EFFECT OF OWNERSHIP STRUCTURES ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN KENYA

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Signed: ……. Date……05/12/21…….

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ABSTRACT

Over the last decade, performance of listed manufacturing firms has been deteriorating with some companies almost collapsing. For instance, Mumias Sugar Company and Eveready have shown dismal financial performance. Prior studies have not addressed the effect of ownership structures on financial performance of manufacturing firms in Kenya. The main objective of the study was to determine the effect of ownership structures on financial performance of listed manufacturing firms in Kenya. Specifically, the study sought: to evaluate the effect of board shareholding on financial performance of listed manufacturing firms in Kenya, to explore the effect of foreign shareholding on financial performance of listed manufacturing firms in Kenya, to investigate the effect of institutional shareholding on financial performance of listed manufacturing firms in Kenya, to determine the effect of individual shareholding on financial performance of listed manufacturing firms in Kenya. This study was pegged on five theories; agency theory, stewardship theory, Stulz's Integrated Theory, stakeholder's theory and Resource based theory. This study was undertaken using a descriptive research design. The target population comprised of all seven listed manufacturing firms in Kenya that traded at NSE from 2010 to 2019. The study adopted a census method of data collection. This was made possible by the use of secondary data sheet. Data analysis was undertaken using panel data regression and data analysis results were presented on tables and graphs. The findings revealed that the model linking ownership structures and firm performance was significant. Moreover, the results revealed that foreign shareholding was inconclusive on the effect it has to the financial performance of listed manufacturing firms. Institutional shareholding has negative significant effect on the returns on assets while individual shareholding had a positive and significant effect on firm performance. This study recommended dispersed ownership as it improved financial performance of the manufacturing firms.

Keywords: Ownership Structure, Financial Performance, Manufacturing Firms, Board Shareholding, Foreign Shareholding, Institutional Shareholding and Individual Shareholding.

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DEDICATION

With gratitude, I dedicate this study to my husband, Mr. Michael Muema for constant and unwavering encouragement as I strived to write this study and make it a success story. You are the best! Also, I dedicate this paper to my children Joy and Prince who bore a hard time as I wrote this paper.

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ACRONYMS AND ABBREVIATIONS

BOC-	British Oxygen Company
CEO-	Chief Executive Officer
CMA-	Capital Markets Authority
IRA-	Insurance Regulatory Authority
NSE-	Nairobi Securities Exchange
OLS-	Ordinary Least Squares
ROA-	Return on Assets
FE-	Fixed Effects
RE-	Random Effects

OPERATIONAL DEFINITION OF TERMS

Ownership structure-Ownership structures are shareholding types that are in form of various categories of equity holders (Phung & Mishra, 2016).

Board shareholding-Board shareholding is that ownership in shares that the board and managers uptake (Tariq, 2018).

Foreign shareholding-Foreign shareholding indicates the ownership owned by foreign individuals and firms through equity or private equity (Mihai &Cosmin, 2013).

Institutional sharing- Institutional shareholding usually focus on how firms have invested in Institutional shareholdings; including banks, insurance companies, mutual funds and government that acquire stocks in manufacturing firms (Gugong, Arugu, & Dangago, 2014).

Manufacturing firms- These are businesses that engage in conversion of raw materials to finished products through processing and other value addition techniques (Saidu & Gidado 2018).

Financial performance - This is a process that rates the efficiency of management in achieving the goals of companies in respect to gearing ratios, investments ratios and returns (Pervan, Pervan & Curak 2017).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate owners are the ultimate controllers of firm's resources. Therefore, corporate ownership plausibly influences various perspectives of firm existence. The prime aim of many shareholders is to earn profits by delegating decision making to management (Carney, Estrin, Liang, & Shapiro, 2019). Firm decisions are made through delegated authority by shareholders to management. Ownership structures depict the ownership of firms be it in form of individuals and corporate. Those who provide equity for firms have the upper hand in making decisions that firm follow in investments. Moreover, those in management are not necessarily the owners and act on delegated authority from owners.

Management makes decisions based on what ultimate owners direct them to hence the notion that management acts on the best interest of those who own and control the firms (Phung & Mishra, 2016). In essence, this separation of owners and management presents interesting concerns on whether ownership and control play part in firm's financial performance over and above the decisions made by management. Managers are agent of owners of firms and all decisions they make are in line with the directives from owners who have ultimate control (Zhaoyang & Udaya, 2012). The primary role of control is to create free cash flows and competitive edge in a bid to foster performance of firms (Adamu & Haruna, 2020). Considering that control of firms lies in the decision of shareholders through the day to day running of operations done by management, the current study is out to assess if there is any effect of ownership structures on performance of listed manufacturing firms in Kenya.

Global literature indicates that various shareholders have different behaviours and influence corporate governance of firms in different ways. Mansur and Tangl (2018 notes that control by shareholders have a bearing on ethical standing of firms and this dictates the direction firms take in respect to management decisions. Moreover, close control of firms by shareholders depends on type of shareholders. Shareholders can propel companies to good practices which ensure that there are cash flows and investments are done in the most prudent manners.

According to Gurusamy (2017) the type of owner of a corporate entity is presumed to influence financial performance. For example, institutional ownership is linked to better performance as there is close and skilled control as opposed by control by promoters such as family and friends. Where shareholding is concentrated under promoters, this too may lead to leverage influence and this too has effect on strategic decisions and leverage of firms. Among Italian firms, promoter shareholding does not favour firm financial returns (Bianco & Casavola, 2016). Among Thailand firms, managerial shareholding, concentrated ownership and family shareholding have proven to be significant determinants of firm's sustainability both in terms of leverage and financial performance(Farooque, Buachoom, & Sun, 2019).

Firm ownership is a major concern as it has an impact on research and development that in turn affect firm returns. Innovation is a crucial aspect of firm competitiveness as it directly influences level of cost savings. Where owners are able to access R&D resources, efficiency is likely to be fostered and this can lead to improvement in firm profits. In China, for example, firm ownership structure is construed as a key component that define the innovativeness of firms (Zhou, Gao, & Hongxin, 2016).

In particular, government ownership does not enhance research and development hence rendering the firms inefficient. In situations where owners are innovative, management adopts new ways in production processes and this creates competitive advantages that ultimately increase efficiency (Alabdullah, 2018). Private ownership is often associated with more innovations and this can enhance performance and growth of firms. In this aspect therefore, state ownership fails to offer the efficiency that is so much need to improve performance and keep firms resilient in a competitive global market.

According to Gaur and Delios (2015) there is a direct link between ownership structure and international diversification among firms. International diversification refers to geographical expansion that surpasses the borders of a given country where a firm is domiciled. Firms that have foreign ownership are more likely to engage in international diversification thus facilitating exchange of skills and technology. Among Indian firms, it has been noted that there is a positive nexus between foreign ownership on diversification and this largely affects firm financial results (Gaur & Delios, 2015). Moreover, where there is so much concentrated local ownership, international diversification may be limited thus impeding on growth and firm performance. Manufacturing firms are prone to stiff competition since in most economic blocs, trade has been liberalized thus allowing free flow of imports and exports. Considering this fact, international diversification can aid in fostering competitiveness of firm's products leading to survival, growth and sustained profitability.

Firm ownership concentration is viewed as a key component in determining how firms survive financial crisis. Minichilli, Brogi and Calabro (2016) argued that concentrated ownership makes business decision making much more streamlined and this can enhance the results of investments.

For example, among Italian manufacturing entities, concentrated ownership through family ownership is pertinent towards improving response to crisis (Minichilli, Brogi, & Calabro, 2016). This is because consultations is fast and this has the effect of fostering performance. In contrast, dispersed ownership makes decision making a lengthy process limiting the ability to pick up opportunities and respond to threats in a timely manner. Proactive decision making in business is more effective when made at the right time as opposed to prescriptive actions whose impact is seldom felt.

Research carried out in Nigeria established that ownership structures are critical as they provide links between corporate governance and firm stability (Gugong, Arugu, & Dangago, 2014). This is because the efficiency upon which firm's strategic goals are sought is dependent on how interests of stakeholders are accounted for. For example, managerial shareholding can result to conflicts of interests and this can derail firm activities in pursuit of growth and sustainability of profits. In Ghana, ownership of firms in Ghana has been regarded as key component in financial results as owners have a direct control on corporate governance, what investments firms can undertake and that the different ownership of firms tends to create different agency problems as various owners have a different touch with management (Darko, Aribi, & Uzonwanne, 2016).

Resources equally play an important role in firm performance in different ways. Ownership of resources determines the ability of firms to venture into new markets and also conduct new product development (Lekaram, 2014). In a sector, like manufacturing that has stiff competition due to influx of cheap imports from other regional and global firms, it is critically important for firms to remain competitive. Undertaking competitive advantages require resources, most importantly, financial resources and plant and machinery that are apt and modern to enhance efficiency.

Firms have different innovations capacities and production capabilities depending on their size (Lin, Cheah, Azali, Ho, & Yip, 2019). Small firms are not able to exploit bigger market considering that an enlarged market require resources to attend to. On the other hand, larger firms are able to undertake more expansion activities thus building a strong competitive advantage as they are able to enjoy economies of scale.

Manufacturing firms are involved in various raw material conversion practices in order to turn them into value added products that meet customer expectations (Omesi & Ogaluzor, 2019). For example, a rise in demand for a certain product only creates a market for a firm if the firm is able to supply additional units as it is required in the market. Productivity and meeting unexpected demand changes are therefore intertwined. Moreover, productivity significantly depends on capacity in form of plan and machinery, human resources and financial resources.

Typically, for a manufacturing firm, firm size is proxied by total assets ownership (Kartikasari & Merianti, 2016). Total assets refer to all non-current and current assets. Assets are things of value that are used to provide a service or to provide an asset for the case of manufacturing entities. Essentially, larger firms are able to dominate markets for several reasons. To start with, larger firms are more likely to access financial credit than it is for smaller firms. Large firms have assets that can be charged to secure institutional loans enabling them to use the credit proceeds in acquiring robust technology to use in production processes (Simiyu & Too, 2018). Secondly, larger firms are an attraction to skilled workers as individuals would wish to work for large firms due to security of tenure. This improves efficiency of production process as time and costs for production runs are significantly reduced.

Larger firms are inclined to having better managerial resources and organisational planning hence enabling them to exploit new markets in a timely fashion. In this aspect, firm size can play a role in firm performance (Eyigere, 2018). Manufacturing firms around the globe are key contributors to economic growth and development in various folds. These firms are important in making use of natural resources and other primary resources through conversion into more valuable forms. In Vietnam, manufacturing is important in expansion of trade within the country and also for earning foreign exchange through exports (Chih-Hai & Huang, 2016). In absence of a stable manufacturing sector, most resources would remain idle.

A country that does not focus on improving manufacturing sector more often has a deficit in balance of trade as imports are more than exports. In realization of this, the way manufacturing firms undertake activities is of value to firms as it depicts on how best resources are used to make products. Barnabe and Ming (2020) argue that manufacturing firms are primary drivers of technical efficiency by engaging in Research & Development activities. Research indicates that manufacturing firms contribute to more than seventy percent of innovations in the business sector. The benefits of these innovations enjoyed within the sector and outside the sector.

According to Beneito, Maria and Amparo (2015) manufacturing firms in Spain play a major role in research and development. This is because, in the quest to improve efficiency, manufacturing firms adopt new technologies that improve on quality of products, reduces wastages and saves on time for production processes. In addition, manufacturing firms are a market to raw materials producers. At the same time, manufacturing firms provides employment opportunities to a lot of workforces in both developing and developed economies.

This observation has equally been noted among Chinese firms in which it is construed that manufacturing firms are key drivers of technological improvements (Barnabe & Ming, 2020). Technical efficiency started by manufacturing firms gets diffused to other sectors of the economy thus improving the overall technology statuses in a country.

Listed companies in Kenya are grouped into four categories where we have Agriculture, commercial and services, financial and industrial and allied. In Kenya, under the category of manufacturing and allied, firms whose shares are available for public trade are nine namely, British Oxygen Company (BOC), British American Tobacco Company, Mumias Sugar Company, Carbacid, East African Breweries, Unga Group Limited, Kenya Orchards Limited, Eveready East Africa Limited and Flame Tree Group Holdings Limited(Nairobi Securities Exchange, 2021). It is expected that attainment of high financial performance by Kenya's manufacturing companies would call for proper ownership structures. Achievement of this would be made possible by assessing the effect of board shareholding, foreign shareholding, institutional shareholding and Individual shareholding and on financial performance of listed manufacturing firms in Kenya.

The main aim of the current study is to assess the effect of ownership structures on performance of listed manufacturing firms in Kenya. This study has been necessitated by the fact that over the last decade, performance of listed manufacturing firms has been deteriorating with some companies almost collapsing. For example, Mumias Sugar Company has incurred losses of Kenya Shillings 15 billion and 6 billion for the year ended 31st December 2018 and 2017 respectively (Capital Markets Authority, 2019).Another listed manufacturer, Eveready East Africa has reported losses of Kenya shillings 115 million and 167 million for the years 2019 and 2018 respectively(Eveready East Africa, 2020).

Equally, BOC Kenya has showed a decline in profits from Kenya shillings 101.7 million to 75.6 million in the financial year 2018 and 2019 respectively (BOC kenya 2020). Another company Frame Tree Limited equally has reported losses to the tune of Kenya Shillings 37 million and 8 million in financial year 2019 and 2018 respectively (Frame Tree Group 2020). The trend has been similar to most manufacturing firms in Kenya. This situation therefore calls for assessing the effect of ownership structures on performance of listed manufacturing firms in Kenya.

1.1.1 Ownership Structures.

Ownership structures are shareholding types that are in form of various categories of equity holders (Kao, Hodgkison, & Jaafar, 2019). For listed entities, there are different shareholding types such as board shareholding, foreign shareholding, institutional shareholding and individual shareholding. Board shareholding is an important aspect of control since it presents a situation in which the board shareholders may seek their own interests at the expense of other shareholders (Tariq, 2018). Foreign shareholding indicates the ownership owned by foreign individuals and firms through equity or private equity (Mihai & Cosmin, 2013).

Listed firms are open to stock investors since their stocks trade in the exchange market. Foreign based ownership present manufacturing firms with opportunities or avenues of acquiring advanced technology and managerial expertise. Institution's shareholding usually focusses on how firms they have invested in are ran. Institutional shareholdings include banks, insurance companies, mutual funds and government that acquire stocks in manufacturing firms (Gugong, Arugu, & Dangago, 2014). Individual shareholding relates to shares owned by local individuals. Individuals are more often considered as less influential in decision making of listed firms hence have little role on determining the nature of investments that management does.

Ownership structures is essential in discourse on firm performance, firm value, firm growth and firm development as the type of owners influences the way firms undertake activities, respond to financial crises and undertake innovations (Adamu & Haruna, 2020; Zhou, Gao, & Hongxin, 2016; Vu, Phan, & Le, 2018). In brief, the nature of shareholding determines practices and operations of firms in respect to financing decisions and operational efficiency. For example, foreign ownership is considered a key driver of firm performance as it brings about financial resources to firms. At the same time, foreign ownership improves adopting of new technology through foreign direct investments which benefits both the firms and countries at large (Wang & Wang, 2015). Moreover, owners of firms dictate corporate governance practices that firms adopt. Concentrated ownership makes control of firm activities and decisions by shareholders easier while dispersed control make it hard. However, these are theoretical perspective that have made it necessary to undertake an empirical review to ascertain whether Ownership structures influence performance of firms specifically focusing on manufacturing entities in Kenya.

1.1.2 Financial Performance

The expression of how well a firm makes financial returns on usage of its resources is known as financial performance. Financial performance basically equates financial returns with respect to the resources firm have (Niresh & Velnampy, 2015). In evaluating financial performance, various measures can be used. Financial performance has values to firms because it is an indication on how resources are being utilised and whether there is efficient achievement of financial goals. Moreover, financial performance is used to rate how firms are able to compete in the market with like firms and also with other firms in other sectors.

Moreover, most stakeholders of a company attach value to financial performance as it indicates how well firm remain as a going concern.

According to Pervan, Pervan and Curak (2017) financial performance is also used to rate the efficiency of management in achieving the goals of companies in respect to gearing ratios, investments ratios and returns. It is for these reasons, namely indication of stability, going concern and management evaluation that financial performance is the most common measure of firm performance. Therefore, financial performance is an engine for firm stability, sustainability and growth (Carney, Estrin, Liang, & Shapiro, 2019). This means that financial performance is not only vital to shareholders but also is of interest to other stakeholders.

Most financial performance measures are in figure terms and is often deduced from income statements and statements of financial position (Saidu & Gidado, 2018). For example, profit is a common measure of financial performance that firms use to evaluate how well resources are being used. Ideally, profits are the income that is left when operating expenses and all other overheads are deducted. Return on assets is also used to relate financial returns and resources of firms. Return on asset is a financial ratio that is obtained by getting the index of income over assets. Return on asset is commonly used by those firms that have physical resources such as property, plant and equipment, financial assets, cash deposits and other current receivables (Simiyu & Too, 2018). Firms also may adopt return on equity to express financial performance.

Return on equity is the ratio of income over shareholders equity. This is used where firms' equity is regulated and there is need to evaluate returns associated with different levels of equity. In this study, ROA was used to proxy financial performance of listed manufacturing firms in Kenya.

Use of ROA in performance is advantageous since it provides information on future earnings of firms, growth and shareholders wealth maximisation which are generic financial goals of profit-making entities (Abbasi & Malik, 2015).

1.1.3 Ownership Structures and Financial Performance

Prior studies on ownership and control have provided a paradigm shift in corporate governance of firms. Firm ownership can influence the welfare of firms in a broad spectrum. For instance, overall investments decisions lie with the owners and as good or bad decisions can be traced to the owners who govern firms by delegating authority to management (Saidu & Gidado, 2018). Essentially, ownership plays a role in resource usage which in turn influence firm returns. Plausibly therefore, ownership albeit theoretically is expected to influence subversion in resource usage that at the end determines firm outputs. Moreover, existence of separation of shareholders and firm management comes at costs and the extent of these costs is dependent on type of shareholders a firm has.

Concentrated ownership reduces agency costs thus boosting profitability and financial results of firms while the reverse case is true for that agency costs are high for dispersed ownership thus negatively affecting on profits that firms make (Mollah, Karim, & Faroouque, 2012). Ownership type, in respect to whether concentrated or diverse affects operations monitoring which then influences efficiency and ultimately financial returns. Concentrated ownership in effect leads to close monitoring of activities of firms thus leading to realisation of efficiency goals (Adamu & Haruna, 2020). Dispersed ownership on the other hand, does not permit close supervision of management and this does not favour financial efficiency and firm returns.

For example, individual shareholders if many and dispersed, are neither able to influence decisions nor supervise management making management to pursue their interests instead of all stakeholders' interests. The stratification of ownership affects resources alignment, management behaviours and corporate governance practices that in combination bears on firm financial results (Alabdullah, 2018).

Research on control and ownership structures have gradually increased over the last few years and have linked these aspects with corporate governance. Managerial shareholding has detrimental effect to survival and financial stability of firms in that managers may manipulate books of accounts to report higher performance which is a major hindrance to incisive corporate governance that consequently leads to corporate collapse (Saidu & Gidado, 2018). Mihai and Cosmin (2013) noted that foreign shareholding does not improve firm performance. To the contrary, Gurbuz and Aybars (2010) reported that foreign shareholding is an impetus to improved operational efficiency and profitability of companies listed at Istanbul Stock Exchange.

Gugong, Arugu and Dangago, (2014) indicates that both managerial ownership and institutional shareholding are significant determinants of insurers in Nigeria. Similar results were reported by Mansur and Tangl (2018) that institutional shareholding favoured performance of firms in Jordan more than individual shareholding. It is on this understanding that the current study is out to establish the effect of ownership structures on financial performance of listed manufacturing firms in Kenya.

1.1.4 Listed Manufacturing Firms in Kenya

The Nairobi Securities Exchange list all securities for all listed firms in Kenya and other cross border firms. The exchange has listed about sixty-four firms that fall in different industries manufacturing and allied being one of them. Listed manufacturing firms in the NSE are British American Tobacco, British Oxygen Company, Carbacid Investments, East African Breweries, Mumias Sugar Company, Unga Group, Eveready, Kenya Orchards and Flame Tree Group Holding Ltd. For the Purpose of the study Flame Tree Group Holdings and Mumias Sugar Company were not considered for analysis since they did not meet the inclusion criteria for the period under study.

1.2 Statement of the Problem

Influence of ownership structures on firm financial returns is still a phenomenon that needs more research. Control types at the least, affect corporate governance of firms (Mollah, Karim, & Faroouque, 2012). In situations where ownership is concentrated and institutional, supervision of management is present and this led to prudence in resource usage that in turn can influence firm profits. On the other hand, dispersed ownership like it is for individual shareholders, supervision of management limited and this does not favour efficiency for firms thus impairing on results. Moreover, different types of owners are likely to influence corporate governance, efficiency and investments decisions differently (Adamu & Haruna, 2020). For example, institutional owners are likely to demand for apt practices from management thus improving performance. Individual shareholders on the contrary leave investments decisions to management who may seek their own interests and not interests of all stakeholders thereby impairing firm results.

Several studies have been undertaken on shareholding and its role on firm performance. Mansur and Tangl (2018) indicate that institutional shareholding positively impacts on return on assets in Jordan. Kao *et al*., (2019) reported that among Taiwanese firms, foreign shareholding positively influenced performance.

Similar results were reported by Gurbuz and Aybars (2010) in the case of Turkish firms. There exist a conceptual gap as these studies were done out of Kenya. Gugong *et al.,* (2014) indicates that institutional shareholding positively impacts on return on assets in Nigeria.Adamu and Haruna (2020) equally indicates that foreign shareholding betters financial returns of Nigerian large firms. A contextual gap exist as these studies were done out of Kenya.

Mudi (2017) focused on individual and managerial shareholding of local firms in Kenya and revealed that both improve firm performance. This is in contrast with results by Gichohi (2018) who showed that local individual ownership is insignificant in influencing firm's financial performance.Too and Simiyu (2018) focused on insurance firms and showed that firm size does not favour financial returns. Similar results were reported by Lekaram (2014) who showed that firm size is an insignificant determinant of firm performance among manufacturers in Kenya. These studies did not focus on ownership structures of manufacturing firms in Kenya.

The manufacturing industry in Kenya has been on a decline in perfomance more so in profitability yet this is an industry that' is critical in employment creation. Over the last decade, performance of listed manufacturing firms in Kenya has been deteriorating with some companies almost collapsing. For example, Mumias Sugar Company has incurred losses of Kenya Shillings 15 billion and 6 billion for the year ended 31st December 2018 and 2017 respectively (Capital Markets Authority, 2019).

Another listed manufacturer, Eveready East Africa has reported losses of Kenya shillings 115 million and 167 million for the years 2019 and 2018 respectively (Eveready East Africa, 2020). Equally, BOC Kenya has showed a decline in profits from Kenya shillings 101.7 million to 75.6 million in the financial year 2018 and 2019 respectively (BOC kenya 2020). Another company Frame Tree Limited equally has reported losses to the tune of Kenya Shillings 37 million and 8 million in financial year 2019 and 2018 respectively (Frame Tree Group 2020).The government through the Big 4 Agenda has put a lot of focus and resources to revive and support the manufacturing industry however performance is still dismal.

Having observed the existence of conceptual, methodological and contextual research gaps and the consistent decline in profitability of manufacturing firms in Kenya especially over the last five years, this study sought to establish whether ownership structures in form of board shareholding, foreign shareholding, institutional shareholding and individual shareholding influence financial performance of listed manufacturing firms in Kenya using panel data analysis methodology.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of the study was to determine the effect of ownership structures on financial performance of listed manufacturing firms in Kenya.

1.3.2 Specific Objectives:

The specific objectives of the study were:

i. To evaluate the effect of board shareholding on financial performance of listed manufacturing firms in Kenya.

ii. To explore the effect of foreign shareholding on financial performance of listed manufacturing firms in Kenya.

iii. To investigate the effect of institutional shareholding on financial performance of listed manufacturing firms in Kenya.

iv. To determine the effect of individual shareholding on financial performance of listed manufacturing firms in Kenya.

1.4 Research Hypothesis

This study tested the following hypotheses.

$H_0$1: Board Shareholding does not have a significant effect on financial performance of listed manufacturing firms in Kenya.

$H_0$2: Foreign shareholding does not have a significant effect on financial performance of listed manufacturing firms in Kenya.

$H_0$3: Institutional shareholding does not have a significant effect on financial performance of listed manufacturing firms in Kenya.

$H_0$4: Individual shareholding does not have a significant effect on financial performance of listed manufacturing firms in Kenya.

Justification of the Study

In Kenya, manufacturing firms listed at the NSE have different types of shareholdings and this include, board shareholding, foreign shareholding, institutional shareholding, individual shareholding and government shareholding. There is a need to examine how this mixed control plays on financial performance of firms in Kenya. Over and above providing insights on ownership structures, this study is unique and provides basis for policy making by Capital Markets Authority and Ministry of industrialization whose role is to foster manufacturing in Kenya.

1.5 Significance of the Study

Researching on shareholding structures has benefits to various parties such as:

1.5.1 Listed Manufacturing firms in Kenya

Considering that this study examines listed manufacturing firms' financial returns vis a vis shareholding structures, then the results are of use to these firms in several folds. Foremost, these firms may find the results vital in making decisions on appropriateness of shareholding ratios in a bid to foster financial returns. Secondly, this study can benefit firms to effectively structure shareholding and corporate governance in order to ensure interests of all stakeholders are well taken care of. Control of firms need to be undertaken in a way it benefits all that has a stake it.

1.5.2 Researchers

This study on ownership structures provides a ground for more studies on ownership, control and corporate governance among listed manufacturers in Kenya. Therefore, in future this study can be used as basis to undertaking other studies to add to body of knowledge on ownership structures and firm performance. For instance, other studies can be undertaken using the concepts identified in this study but focusing on non-listed manufacturing firms in order to add to theoretical and empirical perspectives of firm performance in Kenya.

1.5.3 Policy Makers

Findings of this study can be used to provide basis for policy formulation in regard to control structure of firms. For example, a policy can be made on various proportions of shareholding in line with the results of this empirical review and this may occasion improvement in firm returns. Skilled policy making is dependent on evidence and this provides information to enhance the skills of policy makers in the field of manufacturing and ownership structures.

The Capital Markets Authority in Kenya is mandated to regulate firms trading at the NSE in order to uphold investors and public interests. The results of this study can be used to make policies that are relevant in respect to ownership and corporate governance of firms. This can improve the entire sector of listed entities thus leading to development of financial markets, manufacturing and economic growth.

1.6 Scope of the Study

The prime aim of study was to determine the effect of ownership structures on financial performance of listed manufacturing firms in Kenya. The explanatory variables are board shareholding, foreign shareholding, institutional shareholding and individual shareholding. This study collected secondary data from 2010 to 2019 from each publicly trading manufacturer to result into a panel data set. Inferential statistics were obtained by analyzing data using a panel data analysis.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The aim of chapter two is to present literature review. Literature review entails a discussion of theories of the study, empirical literature review, conceptual framework and operationalization of variables.

2.2 Theories of the Study

A theory is primarily a postulation that explain something. Theories attempt to justify occurrence. Theories focus on substantiating why phenomenon and idealizes on what ought to happen in different situations. In research theories describe variables and aid in formulation of hypothesis in what is tentatively expected by interaction of variables (Kochen, 2014). This study is pegged on four theories; agency theory, stewardship theory, Stulz's integrated theory, stakeholder's theory and resource-based view theory.

2.2.1 Agency Theory

Agency theory originated from scholarly works of Jensen and Meckling (1976) who identified that in the business realm, those making routine decisions do so through delegated authority from some other people. This theory identifies three critical aspects in its discourse; agents, principals and agency problem. As per this theory, a principal is that entity or person with topmost authority and controls the overall decisions undertaken. In corporates' management, by virtue of principals being investors who may contribute capital but with no much knowledge on business management, they hire managers to work for them.

An agent is the one whose authority is delegated to which then means that the decisions they make are within the powers conferred to them by principals (Brahmadev & Leepsa, 2017). An agent has interests and so does the principals (owners) and this creates agency problem. Agency problem can be defined as divergence of activities by agents. Several studies have been anchored on this theory. Gurbuz and Aybars (2010) used this theory to study foreign ownership and firm performance in Turkey. This study equally examines foreign shareholding and other shareholding parameters on firm performance among listed manufacturers in Kenya. Bjurstrom and Schillemans (2020) used agency theory to study on corporate governance while this current study uses this theory to examine shareholding of firms and its effect of firm financial performance.

Chrisman (2019) criticized this theory based on its practical application while in this study, this theory is deemed relevant. Feng, Wei, and Zhu (2018) used agency theory to focus on role of shareholders in innovations while in this study, the focus was to examine shareholding constructs on financial performance. Though agency theories have received wide acceptance, it has its own flaws. To begin with the assumption that at all times principals and agents are in conflicts is not always true (Parker, Dressel, Chevers, & Zeppetella, 2018). At times, principals and agents are in agreement and therefore the agency problem ceases to exist. Where there is no difference in risk preferences, the tenets of agency theory do not hold and thus not feasibly applicable. Therefore, this simplistic approach renders the theory impractical to apply in all situations. Moreover, agency theory does not apply to firms whose owners are the managers as this does not result into any divergent of goals. Considering this scenario, agency theory may not be applied to firms with concentrated ownership.

Moreover, this theory fails to account for interest of other parties such as employees and the government in formation of solutions to agency problem (Yusuf, Yousaf, & Saeed, 2018).

Agency theory has been used in this study because of three reasons. First, it identifies those managers and owner in big firms are not always in agreement with each other in respect to investments decisions, risk and return preferences and information in possession. Agency theory posits that it is the influence of management and owners' goals that sustain companies' profitability and growth. Secondly, agency theory indicates that shareholding could influence performance of firms. Lastly, this study endeavors to explore role of ownership structures from ownership point of view and their effect on financial performance.

2.2.2 Stewardship Theory

Davis and Donaldson (1991) coined this theory to explain management and control behaviors in an organization. This theory is pegged on the premise management desire to work as stewards and if they are allowed power to utilize resources, they act in the best interest of all stakeholders. In this postulation, a steward is a party that manages resources on behalf of others and this is done in good faith. Stewardship theory closely connects with agency theory except that it does not have similar assumptions and considers more stakeholders other than managers and shareholders (Chrisman, 2019). In this theory, managers are construed to be rational and collectivist persons who seek the best for the organization and others with interest in the organization. Stewardship theory view that managers are dominantly hired to safeguard, protect and expend resources on behalf of the organization (Feng, Wei, & Zhu, 2018).

Omesi and Ogaluzor (2019) used this theory with the focus being firm performance among goods manufacturers in Nigeria while this theory is used to focus on shareholding and financial performance of listed manufacturers in Kenya. Ndiba (2016) used this theory to study sugar manufacturers in Kenya while in this current study all listed manufacturers in Kenya are considered. Lekaram (2014) used this theory to focus on corporate governance of listed firms in Kenya. However, in this current study, the focus is on shareholding and financial performance. Kobuthi, K'Obonyo and Ogutu (2018) used stewardship theory and focused on corporate governance while this current study uses it to examine shareholding and firm performance.

In spite of steward theory proving immensely valuable in discourse on ownership, control and management, it has a number of criticisms. The main one is embedded in the assumption of trust from owners and managers that they all work in a trustworthy pro-socio manner (Feng, Wei, & Zhu, 2018). This is practical in the modern business environment characterized by market competition, regulations and competition for resources. Stewardship theory advocates for an honest approach to management and ownership in a bid to foster performance. The view that honesty can be realized is also not an easy fete and it is not always safe to leave managers on their own as they may embezzle funds leading to collapse of businesses. The powers of managers ought to be restricted in order to ensure that interests of all stakeholders are taken care of (Schillemans & Bjurstrom, 2020).

Stewardship theory is pertinent and relevant to this study because this study examines various aspects of shareholding on financial performance. In this study, the variables being assessed are board shareholding, foreign shareholding, institutional shareholding and individual shareholding on firm performance. Shareholding cannot be discussed without mentioning ownership structures and therefore this makes stewardship theory important in this study. Moreover, stewardship theory presents an interesting utility function for control and trust among managers and shareholders.

2.2.3 Stulz's Integrated Theory

Stulz (1988) developed this theory with the aim of explaining how ownership structures influences firm's performance. The theory is pegged on the premise that controlling shareholders have a chance and tendency of selfishly using their powers to gain self-interests at the neglect of the outside shareholders. Moreover, this theory places an argument that agency problem is more pronounced when there is diffusion in ownership. As such, concentrated ownership seeks to reduce the agency problem thus promoting firm's ability to make better investments decisions (Serfling & Juan, 2014).

This theory further postulates that management or board owned equity has a hostile takeover bid by investors who desire to control such a firm. On the reverse, where management owns few shares, hostile takeover is seldom. It therefore means that there exists a curvilinear function between insiders share ownership and firm value. This theory also posits that an increase in board shareholding is likely to improve firm financial performance, given that board and management would work extra hard to rule out a chance for hostile takeover (Malla, 2013).

Salehi and Baezegar (2011) argued that increase in ownership of equity shareholding by management significantly reduces the possibility of a hostile takeover of a firm however the theory does not address the scandals that are associated with majority of the corporate firms not forgetting the dismal performance in the manufacturing industries in developing economies.

It can also be argued that insiders or majority shareholders in a firm can transfer the value from external investors to themselves thus creating a conflict between them and the minority shareholders. This conflict however is limited by the amount of equity that majority shareholders can raise from external investors. This affects the decisions to be made in the corporate firms. These decisions will be influenced by the ownership stakes in the firm thus affecting the firm performance. At the international level ownership concentration inversely limits a country and multinationals to benefit from financial globalization thus affecting their financial performance (Stanley, 2007).

To cancel out the agency problem for listed firms, this theory views that control should be diffused, for instance, by listing shares to foreign shareholders and listing in foreign exchange markets. This in turn would increase profitability of firms. Stulz's theory is relevant to this study as it expressly links control and ownership structures on firm value and performance. The theory indicates that concentration of control does not favor performance. This theory therefore is focal in understanding all independent variables and their role in firm performance.

2.2.4 Stakeholders' Theory

Stakeholders' theory owes its origin from the works of Freeman (1984) and is premised on the aspect that organisations operate in an environment that has several parties with interests in the organisation. The prime aim of stakeholder's theory is to explain how various constituencies with interests in the activities and welfare of organisations. Organisations obtain resources from the environment and equally provide output to the community which then means that organisation interacts with environment in a routine basis (Fonseca, Ramos, Rosa, Braga, & Sampaio, 2016). This theory posits that an organisation does not operate in a vacuum and that it is not self-sufficient as it draws resources from the surroundings. Both human and capital resources are obtained from the environment and this makes environment key toward survival of entities.

Stakeholder's thinking is a paradigm shift from the original thinking that overemphasized on shareholders wealth maximization as the main theme of organisations (Plitcha, 2019). Stakeholder recognizes that there are several parties getting benefits from organizations. For this reason, managerial actions or inactions does not only affect management but also external parties such as supplies and customers. By adopting a stakeholder concept in decision making, organizations are able to securely meet the expectations of most of parties. This interconnectedness among the interests of parties should be sought by management in order to improve firm returns. Stakeholder concepts enables creation of value chains that critically aid in reducing modern business challenges (Albasu & Nyameh, 2017).

Gurusamy (2017)examined board characteristics,audit comittmee and ownership and achnored the study on stakeholder theory. The focus was shareholding and firm performance among listed firms in Kenya. Kobuthi, K'Obonyo and Ogutu (2018) used stakeholder's theory and focused on corporate governance while this current study uses it to examine shareholding and firm performance. Saidu and Gidado (2018) too focused on managerial ownership only and examined firm performance in Nigeria. The focus of this study was to examine different constructs of shareholding and their effect on firm performance.

Though stakeholder's theory has been utilised in management, it is in some cases unfit due to some inherent shortcomings. To begin with allowing managers to pursue multiple goals is akin to allowing them to misuse resources (Kristen, 2015). Traditionally, managers are meant to maximize shareholders wealth. However, stakeholder's theory recognizes other parties whose goals are to be met alongside those of stockholders. Managers may use resources for their own selfish benefits and this may not be case if only shareholders goals are sought. Moreover, stakeholder's theory treats all stakeholders equally. This is practically impossible since some parties like shareholders, suppliers and customers are ranked higher than others. Lastly, stakeholder's theory has narrowed to sharing of financial outputs and no other non-financial resources which still are of interest to stakeholders (Albasu & Nyameh, 2017).

Use of this theory in this study is premised on two reasons. First, this theory recognizes that shareholders are not the only beneficiaries of organization's output. Secondly, this theory recognizes that stakeholder's concept is a good approach to solving business challenges relating to resource acquisition and sharing. This study aims at examining control structure and firm performance. Different shareholders are stakeholders of a firm and therefore expect some financial output from the entities.

In this case, their oversight on actions or inactions of managers may or may not influence firm financial results. This study purposes to provide an answer to this question. Do shareholding categories influence performance?

2.2.5 Resource Based View Theory

This theory is premised on the argument that resources are fundamental in achieving superior firm performance and competitive advantages. The origin of this theory can be traced to (Barney , 1991) who proposed a framework that entail classification or resources and integration of such resources in order to achieve high firm performance. This theory indicates that resources are important in improving organizational performance and if the same resources are not within the access of competitors, they lead to competitive advantages. In particular, resource-based view theory advocates for use of internal resources in order to achieve superior performance.

In this theory, internal resources are rare and valuable attributes comprising of financial, human resources and other intangible resources. In essence, this theory notes that scarce and valuable resources are main drivers of superior performance (Hitt, Xu, & Carnes, 2016). In the long run firms need to remain in business by establishing niches in terms of costs, market or quality of products. This is only feasible where there are resources that cannot be easily imitated by other firms or even transferred. Traditionally, resource-based view theory is pegged on the proposition that valuable resources are in usable forms to occasion efficiency and rare resources put firms ahead of competitors. (Wangtao, Roberto, Mark, & Feng, 2018). In this theory resources are widespread as they include all tangible and intangible capabilities that a firm has control over. Resources are therefore firm specific attributes that enable production and or provision of services. Where resources are unique and scarce, they are considered key drivers of organizational performance and competitiveness.

This theory assumes that firms are heterogeneous in terms of resource ownership in that firms have different capacities (Kellermans, Walter, Crook, & Narayanan, 2016). Thus, the resources that a firm has may not be available to other firms thus creating a competitive advantage. Secondly, this theory assumes that scarce rare and valuable resources are immobile which means that resources cannot be transferred to other entities. For this reason, firms seek to get resources that are significantly valuable and immobile in order to restrict their use. Moreover, this theory indicates that valuable capabilities are not only embedded in resources but also entail intra-organizational processes that entail collaborations with department to achieve efficiency. Similarly, firms can adopt inter-organizational alignments in order to achieve synergies and ultimately achieve competitive advantages.

Resource based view theory proposes a two-dimensional outlook in performance of firms. These are short term organizational performance and long-term organizational performance and competitive advantages. On the onset, resources that are characteristically noted to be rare and valuable can be appropriately used to realize short term goals and competitive advantages. This puts a firm ahead of others as it is able to use resources to produce in large quantities thus enjoying economies of scale. In the long run, it is sustenance in the resources that enhance organizational performance of firms. Where a firm controls a rare resource, inhibiting mobility, imitability and substitutionally it is able to acquire competitive advantages which led to survival and sustained performance. This theory has been used in many researchers. For example, (Nair & Bhatacharya, 2019)focused on corporate social responsibility in perspective of resource-based view theory and institutional theory and noted that resources are key drivers of performance. In addition, the study noted that resources with low mobility are subtle towards fostering financial performance.

In another study, (Shampy, Goyal, & Rahman, 2015)used resourced based view theory to investigate resources and firm performance. The study found out that resources are fundamentally crucial in establishing capabilities that enhance performance. Also, (Wangtao, Roberto, Mark, & Feng, 2018) focused on data-driven capabilities using resource-based view approach and found that resources are key drivers of efficiency in performance of processes. In particular, the study revealed that data is an intangible resource that has low mobility and low imitability and therefore creating an avenue of fostering competitiveness of firms.

Even though this theory is widely used and widely accepted, the theory has limitations. Foremost, the theory assumes that resources are heterogeneous in that the resources that one firm has are typically different from those that another firm in the same sector (Kellermans, Walter, Crook, & Narayanan, 2016). This is not often the case. For example, two competing firms in the manufacturing sector can have access to same raw materials, technologies and labour force. This therefore limits the application of this theory in sectors where resources are similar.

Secondly, assuming that resources are immobile is not factual. At least in the long run, all firms have access to what was considered as rare and valuable resources by large firms (Nair & Bhatacharya, 2019). The theory also does not entail an explanation of how rare and valuable resource should be integrated by managerial practice in order to achieve high performance. Instead, this theory mainly focuses on descriptive aspects of use of resources but does not show case resource configuration to bring about higher organizational performance and competitive advantages in a competitive sector (Bromiley & Rau, 2016). Essentially, there is a likelihood that a combination of different resources may yield same results for firms.

The use of this theory in this study is two folds. To start with, resource-based view theory identifies those resources which are useful in steering firms toward superior performance. The theory points that firms with more resources that are rare and valuable are good drivers of high performance. This theory therefore relates well with firm size variable. In this study, firm size was used as a moderating variable that was hypothesized to influence the relationship between shareholding structures and firm performance.

2.3 Empirical Literature Review

This part presents a discussion of studies done in the field of control and ownership of firms in order to establish research gaps and infer on hypothesis. This section is arranged as per the objectives.

2.3.1 Board Shareholding and Financial Performance

Board shareholding is theoretically expected to improve firm performance as the board members are inclined to making more informed and better decisions since this affects the networth of shareholders of which they are also members. Board of management is charged with the responsibility of running companies by making strategic decisions. Survival of firms largely depends ondecisions made by those in management. Whole time directors participate in day to day running of firms.

Saidu and Gidado (2018) examined the effect of managerial ownership on the financial returns of the listed manufacturing companies in Nigeria. In this study, the main goal was to evaluate whether management shareholding affects firm profits. Data in this study was obtained from the reports of forty manufacturing firms listed in the Nigeria Stock Exchange markets reported annually.

The data obtained was then subjected to correlation and regression models for the purpose of analysis. In this study it was concluded that managerial ownership affects the performance of the firm's financial performance negatively. The study focused on managerial ownership while this current study uses more aspects of shareholding. Moreover, the current study followed panel data analysis.

Farooque, Buachoom and Sun (2019) purposed to evaluate the impacts of audit committee features, corporate board and the structure of ownership of the listed firm's performance financially in Thailand. Data was sourced from a sample of the 452 firms listed in the stock exchange market. Ordinary Least Squares (OLS) was employed for the purpose of data analysis. The conclusion of the study was that managerial ownership had a significant impact on the financial performance of the firms. The research gap that this study seeks to fill is methodological gap since the current study focuses on panel data regression.

Guo and Kumara (2012) aimed at examining the relationship between the performance of the listed firms in Colombo stock exchange and the structure of governance in Sri Lanka. Data was obtained from 174 firms in the 2010 financial year and then subjected into multiple regression analysis. It was found out that the size of the firm and director shareholding had a significant and positive relation on performance of the firms. Whilst this study yields useful insights, the use of simple OLS limits its efficacy. The current study used panel data analysis and the predictors were shareholding constructs with firm size as moderating variable.

Mandala, Kaijage, Aduda and Iraya (2018) investigated if there exists a correlation between the structure of board of a firm and performance of Kenyan firms. The specific objective was to examine the role of board size, board composition, CEO duality, board activity, board diversity and board type. Firm performance was proxied by return on assets and revenue growth rates. Data collection sheets were used for the financial institutions for a period of ten years from 2006 to 2015. A generalised estimation equation, correlation and regression analysis were used for the process of data analysis. It was revealed that the structure of the board had an independent relation on the influence on the executions of the financial institutions. On board shareholding, results showed positive but insignificant influence on return on assets and revenue growth. This study mixed corporate governance constructs and ownership structures while the current study narrowed down to shareholding aspects.

Vu, Phan and Le (2018) analysed the relationship between the board ownership structure and the financial performance of the firms in Vietnam. An empirical study of 557 firms listed in the Vietnam stock exchanges was carried out and then subjected to regression analysis model for the final conclusions. The number of board of directors, the CEO ownership and the ownership concentration in board of directors had a positive influence on the return on assets but no significant impact on return on equity. In this study, the focus was on various shareholding constructs.

2.3.2 Foreign Shareholding and Financial Performance

Foreign shareholders are an important source of new skills and production methods through technology. Foreign shareholders exert governance pressure to management which leads to efficiency. It is expected that the presence of foreign shareholders improves performance. Foreign shareholders bring foreign direct investments to firms and this increase firms' capacity to invest. Thus, foreign shareholders improve firm performance.

Mihai and Cosmin(2013) carried out research to examine the link existing between the foreign ownership and performance of manufacturing firms in Rome. Data used in this paper was obtained from the Amadeus databases and Bucharest Stock Exchange markets. Linear regression model was adopted in the data analysis process. In this study, a large sample of two hundred and sixty-one entities was used from which raw data was obtained. Results of data analysis revealed that foreign ownership has insignificant influence on firm performance. In this current study, methodology used was panel data regression in which Hausman tests for random and fixed effects was specified in order to improve the efficacy of the regression.

Kao, Hodgkinson and Jafaar (2019) assessed the impact of ownership structure and board of directors on the value of the firm in Taiwan. Secondary data from Taiwanese listed firms was used in this study. Raw data was extracted from firm reports for the period between years 1997 and 2015. The data was subjected to ordinary least squares regression model for the purpose of getting inferences. Upon data analysis, it emerged that where the proportion of independent directors and size of the board is smaller, the stronger the performance of the firm. Moreover, the findings inferred that block holder's shareholding, family shareholding, institutional shareholding and foreign shareholding positively influences firm value.

The current study differs from this in terms of conceptual and methodological gap. This study used panel data regression and had more explanatory variables.

Gurbuz and Aybars (2010) explored the effect of foreign ownership on the on the financial performance of the companies listed in Istanbul stock exchange in Turkey. Panel data analysis was carried out on a sample of 205 non-financial listed companies from 2005 to 2007. It was concluded that foreign ownership of a firm improves the performance of the firm financially. The study majored on one predictor while the current study had four input variables and one moderating factor. Moreover, the current study takes a sectoral outlook as it focuses on listed manufacturers in Kenya.

Adamu and Haruna (2020) evaluated the relationship between ownership structure and the performance of the listed non-financial firms in Nigeria. Secondary data was collected from a sample of forty firms. Canonical correlation was used in the analysing of data obtained. It was revealed that foreign ownership, institutional ownership and ownership concentration had a positive relationship with the performance of the firms financially while managerial ownership had a negative correlation. Use of ordinary least squares regression limits the efficacy of the estimates. This current study bridges this methodological gap by employing panel data regression.

Thai and Kabir (2017) focused on firm traits and how they influenced firm performance. The study purposed to investigate on the effect of corporate social responsibility, foreign ownership, state ownership and board constructs such as size and independence. In terms of data and methods, the focus was on a sample of listed entities in Vietnam. Data was processed by undertaking a robust regression analysis, fixed effects model and ordinary least squares regression.

The results evidenced that firm performance improved in presence of foreign ownership, an independent board and a large board. In contrast, the results indicated that state ownership neither supports firm performance nor corporate governance.

Wang and Wang (2015) focused on foreign ownership and its role on productivity and firm performance in China. This study used data that was collected from firms that had foreign ownership and domestic ownership. Data analysis revealed that foreign ownership improves various aspects of firms such as productivity, employment terms and ultimately favours firm performance. Moreover, the study revealed that foreign ownership significantly improves financial stability of firms in China.

2.3.3 Institutional Shareholding and Financial Performance

Institutional shareholders are firms and corporates that have shares in other firms. Institutions have a strong control on the companies they invest in. Other firms are able to provide oversight on operations of other firms. Thus more concentrated institutional shareholders are expected to improve performance.

Gugong, Arugu and Dandago (2014) investigated the effect that ownership structure has on the performance of the insurance firms in Nigeria financially. This review had two predictor namely managerial ownership and institutional shareholding. A panel data set was collated from 17 firms between the years 2001-2010. Regression analysis was used for the analysis of the data gathered. It was revealed from the research analysis that there exists a positive relationship between return on asset, return on equity and managerial shareholding.

Also, there was a significant positive influence of institutional shareholding on firm performance of the insurance firms. Whilst this study is vital, the key limitation is that only two predictors were used. My study has four input variables.

Gurusamy (2017) undertook a study whose main goal was to report on effect of corporate governance on financial performance of Indian firms. The study was a case of the manufacturing firms in Bombay Stock Exchange. From a sample of three hundred and fifty-seven entities a panel data set was collated. A regression analysis from the data sourced from years 2006 to 2015. The researchers found out that promoter's shareholding is significantly and negatively related to return on assets and also return on equity. Also there exists a negative relation between institutional shareholding and financial performance of firms. The current study had more variables and uses a different kind of methodology that is panel data analysis as opposed to simple multivariate regression analysis.

Mansur and Tangl (2018) examined the impact of corporate governance on the financial performance of the listed companies in Amman Stock Exchange in Jordan. This paper was based on the analysis of the previous Jordanian studies on corporate governance. It was revealed that institutional shareholding has more positive effect on the performance of the firm's financially more than family ownership. The study majored on corporate governance. To the contrary, the current study deals with board shareholding, foreign shareholding, institutional shareholding and individual shareholding and firm performance.

2.3.4 Individual Shareholding and Financial Performance

Individuals shareholders often do not have the capacity to control management decisions as it for the case of institutional and foreign shareholders. Individuals shareholders are scattered all over thus do not have a force to intil strict corporate governance practices to management. They are only involved in decision making at the annual general meeting. Thus a high concentration of individual shareholding is expected to lower performnace.

Phung and Mishra (2016) did a study in Vietnam that sought to establish ownership diversity and firm financial returns. In this study, the variables were foreign ownership, state ownership and individual ownership. Data was collected from a sample of listed entities and analysis was done using panel regression. The results revealed that foreign ownership boosts performance while state ownership and individual ownersip does not improve firm performance. The study advocated for foreign investor in order to foster firm financial performance.

Chandrasena and Kaluthunga (2015) evaluated ownership structure and firm performance in Sri Lanka. Their study focused on listed entities and the objectives were to establish whether insititutional ownership, individual ownership and concentrated ownership influence firm financial performance. The study used data that was extracted from annual reports of listed entities for a period of five years and perfomed panel regression. Results revealed that insititutional ownership improves firm'sfinacial performance while individual ownership hampers firm results. Additionally, findings showed that concentrated ownership boost performance significantly.

Mudi (2017) undertook a study that sought to establish share ownership and firm performance. In this study, the specific goals were to evaluate role of managerial shareholding and individual shareholding on financial performance. Data was analysed using a regression analysis after summarizing data from CMA extracts and firm's annual reports. Results revealed that both individual shareholding and managerial shareholding are significant determinants of firm financial returns. Moreover, both constructs were noted to positively influence performance of listed entities at the NSE in Kenya. The current study expands the conceptual scope by including foreign shareholding in the estimation model. Moreover, a different methodology, panel data analysis, is used.

Gichohi (2018) focused on ownership of equities and performance of listed firms at the Nairobi Securities Exchange in Kenya. This study had for constructs of shareholding namely government ownership, local ownership foreign ownership and managerial ownership. Regression results showed that only foreign ownership was significant in influencing performance. Moreover, results indicated that local ownership negatively and insignificantly influenced performance of listed entities in Kenya. This study used simple multivariate regression while the current study used panel data regression in a bid to estimates the model relating shareholding and firm performance.

2.4 Conceptual Framework

A conceptual framework illustrates how variables in a given study are interlinked (Tamene, 2016). The conceptual framework of this study is presented on Figure 2.1. The independent variables are; board shareholding, foreign shareholding, institutional shareholding and individual shareholding.

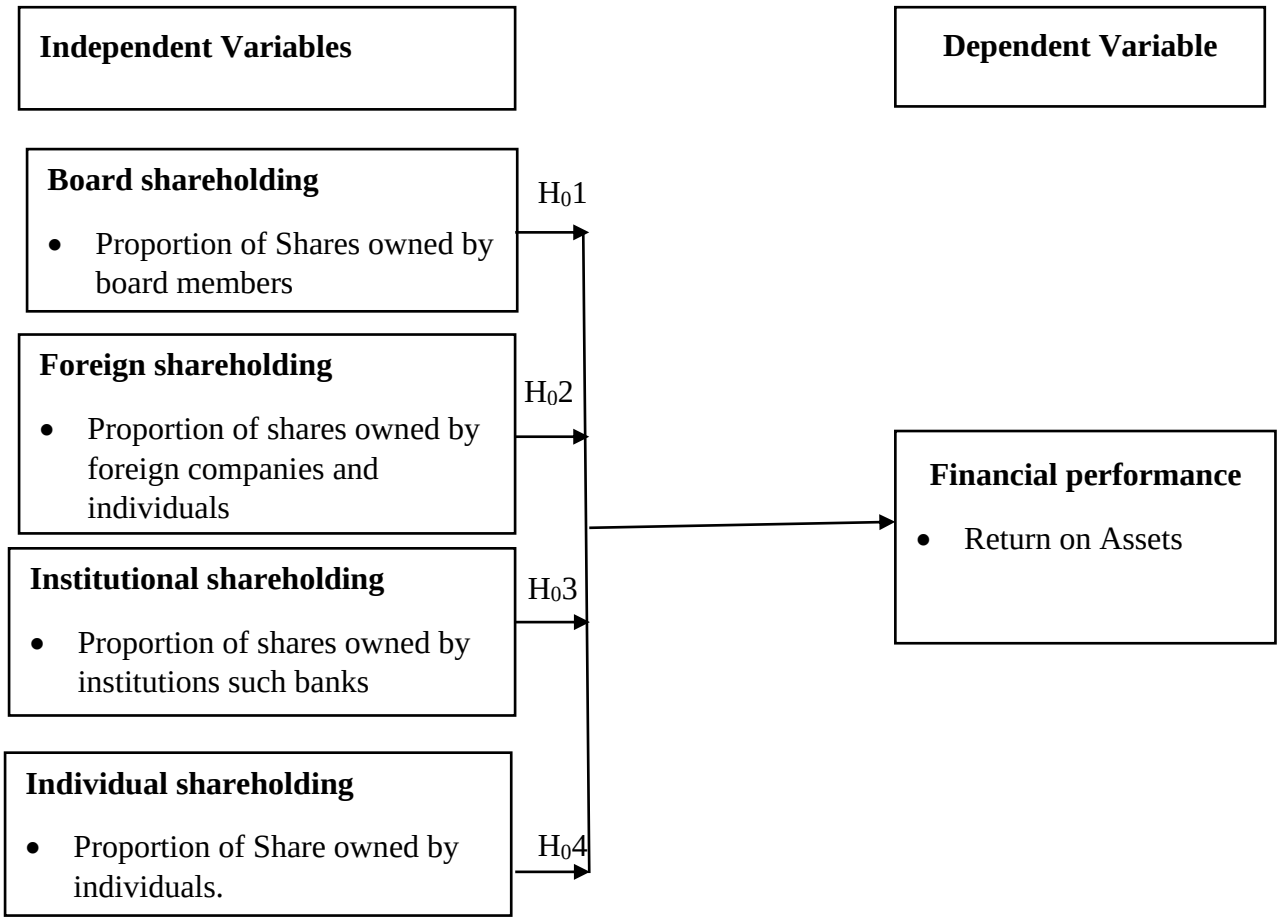


FIGURE 1:

Conceptual Framework

2.5 Operationalization of Variables

This study has four explanatory variables, one moderating variable and one dependent variable. In summary, the variables are operationalized as on Table 1

TABLE 1:

Operationalization of Variables

Variable Name	Type of Variable	Operational definition	Measurement and Scale
Board shareholding	Explanatory	Refers to shares owned by those in direct management of firm such as board members and management	Proportion of shares owned by board divided by total shares Ratio Scale
Foreign shareholding	Explanatory	Refers to shares owned by corporates and individuals who are not citizens of Kenya	Proportion of shares owned by foreigners divided by total shares Ratio Scale
Institutional shareholding	Explanatory	This is shares owned by institutions that are locally owned	Proportion of shares owned by institutions divided by total shares Ratio Scale
Individual shareholding	Explanatory	This refers to shares owned by individual people	Proportion of shares owned by individuals divided by total shares Ratio Scale
Financial Performance	Response	This is the measure of output in financial terms	Return on assets (net income divided by total assets at a certain balance sheet date)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is discussed under the following headlines; research design, target population, sample size and sampling procedure. Also, the chapter has instrumentation and data analysis.

3.2 Research Design

A research design is a strategy that is used to achieve objectives in research (Burke & Schoonenboom, 2017). A research design therefore is plan documenting course of actions for data collection and processing field data and presentation of outputs. A good design must fulfil the objectives of the research in an efficient manner. A research design is formally a framework for reporting results of a study. Moreover, research design is influenced by two main aspects namely type of data and type of study.

This study was undertaken using a descriptive research design. Considering that this study seeks to assess shareholding and performance of firms, descriptive design is the best framework as this study sought to assess role of shareholding on firm performance. A descriptive research design purposes to ascertain whether there is a link between explanatory and regressor variables and also tells whether the link is statistically significant or not (Cooper & Schindler, 2014). In relation to this, descriptive research design proves worthwhile when one needs to define if variables are negatively or positively related. In addition, descriptive design entails collection of data about phenomenon without manipulating data but rather as it is. In this current study, data was collected from the participating entities and control was done. The relationship between variables was reported as observed without any manipulation. The goal of descriptive research design is to report what it is (Creswell, 2013).

3.3 Target Population

A collection of all units for which a study is based on is called a target population. A target population is a universe of living or non-living units that a particular study or research makes inferences on (Krishnaswamy & Satyaprasad, 2010). Pertaining to this study, the target population were all listed manufacturing firms in Kenya. According to NSE (2021) there are 7 listed manufacturing entities in Kenya that traded from 2010 to 2019.Considering the small number of listed manufacturers in Kenya, this study carried out a census of listed manufacturers at the NSE.

3.4 Instrumentation and Data Collection

This study used secondary data from firm's records and reports. A secondary data sheet was prepared on Excel where the researcher keyed in observations of each variable for every company. There were four predictors in this study (board shareholding, foreign shareholding, institutional shareholding and individual shareholding). The regressor variable was firm performance. The study obtained data for every listed manufacturer for a period of six years for the year 2010 to 2019. The process of getting the field data began with getting authority to conduct the research from the graduate school at KCA. The second phase entailed getting the annual reports from the firms' website.

3.5 Data Analysis and Presentation

This study had an aim of determining the effect of ownership structures on financial performance of listed manufacturing firms in Kenya. Two main types of data analysis were undertaken in this study: descriptive statistics and panel data analysis. Descriptive statistics are the measures of central tendencies (means) and measures for dispersion (standard deviations). These statistics offer insights on general variations in observations for the variables during the period.

Exploratory data analysis was done for the dependent variable in order to examine whether time variant fixed effects were present. Reporting on hypothesis was achieved by undertaking data analysis using panel data regression. Panel data has observations for a panel of firms in different times. In this study, data was collected for the seven firms from 2010 to 2019. Thus, the panel variable was firm 1 to firm 7 while the time variable was year 2010 to 2019. This subsequent section presents the step-by-step discussion of data analysis.

3.5.1 Analytical Models

Data analysis was undertaken using the steps adopted in panel data analysis. STATA version 16 was used in data analysis. The function linking the hypothesised relationship between shareholding structures and financial performance is shown as:

$$Y_{it} = \beta_{0it} + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 1$$

Y: financial performance of listed manufacturers in Kenya, (ROA)

$X_{1:}$ board shareholding

$X_{2:}$ foreign shareholding,

$X_{3:}$ institutional shareholding

$X_{4:}$ individual shareholding

$\beta_{0:}$ constant efficient,

β_1 is coefficient estimate showing effect of board shareholding on financial performance,

β_2 is coefficient estimate showing effect of foreign shareholding on financial performance,

β_3 is coefficient estimate showing effect of institutional shareholding on financial performance,

β_4 is coefficient estimate showing effect of individual shareholding on financial performance,

t is time variable, 2010 to 2019,

i is cross sectional unit, 1-7 for each listed manufacturing firm in Kenya and ε is the error term.

In this study, hypothesis was tested at confidence interval of 95 % in which level of significance is 0.05. This means a p-value of less than 0.05 would lead to rejection of null hypothesis in favour of alternative hypothesis for a particular test. Data analysis was done using STATA as it is a good tool with various modules for transformation of data depending on what is required. Data analysis results were presented on tables and using graphical methods.

3.6 Diagnostic Tests

Regression analysis is fitted under certain assumptions with key emphasis on residuals and behaviour of predictors. The tests included autocorrelation, multicollinearity, normality and heteroskedasticity and normality. Further, model was specified by use of Hausman test.

3.6.1 Autocorrelation

Autocorrelation is phenomenon that exist when error terms in past periods influences the error terms in subsequent periods thus reducing the efficacy of model estimates (Abonazel, 2018). In regression analysis, the strength of the model and fitness of estimates is based on the assumptions that errors terms are not correlated. Autocorrelation measures residual correlations.

In spite of autocorrelation not resulting to inconsistency in estimates, it does lead to falsification of standard errors and poses a chance of rejection of null hypothesis wrongly. More so, existence of autocorrelation overrates the model fitness and strength of coefficients estimates. In this study propose the Wooldridge test for testing autocorrelation.

Null hypothesis

The null hypothesis would be set as: There exists no autocorrelation in the panel data set linking ownership structures and financial performance.

Rejection criteria

Reject null hypothesis for nonexistence of autocorrelation if p-value for Wooldridge statistics is less than 0.05

3.6.2 Multicollinearity

In case, one explanatory variable has a linear relationship with another input variable or more in a data set, the situation is known as multicollinearity (Daoud, 2017). What this means is that the model estimates outputs are incorrect since there is a high correlation among the predictors. Moreover, multicollinearity indicate that a predictor can be predicted by another explanatory variable quite accurately thus complicating the overall mode efficacy linking predictors and regressor variable in multiple regression analysis. Multicollinearity may not affect model summary predictive power but reduces the significance of the estimates.

The study used Variance Inflation factor (VIF) and tolerance in testing for multicollinearity. VIF shows how predictive accuracy of explanatory variable is inflated by other explanatory variables. As a rule of thumb, VIF of less than 10 is considered fit but the best case would be 1.

Tolerance is a reciprocal of VIF thus it is best when it is more than 0.1 (inverse of VIF 1) (Melo & Kibria, 2020). Additionally, mean VIF was computed as it shows the overall multicollinearity for the predictors.

3.6.3 Normality

Normality is a situation where a data set has features of normal distribution in which the observations are all symmetrical since most observations are distributed around the mean score on both ends (Cain, Zhang, & Yuan, 2017). Normality is an assumption that must not be violated in regression analysis. Normality is equally important in testing for hypothesis in data analysis since it depicts probability function of population parameters in linear regression estimates.

This study tested normality in two aspects; visual inspection using histogram and by use of Shapiro Wilk Test. In usual cases, a skewness of -3to +3 indicates that data is skewed towards the mean. A kurtosis of -10 to +10 indicates that the tail on distribution is not heavy (does not have outliers) and thus data has a normal distribution (Mishra, et al., 2019). Moreover, both skewness and kurtosis are used together and therefore the two conditions must be met simultaneously for normality to exist.

3.6.4 Heteroskedasticity

A situation where there is an equal residual is known as heteroskedasticity (Anatolyev & Mikkel, 2021). In this respect, heteroskedasticity is an occurrence where there is unequal variance in error terms in a regression analysis. In regression analysis, it is assumed that error term for a specific dependent variable should have equal variance (homoscedastic) especially in adjacent periods. Moreover, heteroskedasticity reduces the consistency of predicting the dependent variable in all observations of the dependent variables in a data set.

A data set that has heteroskedasticity has wrong standard errors and therefore the resultant model estimates are not reliable. Thus, heteroskedasticity lead to wrong rejection or wrong acceptance of hypotheses. In this study, tested heteroskedasticity using Modified Wald Test. Null hypothesis is set to absence of heteroskedasticity problem; the data set linking ownership structures and performance of listed manufacturers is not homoscedastic.

Rejection Criteria

Reject null hypothesis where p-value for modified Wald test is less than 0.05. This would mean that data set is homoscedastic and therefore standard errors are not incorrect (Arvanitis, 2018).

3.6.5 Model Specification

In panel data analysis, it is a requirement for one to decide on whether to report results using fixed effects model or random effects model. Fixed effects model is appropriately used where observations are considered as time invariant within the population and further that the dependent variable is a function of the input factors or covariate only (Bollen & Brand, 2010). In fixed effects model, it is assumed that at least some influence of factors to dependent are time invariant which then means that unobserved input variables are time invariant.

On the other hand, random effects indicate that some factors are random over time and that the dependent variable's observation could be influenced by the explanatory factors or by other random factors (Baltagi & Liu, 2015). In random effects model, the unobserved time variant influences are eliminated thus improving the regression efficacy.

Moreover, random effects model indicates that there are at least some factors, either to be estimated or not to be estimated model are known to change over time. I propose to use the Hausman model specify model to report results as fixed effects or random effects models. Ideally, Hausman test statistic with a P-value of less than 0.05 indicates that a FE model is the best (Baltagi & Liu, 2015).

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This section entails a discussion of data analysis that was done by use of STATA version 16. Moreover, this study has findings and interpretation of the findings. The goal of this study was to empirically interrogate the nexus between shareholding and financial performance of manufacturing entities that are publicly held in Kenya.

4.2 Descriptive Statistics

4.2.1 Descriptive Statistics for the Dependent variable; Financial Performance

The table below shows the descriptive statistics for the financial performance of the Seven Listed manufacturing firms as measured by the Return on Assets. The average returns on assets for the listed manufacturing firms was 0.95 with a standard deviation of 1.08. Thus, implying that the risk or volatility on the returns on assets was very high probably explaining dismal and volatile performance in the industry during the period under consideration. The average returns on assets were highly volatile between the firms as compared to the volatility within the firms. The volatility of assets returns was higher between the firms compared to within the firms

TABLE 2:

Descriptive Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations	
roa	overall	.9525714	1.081744	.06	4.14	N =	70
	between		.9790306	.06	2.761	n =	7
	within		.5802508	-.6184285	3.228571	T =	10

Source: Data Analysis Output (2021)

4.2.2 Descriptive Statistics of the Independent Variables

The table below shows the descriptive statistics of the independent variables of ownership structures that influence the Return on Assets for the manufacturing firms listed in the Nairobi stock exchange.

TABLE 3:

Dependent Variable Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations	
boards~r	overall	.1061429	.1822985	0	.49	N =	70
	between		.1910519	0	.49	n =	7
	within		.038638	-.0038572	.2261429	T =	10
foreig~r	overall	.2915714	.3306412	0	.86	N =	70
	between		.3432137	0	.8	n =	7
	within		.0830217	.0155714	.5155714	T =	10
institr	overall	.3752857	.2079836	.04	.78	N =	70
	between		.2123956	.122	.607	n =	7
	within		.0634777	.2402857	.5572857	T =	10
indivr	overall	.2304286	.1806786	.03	.65	N =	70
	between		.1795994	.03	.539	n =	7
	within		.0677944	.0674286	.5414286	T =	10

Source: Data Analysis Output (2021)

This study had four input variables namely board shareholding, foreign shareholding, institutional shareholding and individual shareholding. Board shareholding had an overall mean of about 10.6% with a standard deviation of about 18.2%. This indicates that firms that employed board shareholding on average of their total capital, board member's owned 10.6% of the total capital. The results also show some firms did not employ board shareholding as the minimum was zero and a maximum of 49% of the total shareholding.

The volatility of board shareholding was high between the firms at 19.1% and least within the firms at 3.8%. This implied changes in board shareholding were higher between the firms compared to board shareholding within individual firms. Foreign shareholding on the other hand had an overall of 29.15% with a standard deviation of 0.33. This indicates that foreign shareholding across the industry was about 29.15% of the total equity within the industry that varied by a maximum of 33% average. Some listed manufacturing firms did not have any foreign shareholding as shown by the minimum of zero portion above. The results further reveal that volatility of foreign shareholding was high between the firms at an average of 34.3% during the period under consideration compared to the volatility within the firms which averaged 8.3% of the total shareholding with the firms.

The institutional shareholding averaged about 37.5% of the total industry equity shareholding during the period under consideration with a volatility of about 20.8%. The minimum institutional shareholding on average for the listed firms was about 4% of the total equity while the highest institutional shareholding was about 78%. This implied that firms embraced institutional shareholding. The volatility in institutional shareholding was higher between the firms at 21.2% compared to the volatility within the firms at about 6.3%.

Lastly the individual shareholding significantly contributed to the total equity share holding for the manufacturing firms averaging 23.0% of the total equity. The average volatility of the institutional shareholding was 18.06% with the highest volatility being between the firms as compared to within the firms. This implied that individual shareholding changed more between the firms as compared to within individuals.

From the above dispersed shareholding analysis, the study found that institutional shareholding contributed about 37.52% of the total shareholding equity while board shareholding contributed the least at 10.6% of the total industrial equity. The most volatile form of equity shareholding was the foreign shareholding which had the highest standard deviation at about 33.06%.

4.3 Exploratory Data Analysis

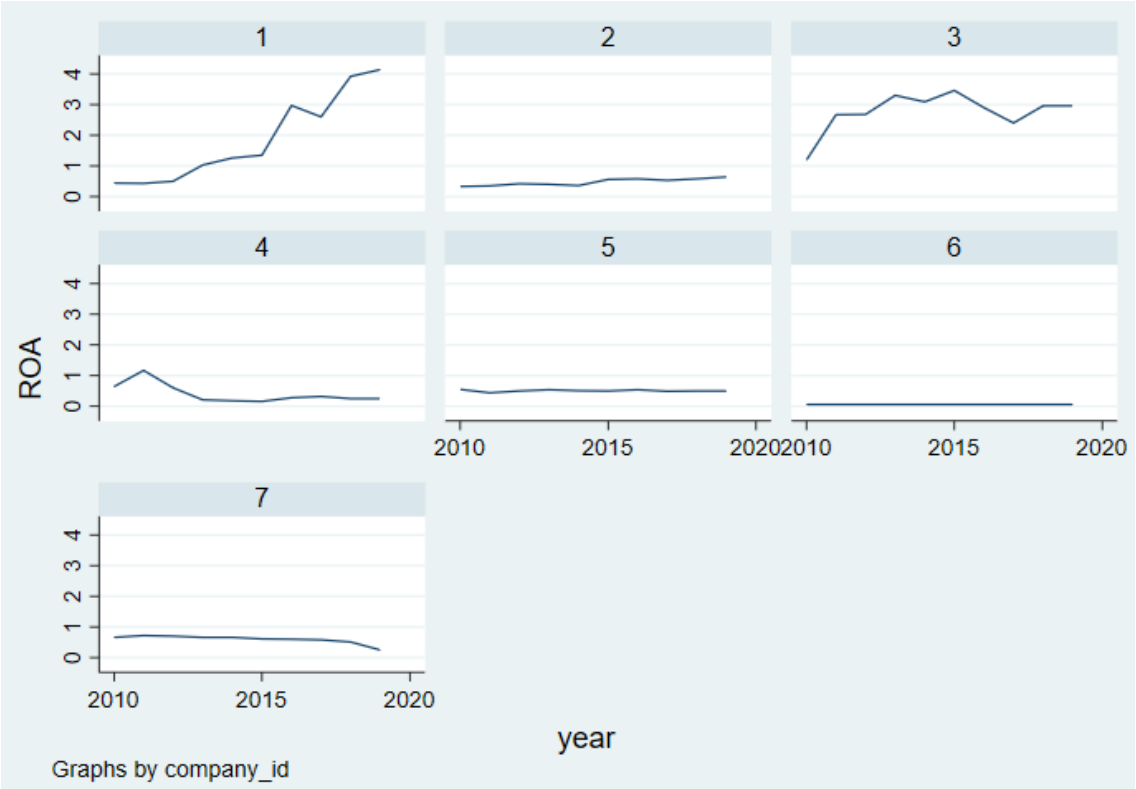
Exploratory data analysis seeks to test the movements in dependent variable in order to decide on whether to use panel data analysis or pooled OLS. In this study, the focus was return on asset since it was the primary measure of financial performance. The result is shown on Figure 2.

Within the firms;

This test was used in order to confirm whether there were any time related effects that needed to be accounted for in the analysis of the financial performance as measured by the Return on Assets. The table below shows the trend plots for ROA for each of the manufacturing firms analysed during the period.

FIGURE 2

Trend Plots for the dependent Variables



Source: Data Analysis Output (2021)

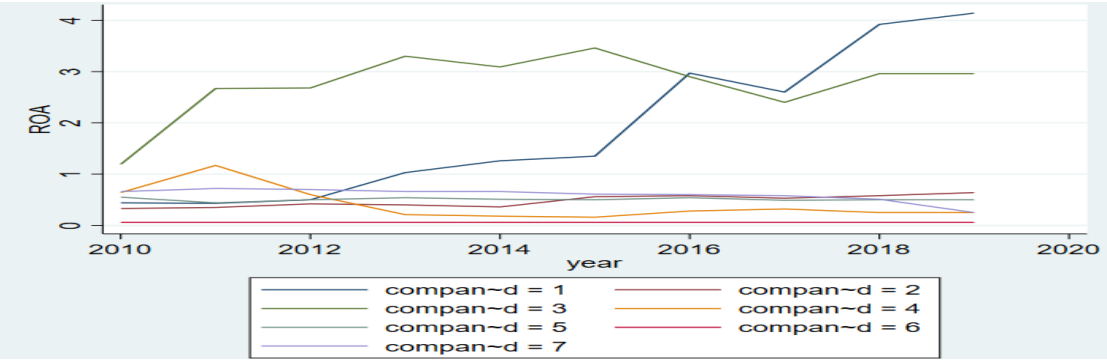
From the trend plots above, the growth in ROA was consistent in BOC and fairly in Carbacid. For all other firms namely BAT, EABL, Eveready, Unga and COL there was no any meaningful change in ROA during the period under consideration. Unga ltd actually portrays decay in ROA.

Between Firms

The exploratory analysis between the firms was done by use of overlain plots also called spaghetti plots. The table below shows the significant differences between the firms and the origins of the Y intercepts for the different firms. The firms have almost the same intercepts thus suggesting possibility of random effects in the data. This implies that there is no correlation between the panels and their predictors however this is not conclusive and Hausman test used later in this study is necessary.

FIGURE 3

Overlay Graph for Dependent Variable



Source: Data Analysis Output (2021)

4.4 .0 Specification Tests

Panel regression analysis was fitted under certain assumptions with key emphasis on residuals and behaviour of predictors. Before estimating the model, data was tested for specification tests i.e., Multicollinearity, Stationarity, heteroskedasticity and normality. Further, model was specified by use of Hausman test in order to select between the Fixed Effect and the Random Effect model.

4.4.1 Correlation Matrix of the Study Variables

The results of correlation analysis are shown on Table 4.2. The study had four input variables; board shareholding, foreign shareholding, institutional shareholding and individual shareholding. The table below indicates the pairwise correlation between the dependent variable and the independent variables.

Table 4: Correlation between Variables

	roa	boards~r	foreig~r	institu~r	indivr
roa	1.0000				
boardsharer	0.0260 0.8309	1.0000			
foreignsr	0.0284 0.8156	-0.4850* 0.0000	1.0000		
institutio~r	-0.5740* 0.0000	0.0289 0.8122	-0.7042* 0.0000	1.0000	
indivr	0.5845* 0.0000	-0.1358 0.2624	-0.5375* 0.0000	0.1049 0.3875	1.0000

Source: Data Analysis Output (2021)

In line with statistics on Table 4 institutional and board shareholding indicates a high correlation with a coefficient value of more than 0.8 thus suggesting existence of multi collinearity. A strong collinearity of more than 0.8 impairs the efficacy of the estimates derived by the model. As such, not all the variables were considered in the modelling of the final equation that was used to estimate financial performance as a function of ownership structures. It will be revealed later in this study that board shareholding did not materialize for final analysis and regression.

4.4.2 Multicollinearity

In this study Variance Inflation factor (VIF) and their reciprocals were used in testing for multicollinearity. The results are illustrated below.

TABLE 5:

Multicollinearity Output

Variable	VIF	1/VIF
foreignsr	3.49	0.286768
institutio~r	2.51	0.398834
indivr	1.78	0.562599
Mean VIF	2.59	

Source: Data Analysis Output (2021)

Upon running VIFs, Board shareholding was found to have high collinearity and was omitted. Foreign shareholding had a VIF of 3.49 with a reciprocal of 0.287, individual shareholding had VIF of 1.78 with a reciprocal of 0.562 while Institutional shareholding had a VIF of 2.51 with a reciprocal of 0.398. As a rule of thumb, VIF of less than 10 is considered fit. Tolerance is a reciprocal of VIF thus it is best when it is more than 0.1. Mean VIF for the variables specified in the final model was 2.59. This result indicates that the three predictors were fit for use in the basic regression model.

4.4.3 Testing for Serial Correlation

The Wooldridge test is used to test for serial correlation; however, this problem is not common in micro panels. The null hypothesis is that there is no serial correlation if the $P>0.05$ while the alternative hypothesis is serial correlation exist if the $P<0.05$. For the reason that it's not common in micro panels this test was ignored in this study and the effects accounted for in the fitted model if any.

4.4.4 Testing for Stationarity

The Stationarity test was carried out using the Levin-lin chu Model of unit root test. The purpose of this test was to confirm that statistical properties such as mean, variance and Autocorrelation remain constant overtime for all the variables in the panels as described below. The null hypothesis was tested at 5% confidence level.

Stationarity test of the dependent variable Financial Performance

The study employed the Levin Lin Chu test to test for Stationarity of financial performance as measured by the return on Assets. In this test the Null hypothesis was tested at 5% since the $P<0.05$. Thus, implying that the Return on assets was stationary therefore accepting the Alternative hypothesis.

TABLE 6:

Stationarity output for Dependent Variable.

```
Levin-Lin-Chu unit-root test for roa
---------------------------------------

Ho: Panels contain unit roots                Number of panels  =       7
Ha: Panels are stationary                    Number of periods =      10

AR parameter: Common                         Asymptotics: N/T -> 0
Panel means:  Included
Time trend:   Not included

ADF regressions: 1 lag
LR variance:     Bartlett kernel, 6.00 lags average (chosen by LLC)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 Unadjusted t       -10.4425
 Adjusted t*         -9.8781        0.0000
------------------------------------------------------------------------------
```

Source: Data Analysis Output (2021)

Stationarity test for the independent variables

Stationarity test for foreign shareholding.

From the test results below, foreign shareholding is not stationary since the P >0.05 as a result we accept the null hypothesis and reject the alternative hypothesis that foreign shareholding is not stationary or contains no unit roots.

TABLE 7:

Stationarity output for Foreign Shareholding

```
Levin-Lin-Chu unit-root test for foreignsr
---------------------------------------

Ho: Panels contain unit roots                Number of panels  =       7
Ha: Panels are stationary                    Number of periods =      10

AR parameter: Common                         Asymptotics: N/T -> 0
Panel means:  Included
Time trend:   Not included

ADF regressions: 1 lag
LR variance:     Bartlett kernel, 6.00 lags average (chosen by LLC)
------------------------------------------------------------------------------
                     Statistic      p-value
------------------------------------------------------------------------------
 Unadjusted t        -3.5563
 Adjusted t*         -1.3981        0.0810
------------------------------------------------------------------------------
```

Source: Data Analysis Output (2021)

Stationarity test for Institutional shareholding

The Levin lin Chu test output below indicates presence of unit roots in institutional shareholding. As a result, we accept the null hypothesis that there is presence of unit roots and reject the alternative hypothesis that the variable is stationary since the p value is insignificant at 0.18.

TABLE 8

Stationarity output for Institutional share holdings.

```
Levin-Lin-Chu unit-root test for institutionalsharer
---------------------------------------------------------------
Ho: Panels contain unit roots                Number of panels  =      7
Ha: Panels are stationary                    Number of periods =     10

AR parameter: Common                         Asymptotics: N/T -> 0
Panel means:  Included
Time trend:   Not included

ADF regressions: 1 lag
LR variance:     Bartlett kernel, 6.00 lags average (chosen by LLC)
---------------------------------------------------------------
                     Statistic      p-value
---------------------------------------------------------------
 Unadjusted t        -3.6572
 Adjusted t*         -0.9042        0.1830
---------------------------------------------------------------
```

Source: Data Analysis Output (2021)

Stationarity test for Individual shareholding

The test results below indicates that there exist no unit roots in individual shareholding and hence the variable is stationary during the period under consideration. The P value is 0.00 which imply it's significant at 5%. Therefore, we reject the null hypothesis that the variable contains unit roots and accept the Ha that panels are stationary.

TABLE 9

Stationarity Output for Individual share holding

Levin-Lin-Chu unit-root test for **indivr**

Ho: Panels contain unit roots — Number of panels = **7**
Ha: Panels are stationary — Number of periods = **10**

AR parameter: **Common** — Asymptotics: **N/T -> 0**
Panel means: **Included**
Time trend: **Not included**

ADF regressions: **1** lag
LR variance: **Bartlett** kernel, **6.00** lags average (chosen by **LLC**)

	Statistic	p-value
Unadjusted t	-7.8060	
Adjusted t*	-5.9787	0.0000

Source: Data Analysis Output (2021)

From the results above the variable is stationary or contain no unit roots.

4.4.5 Hausman Test

The Hausman test (1978) is used to solve the dilemma whether to use the random effects or the fixed effects estimators. The Null hypothesis is RE (Random Effects) while the alternative is the use of FE (Fixed Effects). i.e., if the p value < 0.05 the Fixed Effects is preferred for the study otherwise the Random Effects is preferred. The test followed the Hausman test process which requires we run the fixed effect model followed by random effects model by the use of the selection criteria above as required by Hausman. Below is the output of the Pooled OLS model for the final variables considered in the final specification model.

TABLE 10

Pooled OLS Output

Source	SS	df	MS	Number of obs	=	70
				F(3, 66)	=	73.09
Model	62.0614809	3	20.6871603	Prob > F	=	0.0000
Residual	18.6802567	66	.283034192	R-squared	=	0.7686
				Adj R-squared	=	0.7581
Total	80.7417376	69	1.17017011	Root MSE	=	.53201

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
foreignsr	-.8398624	.36172	-2.32	0.023	-1.56206	-.1176652
institutionalsharer	-4.215684	.4876067	-8.65	0.000	-5.189222	-3.242146
indivr	3.182254	.4725947	6.73	0.000	2.238689	4.12582
_cons	2.046255	.3516041	5.82	0.000	1.344255	2.748255

Source: Data Analysis Output (2021)

The basic regression output above shows the model is significant and can explain the relationship between the independent variables and the dependent variable return on assets as can be seen from the significant overall p value of the model. Additionally, the model variables explain about 76.86 % of variation of the return on assets are influenced by alterations in shareholding structure while 23.14 % of the variations is explained by variables outside the model. However, the time effect and cross-section effects which are common in panel data can't be accounted in the above model making the p values and their coefficients unreliable hence the need for RE and FE models.

Fixed Effect Model Output

The output table below shows the fixed effects results. From the output the overall R squared is 69.11 % with within and between of 46.37 and 79.11 % respectively. The F test value is below 0.05 thus indicating the model is significant and viable to explain the relationship between the independent variables and the dependent variables. The correlation between the errors and regressors is -0.4547 with an interclass interval of 55.81% as shown below however the p values for the coefficient are insignificant except for institutional shareholding.

TABLE 11

Fixed Effect Output

```
Fixed-effects (within) regression               Number of obs      =        70
Group variable: company_id                      Number of groups   =         7

R-sq:                                           Obs per group:
     within  = 0.4637                                         min =        10
     between = 0.7911                                         avg =      10.0
     overall = 0.6911                                         max =        10

                                                F(3,60)            =     17.29
corr(u_i, Xb)  = -0.4547                        Prob > F           =    0.0000
```

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
foreignsr	-2.490835	1.544506	-1.61	0.112	-5.580306	.598637
institutionalsharer	-6.883948	1.545495	-4.45	0.000	-9.975397	-3.792498
indivr	1.227731	1.504652	0.82	0.418	-1.782022	4.237485
_cons	3.97937	1.282311	3.10	0.003	1.414367	6.544374
sigma_u	.51212118					
sigma_e	.45568699					
rho	.55811374	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(6, 60) = 4.99                     Prob > F = 0.0003
```

Source: Data Analysis Output (2021)

The Random Effects Model

The output below shows model has an R squared of 75.45% overall with a Wald chi p value which is significant. This implies the model is significant can be used to explain the relationship between the independent and the dependent variables. The interclass interval from the Random effects model is 43.07%. The p values for the coefficient are significant except for foreign share holding

TABLE 12

Random Effects Output

Random-effects GLS regression — Number of obs = 70
Group variable: company_id — Number of groups = 7

R-sq:
within = 0.4531
between = 0.8794
overall = 0.7545

Obs per group:
min = 10
avg = 10.0
max = 10

Wald chi2(3) = 79.27
corr(u_i, X) = 0 (assumed) — Prob > chi2 = 0.0000

roa	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
foreignsr	-1.345918	.7831887	-1.72	0.086	-2.88094	.1891034
institutionalsharer	-5.215882	.9521654	-5.48	0.000	-7.082092	-3.349672
indivr	2.490517	.905296	2.75	0.006	.716169	4.264864
_cons	2.728563	.7279373	3.75	0.000	1.301832	4.155294
sigma_u	.39641002					
sigma_e	.45568699					
rho	.43076905	(fraction of variance due to u_i)				

After running the above two models then the Hausman test was used to select between RE or the FE and revealed the output below.

TABLE 13

Hausman Coefficient Output

	Coefficients (b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
foreignsr	-2.490835	-1.345918	-1.144916	1.331208
institutio~r	-6.883948	-5.215882	-1.668066	1.217347
indivr	1.227731	2.490517	-1.262785	1.20184

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 2.50
Prob>chi2 = 0.4749

Source: Data Analysis Output (2021)

The Hausman test null hypothesis is Random Effects if the P value of chi >0.05 while the alternative hypothesis is Fixed Effects if the P Value of chi <0.05. From the test result above the Random Effects is preferred over the Fixed Effects.

4.5.0 Diagnostic Test for Random Effects

4.5.1 Testing for Random Effects: Breusch Pagan LM Test

This test is used to solve the Dilemma in selection of Random effects or Pooled OLS for the model Specification. The null hypothesis is that the variances across the groups are zero hence the Pooled OLS while the alternative hypothesis is that variances across the groups are not equal to zero hence existence of random effects.

The table below shows the out results; The P Value of Chi <0.05 hence the Ho hypothesis is rejected and we accept the alternative hypothesis that the variances across the groups are not equal to zero hence existence of random effects

TABLE 14

Breusch Pagan LM Test Output

```
Breusch and Pagan Lagrangian multiplier test for random effects

        roa[company_id,t] = Xb + u[company_id] + e[company_id,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+------------------------------
                     roa |     1.17017       1.081744
                       e |    .2076506        .455687
                       u |    .1571409         .39641

        Test:   Var(u) = 0
                                chibar2(01) =    14.06
                              Prob > chibar2 =   0.0001
```

Source: Data Analysis Output (2021)

4.5.2 Normality

Normality is an assumption that must not be violated in regression analysis. The normality test was done in order to confirm the normality of the residuals. Normality was tested using Skewness/Kurtosis tests for Normality, and the Shapiro Wilk Test.

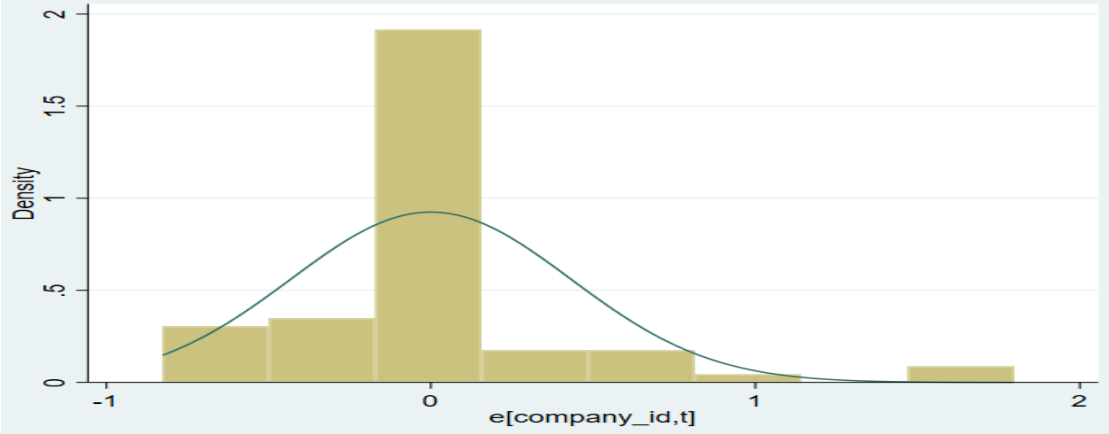
Data Skewness indicates the lack of asymmetry in the data understudy while the Kurtosis depicts the shape portrayed by the data under study.

The diagrams below indicate the normality test output.

Skewness/Kurtosis tests for Normality output

FIGURE 4

Normality of Residuals Graph



Source: Data Analysis Output (2021)

From the above diagram the data is highly peaked around the mean. Additionally, the data is not normally distributed since it's skewed to the left.

The Shapiro Wilk test

The Shapiro Wilk test of normality is based on the assumption that data is normally distributed. For P-Value > 0.05 we fail to reject the Null hypothesis and conclude that the data is normally distributed however if P –Value < 0.05 reject the null hypothesis and accept the alternative hypothesis that the data is not normally distributed.

The output below shows that, according to Shapiro-Wilk test reject the Ha hypothesis and conclude that the data is not normally distributed since the P Value < 0.05.

TABLE 15

Shapiro Wilk Test Result

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
r	70	0.80056	12.276	5.453	0.00000

Source: Data Analysis Output (2021)

4.6 Model fitting

This study sought to establish the effect of ownership structures on financial performance. The model was fitted using the random effects model after treating the Serial Correlation. This was done by regression of AR and generated the final output or results as shown below.

TABLE 16

Model Fitting Coefficients

RE GLS regression with AR(1) disturbances — Number of obs = 70
Group variable: company_id — Number of groups = 7

R-sq:
within = 0.4483
between = 0.8890
overall = 0.7605

Obs per group:
min = 10
avg = 10.0
max = 10

Wald chi2(4) = 69.52
corr(u_i, Xb) = 0 (assumed) — Prob > chi2 = 0.0000

roa	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
foreignsr	-1.08284	.7455569	-1.45	0.146	-2.544105	.3784248
institutionalsharer	-4.123371	.894832	-4.61	0.000	-5.87721	-2.369533
indivr	2.171457	.87419	2.48	0.013	.4580765	3.884838
_cons	2.340062	.6989673	3.35	0.001	.9701113	3.710013
rho_ar	.79810889	(estimated autocorrelation coefficient)				
sigma_u	.09276403					
sigma_e	.30686341					
rho_fov	.08373201	(fraction of variance due to u_i)				
theta	.03176819					

Source: Data Analysis Output (2021)

The original mathematical model is illustrated below which was transformed in order to fit the final model.

$$Y = B_0 + B_1X_{1it} + B_2X_{2_{it}} + B_3X_{3_{it}} + B_4X_{4_{it}} + \varepsilon_{it}$$

Equation 1: Fitted Model

Where,

Y=Financial Performance as measured by Return on Asset

B_0=Constant, B_1, B_2, B_3, B_4 are the coefficient of the dependent variables

X_1= Foreign Share holding

X_2=Institutional Share holding

X_3=Individual Share holding

X_4=Board Share holding

$\varepsilon_{it=}$ Error Term

The above original model was transformed after running the diagnostics whereby multi collinearity was detected between board shareholding and foreign shareholding and as result Board shareholding was dropped completely from further analysis. This reduced the independent variables to three thus necessitating review of the final model as shown below.

$$Y = B_{0_{it}} + B_1 X_{1_{it}} + B_2 X_{2_{it}} + B_3 X_{3_{it}} + e_{it}$$

Equation 2; Revised Equation

Where,

Y=financial Performance as measured by return on Asset

B_0=Constant, B_1, B_2, B_3, are the coefficient of the dependent variables

X_1= Foreign Share holding

X_2=Institutional Share holding

X_3=Individual Share holding

The final model was fitted as follows based on the results above

$$Y \ = 2.34 - 1.08X_1 - 4.12X_2 + 2.17X_3$$

The fitted regression model above was fitted based on the results of the table above on Random Effects after treating serial correlation. The table shows that model explain the variations within the panels to be about 44.13% while between the panels the model explains the variations to be about 88.90 % and the remainder is as a result of uncaptured factors and panels.

The overall R^2 is 76.05% thus implying that the three forms of shareholding captured in the revised conceptual framework significantly explain the effect of ownership structures on the financial performance as measured by the return on assets of the manufacturing firms while factors outside the final model and the revised conceptual account for 23.95%. The overall model is considered significant and reliable based on the P value of chi^2 of 0.000 which is below the threshold of 5% hence we reject the null hypothesis that the model is not significant. The model output indicates that holding all other factors constant, a rise in one unit in foreign shareholding led to decrease in returns on assets by 1.08 units however this is inconclusive since the confidence interval range seems to swing between a positive effect and a negative effect. Institutional shareholding has a negative effect on returns on assets. This is based on the fact that ceteris Paribas a rise in one unit of institutional shareholding leads to a decrease in returns on assets by 4.12 units this is conclusive since the confidence interval is negative. Lastly individual shareholding has positive effect on the returns on assets and is very significant. A rise in individual shareholding by one unit leads to rise in returns on assets by 2.17 units. The model argues that holding the ownership structures constant namely, the foreign, individual and institutional shareholding, returns on assets increases by 2.34 units however all this changes in the coefficients are across time and contains between and within effects of the panels.

4.7 Hypothesis Testing and Discussion of Findings

The first hypothesis was stated as; board shareholding does not have a significant effect on financial performance of listed manufacturing firms in Kenya. The study variable suffered from multicollinearity hence could not be accounted in the final regression model. This implies that effect of board shareholding on the returns on assets based on this study is inconclusive and remains unaccounted for.

Secondly the study sought to test the hypothesis, foreign shareholding has no effects on financial performance as measured by return on Asset. From the above results the study was inconclusive on the effects it has to the returns on assets. Therefore, we fail to reject the null hypothesis nor the alternative hypothesis that foreign shareholding has effect on the returns on assets. The finding is pegged on the coefficient of -1.08 with a standard error of 0.75 and a p-value of 0.146 implying the variable is insignificant and inconclusive. To some extent this study agrees with Mihai and Cosmin (2013) who revealed that foreign ownership among Italian firms was an insignificant factor. This outcome disagrees with that of Kao, Hodgkinson and Jafaar (2019) who found that foreign shareholding was impactful on firm performance among Taiwanese firms. Foreign ownership also improved firm performance among Turkish entities (Gurbuz& Aybars 2010). Similar result was reported by Adamu and Haruna (2020) who investigated about firm shareholding in Nigeria.Foreign shareholdings bring capital that is utilized in acquisition of plant and machinery that can be used to generate income for firms.

The study also tested hypothesis that institutional shareholding has no effect on financial performance of listed manufacturing firms. From the study it was revealed that institutional shareholding control negatively affects the return on assets. This is evidenced from the negative coefficient of 4.12 with a standard error of 0.89 and significant p value. Therefore, the study rejected the null hypothesis and accepted the alternative hypothesis that institutional shareholding negatively influences the returns on assets of the manufacturing firms. The findings off this hypothesis test contradicts with the outcomes of Gugong, Arugu & Dandago (2014) and Mansur and Tangl (2018) who found out that there is significant positive influence of institutional shareholding on firm performance of the insurance firms.

However, the results agree with Gurusamy (2017) who argues that there exists a negative relation between institutional shareholding and financial performance of the firms.

Lastly, the study tested the null hypothesis; individual shareholding does not have a significant effect on financial performance of listed manufacturing firms. The results revealed that individual shareholding has a significant positive effect on financial performance of listed manufacturing firms as measured by the Returns on Asset and therefore we reject the null hypothesis and conclude that individual shareholding has a positive effect on returns on Assets. This is evidenced by the positive coefficient of 2.7 with a standard error of 0.87 and a positive confidence interval as shown above. The study found out that there is a significant role of shareholding on return on assets of listed manufactures. This result is contrast to the findings reported by Phung and Mishra (2016) among Vietnamese firms who found that individual shareholding has a negative effect on Returns on Assets. Chandrasena and Kaluthunga (2015) too revealed that individual ownership impairs firm performance. Gichohi (2018) too did not find any role of individual shareholding on firm performance. However, Mudi (2017) reported that individual shareholding adds value to firm performnace among listed entities at the NSE in Kenya.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, a summary of findings is made. Secondly, conclusions for each objective are made. Policy and practice recommendations are made, limitations explained and a suggestion for further studies are made.

5.2 Summary of Findings

This study sought to interrogate the nexus between shareholding structures and financial performance. Observations on variables were sourced from listed manufacturing companies that had operated from 2010 to 2019 thus forming a balanced panel data set. To account for the serial correlation effects the author adopted regression AR model for the Random Effects analysis. Moreover, model estimates revealed that board shareholding was highly correlated to the foreign shareholding and hence dropped from the final regression analysis. The study was analysed using the random effects panel approach and found that foreign shareholding was inconclusive on the effect it has on returns on Assets, institutional shareholding has negative effect on the returns on assets for listed manufacturing firms in Nairobi Securities Exchange while Individual shareholding was found to have positive significant effect on the financial performance of the Listed manufacturing firms as measured by return on assets. The final model and coefficients were reported using Random Effects Model after treating for serial correlation using AR1. It was used to estimate the association between the independent variables and firm financial performance of the listed manufacturing firms

5.2.1 Effect of Foreign Shareholding on Financial Performance

The study found out that foreign shareholding has an inconclusive effect on financial performance of manufacturing firms in Kenya. Thus, implying the effects could either be positive or negative on financial performance as measured by the returns on assets. It therefore means that the foreign shareholding should only be used to increase the value of the firms.

Foreign shareholding comes with other benefits like improved technology and attracting new expertise from the owners of the foreign ownership and hence contributing to probably better ways to managing the firms and accountability. Therefore, foreign shareholding is advocated to the extent it brings positive effect. It is however important to note that it may also change culture of the benefitting organisation. Due to the inconclusiveness of this variable, a wider sample should be employed and probably consider the non-listed manufacturing firms in order to determine the most objective effect of the foreign shareholding to the financial performance of manufacturing firms.

5.2.2 Effect of Institutional Shareholding on Financial Performance

The study found out that institutional shareholding has a role on financial performance of listed manufacturers in Kenya. Specifically, results revealed that institutional shareholding has a negative and significant role on return of assets. Therefore, the listed manufacturing firms are discouraged from using other firms to contribute capital inform of shares. This probably could be because these firms may be their competitors in the industry or have vested interest that may not be to improve the status of the listed manufacturing firms. Therefore, listed manufacturing firms should use other forms like dispersed shareholding in order to improve their return on assets.

This could also be explained by the Stulz theory who argued that in some cases also it is not easy to attract the foreign ownership despite globalization and the little that is available may not change the situation i.e., by improving the financial performance of listed firms because of the barriers that still persist in capital flows from one country to the other.

5.2.3 Effect of Individual Shareholding on Financial Performance

This study found that individual shareholding affects financial performance of listed manufacturers listed at the NSE in Kenya. The study found a positive and significant effects on the financial performance of the listed manufacturing firms. From this observation individual shareholding is highly encouraged since it has positive and significant effect on the returns on assets. This is possibly because the individual shareholders hold the management into account on the firm's performance by demanding for positive performance in order for them to grow their wealth. As argued in Agency theory there is conflict of interest between the management who are agents and the shareholders who are principals. The shareholders demand for growth in their wealth in form of returns on assets invested while the management may be fighting to enjoy huge perks. Therefore, the shareholders demand for a certain level of return on assets in order for the management to enjoy a certain level of benefits like bonuses. This demand leads to the management working hard to increase the returns on assets thus positive financial performance.

5.3 Conclusions

This study concluded that ownership structures are key components of financial performance of listed manufacturers in Kenya. The model relating ownership structures and financial performance had high significance. The study concludes that the variables are significant in influencing the financial performance as measured by the returns on the asset. Board shareholding effects was inconclusive since it was not analysed to conclusion, foreign shareholding has mixed effect on financial performance of the manufacturing firms. Institutional shareholding on the other hand has negative significant on the returns on assets while individual shareholders have positive effect on return on assets. In this case therefore, it is concluded that financial performance as measured by returns of Assets for listed manufacturers in Kenya is significantly influenced by the share of institutional and individual ownership structures and insignificantly by the share of foreign shareholding though not conclusive.

5.4 Recommendations

This study recommends that listed entities need to adopt dispersed shareholding structures as this study has revealed that ownership structures mixed effects on the financial performance of listed manufacturing firms as measured by the returns on assets. From the study findings the effects of board shareholding did not materialize due to correlation effects. However, boards contribute heavily to the financial performance of listed manufacturing firms and as such further review of board shareholding and its effect on the financial performance should be investigated further in order to determine the optimum board shareholding ratio or share for optimum returns on asset.

The study indicates that the effect of foreign shareholding on the returns on assets is inconclusive and is highly volatile therefore further studies on this variable can be tested with other firms listed in the NSE or Listed manufacturing firms within the region in order to get a conclusive effect. However, it is advisable for the listed manufacturing firms that they maintain the optimum foreign shareholding that will not reduce the returns on assets. It's also advisable to maintain foreign shareholding to the extent that is within the perquisites of the law to avoid silent takeovers of local manufacturing firms by the dominant foreign shareholders.

The institutional shareholding was found to have a negative significant effect and had the highest negative significant effect on returns on assets as compared to other variables. This could be attributed by the freight of returns as the institutional shareholders claims for huge dividends due to their massive capacity to provide capital and equity. It's therefore that institutional shareholding maintained at the most optimum level. However, it's prudent to note that institutional shareholding provide capital which may not be easy to raise from individual shareholding hence the need to strike a balance between the two. Lastly it was found out that individual shareholding has positive and significant effect on the returns on assets, therefore it's advisable that firms increase individual shareholding in their ownership structures since it improves the returns on assets significantly. Additionally, the individual shareholding is cheap and an easier way to raise equity as compared to the other forms of shareholding. Finally manufacturing firms in Kenya should diversify shareholding since it is likely to improve financial performance.

5.5 Limitations of the Study

This study has a number of limitations. The data was extracted from annual reports and audited financial statements for the time periods. Should the data change as it happens in restatements of financial statements, the results could change. This study is limited to this matter. Secondly, financial results of listed manufacturing entities cannot be said to be influenced by ownership structures in isolation. This is because, there are other factors such as: size of the market, political situations and pandemic just to mention but a few. This study was undertaken without alienating the likely influence of these other factors.

Another limitation is that this study focused on listed firms only. The Kenyan manufacturing sector has both listed and non-listed entities. In this aspect, the results may not be used to make policies and guide management of the non-listed entities. Lastly, this study used panel data regression analysis in which historical observations for variables were used. Perhaps a different method such as OLS or use of primary data could yield different results.

5.6 Suggestions for Further Research

The main objective of the study was to determine the effect of ownership structures on financial performance of listed manufacturing firms in Kenya. The study did not conclude on the effect of Board Shareholding on returns on Assets, therefore the variable can be tested in combination with other independent variables that influence firm performance. The study did not moderate other factors that also influence firm performance and future studies can consider moderation of such factors.

Control structure do not only influence the performance of manufacturing firms and as such a wide scope the target population can be considered in future studies in order to make conclusive remarks about listed ownership structures and financial performance as measured by ROA or any other financial ratio. Lastly the current study considered published secondary data probably another study can be done using first hand data in order to compare and contrast results.

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APPENDICES

Appendix 1: List of Manufacturing Firms at the Nairobi Securities Exchange

1. BOC Kenya Ltd
2. British American Tobacco Kenya Ltd
3. Carbacid Investments Ltd
4. East Africa Breweries Ltd
5. Eveready East Africa Ltd
6. Flame Tree Group Holdings Ltd
7. Kenya Orchards Ltd
8. Mumias Sugar Co. Ltd
9. Unga Group Ltd

Appendix 2: Data collection Sheet

Year	Board shareholding	Foreign shareholding	Institutional shareholding	Individual shareholding	Total shares	Equity	Net income	Total assets
2010								
2011								
2012								
2013								
2014								
2015								
2016								
2017								
2018								
2019								