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SHARE OWNERSHIP TYPES AND FINANCIAL PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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Abstract

At a time of unprecedented global competition, increasing performance is an important objective of every company. Many scholars, scientists and experts have devoted their time to revisit this topic due to divergence of the factors determining performance. Companies in Kenya are advancing day and night in terms of technology, institutionalization, and innovation of new services and products. The general objective of the study is to investigate the relationship between share ownership types and firm performance of listed companies in the Nairobi Securities Exchange. The specific objectives for the study are: (1) To evaluate the relationship between individual ownership and firm performance of the firms listed in the Nairobi Securities Exchange; (2) To determine the relationship between foreign ownership and firm performance of the firms listed in the Nairobi Securities Exchange; (3) To establish the relationship between institutional ownership and firm performance of the firms listed in the Nairobi Securities Exchange. The study was descriptive in research design. The population for the study was the 64 firms listed at the Nairobi Securities exchanges as at 31st December 2015. This study used census to select companies whose data was used for analysis. The sample for the study was restricted to those companies constantly listed in the period 2006 to 2015 that is 10 years. The

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researcher used readily available secondary data from 2006 to 2015 for the listed firms. In particular, secondary data was extracted from NSE Hand Books available from CMA libraries, CMA quarterly bulletins and audited financial reports. E-Views 9 was used to analyse the data. Results of the study revealed positive and significant relationship between individual, institutional foreign ownership types and firm performance.

Keywords: Share ownership, Individual ownership, foreign ownership, Institutional Ownership and Firm Performance

INTRODUCTION

Based on the vision of the company, Firms have over time used several ways to build ownership structure that suits them (Benson, 2015). This is to mean that ownership structure forms part of the internal mechanism of corporate governance. Many studies conducted in the area of corporate governance are a clear indication of the number of issues related to how companies are controlled and directed. Ongore and K'Obonyo (2011) avers that the origin of these problems can be attributed to weak incentives to the stakeholders, concentrated ownership and loss of control of the minority shareholders due to asymmetry of information. In such an environment, firms have been found to compromise performance (Mule, Mukras & Oginda, 2013).

While stating their theory of the firm, Berle and Means (1932) pioneered the study on the contemporary firm by critically evaluating the conflicting interests of the managers and owners (controllers) of the firm. It was then decided that, in the event of growing ownership diffusion, the authority and mandate of shareholders to exercise control would be reduced. In the maximization of firm performance so as to benefit the shareholders, ownership is usually endogenously determined (Al-Matari, Al-Swidi & Fadzil, 2013). In order to ease the agency cost that emerge due to separated roles of management and control, corporate governance mechanisms are borne that tries to align the needs and interests via measure such as introduction of performance related pay. An organization is motivated to perform so that the need of the stakeholder can be meet optimally.

According to Raji (2012) ownership structure refers to the how equity is distributed in terms of votes and capital provided by each identified equity holder. Based on these structures, managers' incentives are determined which informs about how efficient a corporation economic is. Grosfeld (2006) has proved that managers with latitude to make the effort will always be willing to take initiative and innovative actions. In a dispersed ownership, delegation of control to

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the managers is also effective since it acts as an incentive. All this has resulted in the need to develop corporate governance.

Most economies in the world today have become liberal owing to the development of the corporate governance mechanism that can accommodate different forms of ownership structure (Asava, 2013). Going by Lee (2008) categorization ownership can be put into two structures; ownership concentration and ownership identity. Ownership concentration can be viewed as the proportion of shares held by the major shareholder while ownership identity can be broken down into foreign, local individual and institutional ownership. Further, ownership identity can be diversified to include managerial ownership (Ongore, 2011).

As the world continues to grow and experience economic changes, the importance of ownership is evidenced by the developing need for corporate governance practices. Benson (2015) noted that the volatility of the corporate ownership portfolios in the multinational enterprise has renewed keen interest on the matters of the ownership. This could be used to explain the difference between the developed and developing nations ownership structure. In developed countries, ownership has been isolated while on the other hand developing nations ownership structure features a weak legal system that safeguarding the investors' interests and ownership structure is concentrated (Ehikioya, 2009). Going by the argument by Fazlzadeh, Hendi and Mahboubi (2011) ownership structure is one way of providing policy makers with the intuitions that enable a system of corporate governance to function.

Statement of the Problem

At a time of unprecedented global competition, increasing performance is an important objective of every company. Many scholars, scientists and experts alike have devoted their time to revisit this topic due to divergence of the factors determining performance. Companies in Kenya are advancing day and night in terms of technology, institutionalization, and innovation of new services and products (Asava, 2013). There has been an upward and downward trend in NSE 20 share index for example in 2012 the average annual index was Ksh 173.6 billion which was an increment of 11% from the annual average index in 2011. In 2013 the NSE share index declined by 8% to Kshs 159.7 billion. In the year 2014 there was an improvement from the previous year since the volume traded increased by 17% to Kshs 186.7 billion (Nairobi Securities Exchange, 2014).The figures show inconsistency in the volumes traded in NSE over the years, which will ultimately be reflected on companies performance. Again, continued aggressiveness to attain performance targets raises the confidence of the investors, which increases the reputation and valuation of the company in the market. Corporate adherence to corporate governance on share ownership will minimize agency conflicts, since none of the

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stakeholders will take advantage of the other and consequently enhance corporate performance, (Okiro, Aduda & Omoro, 2015). For companies to remain competitive they have to be dynamic in operations and hence importance of internal structure cannot be ignored. As Lee (2008) noted, ownership type is an internal mechanism of corporate governance. Further, ownership structures influence the process of making decisions, incentives, firm behaviour and ultimately firm performance (Lele & Jun, 2011).

In the search of the coveted dynamism, most companies have resulted to different forms of ownership. Government in bid to control fully some companies has been met with challenges that have led to privatization of the companies. Individual companies also in bid to continuously monitor and evaluate their firm's changes in ownership have proved inevitable. One of the reasons behind this move is to raise more capital for the investment opportunities thus most individual company going public (Benson, 2015). The choice of type of ownership requires one to understand the features in each type and their effect on the business scenarios (Hu, Tam & Tan, (2010). As observed, most firms listed in the NSE do have concentrated ownership whereby these shareholders are using that chance for personal gain at the detriments of minority shareholders while impacting firms' performance (Mule, Mukras & Oginda, 2013).

There are numerous studies conducted in on this topic, however, most studies (Mule *et al.*, 2013; Karaca & Ekşi, 2012; Obiyo & Lenee, 2011; Singh & Gaur, 2009) tend to use singe equations only on the ownership concentration and firm performance. As seen from background information companies host several ownership structure whose impact on performance should be assessed jointly and/or in multiples. Also, despite ownership-performance relationship remaining a hot topic for years, an agreement is yet to be arrived at by the academicians and scholars. Studies have found mixed and inconclusive results. For instance, Tsegba & Ezi-Herbert (2011); Roszaini & Mohammad (2006) studies showed a negative relationship while NazliAnum (2010); Uwuigbe & Olusanmi (2012); Singh & Gaur (2009) had a positive relationship against Al-Hussain & Johnson (2009); Mohd (2011); Shan &McIver (2011) who found no relationship between ownership and firm performance. It can therefore be said that probably relation varies with the realities of corporate governance environments in which firms are embedded. (Hu & Izumida, 2008).

Past empirical examination in this area had been confined to companies listed in global securities exchanges, though they had been quantitative in nature they had relied on small unrepresentative sample of companies. Moreover, most of these studies had been done for a five year period; the study considered all the companies listed in NSE for 10 years. Even though past studies had drawn panel data, most of them had chosen descriptive research design or

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correlational design the study combined both correlation and descriptive research design to examine the relationship between share ownership type and firm performance.

General Research Objective

To investigate the relationship between share ownership types and firm performance of listed companies in the Nairobi Securities Exchange.

Specific Research Objectives

i. To evaluate the relationship between individual ownership and firm performance of the firms listed in the Nairobi Securities Exchange.
ii. To determine the relationship between foreign ownership and firm performance of the firms listed in the Nairobi Securities Exchange.
iii. To establish the relationship between institutional ownership and firm performance of the firms listed in the Nairobi Securities Exchange.

REVIEW OF RELATED LITERATURE

Theoretical Review

Theoretical review basically presents different theories that explain and describe or support a given hypothesis about a firm. In reference to this particular study, several theories are studied and examined to give a clear insight on the relationship between performance and ownership of different firms listed in the Nairobi Security Exchange. The theories will specifically seek to evaluate if specific theories are linked to the relationship between the performance of firms listed in the Nairobi securities exchange and individual, foreign and institutional ownership.

Agency Theory

Agency theory basically explains and evaluates and tries to strengthen the relationship between the principals, who can also be referred to as shareholders and agents, who can be referred to as managers (Jensen & Meckling, 1976). One of the biggest threats to the existence and good performance of any given firm is internal wrangles or misunderstandings between different agencies involved in running of any firm or organization (Crowther & Ortiz Martinez, 2007). The misunderstandings mainly occur due to diversity in the level of skills and technical knowhow between different players in a given field. Nairobi Security Exchange is not an exception to the effects of agency theory owing to the fact there have been issues cutting across all the firms listed despite their ownership.

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Firms in the Nairobi Security Exchange have been fairly affected by what is commonly known as contrast risk appetites. This is a scenario where the managers owing to the fact that they are the ones entrusted in implementation of policies and making some decisions, end up utilizing the resources of the shareholders. In the actual sense, the manager may be having positive plans which are aimed at lifting a particular firm to greater height. On the other hand, it may be hard for a shareholder to be convinced that their resources are safe since in case there is a backlash, the shareholder carries the burden of their utilized resources. This in the long run may affect the overall performance of companies listed on the Nairobi Security Exchange (Ngira, Kalui & Oluoch, 2014). The individual companies are worst hit since the shareholders contribute towards adding capital into their firms to boost financial capability of the firms in handling various projects.

The theory is appropriate for the study since it creates a clear platform aimed at enlightening both the principals and agents on the need to work harmoniously and use the inward outside approach in solving various issues affecting their firms is far much effective and guarantees the firm sustainability and growth. The assumption here is that the misunderstandings between the principals and the agents is brought about by diversity in skills and knowledge. The shareholders in most of the times are not well conversant with the best methods of running businesses, how and what to implement. Agency theory has been effective in addressing misunderstandings, thus greater strategic involvement of both parties to serve to reduce cases of pursuit of counter- productive strategies leading to less conflict between shareholders and agents

Stakeholder Theory

Stakeholder theory basically deals with addressing the management in observing and addressing morals and ethical values in managing an organization (Freeman, 1936). The success of any business mainly depends on how well the shareholders or the owners, the management and other players relate and cooperate in running of a particular organization (Moriarty, 2012). It is worth noting that stakeholders are divided into major parts, compromising of internal stakeholders and external stakeholders. The internal stakeholders mainly compromise of the employees, the managers and the owners. On the other hand, the external stakeholders compromise of the suppliers, customers, creditors, government, shareholders and society. Teamwork and good cooperation between all these players is key in ensuring the firms register good results at the end of their transactions. Moral issues that arise from misunderstandings are solved mostly through consensus, to avoid bad blood or fallout in the firms. It is important to note that though some players are categorized under one bracket, their

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magnitude varies (Banerjee, Dasgupta & Kim, 2008). A good example is the fact that the shareholders have more influence than the employees despite the fact that all are categorized under internal stakeholders. The companies listed on NSE reflect the same scenario where the shareholders and the management are seen as the top most brass in running the affairs of specific firms. Mumias Sugar Company is a perfect example, which saw the management put to task over misappropriation of funds as well as what was termed as internal wrangles.

The moral conduct, especially between the suppliers and the company was put into question due to among other things unclear transactions. Stakeholder theory came to play in this particular case where the government injected capital to the Mumias sugar company to enable it transact its normal business as well as ensuring it does not collapse. This was after the debt arrears exceeded the liability hence making the outlets technically bankrupt. The shareholder also contributed towards saving the company by selling off their shares at an agreed price, negotiated with other players between them the management and other shareholders representatives.

NSE has put measures in place to ensure one organ does not use the influence associated with it to the advantage over the others. This has been enabled by putting up independent organs like enquiries that investigate any queries raised and seem to jeopardize the performance of a given firm. To ensure this is effected without interference or external influence the NSE changes the board members through a transparent manner to embrace leadership change which probably may bring new energy and ideas to the system.

The theory is appropriate for the study since evaluation of financial performance of the company greatly relies on the performance of each stakeholder which is key in realizing success in any given firm (Aduda & Kimathi, 2011). This means all the stakeholders should be keen to see that the assigned tasks or responsibilities associated with a given function are executed as expected.

Empirical Review

This section reviewed previous studies that have been conducted in line with the three independent variables as related to firm performance in different parts of the world. The reasons for those studies, methodology and findings of the study were cross examined with other studies to establish any gap in the knowledge extracted.

Individual Ownership and Firm Performance

Privatization has been practiced in various developed countries in the world, thus not a new phenomenon in developed countries. Megginson (2010) explained that the British government

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has been a world leader in the implementation of privatization policies worldwide. Furthermore, a number of overseas privatization programs are directly modeled on British experiences. According to World Bank (2000), privatization has helped to build infrastructure in western industries & nations for several hundred years. Privatization has been viewed by most of economic actors as an inevitable step of the reforms required for financial performance. In fact, the financial performance of an entity is what leads to the discussion of whether it should be privatized or not (Cabanda and Sathye, 2009). Privatization has proven its economic worth and the shift to individual ownership generally improves a firm's financial efficiency. The main issue with this individual owned firm is that there has been poor management which has led the company to be in a tricky position where it has no financial capability to outsource resources. With outsourcing of resources unattainable, the company cannot clear its debt as well as lease resources that could see it become financially stable. All these setbacks are as a result of poor planning. Basically, resource dependency efficiency depends mostly on the management and competency of the players entrusted with formulation and implementation of policies (Ngira, Kalui & Oluoch, 2014).

Benson (2011) conducted a study on the relationship between individual ownership structure and financial performance of companies listed at the Nairobi Securities Exchange. The variables under study were: foreign investors, local institutional, local individual. The study used a descriptive research design with a target population of all the firms listed in the Nairobi stock Exchange between 2010 and 2014. The sample size constituted of 58 firms qualified for inclusion in the study. The data were collected by use of a questionnaire and analyzed by use of SPSS. Local individual shareholding and return on assets were found to have a weak negative relationship; the relationship was not statistically significant. Also the percentage of shareholding by local institutional investors had a negative effect on return on assets. However, the result of t-test indicated that the result was not statistically significant at 5% level of significance. Concluded that ownership distribution had a negative relationship with financial performance of firms listed on the Nairobi Securities Exchange but the relationship was not statistically significant. It also concluded that ownership distribution did not have a significant effect on the financial performance of listed companies. Further, the study concluded that variations in ownership distribution, assets turnover and leverage had a moderate explanatory on the financial performance of companies listed on the Nairobi Securities exchange. Since the study was using panel data it was appropriate to adopt to carry panel data diagnostic tests such as stationarity, serial correlation and heteroskedasticity so to correct any violation prior to the nexus between ownership and firm performance.

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Ochieng (2014) conducted a study on the effects of privatization on the financial performance of Kenya Airways. The study set to establish the effect of privatization on the financial performance of the Kenyan aviation industry, with specific reference to the Kenya Airways Limited. The study has explored literature on the financial performance of Kenya Airways before and after it was privatized by analyzing financial statements throughout this period. The target populations were financial experts, senior and middle-level management staff at Kenya Airways. The study used a sample of 37 staff, chosen using the stratified random sampling technique. Questionnaires were used to collect data from the respondents and analyzed using the SPSS statistical tool. The results showed that to a larger extent, privatization had a positive impact on the financial performance of the aviation industry. Since the data was cross sectional in nature it was not appropriate to use regression analysis to examine the relationship instead the study should have used structural equation modelling.

Lodhi (2015) conducted a study on the impact of privatization on firm's performance, a case of banking sector of Pakistan. This research has been conducted in order to find the influence of privatization on bank's performance in Pakistan. The research showed that privatization had constructive impacts on the performance of banks in Pakistan. A relative study was conducted in order to find the profitability, leverage and earnings per share, of privatized banks and public sector banks to evaluate the difference in performance of both. The data was collected during the period of 2009-2014. Financial ratios were calculated to evaluate the performance and represented by graph. SPSS (statistical package for social science) was used for finding descriptive statistics and graphical analysis. The result showed that Privatized banks are more profitable than public sector banks over the span of six years. Research also revealed that privatized banks had upright outlook for future than public sector banks. Since the study used panel data it was appropriate to use panel research design and carry out diagnostic tests such as Breusch Pagan test, Lagragian Multiplier test, stationarity test and Hausman test.

Pamela (2013) conducted a study on the effects of privatization on financial performance of former state owned enterprises that are now listed at the NSE. The study employed descriptive survey design on a population of privatized former SOEs quoted at NSE. The study used secondary data sources in collecting information; internet, periodic report and brochures for a period of five years before and five years after privatization of each SOE. The data was analyzed for variation using a regression model where the independent variable performance was regressed against dependent variable measuring firm performance using ratios like profitability ratio, liquidity ratio, leverage ratio and activity ratios, a t-test statistic, to test the hypothesis on whether there is any significance difference in financial performance after privatization was also performed. The study concluded that privatization had a positive impact

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on the financial performance of these firms as it increased their profitability and activity ratios. The results of the study also showed varied performance results from the other ratios. A number of research carried out on the impact of privatization have greatly touched on its impact on organization's overall performance as well as corporate image. Since the study was examining the link between variables using correlational design or use panel research design the data was panel in nature. Moreover, it would have been appropriate to include panel data diagnostic tests prior to regression analysis.

Foreign Ownership and Firm Performance

Asava (2013) sought to find the relationship between the ownership structure and financial performance in commercial banks in Kenya. Four types of ownership structure were given considerations: foreign, government, institutional and individual's ownership while financial performance was assessed by CAMELS models. Taking a sample of 20 commercial banks, the study used descriptive research design to extract data from secondary sources such as individual annual reports, banking survey and CBK. Correlation and regression analysis of the gathered data showed that foreign, and institutional ownership structure reported a positive association with banks financial measure whereas unexpectedly, the government and individual ownership revealed a negative relationship. Since the data was panel in nature it was appropriate to carry out panel data diagnostic tests prior to regression analysis.

Mugambi (2015) conducted a study to establish the influence of corporate entrepreneurship on performance of state corporations in Kenya. The study was guided by five specific objectives which are: to establish the effect of proactiveness on performance of state corporations in Kenya, to determine the influence of risk taking on performance of state corporations in Kenya, to evaluate the effect of innovativeness on performance of state corporations in Kenya, to establish the influence of competitive aggressiveness on performance of state corporations in Kenya and to determine the effect of organization factors on the performance of state corporations in Kenya. The study adopted an explanatory research design. The population of the research consists of the 187 state corporations in Kenya as at 2013. A purposive sample of 55 commercial state corporations was included in the study. The study used primary data gathered using questionnaires. Statistical Package for Social Sciences (SPSS) was used in the analysis of data. The data was analyzed by use of descriptive and inferential statistics. Descriptive statistics produced frequencies, trends, means and percentages while inferential statistics produced regression and correlation results which showed the causal relationship among the variables. The study findings indicated that there was improved firm performance which was linked to corporate entrepreneurship. Since the data was

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cross sectional in nature it was not appropriate to use regression analysis to establish the link between study variables it would have been appropriate to use structural equation modelling.

Institutional Ownership and Firm Performance

The institutional ownership structure-corporate performance relationship has been receiving significant attention in financial literature (Lee, 2008). Among the trademarks of the contemporary firm is the separation of institutional ownership and control (Wellalage & Locke, 2012). Consistent to the context is the fact that ownership structure is a way to minimize the asymmetric information disclosure within capital markets among insiders and outsiders (Wahla *et al.,* 2012).

Dana (2015) conducted a study on the effect of institutional ownership on firm performance, evidence from Jordanian listed firms. Firm's performance was measured through applying two accounting measures Return on Assets (ROA) and Return on Equity (ROE), with 6 explanatory variables. Sample was unique and contained 82 non-financial Jordanian firms listed at Amman Stock Exchange (ASE) for the period of 2005-2013, by applying panel data regression analysis. It depended on building three OLS models: Pooled, Fixed Effects Model and Random Effects Model. In addition, a test for Breusch and Pagan Lagrangian multiplier (LM), and Hausamn test was conducted to choose among the three models in order to determine which model was most suitable for the data. The main finding of the panel data analysis was that; fixed effect regression was the most convenient model. As a result, there was no strong evidence that there was a relationship between both institutional ownership and firm performance for Jordanian listed firms. This conclusion was due to the fact that institutional ownership had its own pros and cons, therefore, their existence and influence could affect materially the types and risk level of investment decisions taken by the management which in return affected the firm's performance as a whole.

Masry (2016) conducted a study that was consistent with the above study but was carried out in Egyptian firms. The study sought to investigate the relationship between institutional ownership and company performance of listed companies in Egypt. The study used the multiple regressions and a sample data of eight-years panel data of 73 Egyptian companies listed in the Egyptian Stock Market were examined. The results showed that institutional ownership had positive and significant relationship with firm performance. Therefore, the involvement of institutional ownership in monitoring and controlling activities reduced agency conflict and enhanced corporate performance in the emerging economy. It was appropriate to carry out panel data diagnostic test for stationarity, multicollinearity, serial correlation and autocorrelation.

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Nasidi (2016) conducted a study that focused on the impact of institutional ownership on earnings quality of listed Food/Beverages and Tobacco firms in Nigeria over the period 2005-2013. The study utilized documentary data obtained from the annual reports and accounts of the companies for the period of the investigation. The data was first analyzed by means of descriptive statistics and subsequently, correlation analysis was carried out using Pearson correlation technique. A panel data regression technique was employed to estimate the models since the data had both time series and cross sectional attributes. The results reveal that one of the variables used, that is institutional ownership showed a significant result. The study concluded that the shares institutional investors had in the firm was an important monitoring and control device, which helped to prevent abuses and other irregularities by the managers; it had improved the earnings quality of the firms; prevented fraud; maximized shareholders' wealth and enhanced the value of the firms. It was appropriate to carry out panel data diagnostic test for stationarity, multicollinearity, serial correlation and autocorrelation.

Lishenga (2015) sought to ascertain the relationship between institutional ownership and performance of commercial banks in Kenya that are licensed as companies under the Company Act Cap 486 and as banks under the Banking Act Cap 488. A survey was undertaken on 43 commercial banks that were operational between year 2001 and 2013. Bank performance was defined by three performance indicators namely: return on asset, return on equity and Tobin's Q ratio whereas bank size was adopted as a moderating variable. Secondary data was collected from: annual financial reports, The Kenya Banking Survey 2013, Central Bank of Kenya bank's annual supervisory reports, commercial banks websites, Central Bank of Kenya website, Bankscope, and annual returns filed by banks found at the Registrar of companies at the Attorney General Chambers Nairobi and returns filled at The Nairobi Security Exchange by listed banks. The data collected was analyzed using both descriptive statistics and inferential statistics where hierarchical regression under the panel data framework with the help of SPSS version 21.0 software was used. The findings of the study indicated that there was no relationship between institutional ownership and performance of commercial banks in Kenya when ROE, ROA and TBQ were used as performance measures and that bank size had moderating effect in this relationship. Studies have been carried out on the variable under study in other parts of the world but very few studies in relation to the variable under this study that have been carried out in Kenya, hence the purpose of this study. It was appropriate to carry out panel data diagnostic test for stationarity, multicollinearity, serial correlation and autocorrelation.

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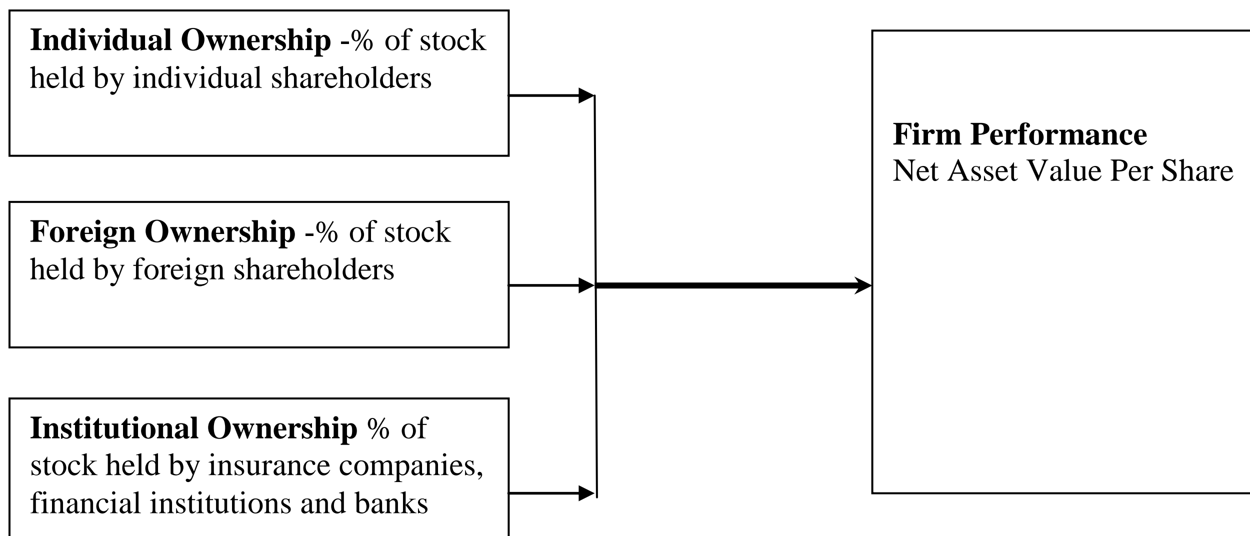
Firm Performance

Firm performance is an inclusive measure that shows how good or bad the organization is performing its operation. It may be in financial terms or non-financial terms. Financial performance measures the results in monetary terms since they can be quantified while with non-financial measure the qualitative output of the firm with the benchmarks or targets. According to Benson (2015) it is through the performance that monitoring and evaluation can be programmed in such a way that the pertinent issues of the company are addressed, for instance, how liquid is the firm, are sales generated sufficient, how many complaints can be raised and so on. There are different performance measures that a firm may use to assess itself. The common once includes operating income (OI), earnings before interest and taxes (EBIT), Return on Assets (ROA), Earnings Per Share (EPS) and gearing ratio, revenue from operations, Tobin's Q, Return on Equity (ROE), operating income or cash flow statements, Market to book value (P/B) among others. For the sake of this study, Market to book value consistent with past studies done by (Ehikioya, 2009; NurulAfzan & Rashidah, 2011; Al - Manaseer Al-Hindawi, Al-Dahiyat & Sartawi, 2012).

Conceptual Framework

The research sought to establish the relationship between ownership type variables and firm performance variables. A conceptual framework, as shown in Figure 1, is a diagrammatic representation of the way independent variables are associate to dependent variable (Salome & Memba, 2014). For this study the independent variable is ownership type which comprises of individual ownership, foreign ownership and institutional ownership while the dependent variable is firm performance as measured by Net asset value per share.

Figure 1. Conceptual Framework



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Research Gaps

Individual ownership leads to accumulation of shareholding which in the future may cause ownership concentration where the shareholders having the highest proportion are considered to cause major influences to the firm. The protection of minority shareholders should also be enhanced by the major shareholders who have authority and incentive to stop managers from misappropriation and asset stripping (Al-Matari *et al.,* 2013). Though this is believed to be true experimental studies show otherwise (Garcı´a-Meca & Sa´nchez-Ballesta, 2011; Shan & McIver, 2011).

Based on the theories discussed in this study, they not only support that association of institutional ownership and firm performance to be an incentive of maximizing shareholders' wealth, but also a positive one (Al-Matari *et al.,* 2013; Irina & Nadezhda, 2009; Harjoto & Jo, 2008). However, some researchers (Mura, 2007; Al-Farooque *et al.,* 2007) have established negative relationship, whereas others found no association Mizuno, (2010) in Japan; Joher & Ali, (2005) in Malaysia; Chung, Kim, Kim and Choi*.,* (2008) in Korea. A quick look at these studies, majority comes from developed countries, hence the developing nations like Kenya ought to establish the relationship and confirm the nature and type of these associations.

The results from ownership structure and firm performance have shown mixed findings in different sector and countries. Despite agency theory suggesting managerial ownership as a solution to agency problems that emerges there seem to be some studies that refute this theory where negative and no relationship has been established (Mohd, 2011; Kyereboah-Coleman & Biekpe, 2006; Sheu &Yang, 2005). Looking at the past studies and the discussed theory, it shows clearly there is a gap which is worth an academic inquest.

RESEARCH METHODOLOGY

Research Design

According to Kombo and Tromp (2006) and Mugenda and Mugenda (2003), a research design refers to schematic guideline that illustrates systematically how a study will be carried out so as to answer the research questions posited by the study given the current state. In this regard, the study used a descriptive research design to establish the relationship between the ownership-performance. The choice of descriptive research design is because it enabled analysis of data to establish a pre-existing relationship and researcher makes no attempt to manipulate the independent variables (Mule *et al.,* 2013) and more importantly, since the study wishes to reveal association, patterns and relationships of study variables (Benson, 2015). In the current study the link between share ownership type (Individual, foreign and institutional) and firm performance.

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Target Population

A study target population is the complete enumeration of all the items/objects or individuals under consideration (Kothari, 2007). The study used all the 64 firms listed at the Nairobi Securities exchanges as at 31st December 2015. These firms were chosen because it is mandatory for the firms to declare their ownership status and performance meaning that ownership structure and their performance is so clear and authentic a characteristic which pertinent to this study.

Census Design

Sampling is defined as that process of selecting parts of the target population in such a manner that the selected subset gives a true representation (Oso & Onen, 2009). Census is a collection of information from all units in the population or a complete enumeration of the population. A census is used to give reliable and accurate information for many subdivisions of the population. The study used census which was restricted to those companies that were constantly listed and actively trading in the period 2006 to 2015 that is 10 years, 58 firms in total as listed in the appendices. The choice of 10 years is guided by past study such Benson (2011), Asava (2013), Mule *et al.,* (2013) who studied ownership structure.

Data Collection Methods

Creswell (2008) argues that prior to research a researcher ought to develop a data collection instrument which is purely meant to measure, quantify or observe the data under investigation. The study used a Disclosure Check Index (DCI) as the principal instrument for data collection. In this study, the researcher used readily available secondary data from 2006 to 2015 for the listed firms. The secondary was extracted from NSE Hand Books available from CMA libraries, CMA bulletins and audited financial reports. Gathered data was entered in check-in tables that contained all the variables under study. Past studies such as (Ndili and Muturi, 2015; Wangechi and Nasieku, 2015; Nduta and Muturi, 2015) adopted the same instrument to collect secondary data from NSE and in East Africa Securities Exchanges. The DCI consisted of four sections, financial performance, foreign ownership, individual ownership and institutional ownership.

Data Analysis Methods

Data collected from secondary sources was entered in Spreadsheet where several transformations took place to obtain the variable's data through the calculations as outlined in the conceptual framework. Data was then analyzed quantitatively by the use of descriptive statistics, correlation analysis and regression analysis. Analysis was skewed towards the

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dependent variable (firm performance) and independent variables (individual, foreign and institutions ownership) by use of statistical software SPSS version 20 and E-views 7.

Measurement of the variables

The study investigated the relationship between ownership type and firm performance of the listed companies in Kenya. To start with ownership types under consideration are individual, foreign and institutional ownership, which were assessed by different statistics. Individual ownership was assessed by proportion of stock held by individual shareholders, foreign ownership by proportion of stock held by foreign shareholders, institution's ownership by proportion of stock held by insurance companies, financial institutions and banks. Secondly the firm performance was measured by Net Asset Value per Share as shown in Table 1.

Table 1. Operationalization of Variables

Variables	**Measurement**
Firm Performance (Y)	-Net Asset Value Per Share
Individual Ownership (X1)	-% of stock hold by individual shareholders
Foreign Ownership (X2)	-% of stock hold by foreign shareholders.
Institutional Ownership (X3)	-% of stock hold by insurance companies, financial institutions and banks.

The model

Hausman test was applied to determine which of the two models (FE or RE) was the most appropriate for the study (Wooldridge, 2012); moreover Breusch and Pagan Lagrangian multiplier (LM) test was used to test whether pooled effects regression would be an appropriate model. Other tests that were conducted in the study include test for serial correlation (Wooldridge Drukker test), heteroscedasticity (Modified Wald Test) and Time Fixed Effects (F statistics) therefore, multiple regression analysis was pegged on the model below:

$Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \acute{\varepsilon}_t$

Where,

Y=Firm performance, α = Unknown intercept for the companies, X_1= Individual Ownership, X_2= Foreign Ownership, X_3= Institution Ownership, $\acute{\varepsilon}_t$= Error Term

RESULTS

Descriptive Analysis

Descriptive analysis in Table 2 shows the average firm performance was 3.22, with a maximum of 11.27 and minimum of -1.02. This implies that there are some companies whose liability value exceeds their asset capacity and there is need to evaluate their respective degree of leverage. On average individual ownership was 37% of the total number of shares issued to the public while the maximum recorded was 48% with a minimum of 22%. On average 22% of the shareholding was owned by foreign investors and 34% by institutional investors. The data was normally distributed since the p value for Jarque-Berra test statistics was greater than 0.05 and none of either kurtosis or skewness coefficients exceed normality limits.

Table 2. Descriptive Analysis

	Net asset value per Share	**Individual Ownership**	**Foreign Ownership**	**Institutional Ownership**
Mean	3.22	0.37	0.22	0.34
Maximum	11.27	0.48	0.38	0.40
Minimum	-1.02	0.22	0.16	0.14
Std. Dev.	0.43	0.13	0.15	0.20
Skewness	1.42	1.54	1.48	1.17
Kurtosis	3.03	3.09	3.17	2.79
Jarque-Bera	3.24	2.89	1.87	1.96
Probability	0.085	0.21	0.41	0.70
Observations	387	387	387	387

Panel Diagnostic Tests

Stationarity Tests

The study used panel data and therefore, there was need to determine whether the variables in question were stationary or non-stationary. Whenever there is a stationarity series finite variance and uniform oscillations from the mean will be observed (Baltangi, 2005). Consequently, there was need to test whether the variables had uniform mean and variance across time variation. There are chances of obtaining misleading inferences if the data is not stationary and regression models obtained may be spurious or affected by inconsistent regression problems. In the current study both Augmented Dickey Fuller Test (ADF) and Phillip Perrons were used as the test for checking the stationary level of the variables. Results in Table 3 shows that all variables were stationary at levels thus the null hypothesis which stipulated the presence of unit root was rejected. Therefore, it can be concluded that firm performance,

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individual ownership, foreign ownership and institutional ownership were all integrated at order zero.

Table 3. Unit Root Test at Levels

Variable	Test at levels	ADF Test			Philips Perrons (PP) Test		
		T statistic	Critical Value at 5%	P value	T statistic	Critical Value at 5%	P value
Firm Performance	Constant	-5.12	-2.91	0.00	-4.30	-2.91	0.000
	Constant and Trend	-5.26	-3.48	0.00	-4.34	-3.48	0.0000
Individual ownership	Constant	-3.40	-2.91	0.00	-3.36	-2.91	0.00
	Constant and Trend	-3.35	-3.48	0.00	-3.31	-3.48	0.00
Foreign Ownership	Constant	-2.90	-2.91	0.00	-2.27	-2.91	0.00
	Constant and Trend	-2.86	-3.48	0.00	-2.23	-3.48	0.00
Institutional Ownership	Constant	-4.61	-2.91	0.00	-2.57	-.2.91	0.00
	Constant and Trend	-4.60	-3.48	0.00	-2.57	-3.48	0.00

Correlation Analysis

The study adopted correlation analysis to examine the strength of the relationship between ownership type and firm performance. Results in Table 4, indicate a positive and significant relationship between individual ownership and firm performance (rho= 0.45, p value <0.05). These results mirror a study by Karaca and Eksi (2011) who found positive and significant relationship between individual ownership and performance of manufacturing listed companies in Istanbul securities exchange. Secondly, there was a positive and significant relationship between foreign ownership and firm performance (rho = 0.56, p value <0.05). These results were in agreement with Ghosh et al., (2013) who found positive and significant relationship between foreign ownership and firm performance among companies which were listed in Egypt. Thirdly, there was a positive and significant relationship between institutional ownership and firm

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performance (rho= 0.72, p value <0.05). These results are in tandem with Thanatwee (2014) who found positive and significant relationship between institutional ownership and firm performance among companies listed in Istanbul securities exchange. A glance look on the relationship between independent variables revealed that none of the variables had a correlation coefficient greater than 0.7 thus it can be concluded none of the variables was highly correlated and hence non multicollinearity.

Table 4. Correlation Analysis

	Firm performance	**Individual ownership**	**Foreign ownership**	**Institutional Ownership**
Firm Performance	1			
Individual ownership	0.45**	1		
Foreign ownership	0.56**	-0.04*	1	
Institutional Ownership	0.72**	0.02*	0.03*	1

*(**) Significant at 10% (5%)

Since the data was panel in nature various diagnostic tests were carried out, first Breusch Pagan test was carried out to examine the most appropriate model to fit the data between ordinary least squares (OLS) and random effects model. Since the p value was less than 0.05, pooled effects ordinary least squares models was not the most appropriate model to fit in the data, therefore calling for more examination on exclusive choice between random effects and fixed effects regression model.

Table 5. Chi-Square values for the Breusch –Pagan LM Test

Dependent variable	**χ^2-value**	**p-value**
Firm Performance	2.56	0.000

Secondly, Test was used to test whether time fixed effects was necessary prior to fit fixed effects model and appropriateness of introducing dummy variables in the regression model. The test assumes that all the dummies variables are equal to zero. Since the p value was greater than 0.05, there was no enough evidence to warrant rejection of the null hypotheses. Therefore, it was not necessary to introduce dummy variables.

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Table 6. Test Results for Time Fixed Effects

Dependent variable	F-value	p-value
Firm Performance	0.87	0.7824

Both heteroskedasticity and serial correlation test results were summarized in Table 7. Since both heteroskedasticity and serial correlation had p values greater than 0.05, hence it was concluded that there was uniform variance across the study variables and there was no serial correlation among the study variables.

Table 7. Result for Heteroskedasticity and Serial Correlation Test

Test for heteroskedasticity			Serial Correlation	
Dependent variable	χ^2-value	p-value	F-value	p-value
Financial Performance	31.25	0.209	2.463	0.769

Since, there was a mutually exclusive choice to be made between random effects and fixed effects model, Hausman test was applied. Results in Table 8 revealed that the most appropriate model to fit was fixed effect since the p value < 0.05.

Table 8. Hausman Test

Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Hausman Test		12.28	3	0.002
Variable	**Fixed**	**Random**	**Variable (Diff.)**	**Prob.**
Individual Ownership	0.141	0.293	-0.152	0.013
Foreign Ownership	0.371	0.143	0.228	0.014
Institutional Ownership	0.451	0.238	0.213	0.015

Regression Analysis

Regression analysis in Table 9 revealed that individual, foreign and institutional ownership all had joint significance influence on firm performance since (F= 22.284, P value = 0.000). Moreover, an R squared of 0.575 revealed that 57.5% of the variation in firm performance can be explained by individual ownership, foreign ownership and institutional ownership while the remaining percentage can be accounted for by other factors which were excluded in the model.

There was a positive and significant relationship between individual ownership and firm performance (β = 0.141, p value <0.05). This implies that holding foreign and institutional

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ownership constant, an increase in individual ownership increases firm performance by 0.141 units.

Secondly, there was a positive and significant relationship between foreign ownership and firm performance (β = 0.371, p value <0.05). This implies that holding individual and institutional ownership constant an increase in foreign ownership increases firm performance by 0.371 units.

Thirdly, there was a positive and significant relationship between institutional ownership and firm performance among companies which are listed in NSE (β = 0.451, p value <0.05). This implies that a unit change in institutional ownership while holding individual and foreign ownership constant increases firm performance by 0.451 units.

Table 9. Fixed Effects Regression on Relationship Between Share Ownership and Firm Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.073	3.298	1.235	0.323
Individual Ownership	0.141	0.033	4.318	0.000
Foreign Ownership	0.371	0.160	2.324	0.000
Institutional Ownership	0.451	0.189	2.384	0.000
R-squared	0.575	Mean dependent variance		3.22
Adjusted R-squared	0.562	S.D. dependent variance		0.43
S.E. of regression	0.611	Akaike info criterion		1.385
Sum squared residual	28.197	Schwarz criterion		3.234
Log likelihood	-81.289	Hannan-Quinn criterion.		3.144
F-statistic	22.284	Durbin-Watson stat		1.847
Prob (F-statistic)	0.000			

DISCUSSION OF THE FINDINGS

Individual Ownership and Firm Performance

The first objective of the study sought to examine the relationship between individual ownership and firm performance of listed companies in NSE. Results of the study revealed a positive and significant relationship between individual ownership and firm performance. These results are in agreement with Saidi (2013) who found positive and significant relationship between individual ownership and firm performance among companies listed in Kuwait. Further, they supported Amjadi and Alipour (2011) who purported an increased individual ownership shareholding increased the performance minimized agency costs and consequently increased investors return.

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These results refuted Talbenia, Valipour and Shafiee (2010) empirically examined the relationship between ownership type and firm performance among companies listed in Tehran stock exchange. The study hypothesised that there are three type of ownership types among listed companies; individual ownership, state ownership and investment company ownership. Both age and firm size were controlled in the study. Results of the study revealed that there was a positive and insignificant relationship between individual ownership and firm performance.

Also the findings refuted Karaca and Eksi (2011) studied the relationship between ownership type and firm performance among manufacturing companies listed in Istanbul securities market. Results of the study revealed that when the dependent variable was Tobin's q there was a positive and insignificant relationship between share ownership and firm performance while PBT showed a positive and significant relationship with ownership type and firm performance.

Foreign Ownership and Firm Performance

Secondly, the study examined the relationship between foreign ownership and firm performance. Results of the study revealed a positive and significant relationship between foreign ownership and firm performance. These results mirror Mihai and Mihai (2014) who found positive and significant relationship between foreign ownership and firm performance. In contrast the results were not supporting Phung and Misra (2015) who found significant and non linear relationship between foreign ownership and firm performance. Moreover Bilyk (2009) on his study examining the nexus between foreign ownership and firm performance revealed a positive and significant relationship between foreign ownership and manufacturing company's performance. These results identified the positive controlling effect of size, leverage and liquidity on firm performance.

Park et al., (2012) examined the influence of firms' ownership structure on technological innovation performance in Korean firms. A sample of 301 publicly listed firms on the Korean Stock Exchange was used for the study. The research findings established that ownership concentration did not have a significant effect on firm technological innovation performance. Moreover, foreign ownership and institutional ownership were found to have a positive effect on firm financial performance. Although, ownership may not have impacted innovative performance there is need for technologically based companies to be aggressive on their innovation in order to remain relevant within the sector which they are operating.

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Institutional Ownership and Firm Performance

Thirdly the relationship between institutional ownership and firm performance was examined and the results of the study revealed a positive and significant relationship between institutional ownership and firm performance. These results were in agreement with Setayesh and Momtazian (2014) who found positive and significant relationship between institutional ownership and firm performance in Tehran securities exchange.

Also the findings mirrored Thanatwee (2014) who conducted a study whose main aim was to investigate the influence of major institutional shareholders on firm value in Thailand between 2007 and 2011. The research findings ascertained that equity ownership by domestic institutional ownership had a positive effect on firm value while higher foreign institutional ownership was associated with lower corporate value. Positive performance was attributed to domestic institutional investor's ability to minimize their levels of risk exposure since they can monitor managerial performance.

CONCLUSIONS

Based on the study findings it can be concluded that there is need to have different types of share ownership. For example through individual ownership a company may have different types of individual owning shares and they may have different needs whereby some will focus more on dividends and others on capital gains and this will influence firm performance. Those who will be interested on capital gains will strive to have increased value of company shares.

Secondly, all listed companies should strive to increase foreign share ownership. This will ease access to foreign capital at cheaper financial costs. Moreover, these investors may bring some wealth of experience owing to development levels of financial liberalization and economic development.

Finally, through institutional investors listed companies may benefit through sharing of research findings since most institutional investors mostly rely institutional advice hailing from in-house research and development teams. Through, this any selection of a specific company may be interpreted as those lying in the efficient frontier curves.

RECOMMENDATIONS

Based on the study findings the study recommends that all listed companies should continuously monitor the proportion of shareholdings owned by individual investors. Adoption of this management practice will ensure sustained performance and improve investor's confidence since all will be assured of the company to be a going concern.

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Secondly, all listed companies should develop collective vehicles investment schemes which can attract foreign investment. Further, there is need to enhance screening prior to accepting foreign investors since there are chances of money laundering if necessary measures are not taken.

Finally, there is need to foster working relationship with all institutional investors such as insurance companies, pension funds and mutual funds. Through this media all will benefit since both listed company and institutional can run research concurrently and benefits from the pool of expatriate in each sector.

SUGGESTIONS FOR FURTHER STUDIES

The current study examined the causal relationship between share ownership type and firm performance. There is need for a similar study to be carried out and the relationship be examined for a long term. Secondly, the current study was limited to only ten years there is need to increase the time period and consider unbalanced panel data. Since there are prospect for regional integration in East Africa an examination of share ownership within East Africa ought to be investigated. There is need to examine the moderating of either CEO narcissism or risk taking behaviour on the relationship between share ownership and firm performance in NSE and East Africa. Further, there is need to use alternative method to analyse the data such as survival analysis as such to factor in time variations.

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