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Influence of Ownership Concentration on Financial Performance of Listed Firms in Nairobi Securities Exchange, Kenya

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Abstract

The purpose of the study was to evaluate the influence of ownership concentration on the financial performance of listed firms in the Nairobi Securities Exchange, Kenya. For this study, the target population is represented by several companies from different sectors listed on the NSE in Kenya from 2016-2020. The study used data from firms that were consistently listed in NSE from 2016 – 2020 the ones that were delisted and or suspended and that were listed after 2016 was not included, creating a sample size of 55 firms yielding a panel of 275 data points. The study adopted a purposive sampling approach since it satisfied the criteria of my study. The study used secondary data obtained from annual audited financial statements of listed firms using data collection sheets. The results showed that local ownership concentration had a negative and insignificant effect on financial performance using ROA. However, local ownership concentration had a negative and little impact on financial performance using ROE (r=-0.055, p=0.334). Further results showed that government ownership concentration had a negative and significant impact on financial performance using ROA (r=-0.107, p=0.008). However, government ownership concentration had a positive and insignificant influence on financial performance using ROE. In addition, results further showed that foreign ownership concentration negatively and significantly influenced financial performance using ROA (r=-0.072, p=0.205). However, foreign ownership concentration had a positive and insignificant impact on financial performance using ROE. The study also concluded that ownership concentration has a significant influence on the financial performance of listed firms in Nairobi Securities Exchange, Kenya using ROA {F=35.88, p=0.000)} with overall R Square of 0.250 but had no significant influence on the financial performance of listed firms in Nairobi Securities Exchange, Kenya using ROE {F=4.910, p=0.437)} with overall R Square of 0.105. The study recommends that there should be a substantial shareholding with a sizable number of shares to take control of the company's performance with passion and interest.

Keywords: *Ownership concentration, foreign ownership, local ownership, government ownership, financial performance*

1.0 Introduction

Ownership concentration is a mechanism that facilitates an increase in efficiency in a firm and is believed to influence firm performance for many years (Chen, 2012). Ng'anga (2017) defined Ownership concentration structure as the distribution of equity in addition to the identity of the equity owners and the system which influences a firm's performance. Jensen & Meckling (1976) proposed agency theory, where ownership concentration and firm performance are anchored. Agency theory suggests that agency costs arise as a result of the separation of ownership and firm control by managers (Clarke& Branson, 2012). Williamson (2011) established that ownership concentration would likely result in lower agency costs. Shleifer and Vishny (1989) established ownership concentration as a key corporate governance mechanism that helps to limit agency problems arising from the divergence of interest between shareholders and managers. The firm's financial performance mostly depends upon the strategic decisions carefully designed and taken by its owners. The company is evidenced by the Treadway Commission Report U.S.A (1987), which addressed the issue of fraudulent company financial reporting resulting in the Sarbanes –Oxley Act (SOX) due to the collapse of reputable firms like Enron and WorldCom in the U.S.A. The trend was replicated across the globe as evidenced by the collapse of Parmalat Company in Europe, Chuo Aoyama in Asia, JCI and Randgold in South Africa, Cadbury Company in Nigeria, Uchumi supermarket in Kenya, imperial bank and Chase bank in Kenya (Ongore & K'Obonyo, 2011). George and Nyamboga (2014) established that despite the impressive performance of the NSE, firms listed at NSE are still faced with challenges of Ownership concentration where controlling shareholders take the opportunity to use their powers to undertake activities of personal gain at the expense of minority shareholders. That has resulted in financial impropriety, as evidenced by the collapse of some reputable firms in Kenya. This study focused on government and foreign and local ownership as a composite of ownership concentration.

The empirical Literature reviewed presents mixed result with no clear-cut line of whether different ownership concentration affects the financial performance of listed firms in security exchange across the globe. Fazlzadeh and Tobhaz (2011) established a mix of results in the Iranian market, while Shira and Shahid (2003) in the Egyptian stock market found that ownership concentration only affects certain aspects of performance but not the value of the firm in the securities market. While Vera and Ugendo (2007) established that ownership concentration positively influenced the firms' financial performance. Anderson and Reeb (2003) established that family ownership outperforms non-family firms positively. Sirtaj Kaur (2016) Daskalakis, Eriotis, Thanou, and Vasiliou, (2014); Ochieng and Ahmed (2014) Mokaya and Jagongo (2015) Zahoor (2014) Ofori, Nyuur, and S-Darko. (2014); Mei (2013) established that government-owned firms have positive influences, While Mishari et al. (2012); Uwuigbe and Olusanmi's (2012) results indicated that institutional ownership has positive influences on financial performance. While Wei., Xie and Zhang (2005); found that foreign concentration positively influences firm performance. Ongore et al. (2011) concluded that spread shareholders positively affected firm performance, while Mei (2013) found a negative relationship. Konijn et al. (2011) found a negative relationship between block holder dispersion and financial performance. Nahila et al. (2016); Benjamin and Czarnitzki (2015); Ersoy (2015); Pervan, Pervan and Todoric (2012); Mishari, Faisal and Hesham, (2012) and Namusonge (2011) established government ownership has negative influences. However, Wei, Xie, & Zhang (2005); Alipour and Amjadi (2011) presented an adverse effect of institutional

ownership on a firm's financial performance. Demsetz and Villalonga (2001) and Arouri, Hossain and Muttakin (2014) found no significant relationship between ownership concentration and company performance. Domsetz and Villalonga (2001) found no systematic relationship between a firm's ownership concentration and financial performance. Omran (2008) established that foreign concentration had no significant influence on firm performance.

Past Literature has established a relationship between ownership concentration on financial performance. From a Kenyan perspective, Kiruri (2013) established that higher foreign and domestic ownership concentration leads to higher firm value while government ownership leads to lower profitability; Ongore, Obonyo, and Ogutu (2011); Alulamusi (2013) established a significant positive relationship between insider ownership, foreign ownership, institutions ownership, diverse ownership, and firm performance. However, there was a significant negative relationship between government ownership and firm performance, Ng'ang'a. (2017) found that government, foreign, and local ownership concentration has a significant positive effect on a firm's financial performance; Raji (2012) established a significant negative relationship between ownership concentration and firm performance.

The Literature agrees that ownership concentration, among other factors, has been recognized as a fundamental variable in explaining a firm financial performance. The type of ownership a firm adopt determines its firm financial performance. However, the existing literature shows no standard agreement on the influence of ownership concentration on firm financial performance. There are mixed results on ownership concentration on financial performance. However, the empirical literature results do not agree on whether government, foreign, and local ownership significantly influence financial performance. Literature is still varied on how financial performance reacts to ownership concentration. This conflicting result forms the basis for further inquiry to determine the influence of ownership concentration on financial performance at Nairobi security exchange-listed firms.

1.1 Problem Statement

Nairobi Securities Exchange has seen an impressive performance, yet firms there still encounter obstacles in their ownership structure. With higher ownership concentration, the controlling shareholders are presented with the capacity to exercise their power to serve their interests, at the expense of the minority shareholders and other stakeholders, with negative effects on the operation of the firms (Mule et al., 2013). Empirical evidence links firms' financial performance to ownership concentration. However, this has generally posted mixed results Fazlzadeh and Tobhaz (2011); Ng'ang'a. (2017). From the preceding, it is evident that ownership concentration influences a firm’s financial performance. The literature agrees that a firm's effective ownership concentration is critical to all firm-related economic transactions in emerging and transition economies. However, it also emerges from the existing literature that there is no common consensus on the influence of firm ownership concentration on firm financial performance Sirtaj Kaur (2016) Daskalakis, Eriotis, Thanou and Vasiliou (2014); Ochieng and Ahmed (2014) Mokaya and Jagongo (2015) Zahoor (2014) Ofori, Nyuur, & S-Darko. (2014); Mei (2013). The relationship between ownership concentration and financial performance has not yet been clarified, so it’s not well known the extent of its effect on firm financial performance, measured either on ROA or ROE. The literature reviewed gives contrasting and contradictory findings. It is against this backdrop, the study aimed to investigate the influence of ownership concentration on financial performance of firms listed at the Nairobi Securities Exchange, Kenya.

1.2 Objective of the Study

To determine the influence of ownership concentration on financial performance of listed firms in Nairobi Securities Exchange Kenya.

2.0 Literature Review

2.1 Theoretical Review

Freeman (1984) developed the Stakeholders Theory. In his view, the firm has a broader objective of maximizing the wealth of all stakeholders rather than just shareholders. He advocated for Corporate Social Responsibilities (CSR) by the organization, a topic that would hit the corporate world many years later. Clarkson (1994) adds that it is the responsibility of the firm to empower all its stakeholders who provide and control resources to it by turning their stake in the firm into value. Keasey (1997) supports the theory by arguing that the ethical treatment of all stakeholders will benefit the organization because of the stronger trust relationship developed among stakeholders. Al Mamum et al. (2013), Keraro (2014), and Mwithi (2016) stated that the stakeholder theory was embedded in the management discipline in 1970 and gradually developed by freeman incorporating corporate accountability to a broad range of stakeholders. They also noted freeman (1984), who argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. The researchers felt that the agency and resource dependency theories could not suffice because they emphasized the organization as fragmented and closed social units independent of external forces.

To provide voice and ownership-like incentives to critical stakeholders, freeman (1984) quoted porter, who recommended the stakeholders theory to US policymakers in 1992 to encourage long-term employee ownership and encourage having a board with a significant representation from customers, suppliers, financial advisers, employees, and community representatives. The study by freeman (1984) also recommended that firms seek long-term stakeholders and give them a direct voice in the firm's governance to nominate significant customers, suppliers, employees, and community representatives to the board of directors. That is because the board of directors is responsible for initiating and implementing good corporate governance practices, which in essence, influences the firm's performance (Freeman, 1984).

According to Donaldson and Preston (1995), Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognizant of the myriad of participants who seek multiple and sometimes diverging goals. However, Sundaram and Inkpen (2004) pointed out that wide-ranging definitions of the stakeholder are problematic. In addition, the scholars argued that empirical evidence supporting a link between stakeholder theory and firm performance is lacking. Finally, identifying many stakeholders and their core values is unrealistic for managers (Sundaram & Inkpen, 2004).

Thus, the theory is foreseen to provide a theoretical explanation for all the specific objectives. Suppose the management has the interests of all stakeholders at heart. In that case, they will fully comply with the corporate governance code, ensure that audited financial reports presented to stakeholders are accurate, relevant, and reflect the financial situation of the listed firms. Choi, Lee & Williams (2011), the Board of Directors and Management must be able to consider the divergent needs of the various stakeholders and maintain a balance so that one group does not feel neglected.

2.2 Empirical Review

George and Nyambonga (2014) established that despite the impressive performance of the NSE, firms listed at NSE are still dogged with challenges of Ownership structure where some shareholders (controlling shareholders) take the opportunity to use their powers to undertake activities of personal gain at the expense of minority shareholders. That has resulted in financial scandals, as evidenced by the collapse of reputable firms such as Daima bank, Trust Bank Imperial bank, Chums supermarket, and Chase Bank, among others.

Douma et al. (2006) studied the effect of foreign ownership on the financial performance of Indian firms with a distinction between foreign institutional and foreign corporate shareholders. The result of the study is that foreign firms performed better than domestic ones in terms of Return on Assets (ROA) and Tobin's Q and concluded that ownership by foreign corporations has a positive and significant effect on both financial performance measures. According to Aitken and Harrison (1999), these firm performance differences arise from advanced technological know-how, marketing, and managing skills, export contacts, coordinated relationships with suppliers and customers, and reputation. Using a sample of Canadian firms, Boardman et al. (1997) found significant performance differences between multinational enterprises or their subsidiaries and domestic firms. Willmore (1986) analyzed a matched sample of foreign and domestic firms in Brazil and found foreign firms to have higher ratios of value-added to output, higher labour productivity, and greater capital intensity, among others.

Wiwattanakantang (2001) studied Thai firms and found that foreign-controlled firms exhibit superior performance. However, Aneta (2016), in a study of the effect of the degree of foreign ownership on firms' performance, observed that a firm's performance increases as its foreign ownership increases, up to the range of 61- 65 % foreign investment, depending on the measurements of performance, and declines when foreign investment continues to rise beyond this level. Greenaway, Guariglia, and Yu (2014) and Akimova and Schwödiauer (2004), in their study, made the same conclusion which is consistent with the study by Aneta (2016).

Kapopoulos and Lazaretou's (2006) study on 175 Greek firms investigating the impact of ownership on corporate performance found that a more concentrated ownership structure positively relates to higher firm performance. However, Lee (2008), on the effect of ownership concentration on firm financial performance, indicated that firm financial performance generally improves as ownership concentration increases. However, the effect of institutional ownership is insignificant. Al-Najjar (2010) and Wang (2007) study found a negative relationship between institutional shareholdings and firm performance.

Ng'ang'a (2017) studied the effect of ownership structure on the financial performance of companies listed at the NSE in Kenya. The study used ROA and ROE as a measure of financial performance. Specific objectives were: to determine the effect of state ownership on a firm's financial performance, establish the effect of local ownership on a firm's financial performance, investigate whether foreign ownership affects the firm's financial performance, and finally determine whether managerial shareholding affects a firm's financial performance. The Study adopted a cross-sectional survey design. A stratified random sampling technique was used in a sample of 39 firms drawn from a target population of 61 companies in the Nairobi Securities Exchange. The study focused on listed firms only. From the data, univariate tests were used to provide insight using parametric (t-test) and non-parametric tests (Pearson correlation coefficient). Multiple regression analysis models were used to determine the type of relationship that existed between the independent and dependent variables. The study results

indicated that all types of ownership concentration had a significant favourable influence on the firm's financial performance. When all independent variables were analyzed, foreign ownership and Managerial shareholding had the highest positive significant contribution to the firm's performance. The results can be attributed to the fact that foreign owners can control and monitor managers. Managerial shareholding it has supported by the fact that managers work better in an environment where they are allowed to own shares of the firm and have freehand to exercise their professional judgment without unwarranted influence from shareholders. However, local ownership concentration's better understanding of the local environment improves firm performance, while government ownership concentration boosts confidence among investors. The study concluded that each type of ownership structure significantly positively affects a firm's financial performance.

Ongore, Obonyo, and Ogutu (2011) analyzed ownership concentration and firms' performance. The study used forty-two firms in Kenya based on five elements: government; foreign; institution; diverse; and manager (insider). The study found a significant positive relationship between insider ownership, foreign ownership, institutional ownership, diverse ownership, and firm performance. However, there was a significant negative relationship between government ownership and firm performance. This finding was supported by Alulamusi (2013) that government ownership had a negative relationship with firm financial performance. It is ascribed to asset quality and low management efficiency due to slackness in cautious credit management practices and inefficiency of operations poor returns.

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

Antonio (2007) study examined the impact of ownership structure on firm value in the Spanish market and found no significant relationship between ownership block holders and firm value. The study concluded that the control amount is inadequate for the firm's value. This study was in line with the Study of Domsetz and Villalonga (2001), which suggested that there is no systematic relationship between firm performance and ownership structure to be expected. However, Osman (2010) conducted a study titled, corporate governance and financial performance, with empirical evidence from Turkey and found a positive influence of corporate governance and institutional ownership on a firm's performance, especially the impact of institutional investors was found to be more strongly pronounced on firms listed on the corporate governance index.

Lee's (2008) study on ownership concentration on financial performance using panel data for South Korea from 2000 to 2006 found that a firm's financial performance generally improves as ownership concentration increases and that effect of foreign ownership is insignificant to a firm's financial performance. His findings were further supported by Cespedes, Gonzalez, and Molina (2010), who evaluated the ownership-structure determinants and firms' performance of Latin American firms and observed that higher ownership concentration improves a firm's

performance and concluded that Ownership structure is the fundamental factor that affects firms' ownership and control allocation. It has a substantial impact on firm performance.

Kiruri (2013) sought to investigate the effects of ownership structure on bank profitability in Kenya. Primary data was obtained through questionnaire administration. The study used annual reports from commercial banks' websites and the Central bank of Kenya website. Commercial banks' profits were adopted as a dependent variable, whereas ownership concentration, state ownership, foreign ownership, and domestic ownership were adopted as independent variables. The results of the Study show that ownership concentration and government ownership had adverse and significant effects on bank profitability. In contrast, foreign and domestic ownership positively and significantly affected bank profitability. The study concluded that higher foreign and domestic ownership concentration leads to higher profitability, while government ownership leads to lower profitability in commercial banks.

Raji (2012) studied the effects of ownership structure on the performance of listed companies on the Ghana stock exchange. Their study sought to determine the relationship between listed firms' ownership structure and stock market performance. The study used secondary data from published annual financial reports and was analyzed using Pearson's Product Moment Correlation and Logistic Regression. The first finding indicated a significant negative relationship between ownership concentration and firm performance. On the other hand, the second result shows a positive relationship between insider ownership and a firm financial performance. The study concluded that there is a dire need to reasonably diversify shareholding to attract more skills and competencies among the shareholders that can be employed to improve firm performance. Consequently, for the managers to work independently and achieve the firm objectives, they should be protected from unnecessary direct interference by the shareholders.

2.3 Conceptual Framework

The study's conceptual framework linked ownership concentration with the firm's financial performance. This road map tends to conceptualize the effect of ownership concentration variables on ROA and ROE.

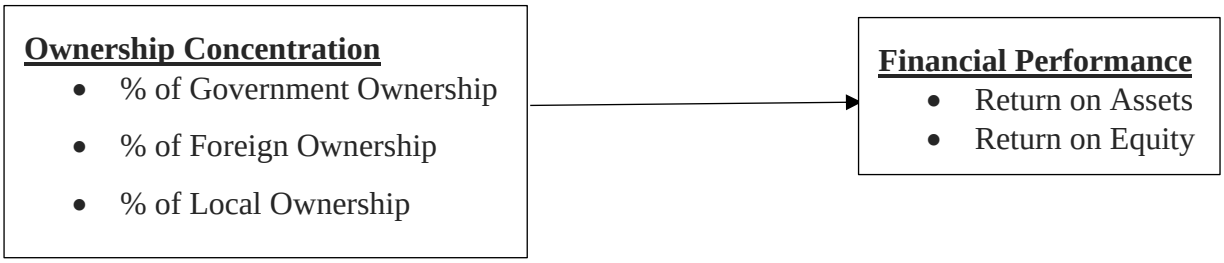

Figure 1: Conceptual framework

Source: adapts and modifies Ng'ang'a's (2017)

This study adapts and modifies Ng'ang'a's (2017) panel methodology to suit the research purpose; dropping managerial shareholdings as a moderating variable and earning per share. Ownership concentration is proposed to directly influence two dependent variables of profitability, measured in terms of return on asset and return on equity - Peters & Bagshaw (2014); Ahamed et al. (2014); Ofori et al. (2014); Mujahid & Abdullah (2014) all illustrate that ROA & ROE are important measures of financial performance.

3.0 Methodology

The study used a correlation research design. For this study, the target population is represented by several companies from different sectors listed on the NSE in Kenya from 2016-2020. The study used data from firms that were consistently listed in NSE from 2016 – 2020 the ones that were delisted and or suspended and that were listed after 2016 was not included, creating a sample size of 55 firms yielding a panel of 275 data points. The study adopted a purposive sampling approach since it satisfied the criteria of my study. The study used secondary data obtained from annual audited financial statements of listed firms using data collection sheets. The study used descriptive statistics; mean maximum, minimum, and standard deviations; inferential statistics; Pearson correlation analysis, and multivariate regression analysis to analyze the data within the panel data framework. The hypothesis was tested by regressing independent variables against dependent variables.

4.0 Results and Discussion

4.1 Descriptive Statistics

Table 1 shows the descriptive statistics for the financial and non-financial sectors respectively for the period 2016–2020.

Table 1: Descriptive Results

Variable	Obs	Mean	Std. Dev	Minimum	Maximum
ROE	275	0.206	0.216	-0.473	1.628
ROA	275	5.164	6.442	-0.357	27.580
Local Ownership	275	22.939	19.131	0.000	90.560
Government Ownership	275	46.977	26.018	0.010	86.753
Foreign Ownership	275	27.449	27.748	0.040	99.900

Source: Researcher, (2023)

The results showed that the mean ROE of firms listed in NSE from 2016 to 2020 was 0.206. In addition, the minimum ROE was -0.473 and a maximum of 1.628. the standard deviation was 0.216, implying that the ROE of various listed firms was not varied from the mean.

The study also showed that the mean ROA of firms listed in NSE from 2016 to 2020 was 5.164. In addition, the minimum ROA was -0.357 and a maximum of 27.580. The standard deviation was 6.442, implying that various listed firms' ROA was not different from the mean.

The local ownership concentration was measured by the percentage of shares owned by locals in firms listed in NSE. Results also showed that the mean percentage of shares owned by locals in firms listed in NSE between 2016 and 2020 was 22.939%. In addition, the minimum percentage of local shares was 0 and a maximum of 90.560%. The standard deviation was 19.131, implying that the board independence of various listed firms varied from the mean.

The government ownership concentration was measured by the percentage of shares owned by the government in firms listed in NSE. Further results showed that the mean percentage of shares owned by the government in firms listed in NSE from 2016 through 2020 was 46.977%. In addition, the minimum percentage of shares owned by the government was 0.010 and a maximum of 86.753%. The standard deviation was 26.018, implying that the percentage of shares owned by the government of various listed firms varied from the mean.

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The foreign ownership concentration was measured by the percentage of shares owned by foreigners in firms listed in NSE. Further results showed that the mean percentage of shares owned by foreigners in firms listed in NSE between 2016 and 2020 was 27.449%. In addition, the minimum percentage of foreign shares owned was 0.04, and a maximum of 99.90%. The standard deviation was 26.018, implying that the percentage of shares owned by foreigners of various listed firms varied from the mean.

4.2 Trend Analysis

This section presents the analysis of the trends of the variables. The study conducted a trend analysis to establish the movement of the variables over time.

Trend Results for Financial Performance

The trend results for return on assets were shown in Figure 2.

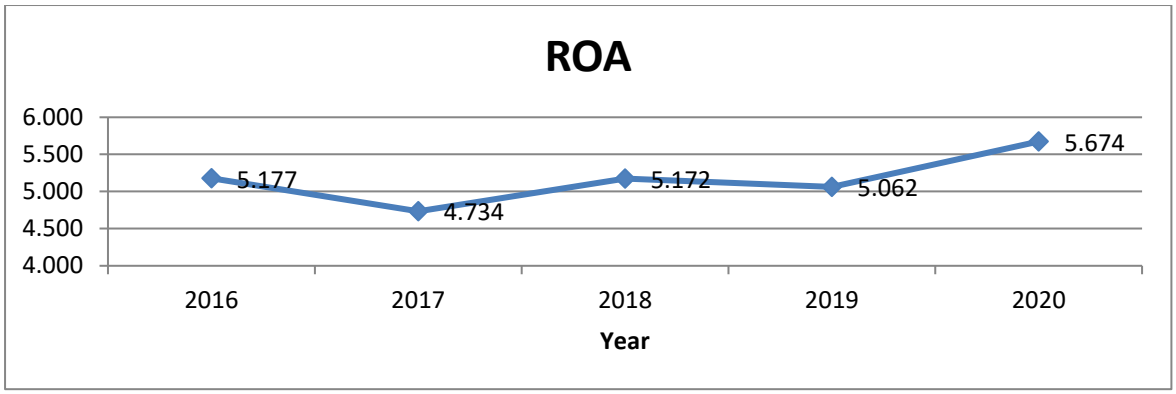

Figure 2: Return on Assets

Source: Researcher, (2023)

Results showed that the mean ROA for the firms listed in NSE was 5.177 in 2016. However, the mean ROA declined to 4.734 in the year 2017 but increased to 5.172 in the year 2018. The mean ROA, however, declined to 5.062 in the year 2019 but further increased to 5.674 in 2020. That implied that the ROA of most NSE firms was irregular across 2016 – 2020.

The trend results for return on equity are shown in Figure 3

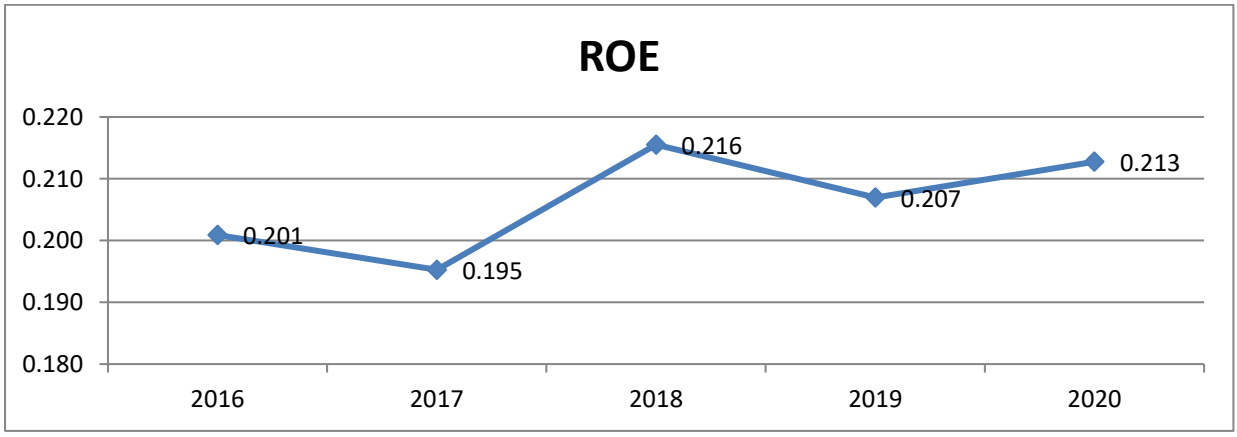

Figure 3: Return on Equity

Source: Researcher, (2023)

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Results showed that the mean ROE of firms listed in NSE was 0.201 in 2016. However, the mean ROE of firms listed in NSE declined to 0.195 in 2017 but further increased to 0.216 in 2018. The mean ROE further declined to 0.207 in 2019 and increased to 0.213 in the year 0.213. That implied that the ROE of most NSE firms was irregular across 2016 – 2020.

Trend Results for Government Ownership

The trend results for government ownership were shown in Figure 4.

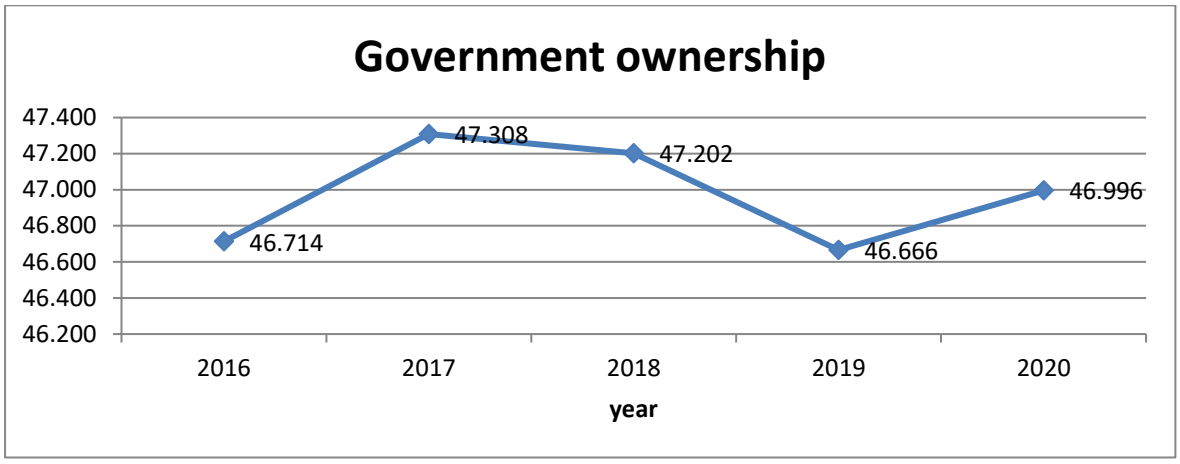

Figure 4: Government Ownership

Source: Researcher, (2023)

The results showed that the mean government ownership of firms listed in NSE was 46.714 in 2016. In 2017 the mean of government ownership rose to 47.308 but declined to 47.202. In 2019 the mean of government ownership declined to 46.666 but rose to 46.996 in 2020. That implied that the government-owned shares in NSE firms were irregular across 2016 – 2020.

Trend Results for Foreign Ownership

The trend results for foreign ownership were shown in Figure 5.

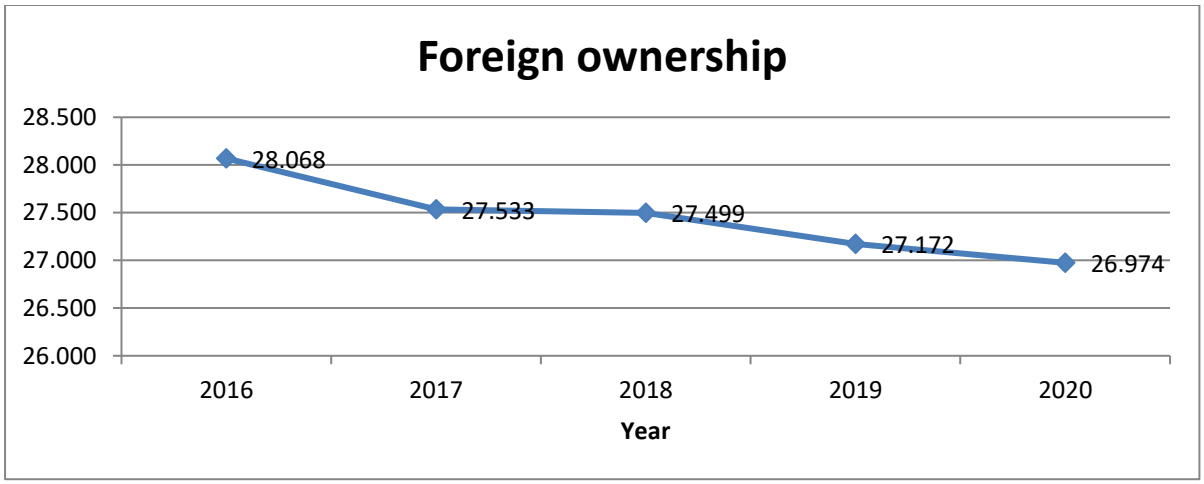

Figure 5: Foreign Ownership

Source: Researcher, (2023)

The results showed that the mean foreign ownership of firms listed in NSE was 28.068 in 2016. In 2017 the mean of foreign ownership declined to 27.533 and 27.499. In 2019 the mean of foreign ownership declined to 27.172 and further declined to 26.974 in 2020. That implied that foreign shares in NSE firms were declining across 2016 – 2020.

Trend Results for Local Ownership

The trend results for foreign ownership were shown in Figure 6.

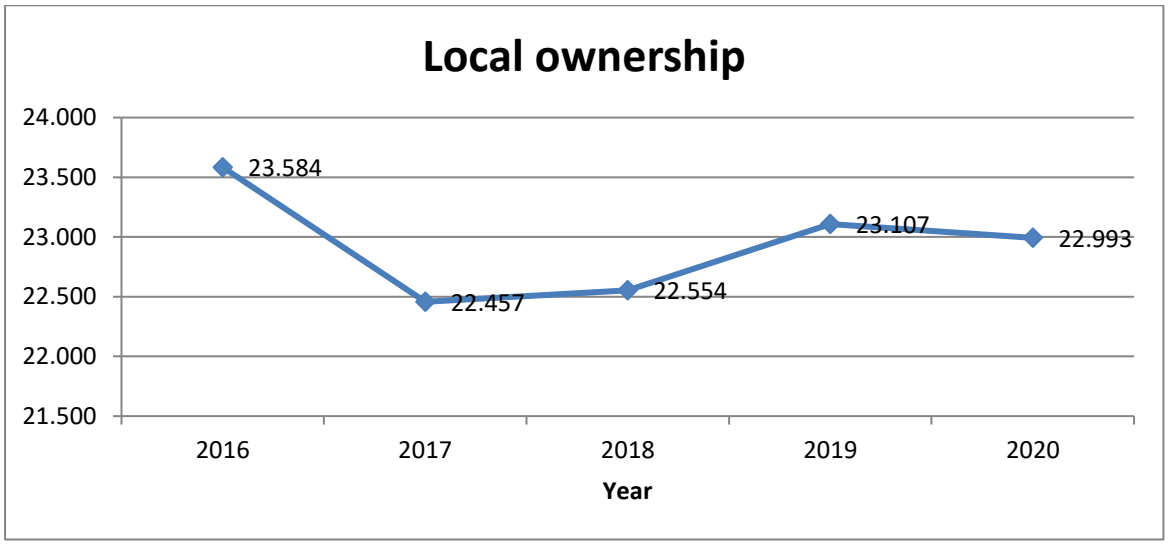

Figure 6: Local Ownership

Source: Researcher, (2023)

The results showed that the mean local ownership of firms listed in NSE was 28.068 in 2016. In 2017 the mean of local ownership declined to 22.457 and 22.554. In 2019, the mean of local ownership increased to 23.107 and further declined to 22.993 in 2020. That implied that the shares owned by locals in NSE firms were irregular across 2016 – 2020.

4.3 Correlation Analysis

The study conducted a spearman's correlation analysis for the ownership concentration and financial performance using ROA to examine the nature of the statistical relationships between each pair of variables. Table 2 shows the correlation matrix of all the variables.

Table 2: Correlation Matrix Using ROA

	ROA	Local Ownership	Government Ownership	Foreign Ownership
ROA	1			
	0			
Local Ownership	0.055	1		
	0.334			
Government Ownership	-0.107	-0.17	1	
	0.008	0.003		
Foreign Ownership	0.072	-0.45	-0.692	1
	0.205	0	0	

Source: Researcher, (2023)

Further, results revealed that local ownership concentration had a positive and insignificant correlation with financial performance (ROA) (r=-0.055, p=0.334). These findings did not agree with Ongore et al. (2011), who found a significant positive relationship between insider ownership and firm performance.

In addition, results revealed that government ownership concentration had a negative and significant correlation with financial performance (ROA) (r=-0.107, p=0.008). Alulamusi (2013 that government ownership had a negative relationship with firm financial performance supported this finding. Further, results revealed that foreign ownership concentration had a positive and insignificant correlation with financial performance (ROA) (r=-0.072, p=0.205). These findings agreed with Lee (2008), who found that foreign ownership is insignificant to a firm's financial performance. These findings were inconsistent with Douma et al. (2006), who concluded that foreign ownership by foreign corporations has a positive and significant effect on both financial performance measures.

The study conducted a spearman's correlation analysis for the ownership concentration using ROE to examine the nature of the statistical relationships between each pair of variables. Table 3 shows the correlation matrix of all the variables.

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Table 3: Correlation Matrix Using ROE

	ROE	Local Ownership	Government Ownership	Foreign Ownership
ROE	1			
Local Ownership	0.109	1		
	0.033			
Government Ownership	-0.146	-0.17	1	
	0.01	0.003		
Foreign Ownership	0.036	-0.45	-0.692	1
	0.525	0	0	

Source: Researchers, (2023)

In addition, local ownership had a positive and significant correlation with return on equity (r=0.109, p=0.033). These findings agreed with Kapopoulos and Lazaretou (2006), who found that a more concentrated ownership structure positively relates to higher firm performance. Further results showed that government ownership had a negative and significant correlation with return on equity (r=-0.146, p=0.010). Alulamusi (2013 that government ownership had a negative relationship with firm financial performance supported this finding. In addition, foreign ownership had a positive and insignificant correlation with return on equity (r=0.036, p=0.525). These findings agreed with Lee (2008), who found that foreign ownership is insignificant to a firm's financial performance. These findings were inconsistent with Douma et al. (2006), who concluded that foreign ownership by foreign corporations has a positive and significant effect on both financial performance measures.

4.4 Effect of Ownership Concentration on Financial Performance

Regression analysis was conducted to determine whether there was a relationship between ownership concentration and financial performance. Table 4 presents the regression model on ownership concentration versus financial performance using ROA.

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Table 4: Ownership Concentration on Financial Performance (ROA)

Fixed-effects (within) regression		**Number of obs**	=	**275**	
Group variable: firm1		**Number of groups**	=	**55**	
R-sq:		F(3,24)	=	35.88	
		Prob >			
within	= 0.277	F	=	0.000	
between	= 0.307				
overall	= 0.250				
		Std.			
ROA	Coef.	Err	z	P>|z|	(95% conf.interval)
Local Ownership	-0.009	0.090	-0.100	0.921	-0.187 0.169
Government Ownership	-0.230	0.027	-5.590	0.000	-0.159 0.311
Foreign Ownership	-0.198	0.043	-4.550	0.000	-0.283 -0.112
_cons	11.656	7.149	1.630	0.104	-2.424 25.735
Sigma_u	8.286				
Sigma_e	2.278				
rho	0.930				

Source: Researcher, (2023)

As presented in the table, the coefficient of determination overall R Square is 0.250. That implied that ownership concentration explains 25.0% of the variation in Return on assets. The findings further confirm that ownership concentration had an overall significant effect on financial performance using ROA {F=35.88, p=0.000)} This indicates that the findings were significant at a p value less than 5% (p<.05). Therefore, ownership concentration accounts for a significant percentage change in Return on assets of the firms. These values are statistically significant since the p-values were less than 0.05. It can be inferred from these values that a unit change in ownership concentration would lead to a unit change in Return on asset. The study findings agreed with Kapopoulos and Lazaretou (2006), who found that a more concentrated ownership structure positively relates to higher firm performance.

The analysis was to test the null hypothesis (H_0) that ownership concentration does not influence the financial performance of firms listed in the NSE using ROA. Therefore, the study rejects the null hypothesis and accepts the alternative hypothesis that ownership concentration has a statistically significant influence on the financial performance of firms listed in the NSE using ROA. Thus, ownership concentration has a significant influence on the Financial Performance (ROA) of listed firms in the Nairobi Securities Exchange, Kenya. These findings agreed with Lee (2008), who found that a firm's financial performance generally improves as ownership concentration increases. The study findings agreed with Kapopoulos and Lazaretou (2006), who found that a more concentrated ownership structure positively relates to higher firm performance.

The results showed that local ownership concentration had a negative and insignificant effect on financial performance using ROA (β =-0.009, p=0.921). That implied that an increase in local ownership concentration did not change the Return on assets of listed firms in the Nairobi Securities Exchange, Kenya. These findings did not agree with Ng'ang'a (2017), who found that local ownership concentration had a significant favourable influence on the firm's financial performance.

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Further results showed that government ownership concentration negatively and significantly affected financial performance using ROA (β =-0.230, p=0.000). That implied that an increase in government ownership concentration would lead to a decline in the Return on assets of listed firms in the Nairobi Securities Exchange, Kenya, with 0.230 units. Alulamusi (2013 that government ownership had a negative relationship with firm financial performance supported this finding.

In addition, results showed that foreign ownership concentration had a negative and significant effect on financial performance using ROA (β =-0.198, p=0.000). That implied that an increase in foreign ownership concentration would lead to a decline in the Return on assets of listed firms in the Nairobi Securities Exchange, Kenya, with 0.198 units. These findings agreed with Lee (2008), who found that foreign ownership is insignificant to a firm's financial performance. These findings were inconsistent with Douma et al. (2006), who concluded that foreign ownership by foreign corporations has a positive and significant effect on both financial performance measures.

$$Y = 0.170 + 0.249X_1 + 0.148X_2 + 0.011X_3$$

Where: Y = *Financial Performance (ROA)*
X_1 = *local ownership concentration*
X_2 = *Government ownership concentration*
X_3 = *Foreign ownership concentration*

Table 5 presents the regression model on ownership concentration versus financial performance using ROE.

Table 5: Ownership Concentration on Financial Performance (ROE)

Fixed-effects (within) regression			**Number of obs**	=	**275**	
Group variable: firm1			**Number of groups =**		**55**	
R-sq:						
Within	=	0.108	F(3,249)	=	4.910	
Between	=	0.135	Prob > F	=	0.437	
Overall	=	0.105				
	Coef.	Std.Err	z	P>|z|	(95% conf.interval)	
Local Ownership	0.001	0.005	0.270	0.785	-0.009	0.012
Government Ownership	-0.002	0.006	-0.280	0.777	-0.014	0.011
Foreign Ownership	0.003	0.002	1.410	0.160	-0.001	0.008
_cons	0.164	0.407	0.400	0.688	-0.639	0.966
sigma_u	0.212					
sigma_e	0.130					
Rho	0.727					

Source: Researcher, (2023)

As presented in the table, the coefficient of determination overall R Square is 0.105. That implied that ownership concentration explains 10.5% of the variation in return on assets. The findings further confirm that ownership concentration had an overall insignificant effect on

financial performance using ROE {F=4.910, p=0.437)} This indicates that the findings were insignificant at a p-value more than 5% (p>.05). Therefore, ownership concentration accounts for an insignificant percentage change in return on equity of the firms. These values are statistically insignificant since the p-values were higher than 0.05. It can be inferred from these values that a unit change in ownership concentration does not lead to any change in return on equity.

The analysis was to test the null hypothesis (Ho3) that ownership concentration does not influence the financial performance of firms listed in the NSE using ROE. The study does not reject the null hypothesis. Thus, it can be concluded that there is no significant influence of ownership concentration on the Financial Performance (ROE) of listed firms in the Nairobi Securities Exchange, Kenya. The study findings disagreed with Kapopoulos and Lazaretou (2006), who found that a more concentrated ownership structure positively relates to higher firm performance.

The results showed that local ownership concentration had a positive and insignificant effect on financial performance using ROE (β =0.001, p=0.785). That implied that an increase in local ownership concentration did not lead to any change in the Nairobi Securities Exchange return on equity of listed firms in Kenya. These findings did not agree with Ng'ang'a (2017), who found that local ownership concentration had a significant favourable influence on the firm's financial performance. These findings did not agree with Ongore et al. (2011), who found a significant positive relationship between insider ownership and firm performance.

Further results showed that government ownership concentration had a negative and insignificant effect on financial performance using ROE (β =-0.002, p=0.777). These findings did not agree with Alulamusi (2013), who found that government ownership had a negative relationship with firm financial performance. This implied that an increase in government ownership concentration did not lead to any change in the Nairobi Securities Exchange return on equity of listed firms in Kenya. In addition, results showed that foreign ownership concentration had a positive and insignificant effect on financial performance using ROE (β =0.003, p=0.160). That implied that an increase in foreign ownership concentration did not change the Nairobi Securities Exchange return on equity of listed firms in Kenya. These findings were inconsistent with Douma et al. (2006), who concluded that foreign ownership by foreign corporations has a positive and significant effect on both financial performance measures.

$$Y = 0.164 + 0.001X1 - 0.002X2 + 0.003X3$$

Where: Y = *Financial Performance (ROE)*

$X1$ = *local ownership concentration*

$X2$ = *Government ownership concentration*

$X3$ = *Foreign ownership concentration*

5.0 Conclusion

The study also concluded that ownership concentration significantly influences the financial performance of listed firms in the Nairobi Securities Exchange, Kenya, using ROA. The study also concluded that ownership concentration had no significant influence on the financial performance of listed firms in the Nairobi Securities Exchange, Kenya, using ROA. This implies that any change in ownership concentration will have a direct impact on profitability of the firm measured on ROA, while there will be no effect on ROE.

6.0 Recommendations

The study recommended that there should be a substantial shareholding with a sizable number of shares to take control of the company's performance with passion and interest. This will make it easier for the company leadership to seek guidance and direction on short notice for smooth ship steering. The firm major shareholder should not have a conflict of interest or be an opportunist. The study encourages company leaders to draw robust strategies to counter any political interferences, ethnicity, and nepotism which affect the performance of the listed firms.

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