2.621	.009 <sup>b</sup>
	Residual	61.373	102	.602		
	Total	75.567	111			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Shares Held, Tax Exemption and Subsidies, Marketing Strategies, Government Policy, Commitment, Network and Collaborations, Government Control, Local Tenders, Foreign Linkages

Anova was used to test whether the regression analysis model used is fit or the relationship of the variables just occurred by chance. Significance of F ratio is used to determine whether model used was fit or not. If the F ratio is significant the model used is considered fit and vice versa (weeks & Namusonge, 2016). A P value of less than 0.05 indicates that the F statistics is high and that the null hypothesis of independent needs to be rejected since it's not true. In this case the F ratio ( $F=2.621$ ,  $P=.009^b$ ) was found to be significant hence the model used for analysis was fit.

Table 4.43 represents the regression results of different ownership structures and financial performance. The relationship between government ownership structure and financial performance was positive and significant with ( $X_1 = 0.224$ ,  $0.152$  p-value,  $= 0.037$ ,  $0.049$ ). Results further indicated that local ownership structure had a positive and significant relationship with financial performance ( $X_2 = 0.149$ ,  $0.283$ ,  $0.168$ , p value=  $0.042$ ,  $0.013$ ,  $0.020$ ). The results further indicate that the relationship between financial performance and foreign ownership was positive and significant ( $X_3 = 0.296$ ,  $0.298$  p value =  $0.05$ ,  $0.007$ ). This implies that an increase in foreign ownership structure by 1 unit leads to an increase in financial performance by 0.296 Or 0.298 units.

The results further indicate that the relationship between managerial shareholding and financial performance was positive and significant ( $X_4 = 0.227$ ,  $0.170$  p value,  $0.034$ ,  $0.024$ ) respectively. This implies that an increase in managerial shareholding by 1 unit leads to an increase in financial performance by 0.227 or 0.170 units respectively.

**Table 4.43 coefficient of ownership structure and financial performance**

Model	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
(Constant)	2.204	.587	3.755	.000
Government Policy	.224	.106	2.111	.037
Government Control	.152	.036	4.157	.049
Local Tenders	.149	.0147	0.803	.042
Tax Exemptions Subsidies	.283	.0110	2.588	.013
Network and Collaborations	.169	.070	2.415	.020
Marketing Strategy	.296	.102	2.898	.005
Foreign Linkages	.298	.109	2.740	.007
Commitment	.227	.106	2.143	.034
Shares Held	.170	.157	2.082	.024

a. Dependent Variable: Financial Performance

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Financial Performance = 2.204 + 0.224 Government policy + 0.152 Government control + 0.149 Local tenders + 0.283 Tax exemptions and Subsidies + 0.169 Network and Collaboration + 0.296 Marketing Strategies + 0.298 Foreign linkages + 0.227 Commitments + 0.170 Share held.

The Y- intercept is 2.204 which is the predicted value of the effectiveness of financial performance when all the others variables are 0, implying that without inputs of the independent variables the effectiveness of financial performance would be 2.204. The other coefficients tell about the relationship between independent and dependent variables.

#### 4.12 Hypothesis testing

In order to test the research hypotheses, standard multiple regression analysis was conducted using the four ownership structures; Government ownership, Local ownership, Foreign ownership and Management shareholding as the predicting variables and Financial performance as the dependent variable.

**Objective One:** To evaluate the effect of government ownership on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

**Hypothesis One:** H01: Government ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

**Hypothesis test results:** Both primary and secondary data were used to test the hypothesis. Primary data results shows a p-value of 0.037, 0.49 while secondary results had a p-value of 0.048. Both primary and secondary p-values were less than the alpha at the level of significance of 0.05 (5%), the researcher rejected the H<sub>01</sub> that Government ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya but accepted the H<sub>a1</sub> that Government ownership has significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya. The results in Table 4.43 and Table 4.22 provide support for H<sub>a1</sub>. Therefore, Government ownership was found to have a significant effect on financial performance ( $\beta = 0.224, 0.152$ ;  $t = 2.111, 4.157$ ;  $P < 0.037, 0.49$  at 0.05 level of significance) primary data and secondary data ( $\beta = 0.024$   $t = 0.364$ ;  $P < 0.48$  at 0.05 level of significance) and hence reject the H<sub>01</sub>.

**Objective Two:** To analyse the effect of local ownership on financial performance of firms listed in the Nairobi Securities Exchange in Kenya

**Hypothesis Two:** H02: Local ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

**Hypothesis test results:** At a level of significance of 0.05(5%), the p-value was 0.042, 0.013, 0.020 (primary data) while secondary data p-value was 0.026. Both P-values were lower than the alpha and therefore the H<sub>02</sub> was rejected that local

ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya whereas the researcher accepted the  $H_{a2}$  that local ownership has significant effect on financial performance ( $\beta=0.49, 0.2.83, 0.169$ ;  $t=0.803, 2.588, 2.415$ ;  $P_0 < 0.042, 0.013, 0.020$  at 0.05 level of significance) primary: secondary data ( $\beta=0.037$ ;  $t=0.742$ ;  $P_0 < 0.026$  at 0.05 level of significance) of firms listed in the Nairobi Securities Exchange in Kenya and hence reject the  $H_{02}$ .

**Objective Three:** To establish the effect of foreign ownership structure on financial performance of firms listed in the Nairobi Securities Exchange in Kenya

**Hypothesis Three:**  $H_{03}$ : Foreign ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

**Hypothesis test results:** At level of significance of 0.05(5%), primary data p-value was 0.005, 0.007 while secondary data p-value was 0.000. Both p-values were lower than the alpha and therefore the  $H_{03}$  was rejected that foreign ownership has no significant effect on financial performance ;Primary data ( $\beta=0.296, 0.298$ ;  $t=2.898, 2.740$ ;  $P_0 < 0.005, 0.007$  at 0.05 level of significance) and secondary data ( $\beta=0.587$ ;  $t=1.370$ ;  $P_0 < 0.000$  at 0.05 level of significance) of firms listed in the NSE and hence reject the  $H_{03}$  but accepted the  $H_{a3}$  that foreign ownership has significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

**Objective Four:** To determine the effect of Managerial shareholding on financial performance of firms listed in the Nairobi Securities Exchange in Kenya

**Hypothesis Four:**  $H_{04}$ : Managerial shareholding has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

**Hypothesis test result:** At level of significance of 0.05(5%), primary data the p-value was 0.034, 0.024 while secondary data was 0.011. Both p-values were lower than the alpha and therefore the researcher failed to accept the  $H_{04}$  that managerial shareholding has no significant effect on financial performance of firms listed in the

Nairobi Securities Exchange in Kenya but accepted the  $H_{a4}$  that managerial shareholding has significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya. The result in tables 4.43 and 4.22 failed to provide support for  $H_{04}$  and therefore  $H_{04}$  was rejected and instead the  $H_{a4}$  was accepted. Hence, managerial shareholding was found to have statistically significant effect on financial performance; primary data ( $\beta= 0.227, 0.170; t= 2.143, 2.082; P0< 0.034, 0.024$  at 0.05 level of significance); secondary data ( $\beta= 0.442; t= 1.024; P0< 0.011$  at 0.05 level of significance) and hence reject the  $H_{04}$  but accept the  $H_{a4}$  that managerial shareholding has significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.

#### 4.13 A summary of the entire study hypothesis tested

The summary results of the entire study hypothesis tested were presented on Table 4.44 below.

**Table 4.44: Summary results of hypotheses tested**

	<b>P-values</b>	<b>Decision</b>
<b>H01.</b> Government ownership has no significant effects on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.	0.037, 0.49:0.048	Reject the null hypothesis
<b>H02.</b> Local ownership has no significant effects on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.	0.042, 0.013, 0.020: 0.026	Reject the null hypothesis
<b>H03.</b> Foreign ownership has no significant effects on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.	0.005, 0.007: 0.000	Reject the null hypothesis
<b>H04.</b> Ownership structure and Managerial shareholding have no significant effects on financial performance of firms listed in the Nairobi Securities Exchange in Kenya.	0.034, 0.024: 0.011	Reject the null hypothesis

Table 4.44 above presents the level of significance also called the p value. This is the coefficient that is used to test hypothesis and the significance of the independent variables. The level of significance for this study is 0.05 and therefore if the p value is less than 0.05 we fail to accept the null hypothesis and accept if the p value is greater than 0.05.

#### **4.14 Discussions of Key Findings**

The key findings of the study are discussed in this section as per study objectives.

##### **4.14.1 Government Ownership and Financial performance**

Government ownership was assessed using ten measures and the overall mean score of responses regarding Government ownership was 3.85 on a 5 point scale which indicates that majority of the respondents agreed that Government ownership affects the financial performance of a firm. The average overall standard deviation of 0.656 infers that 68% of the responses were spread within one standard deviation of the overall mean. The ten measure of government ownership were subjected to factor analysis and the results showed that there were only two critical factors affecting financial performance which accumulated to 53.718%. Factor I had the highest variance of 37.666% while factor 2 had 16.052%. These two factors had the greatest influence on financial performance of listed firms. Factor one was named government policies while factor two was named government controls. Using the two factors a scale was created and all the means of all the items in each component were analyzed. The factors had mean scores of 3.89 and 3.77 respectively. Further reliability analysis was done and the results showed that all the coefficients were above 0.5, (i.e. 0.527) positive and significant. These findings confirmed that the two main dimensions government ownership, i.e. government policies and government control had a significant positive influence on financial performance. The government policies and financial performance had a coefficient of 0.262 while government controls and financial performance had a relationship with a coefficient of 0.448 in primary data. Secondary data the coefficient was 0.024. Both primary and secondary data coefficients confirm that there is a positive and significant relationship between Government ownership and Firms financial performance.

#### **4.14.2 Local Ownership and Financial performance**

Local ownership was assessed using ten measures and the overall mean score of responses regarding local ownership was 3.60 on a 5 point scale which indicates that majority of the respondents agreed that local ownership is a key determinant on financial performance of a firm. The ten measures were further subjected to factor analysis the results indicated that there were three major factors which were deemed to be affecting financial performance which accumulated to 74.003%. Factor one had the highest loading of 47.827%, factor two 15.290% while factor three had 10.886%. These factors were named as: qualified personnel, tax exemptions and subsidies and lastly network and collaborations respectively. A scale of 1-5 was created and all the means of all the items in each component were analysed. The three factors, that is, attracts qualified personnel had mean scores of 3.40, local networks and collaborations had a mean of 3.69, while dominates local markets mean was 3.35 respectively. The items also reached the threshold value of the Cronbach alpha of 0.595, 0.613 and 0.755 respectively and thus verified reliability of the questionnaire that was used in this study. Correlation results of primary data indicated that there was a positive and significant relationship illustrated by the correlation co-efficient of 0.709, 0.542 and 0.324 respectively while secondary data coefficient was 0.037. Both primary and secondary data coefficients implied a positive relationship between local ownership structure and financial performance. This was evidenced by the p-value of 0.000 in primary data and 0.026 in secondary data. Both p-values were less than that of critical value (0.05).

#### **4.14.3 Foreign Ownership and Financial performance**

Foreign ownership was assessed using ten measures and the overall mean score of responses regarding Foreign ownership was 3.75 on a 5 point scale which indicates that majority of the respondents agreed that foreign ownership structure is a key determinant on financial performance of a firm. Foreign ownership measures and the results indicated that there were two critical factors from foreign ownership measures that were affecting financial performance of listed firm which accumulated to 74.124% of the total variance in this construct. Factor I had the highest variance of

59.132 % while factor 2 had 14.992%. These factors were named Performance and Foreign linkages. Using the two factors a scale of 1-5 was created and all the means of all the items in each component were analyzed. The factors had mean scores of 3.78 and 3.73 respectively. Further correlation results indicated that there was a positive and significant relationship between foreign ownership and financial performance. The relationship was supported by the results of correlation analysis which indicated that performance was positive and significantly related to financial performance with primary data correlation coefficient of 0.636; 0.546 while secondary data coefficient was 0.587. Both primary and secondary data coefficients' were positive and significantly related with financial performance. This was evidenced by the primary and secondary data p-values of 0.000 which is less than that of critical value (0.05).

#### **4.14.4 Managerial Shareholding on Financial performance**

Managerial shareholding was assessed using ten measures and the overall mean score of responses regarding managerial shareholding was 4.08 on a 5 point scale which indicates that majority of the respondents agreed that managerial shareholding is a key determinant on financial performance of a firm. Factor analysis was conducted on the ten measure and the results indicated that there were two critical factors from management shareholding that were affecting financial performance of listed firm which accumulated to 69.383% of the total variance in this construct. Factor I had the highest variance of 52.217 % while factor 2 had 17.165%. These factors were named as commitment and shares held. A scale of 1-5 was created and all the means of all the items in each component were analysed. The two factors mean score of 4.06 and 2.61 respectively. Correlation results indicated that there is a positive and significant relationship between management Shareholding and financial performance. This was supported by correlation analysis results which indicated coefficient of 0.246; 0.273 primary data while secondary data coefficient was 0.442. This was also evidenced by the p values of 0.012, 0.004 and 0.011 primary and secondary data respectively which were less than that of critical value (0.05).

#### **4.14.5 Summary of key findings**

##### **a) Secondary data**

The results of secondary data are summarized in terms of Return on Assets, Return on Equity and Earnings per share. Return on assets had a coefficient of determination R square of 0.224 which indicates that ownership structure explains 22.4% of return on assets of listed firms. This is an indication of a positive relationship between ownership structures and return on assets which is further supported by an F statistics of 16.941 and a significance of 0.0213 which is less than the critical value of 0.05 meaning that we fail to accept the null hypothesis that ownership structure has no relationship with return on assets and we accept the alternative hypothesis that there is a significant positive relationship between ownership structures and return on assets.

Return on Equity had a coefficient of determination R square of 0.327 which indicates that ownership structures explains 32.7% of return on equity of listed firms. We conclude that there is a significant positive relationship between ownership structures and return on equity as supported by F statistics of 15.941 and a significance of 0.032 which is less than the critical value of 0.05. Therefore the null hypothesis is not supported and hence we accept the alternative hypothesis that there is a positive relationship between ownership structures and return on equity.

Earnings per share had a coefficient of determination R square of 0.276 which indicates that ownership structures explain 27.6% of earnings per share of listed firms. We conclude that there is a significant positive relationship between ownership structures and earnings per share as evidenced by F statistics of 11.931 and a significance of 0.002 which is less than the critical value of 0.05. Null hypothesis that there is no relationship between ownership structures and earnings per share is therefore rejected and alternative hypothesis that there is a significant positive relationship between ownership structures and earnings per share is accepted.

The parameters of financial performance, that is ROA, ROE and EPS were collapsed to one dependent variable financial performance and regressed against independent variables. The results indicated that, Government ownership was found to have a significant effect on financial performance ( $\beta= 0.024$   $t= 0.364$ ;  $P0 < 0.48$  at 0.05 level of significance) while at level of significance of 0.05(5%). Local ownership was found to have a significant effect on financial performance ( $\beta= 0.037$ ;  $t=0.742$ ;  $P0 < 0.026$  at 0.05 level of significance). Foreign ownership was found to have a significant effect on financial performance ( $\beta= 0.442$ ;  $t= 1.024$ ;  $P0 < 0.011$  at 0.05 level of significance) and finally managerial shareholding was also found to have a significant effect on financial performance ( $\beta= 0.442$ ;  $t= 1.024$ ;  $P0 < 0.011$  at 0.05 level of significance).

#### **b) Primary data**

The coefficient of determination R square and correlation coefficient (r) shows the degree of association between the independent variables and dependent variable. The results of the multiple regression indicate  $R^2 = .584$  and adjusted  $R = .568$ . This is an indication that there is a strong relationship between independent variables and financial performance. From the model summary table below adjusted  $R^2$  was 0.584 this indicates that ownership structure explain 58.4% of financial performance of firms listed in the Nairobi. This is further supported by the significance of the F-statistic 0.009 is less than 0.05 for all independent variables meaning that null hypothesis is rejected and concludes that there is a relationship between different ownership structures and firms financial performance.

The Government ownership was found to have a significant effect on financial performance ( $\beta= 0.224, 0.152$ ;  $t= 2.111, 4.157$ ;  $P0 < 0.037, 0.49$  at 0.05 level of significance) while at level of significance of 0.05(5%). The findings are supported by Mei Yu (2013) who found that a higher degree of government ownership is superior because of the benefits of government support and political associations. Ongore, K'Obonyo and Ogutu (2011) analysed ownership identity of forty-two firms in Kenya based on five elements: government; foreign; institution; diverse; and manager (insider) and found that there was a significant negative

relationship between government ownership and firm performance. Government ownership enhances firm's performance as apart from government controlling, the government has the ability to appoint board members, senior management and make major decisions (Dewenter & Malatesta, 2001)

Local ownership was found to have a significant effect on financial performance ( $\beta=0.149, 0.283$ ;  $t= 2.588, 4.157$ ;  $P< 0.42, 0.013$  at 0.05 level of significance) while at level of significance of 0.05(5%). The study findings are supported by Kiruri (2013) who found that local ownership had positive and significant effects on the banks profitability and concluded that higher local ownership can lead to higher profitability in commercial banks. Kapopoulos and Lazaretou (2006) study for 175 Greek firms found that a more concentrated local ownership structure positively relates to higher firm performance.

Foreign ownership has a significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya at ( $\beta=0.296, 0.298$ ;  $t= 2.898, 2.740$ ;  $P< 0.005, 0.007$  at 0.05 level of significance). Bijsterbosch and Kolasa (2010) supports the study findings by noting that the catching-up process in Central and Eastern Europe coincided with large inflows of foreign direct investment.

Finally at level of significance of 0.05(5%), managerial shareholding was found to have statistically significant effect on financial performance ( $\beta= 0.227, 0.170$ ;  $t= 2.143, 2.082$ ;  $P< 0.034, 0.024$  at 0.05 level of significance).The findings are supported by Mokaya and Jagongo (2015) who revealed that management owning a company's shares can serve to better put in line managers' interests with those of the shareholders. Gloria (2007) noted that managers work better in an environment where they are afforded an opportunity to own shares of the firm, then allowed freehand to exercise their professional judgment without undue influence from shareholders.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of major findings of the study, relevant discussions, conclusions and the necessary recommendations. The study sought to establish the effects of ownership structure on financial performance of companies listed in Nairobi Securities exchange. The summary is done in line with the objectives of the study based on the output of the descriptive and inferential statistical analyses guided to test the research hypothesis of the study. Each recommendation traces directly to each conclusion in line with practice and policy.

#### **5.2 Summary**

The findings of the study has been summarized below as per the study objectives. The findings were supported by the frequencies of the responses from the respondents which were presented in the form of percentages and mean scores.

##### **5.2.1 Government Ownership Structure and Financial Performance**

The first objective of the study was to evaluate the effect of government ownership on financial performance of firms listed in Nairobi Securities Exchange in Kenya. Methods used to arrive at the findings included descriptive statistics, parametric analysis and regression analysis. The study found out that government ownership structure had a significant positive influence on firm's financial performance.

The overall mean score of responses regarding Government ownership indicated that majority of the respondents agreed that Government ownership affects the financial performance of a firm. Reliability analysis results showed that all the coefficients of the constructs were positive and significant. This can be attributed to the fact that government owned companies are under constant vigilant by both government and public investors and that they enjoy the advantages of massive government resources and business opportunities compared to private companies. Further from reviewed

studies it was evidenced that government played a crucial role in controlling, appointing board members, senior management and making major decisions such as contract awards, strategy, restructuring and financing, acquisitions and divestments which enhances performance. However when other factors like managerial shareholding and foreign ownership were factored in the government ownership had the least significant positive contribution to firm's financial performance.

### **5.2.2 Local Ownership and Financial Performance**

The second objective of the study sought to analyse the effect of local ownership on financial performance of firms listed in Nairobi Securities Exchange in Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that local ownership had a significant positive influence on firm's financial performance.

The overall mean score of responses regarding local ownership and financial performance indicated that majority of the respondents agreed that local ownership is a key determinant on financial performance of a firm. Correlation results indicated that there was a positive and significant relationship between local ownership structure and financial performance. It was therefore concluded that local ownership had significant positive effect on financial performance.

This can be attributed to the fact that local ownership may be more knowledgeable about the local environment than foreign investors which facilitate the companies to have local networks and collaborations which promote their turnover. Further it enables the company enjoy good public images, get funding from local financial institutions and get tax exemptions and subsidies from the government.

### **5.2.3 Foreign Ownership on Financial Performance**

The third objective of the study sought to establish the effect of foreign ownership structure on financial performance of firms listed in Nairobi Securities Exchange in Kenya. The study found that foreign ownership had significant positive effects on firm's financial performance. The overall mean score of responses regarding foreign

ownership and financial performance indicated that majority of the respondents agreed that foreign ownership structure is a key determinant on financial performance of a firm. Correlation analysis results indicated that foreign ownership structure was positive and significantly related to financial performance. Based on the results it was concluded that foreign ownership had a statistical significant effect on financial performance of firms listed in the Nairobi Securities Exchange.

This was attributed to the fact that foreign-owned firms can possess firm-specific advantages in form of better technological, financial, human expertise, experience, or resources, which give them more credibility and a stronger reputation than local firms enhancing them to achieve superior performance. This also enabled foreign owned firms to penetrate foreign market, attract highly qualified professional and to get foreign funding. Foreign ownership goes beyond financial contribution and extends to provision of managerial expertise and technical collaboration which helps them to increase the efficiency and effectiveness of the operational processes leading to improved financial performance.

When other factors like managerial shareholding, government ownership and local ownership were factored in, foreign ownership had the highest significant positive contribution to firm's financial performance.

#### **5.2.4 Managerial Shareholding and Financial Performance**

The fourth objective of the study sought to establish the effect of managerial shareholding on financial performance of firms listed in Nairobi Securities Exchange in Kenya. Methods used to arrive at the findings included descriptive statistics, parametric analysis and regression analysis. The findings indicated that managerial shareholding had a significant positive effect on financial performance of firms. The overall mean score of responses regarding managerial shareholding indicated that majority of the respondents agreed that managerial shareholding was a key determinant on financial performance of a firm. Correlation analysis results indicated that there was a positive and significant relationship between managerial shareholding and financial performance. Therefore it can be concluded that

managerial shareholding have statistically significant effects on financial performance of listed firms.

From respondents and reviewed studies this can be attributed to the fact that managers are monitored by a number of external control mechanisms, such as the market forces and also by internal control mechanisms, such as compensation and rewards incentives which prevents the managers from seeking their own advantages. Management are also highly qualified professional employed on merit and sometimes they are given a better working environment where they are afforded an opportunity to own shares of the firm, freehand to exercise their professional judgment without undue influence from shareholders resulting to improved financial performance.

### **5.3 Conclusions**

The focus of the study was to establish the effects of ownership structures on financial performance of firms listed in Nairobi securities. Data collected and analysed through both descriptive and inferential statistics established that all ownership structures had a significant effects on firm's financial performance. The coefficient of determination  $R^2$  and correlation coefficient ( $r$ ) was ( $R^2 = .584$ ) showing that there was a strong relationship between ownership structures and financial performance of listed firms. Therefore it can be concluded that different ownership structures were statistically significant in explaining the financial performance of firms listed in NSE.

#### **5.3.1 Government Ownership Structure and Financial Performance**

Our first hypothesis,  $H_{01}$ ; was Government ownership has no significant effect on financial performance of firms listed in the Nairobi Securities Exchange in Kenya. When this hypothesis was tested the Government ownership was found to have a significant statistical effect on financial performance of listed firms. Therefore, it can be concluded that government ownership was statistically significant in explaining the financial performance of firms listed in the Nairobi security exchange.

### **5.3.2 Local Ownership structure**

Our second hypothesis: H<sub>02</sub>: was Local ownership has no significance effect on financial performance of firm listed in the Nairobi Securities Exchange. When the hypothesis was tested the results indicated that local ownership structure had a positive effects on the financial performance of listed firms Therefore, it can be concluded that local ownership was statistically significant in explaining financial performance of firms listed in Nairobi securities exchange in Kenya.

### **5.3.3 Foreign Ownership Structure and Financial Performance**

Our third hypothesis H<sub>03</sub>: Foreign ownerships have no significant effect on financial performance of firms listed in the Nairobi Securities exchange. When this hypothesis was tested results indicated that foreign ownership structure had a positive contribution to financial performance of listed firms..Hence, it can be concluded that foreign ownership was statistically significant in explaining financial performance of listed firms in NSE

### **5.3.4 Managerial Shareholding and Financial Performance**

Our fourth hypothesis H<sub>04</sub>: Managerial shareholdings have no significant effect on financial performance of firms listed in the Nairobi Securities exchange. When the hypothesis was tested the results indicated that managerial shareholding had a positive contribution to financial performance of listed firms. Therefore it can be concluded that managerial shareholding was statistically significant in explaining financial performance of firms listed in Nairobi Securities exchange.

## **5.4 Recommendations**

### **5.4.1 Government Ownership**

There is a generally accepted view that Government firms are inefficient due to wide separation between ownership and control which makes it difficult to monitor managers. However since the initiation of economic reforms, several changes have taken place in the corporate environment, corporate structure and even government

policies relating to corporations. This has posed a new challenge to those government owned firm which are not performing and they are continuously being targeted for privatization.

The study therefore recommends that, the government should consider infusing private sector-like management systems and progress the divestiture program to attract more private individuals and institutions to co-own the state corporations. Further the government should consider incorporating trainings on entrepreneurial skills and business acumen to make government owned firms to have advantage in terms of management. In conclusion the study recommends that ownership structure in Kenya should be restructured to reduce government ownership further to pass more control and decision making to private investors. However, the government should retain some ownership in foreign and local firms to enhance shareholders confidence, protection of investments and managerial monitoring.

#### **5.4.2 Local Ownership**

After scrutinizing the Nairobi securities exchange in Kenya there was overwhelming evidence that investing in financial markets is no longer a preference of Government, Institution and Foreigners, even small local investors have taken the challenge as evidenced by KEN- GEN and Safaricom initial public offerings unlike before. This undeniable evidence coupled with deregulations and automation of financial markets suggests that there are rapid significant change in the trend and patterns of investments in the financial markets. Due to changing economic environment, change in technology, deregulation and automation of financial markets, problems of information asymmetry have drastically reduced, resulting to empowerment of all categories of investors to access the financial market with ease looking for investment opportunities.

The study therefore recommends that the government and policy makers should ensure that strategies adopted are directed at ensuring that firms do not just grow in age but rather grow faster in size and that ownership does not grow among few owners but rather spread out to many as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm

performance.. Further the government should consider adoption of combination of different ownership structure as a strategy to gain competitive advantage both in domestic and foreign markets. Different investors bring on board a wide variety of skill and resources which can significantly impact on their financial performance of government owned firms. Such resources include adaption new technology and globally tested management practices enjoyed by foreign owned firms, incorporating a strategic institutional investor to attract managerial and technical expertise crucial to improve governance and financial performance.

### **5.4.3 Foreign Ownership**

From the reviewed literature, it was observed that the catching-up process in Central and Eastern Europe was associated with large inflows of foreign direct investment (FDI) (Bijsterbosch & Kolasa, 2010). The result of this process is that around 44 % of firms operating in the industry of Slovak Republic are wholly or partially foreign-owned. Further, Central and Eastern Europe countries have been persistently trying to enhance the attractiveness of their investment environment since the 1990 to attract foreign investors.

Based on the above findings, the study recommends that policy makers should create a conducive environment which attracts foreign investors as it noted that foreign investors can possess firm-specific advantages that are not available to domestic firms, and thus achieve superior performance (Caves, 2007). Huang and Shiu (2009) state that foreign investors may have better technological, financial, or human expertise, experience, or resources, which give them more credibility and a stronger reputation than domestic entrepreneurs.

Due to the changing business environment coupled with global completion and deregulation which opens opportunities for investment globally, the study recommends that there is need of having investor across all the economy ranging from Government, Foreigners and even local investors. This is because there is a unique contribution by each ownership structure in enhancing firm's financial performance in a competitive investment arena.

The study recommendations' supports Greenaway, Guariglia, and Yu (2014), who examined the relationship between the degree of foreign ownership and performance in Chinese firms, and found that joint ventures perform better than both wholly foreign-owned and wholly domestic firms.

#### **5.4.4 Managerial shareholding**

The Stakeholder's theory emphasizes that shareholders and management must engage each other in making managerial decision as part of the strategic planning process which is imperative to successful long-term planning. If managers and shareholders' interests are not completely aligned, higher stake in the company can give managers greater freedom to pursue their own goals without fear of reprisal.

Therefore the study recommends that in addition to incentive pay, the shareholdings of managers should be encouraged as a good incentive mechanism to help the management and the shareholders to become united to promote the interest of both so that the managers will pay attention to the development of long-term interests of the company contributing to achievement of the contract objectives. According to Mokaya and Jagongo (2015) better overlap between ownership and control should indeed lead to a reduction in conflicts of interest therefore higher firm value.

The study further recommends that the shareholders should put in place corporate governance mechanisms that put in line managers' interests with those of the shareholders of the company, as this will make managers pay more attention and emphasis on long term development of the firm. Ongore (2011) asserts that managers work better in environment where they are afforded an opportunity to own shares of the firm then allowed freehand to exercise their professional judgment without undue influence from shareholders.

## **5.5 Areas for further research**

The study only reviewed a sample of publically listed firms and did not cover private or small firms; therefore the study recommends a further study to be carried out to include private and small firms to enable generalization of the results of effects of ownership structure on financial performance of firms.

The study focused only on the financial performance of firms and ignored the non-financial goals which can be of critical importance to ownership structures. Therefore, the study recommends future study to take into account both financial and non-financial goals and assess them in firms having different ownership structures.

The study only collected information and views from the company's financial statements and their employees and ignored other interested stakeholders and therefore the study recommends that future studies should incorporate the views of other outside stakeholders and investors as they play a significant role in the performance of the company.

The study found out that different ownership structures significantly influenced financial performance of firms but did not come up with any minimum threshold of different ownership structures that can guide regulatory bodies in forming a policy of the required minimum threshold of different shareholding required for a firm to be listed. Further studies should be carried out to establish minimum required threshold of different ownership structure for to enhance financial performance of listed firms. Further arising from the findings and the gaps in this study, a replica study is recommended in other firms in order to test whether the conclusions of this study will hold true.

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## APPENDICES

### Appendix A: Letter of Introduction

Dear Sir/Madam,

#### RE: RESEARCH QUESTIONNAIRE

My name is Peter Ndungu Ng'ang'a a PhD candidate in the School of Human Resource Development at the Jomo Kenyatta University of Agriculture and Technology. I am conducting a study concerning: *Effect of Ownership structures on financial performance of firms listed in Nairobi securities exchange in Kenya*. Due to the nature of the information required, I have selected you as my study respondent. Please, take your time to answer the questions in this questionnaire by indicating the extent to which you agree or disagree with a given statement on the space provided. Answers given will be kept strictly CONFIDENTIAL and will be used for academic purposes only. Your answers will be crucial in giving insight knowledge on how ownership structures affect financial performance of listed firm and enable potential investor to make informed judgment on spreading their investment portfolios.

Your participation in this study is highly appreciated, but should you require any clarification or have queries, please do not hesitate to contact me on the mobile telephone and email address below. Thanking you in advance for your kind co-operation.

Yours sincerely,

**Peter Ndungu Ng'ang'a**

**HD433-C005-2451/2010**

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## Appendix B: Questionnaire

My name is Peter Ndungu Ng'ang'a, a PhD candidate in the college of Human Resource Development at the Jomo Kenyatta University of Agriculture and Technology. I am conducting a research study concerning "*effect of ownership structures on financial performance of listed firms in Nairobi securities' exchange in Kenya*". Due to the nature of the information required, I have selected you as my study respondent. Please, take a few minutes to answer the questions in this questionnaire. Answers given would be kept completely **confidential** and used for academic purposes only.

### SECTION A: GENERAL INFORMATION

#### Section A: Company Description

A1 Briefly highlight the main business of your company and the sector it operates in

Main business: \_\_\_\_\_

Sector: \_\_\_\_\_

## B GOVERNMENT OWNERSHIP

B) Indicate your level of agreement with the following statements by ticking the column that best reflects your opinion. (Strongly agree- SA, Agree –A, Undecided- U, Disagree-D, Strongly disagree- SA)

	Statement	SA	A	U	D	SD
B1	Government plays pivotal role in making the company financial decision.					
B2	Government policies are merged with strategic plan in making financial decisions of the company					
B3	Government pronouncement affects financial performance of the company					
B4	Government facilitates the company to get government tenders.					
B5	Government influences the stability of the company share prices					
B6	Government reduces agency costs of the company					
B7	Government participates in control and monitoring of management.					
B8	Government enables the company to get government loans and subsidies.					
B9	Government gives a positive public image and confidence to investors.					
B10	Government employs qualified professional in management.					

### C LOCAL OWNERSHIP

C Indicate your level of agreement with the following statements by ticking the column that best reflects your opinion.( **Strongly agree- SA, Agree –A, Undecided- U, Disagree-D, Strongly disagree- SA**)

	Statement	SA	A	U	D	SD
B1	Local shareholding enables the company to win local tenders.					
B2	Local shareholding promotes public images which attracts good investors.					
B3	Local shareholding enables the company to get funding from local financial institutions which reduces working capital problems					
B4	Local shareholding enhances company reputation and increases the company turnover					
B5	Local shareholding helps the company to dominate local markets.					
B6	Local shareholding helps our company to get tax exemptions and subsidies from the government.					
B7	Local shareholding facilitates our company products to do very well locally.					
B8	Local shareholding influences the share prices of our company					
B9	Local shareholding helps to attracts qualified personnel in management.					
B10	Local shareholding facilitates our company to have local networks and collaborations.					

## D FOREIGN OWNERSHIP

D) Indicate your level of agreement with the following statements by ticking the column that best reflects your opinion. (Strongly agree- SA, Agree –A, Undecided- U, Disagree-D, Strongly disagree- SA)

	Statement	SA	A	U	D	SD
D1	Foreign shareholding enables our company to penetrate foreign market.					
D2	Foreign shareholding enables our company to attract highly qualified professional in management					
D3	Foreign shareholding enables our company to get foreign funding.					
D4	Foreign shareholders contribute their expertise and experience to the company.					
D5	Foreign shareholders emphasises on the company setting performance targets.					
D6	Foreign shareholding helps in monitoring and evaluation of the company activities.					
D7	Foreign shareholding helps company in establishing collaborative linkages and networks.					
D8	Foreign shareholding influences the stability of share prices of a company					
D9	Foreign shareholding reduces the agency costs by setting standard systems and procedures.					
D10	Foreign shareholding advocates on adoption of new technology which is highly productive.					

## E MANAGERIAL SHAREHOLDING

Indicate your level of agreement with the following statements by ticking the column that best reflects your opinion. (Strongly agree- SA, Agree –A, Undecided-U, Disagree-D, Strongly disagree- SA)

	Statement	SA	A	U	D	SD
C1	Our company has Share ownership policy scheme for management					
C2	Share ownership plan scheme encourages management to own company shares					
C3	Management influences the distribution of shares in our firm					
D4	Shares held by management has been increasing for the last five years					
C5	Management of our firm incorporates shareholder views in decision making					
C 6	Management constantly reviews financial decisions to cope up with changing environment					
C7	Management in our company are highly committed in implementing financial decisions					
C8	Majority of our management are shareholders representatives					
C9	Majority of management are independent members outside owners and shareholders					
C10	Management are highly qualified professional employed on merit					

**F FINANCIAL PERFORMANCE**

Indicate your level of agreement with the following statements by ticking the column that best reflects your opinion. (Strongly agree- SA, Agree –A, Undecided-U, Disagree-D, Strongly disagree- SA)

	Statement	SA	A	U	D	SD
F1	Share ownership policy for management have reduced agency problems resulting to increase of revenue for the last five years					
F2	Strictly adherence to International Financial Reporting standards and hardly engaging in window dressing and manipulation of financial information has led to increased profitability for the last five years					
F3	The Company strictly adheres to legal stipulations and guidelines when procuring assets has resulted to increase of quality assets for the last five years					
F4	The Company’s opportunities and risks information provided in the annual report has greatly contributed to the increase of investor for the last five years					
F5	The company’s forward-looking information providing balanced highlights of positive and negative events has helped our Earnings per share to improve for the last five years					
F6	Company’s sound acquisition, usage and disposal policy on asset has led to increase of return on assets for the last five years.					
F7	Shareholders inclusion and participation in company financial decision making has resulted to increase of return on equity for the last five years					

**THANKYOU**

## Appendix C: Secondary Data Collection Sheet Guide

### SECONDARY DATA COLLECTION SHEET

This sheet was used by the researcher to collect secondary data among the thirty nine selected companies which formed the sample size of the study. The data collected was based on seven important variables which included: Sales, total Assets, Profitability, Equity, Earnings per share, and Shares held by Management. The variables helped the researcher to analyze the financial performance in terms of Return on Equity, Return on Assets and Earnings per share. The companies were categorized according into: Government, Local and Foreign ownership. A table was used to collect the data for the duration of the study.

### PROFITABILITY/ASSETS/EQUITY

#### PROFITABILITY GOVERNMENT IN MILLIONS

COMPANIES	2010	2011	2012	2013	2014
<b>KENYA POWER</b>	5633	6255	8507	6424	6456
<b>PORTLAND CEMENT</b>	(339)	(119)	(1032)	1419	(374)
<b>KENYA AIRWAYS</b>	2671	5002	2146	<b>(1083)</b>	<b>(4861)</b>
<b>NATIONAL BANK</b>	2699	2444	1147	1089	717
<b>KENYA RE-INSURANCE</b>	1660	2037	2945	3269	3919
<b>TOTAL</b>	<b>12324</b>	<b>15619</b>	<b>13713</b>	<b>11118</b>	<b>5857</b>
<b>AVERAGE</b>	<b>2464.8</b>	<b>3123.8</b>	<b>2742.6</b>	<b>2223.6</b>	<b>1171.4</b>

**PROFITABILITY FOREIGN IN MILLIONS**

<b>COMPANIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>BOC KENYA</b>	1146	2149	2866	3083	2779
<b>MARSHALL</b>	1042	1369	1285	1302	2242
<b>BAMBURI CEMENT</b>	7564	8466	7176	5516	5801
<b>BACLAYS BANK</b>	1355	1207	1302	1192	1294
<b>BAT KENYA</b>	2723	4484	3221	3724	4255
<b>STANDARD CHARTED</b>	7768	8255	1155	1335	4235
<b>CROWN PAINTS</b>	1695	2005	2242	3334	1515
<b>TOTAL KENYA</b>	1388	5785	(6430)	2085	2276
<b>REA VIPINGO</b>	1039	6788	5553	6479	5308
<b>BRITAM</b>	5483	(1957)	2519	1219	3213
<b>SCAN GROUP</b>	8384	1280	1095	1038	9123
<b>KAKUZI LTD</b>	3886	6444	4087	2393	2328
<b>I&amp;M HOLDINGS</b>	2525	3473	4119	4975	1203
<b>LIBERTY KENYA</b>	2600	9504	8578	1106	1149
<b>TOTAL</b>	<b>48598</b>	<b>59152</b>	<b>38768</b>	<b>38781</b>	<b>46721</b>
<b>AVERAGE</b>	<b>3471.3</b>	<b>4225.1</b>	<b>2769.1</b>	<b>2770.0</b>	<b>3337.2</b>

**PROFITABILITY LOCAL IN MILLIONS**

<b>COMPANIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>UNGA GROUP</b>	3351	6311	5126	3895	5677
<b>UCHUMI</b>	4332	5148	4033	3570	3843
<b>SEMEER AFRICA</b>	6219	1484	2988	4565	(6946)
<b>KENOL KOBIL</b>	2698	5549	(1061)	5639	1521
<b>E.A.CABLES</b>	2586	4647	7532	5854	5075
<b>PAN-AFRICAN INSUARANCE</b>	6652	5524	6002	1514	1153
<b>STANDARD GROUP</b>	2146	2321	2654	3007	3261
<b>E.AFRICAN BREWERIES</b>	1257	1226	1525	1111	1041
<b>DIAMOND TRUST</b>	3463	4307	6028	7235	8521
<b>CO-OPERATIVE BANK</b>	5772	6363	9984	1087	1092
<b>TPS E.A LTD</b>	6929	8531	7215	7557	2205
<b>CIC INSURANCE</b>	4865	5842	1388	1305	1088
<b>SASINI</b>	1382	1014	(8523)	1584	6179
<b>OLYMPIA</b>	6480	3514	2425	7884	5006
<b>CFC STANBIC</b>	1787	1839	3009	5127	5687
<b>ARM CEMENT</b>	7920	1151	1246	1349	1493
<b>CENTUM INVESTMENT</b>	1094	2292	1189	2509	3055
<b>EQUITY BANK</b>	7132	1033	1208	1328	1715
<b>TRANSCENTURY LTD</b>	6306	8693	1226	8586	(2114)
<b>SAFARICOM KENYA</b>	2097	1836	1739	2545	3498
<b>TOTAL</b>	<b>81882</b>	<b>78625</b>	<b>54536</b>	<b>77251</b>	<b>46450</b>
<b>AVERAGE</b>	<b>4094.1</b>	<b>3931.25</b>	<b>2726.8</b>	<b>3862.55</b>	<b>2322.5</b>

**ASSETS GOVERNMENT**

<b>COMPANIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>KENYA POWER</b>	8503	1199	1341	1772	2201
<b>PORTLAND CEMENT</b>	(3386)	(1191)	(1033)	1419)	(3737)
<b>KENYA AIRWAYS</b>	2671	5002	2146	<b>(1082)</b>	<b>(4861)</b>
<b>NATTIONAL BANK</b>	6003	6864	6715	9249	1091
<b>KENYA RE- INSUARANCE</b>	1724	1909	23,78	27,62	32,17
<b>TOTAL</b>	<b>22287</b>	<b>16165</b>	<b>13613</b>	<b>16284</b>	<b>15107</b>
<b>AVERAGE</b>	<b>4457.4</b>	<b>3233</b>	<b>2722.6</b>	<b>3256.8</b>	<b>3021.4</b>

## ASSETS FOREIGN

<b>COMPANIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>BOC KENYA</b>	1905	1817	1995	2,633	2300
<b>MARSHALL</b>	3505	3779	3426	3189	3158
<b>BAMBURI CEMENT</b>	3330	3350	4304	4302	4099
<b>BACLAYS BANK</b>	1724	1670	1848	2067	2258
<b>BAT KENYA</b>	7015	8409	9124	1021	1107
<b>STANDARD CHARTED</b>	1427	1640	1954	2204	7259
<b>CROWN PAINTS</b>	1972	2215	2258	2945	3853
<b>TOTAL KENYA</b>	3038	3519	3298	3998	3254
<b>REA VIPINGO</b>	1707	22897	2377	2797	3203
<b>BRITAM</b>	2536	2564	3582	4690	7245
<b>SCAN GROUP</b>	8009	8489	8646	1294	1328
<b>KAKUZI LTD</b>	2835	3466	3426	3570	3680
<b>I&amp;M HOLDINGS</b>	8688	1081	1447	1412	1806
<b>LIBERTY KENYA</b>	2382	2382	2737	3145	3319
<b>TOTAL</b>	<b>50073</b>	<b>67278</b>	<b>500422</b>	<b>39267</b>	<b>47869</b>
<b>AVERAGE</b>	<b>3576.6</b>	<b>4805.6</b>	<b>3601.6</b>	<b>2804.8</b>	<b>3419.2</b>

## ASSETS LOCAL

COMPANIES	2010	2011	2012	2013	2014
UNGA GROUP	5064	5709	6410	8108	8027
UCHUMI	3154	4005	4942	5574	6885
SEMEER AFRICA	2845	3125	3399	3668	3857
KENOL KOBIL	1334	5406	3796	2812	2395
E.A.CABLES	4518	4993	6249	6840	7889
PAN-AFRICAN INSUARANCE	1067	1149	1647	2116	2459
STANDARD GROUP	5422	3512	3502	4162	4102
E.AFRICAN BREWERIES	2674	3421	3169	3111	3541
DIAMOND TRUST	8360	1078	1355	1665	2115
CO-OPERATIVE BANK	1543	1683	2009	2312	2827
TPS E.A LTD	1027	1152	1144	1352	1317
CIC INSURANCE	7496	1112	1406	1709	2369
SASINI	9099	9462	8923	9054	1493
OLYMPIA	9741	1074	1621	1897	1576
CFC STANBIC	1401	1502	1432	1805	1809
ARM CEMENT	1336	2055	2659	2971	3691
CENTUM INVESTMENT	8256	1230	1157	1896	2959
EQUITY BANK	1430	1963	2431	2777	3446
TRANSCENTURY LTD	1124	2242	2185	2384	1946
SAFARICOM KENYA	7030	7974	8428	9227	9634
<b>TOTAL</b>	<b>83921</b>	<b>63847</b>	<b>67864</b>	<b>75440</b>	<b>74337</b>
<b>AVERAGE</b>	<b>4196.1</b>	<b>3192.4</b>	<b>3393.2</b>	<b>3772.0</b>	<b>3716.8</b>

## EQUITY GOVERNMENT

<b>COMPANIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>KENYA POWER</b>	28741	39743	43512	47401	48787
<b>PORTLAND CEMENT</b>	57012	56162	46014	70903	67047
<b>KENYA AIRWAYS</b>	19973	23143	23023	31209	28229
<b>NATTIONAL BANK</b>	99296	10456	10449	11888	12224
<b>KENYA RE- INSUARANCE</b>	10573	11526	14613	16994	19991
<b>TOTAL</b>	<b>215595</b>	<b>141030</b>	<b>137611</b>	<b>178395</b>	<b>176278</b>
<b>AVERAGE</b>	<b>43119</b>	<b>28206</b>	<b>27522.2</b>	<b>35679</b>	<b>35255.6</b>

## EQUITY FOREIGN

<b>COMPANIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>BOC KENYA</b>	14066	13286	14548	20761	17472
<b>MARSHALL</b>	19824	20606	18357	17543	18189
<b>BAMBURI CEMENT</b>	21626	24174	30861	31510	29119
<b>BACLAYS BANK</b>	31465	29223	29587	33272	38185
<b>BAT KENYA</b>	51143	64121	70980	75720	81270
<b>STANDARD CHARTED</b>	20331	20694	30753	36206	46432
<b>CROWN PAINTS</b>	90235	10524	11762	13617	13473
<b>TOTAL KENYA</b>	95798	91948	14193	15379	16425
<b>REA VIPINGO</b>	14259	18941	19801	23165	26820
<b>BRITAM</b>	10569	85574	12472	16395	21439
<b>SCAN GROUP</b>	35778	43549	48996	82518	85426
<b>KAKUZI LTD</b>	22105	27568	28012	29040	29847
<b>I&amp;M HOLDINGS</b>	13850	15167	19416	23678	14727
<b>LIBERTY KENYA</b>	46766	38656	45542	54649	61572
<b>TOTAL</b>	<b>487815</b>	<b>504031</b>	<b>395280</b>	<b>473453</b>	<b>500596</b>
<b>AVERAGE</b>	<b>34843.9</b>	<b>36002.2</b>	<b>28234.3</b>	<b>33818.1</b>	<b>35742.5</b>

## EQUITY LOCAL

COMPANIES	2010	2011	2012	2013	2014
UNGA GROUP	33647	37449	39679	42913	46872
UCHUMI	15389	22792	26578	29254	33573
SEMEER AFRICA	21681	22498	23267	26796	25364
KENOL KOBIL	12706	13698	74863	66663	73305
E.A.CABLES	22463	22738	29250	30665	30919
PAN-AFRICAN INSUARANCE	18325	21226	23733	33384	37776
STANDARD GROUP	53328	16541	18389	15829	17409
E.AFRICAN BREWERIES	23953	26889	87158	75986	91008
DIAMOND TRUST	10259	13249	18627	23744	32264
CO-OPERATIVE BANK	19980	20596	29367	36584	43331
TPS E.A LTD	74964	80472	81814	10556	10413
CIC INSURANCE	26091	42941	54709	63308	72074
SASINI	65294	67621	64268	63829	12121
OLYMPIA	47305	64725	10672	16365	11798
CFC STANBIC	24769	19329	27241	32426	36895
ARM CEMENT	46436	61025	71205	82237	23169
CENTUM INVESTMENT	78562	95594	10041	13643	20273
EQUITY BANK	27204	34285	42916	51555	63776
TRANSCENTURY LTD	52935	11085	12069	13218	11482
SAFARICOM KENYA	62295	67454	72082	80265	91236
<b>TOTAL</b>	<b>982586</b>	<b>762207</b>	<b>947736</b>	<b>809220</b>	<b>785058</b>
<b>AVERAGE</b>	<b>49129.3</b>	<b>38110.35</b>	<b>47386.8</b>	<b>40461</b>	<b>39252.9</b>

**SHARES HELD BY MANAGEMENT****GOVERNMENT OWNED COMPANIES.**

<b>Year/Company</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
National Bank					
Kenya Power					
Kenya Airways					
E.A Portland cement					
Kenya Re-Insurance					
<b>Totals</b>					
<b>Average</b>					

**LOCAL OWNED**

<b>Year/Company</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Equity Bank					
NIC Bank					
Kenol Kobil					
Housing Finance					
Semeer Africa					
Express Kenya					
Marshal E.A.					
Cooperative bank					
Standard chartered					
E .A .cables					
Pan-African Insurance					
National Media Group					
Unga Group					
E.A. Breweries					
Safaricom					
Longhorn					
National Oil					
Centum Investment					
Uchumi Supermarket					
Car& General					
<b>Totals</b>					
<b>Average</b>					

## FOREIGN OWNED

<b>Year/Company</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
BAT					
Bamburi Cement					
Kakuzi					
Uniliver					
Crown Paint					
Total Kenya					
BOC Kenya					
Backlays Bank					
Jubilee Insurance					
Diamond Trust					
Liberty Holdings					
Standard Chartered					
Scan Group					
I&M Holdings ltd					
<b>Totals</b>					
<b>Average</b>					

## EARNINGS PER SHARE

### GOVERNMENT OWNED COMPANIES.

<b>Year/Company</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
National Bank					
Kenya Power					
Kenya airways					
E.A Portland Cement					
Kenya Re-insurance					
<b>Totals</b>					
<b>Average</b>					

### LOCAL OWNED

<b>Year/Company</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Equity bank					
NIC bank					
Kenol Kobil					
Housing Finance					
Semeer Africa					
Express Kenya					
Marshal E.A.					
Cooperative Bank					
Standard Chartered					
E .A .Cables					
Pan-African Insurance					
National Media Group					
Unga group					
E.A. Breweries					
Safaricom					
Longhorn					
National Oil					
Centum Investment					
Uchumi Supermarket					
Car& General					
<b>Totals</b>					
<b>Average</b>					

### FOREIGN OWNED

<b>Year/Company</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
BAT					
Bamburi Cement					
Kakuzi					
Uniliver					
Crown Paints					
Total Kenya					
BOC Kenya					
Backlays Bank					
Jubilee Insuarance					
Diamond Trust					
Liberty Holdings					
Standard Chartered					
Scan Group					
I&M holdings ltd					
<b>Totals</b>					
<b>Average</b>					

## Appendix D: Sample Size

According Saunder *et. al.*, (2009) following formula to arrive at a sample

$$P\% \times q\% \times \frac{(z)^2}{e\%}$$

$$50\% \times 50\% \times \frac{n(1.96)^2}{5\%}$$

$$n = 0.5\% \times 0.5\% \times (39.2)^2$$

$$n = 0.5 \times 0.5 \times 1536.64$$

$$n = 385$$

$$n^1 = \frac{n}{1 + \frac{n}{p}}$$

$$n^1 = \frac{385}{1 + \frac{385}{44}}$$

$$n^1 = \frac{385}{1 + 8.75} = \frac{385}{9.75}$$

$$= \underline{39.45}$$

To assign the sample size to strata, proportionate stratification methodology was used where the sample size of each stratum was proportionate to the population size of the stratum as follows:

$$np = Np \times n$$

N

Where:

np = sample size for stratum p

Np = the population size for stratum p

N = total population size

n = total sample size

Category of ownership	$np = Np \times n$	Stratum Sample Size
Government ownership	$\frac{6}{44} \times 39$	= 5
Local ownership	Local $\frac{22}{44} \times 39$	= 14
Foreign ownership	$\frac{16}{44} \times 39$	= 20
<b>Total</b>	<b>N</b>	<b>= 39</b>

## Appendix E: Lists of Companies

	<b>COMPANY</b>	<b>YEAR OF LISTING</b>
	<b>GOVERNMENT OWNED FIRMS</b>	
1	Kenya Commercial Bank Ltd	1990
2	National Bank of Kenya Ltd	1994
3	Kenya Airways Ltd	1996
4	E. A. Portland Cement Co. Ltd	-
5	Ken Gen Co. Ltd	2006
6	Kenya Power & Lighting Co Ltd	1972
7	Kenya Re Insurance Corporation Ltd	-2004
8	Mumias Sugar Co. Ltd	2001
	<b>FOREIGN OWNED FIRMS</b>	<b>LISTED</b>
9	British American Tobacco K. Ltd	1969
10	Kakuzi Ltd	1957
11	Uniliver Ltd	1972
12	The Limuru Tea Co. Ltd	1967
13	Rea Vipingo Plantations Ltd	1996
14	Williamson Tea Kenya Ltd	1972
15	Barclays Bank of Kenya Ltd	1986
16	Bamburi Cement Ltd	1970
17	Crown Paints Kenya Ltd	1992
18	Total Kenya Ltd	1988
19	Umeme ltd	2012
20	Liberty Kenya holdings	2012
21	Scan group Ltd	2006
22	Kenya Orchard ltd	1959
23	Bauman &co. Ltd	1948
24	Marshals ltd	1969
25	Standard Chartered ltd	1954
26	Jubilee Holdings ltd	1984
27	Diamond Trust ltd	1972
28	BOC Kenya ltd	1969
29	I &M Holdings Ltd	2013

30	Hutchings Biemier Ltd	
	<b>LOCAL OWNED FIRMS</b>	<b>LISTED</b>
31	Sasini Ltd	1965
32	Marshalls (E.A.) Ltd	1969
33	Sameer Africa Ltd	1994
34	Diamond Trust Bank Kenya Ltd	1972
35	Equity Bank Ltd	2006
36	Housing Finance Co. Kenya Ltd	1992
37	NIC Bank Ltd	1971
38	The Co-operative Bank K. Ltd	2008
39	Express Kenya Ltd	1978
40	Nation Media Group Ltd	1973
41	Olympia Capital Holdings Ltd	2006
42	Standard Group Ltd	1954
43	TPS Eastern Africa Ltd	1997
44	ARM Cement Ltd	1997
45	E.A.Cables Ltd	1973
46	Kenol Kobil Ltd	
47	Pan Africa Insurance Holdings Ltd	1963
48	City Trust Ltd	1950
49	Eveready East Africa Ltd	2006
50	Car & General (K) Ltd	1940
51	Unga Group Ltd	1971
52	Centum Investment Co Ltd	1977
53	Eaagads ltd	1950
54	Access Kenya ltd	2007
55	CMC Holdings ltd	1950
56	CFC Bank ltd	1970
57	East African Breweries Ltd	1972
58	Uchumi Supermarket ltd	1992
59	Longhorn Kenya ltd	2012
60	Safaricom Kenya ltd	2008
61	National oil of Kenya ltd	

**SOURCE: NSE (2015)**

## Appendix F: Letter of Introduction



**JOMO KENYATTA UNIVERSITY  
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NAIROBI

DATE: 11<sup>th</sup> August 2015

JKU/25/HD433-C005-2451/2010

**To whom it may concern:**

Dear Sir/Madam,

**RE: PhD RESEARCH PROJECT FOR: PETER NDUNG'U NG'ANG'A**

This is to introduce to you **Mr. Ng'ang'a** who is a student pursuing Doctor of Philosophy degree in Business Administration in the Department of Entrepreneurship, Technology, Leadership, and Management in the School of Entrepreneurship, Procurement and Management, College of Human Resource Development at Jomo Kenyatta University of Agriculture and Technology.

The student is currently undertaking a research proposal on: **"The Effects of Ownership Structure on Financial Performance of Listed Firms at Nairobi Security Exchange in Kenya"** in partial fulfilment of the requirement for the programme.

The purpose of this letter is to request you to give the student the necessary support and assistance to enable him obtain the necessary data for the research. Please note that the information given is purely for academic purposes and will be treated with strict confidence.

Thank you.

Yours faithfully,

  
**Dr. Alice Simiyu**  
**Postgraduate Research Coordinator**  
**Department of Entrepreneurship, Technology, Leadership and Management**

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