EFFECTS OF OWNERSHIP STRUCTURE ON FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

Jackline Watiri Macaria.
Student, Master of Science in Finance, School of Business, Economics and Tourism, Kenyatta University, Kenya.
Moses Odhiambo Aluoch.
Lecturer, Department of Accounting and Finance, Kenyatta University, Kenya.
Margaret Kosgei.
Lecturer, Department of Accounting and Finance, Kenyatta University, Kenya.

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ABSTRACT

The Manufacturing Sector has been a key contributor to Kenya's GDP over the last few years. However, from the year 2014 to 2023, the financial performance of manufacturing firms has been deteriorating as evidenced from the declining returns on assets of the 9 manufacturing firms listed at the NSE, Kenya. The ownership structure of a firm influences the financial performance of the company because it governs rules and decision-making processes in all business activities. The general objective of the study is to determine the relationship between ownership structure and financial performance of the manufacturing firms listed at the Nairobi Securities Exchange, Kenya. The specific objectives are to determine the relationship between individual, institutional, government, foreign ownership and financial performance of the manufacturing firms at the Nairobi Securities Exchange, Kenya. To determine the moderating effect of corporate governance on the relationship between ownership structure and financial performance of the manufacturing firms at the Nairobi Securities Exchange, Kenya. The theories that will be informing the study are agency theory, stewardship theory, stakeholder theory and resource dependency theory. The study will embrace a positivism research philosophy. The study will employ a descriptive research design to cover ten years from 2014 to 2023. The study target population is all nine manufacturing firms listed at the Nairobi Securities Exchange, Kenya where a census study technique will be used. Only secondary data will be collected. Panel linear regression model will be adopted. The collected data will be analyzed through descriptive and inferential statistics. Diagnostic tests will be carried out in this study which will include a normality test, multi-collinearity test and heteroscedasticity test. Results of the study was presented in form of tables and graphs. Misconducts such as falsifications and misrepresentation of research work will be avoided in the course of carrying out this research study. Data was normally distributed and there was no multicollinearity. Pearson correlation posed a positive link between individual, government ownership and financial performance whereas institutional, foreign ownership had a negative association. Heteroskedacity was absent in the tested residuals. All the null hypothesis in the study were rejected. Random effect was the considered model. Corporate governance had a positive moderating effect between ownership structure and financial performance.

Keywords: Institutional Ownership, Government Ownership, Foreign Ownership, Corporate Governance

INTRODUCTION

Background of the Study

The manufacturing sector plays a key role to realize increased growth rates in a state's economy. There is scanty evidence of countries that have achieved high state wealth without the manufacturing industry taking an important function (Wade, 2018). The US manufacturing sector provided 10.8% in country's overall income of 2020 which was an increase from 10.7% in 2019. Job creation associated with this innovative industry has contributed to a rise in employment opportunities. The current population survey in 2021 confirmed that 15.7 million employees in United States manufacturing, represent 10% of the total United States employment. Decker, Haltiwanger, Jarmin, and Miranda (2014) reported that approximately 75% of jobs created in the United States of America arise from innovations of manufacturing businesses.

China is often referred to as a 'global factory' because in the past few decades it has attracted manufacturing industries. The industry flourishes because of the good infrastructure, technically skilled workforce, and minimal cost of labor. The accounted percentage of the manufacturing sector share in the gross domestic product was 42.6% in 2014 (Zhang, Xu, & Liu, 2015). The value-added percentage share of the gross domestic product from the sector had declined to 27.44% in 2021 (Lee, Chen, Wu, & Xing, 2021). The manufacturing sector in South Africa over the years has been well diversified with numerous opportunities whereby investors can pick from depending on their preferences. The industry contributed 13% to the total GDP in 2020 with more than half of the total earnings from exported products.

Zindiye, Chiliya and Reginald Masocha (2012) The country's government facilitates the business entities through the provision of a framework to increase product output hence job creation. Lawal and Kalu (2018) The Nigerian manufacturing sector percentage share GDP was approximately 10%. This industry focuses on the production of various products. However, food & beverage, cement, and textile subsectors account for almost 80% of the total output generated from manufacturing firms. The Kenya vision 2030 established that its manufacturing sector was the main driving force of economic development which upheld a good share of the gross domestic product. There has been intense competition from the international markets where local manufacturers battle with highly industrialized competitors such as China, India, Egypt, and South Africa. The economic development of Kenya majorly depends on the industry's contribution to job creation, national produce exports, and as a result, an increased national income.

For many years, the sector has long contributed a percentage of Kenya's gross domestic product (KAM,2018). However, this segment contribution has lowered from 10.3% in 2014 to 7.2% in 2021. In 2010 the Kenyan government altered its focus on the industry to make policies geared toward boosting production (Karuiyi, 2021). The setting up of training centers in all counties to flourish medium-sized businesses. These centers are intended to bridge gaps in access to advanced technology, product design, creative innovation, and patenting (KAM,2018). Investing in the sector has challenges that include registration and licensing of business entities as it may take longer to

get clearance to start up a business. This is often because of moving from office to office for verification

Ownership Structure

Ownership structure was explained by Meckling and Jensen (1976) as allocation of equity concerning capital and voting as specification of equity owners. Singh, Tabassum, Darwish and Batsakis (2018) The holding of businesses is vital because it is an inner system of corporate governance. Corporate governance influences company yields where Tobin's Q measures the organizational financial yield. Grayson and Hodges (2017) Corporates have means of developing their ownership with the type of proprietorship structure employed the structure is often informed by the vision and objectives of the firm. Tayeh, Al-Jarrah and Tarhini (2015) The investments made as well as other elements that contribute value, such as economic and ownership structure, dividend payout and governance may define an institution's worth in the market.

There are many different types of equity structures, including institutional, government, foreign, individual, and ownership concentration, which can have a favorable or negative impact on an enterprise's financial yield. Nzuki and Njoka (2021) The concept of a firm's holding structure has become the foremost consideration among business leaders and regulatory bodies globally. The equity holders are described as investors while agents are defined as managers. Directors are appointed to protect the owners' interests. In a bid to optimize the shareholder's wealth, it is imperative for the executives to do their duties by putting the shareholders' interest to the fore which is only possible if practices of best governance corporately are adhered to (Omondi, 2014). Veldman and Willmott (2017) The separation of ownership and control was observed and formally addressed in 1930s by Means and Berle (1932), concluded that professional managers with more obligation and interest likely unequal with their owners. Konečný and Částek (2016) Investors structure became a central focus of corporate governance trying to minimize agency and transaction costs. The fact that this matter is topical even today, after several decades, is confirmed in 1998 by Weiss and Nikitin. Armstrong (2013) stated that productive ownership structure is involved in strategy and production which is necessary for a business. The opinion members of a business in the research are members from foreign states, governments, different organizations and retail members on the financial yield.

According to Refgia (2017) the more the foreign holding in an enterprise, foreign control becomes immense in affecting the choices taken to gain more from pricing strategies and transfer pricing for the business (Sari, 2012). Foreign holdings influence the application of transfer pricing and exchange rates. Foreign corporations often invest in local enterprises like their key work. supplying them with appropriate technological experience and business acumen. Businesses with foreign corporate ownership are endowed with superior technology, increased productivity, and management know-how.

Fen and Riswandari (2019) stated that to reducing agency disagreements between managers and owners, institutional holding plays a key. According to Nuryana and Surjandari (2019) Institutional

investors' presence brings about effective coordination in decisions by managers. They are engaging in strategic investing, which makes it difficult for them to accept earnings manipulation.

According to Raja et al. (2014), management of lending institutions' is urged to supervise to restrict measures pertaining to wealth management. The higher the institutional ownership fraction, the stronger the voting power. Additionally, formal efforts that indicate the productivity of that institution within a particular span of time also contribute to enterprise" success (Kusuma & Ayumardani, 2016). Institutional yield reflects their skill in delivering value, meeting expectations, and achieving its objectives, which in turn influences perceptions and decisions of investors, customers, and the broader public.

Smith, K. T., Jones, Johnson, & Smith, L.M. (2019) published pertinent details affecting smaller shareholders including company's qualities, asset values, accounting data, trade event, announcements, holding forms, impact on society also personal financial requirements. Managerial equity ownership has a possibility to raise corporate profits by establishing better positioning of financial support link of stewards and capital stakeholders (Jensen & Meckling, 1976). As managers become more adept at fending off takeover threats from the market for corporate control, a larger stock ownership part by the management may improve company performance (Fosberg, 1989).

Corporate Governance

Farah, Elias, Aguilera and Saad (2019) Corporate governance controls growth and also operation of the capital markets and strongly influences resource allocation. Khyareh and Rostami (2022) In the age of heightened capital movement as well as globalization, it has also become a key framework influencing the industrial competitiveness and economies of member states. Corporate governance role majorly affects a firm's strategic decisions like investment and financial decisions. Holding and controls division brings about deviation of interests amidst proprietors with institution managers. Overseeing decisions made by managers ensures that stakeholders' interests are secure (Alkilani, Hussin, & Salim, 2019). Agency theory, a modern finance theory emphasizes the role of financial leverage as a guide against management's opportunistic behavior (Jensen, 1986).

Financial Performance

According to Nzekwe, Okoye and Amahalu (2021) Financial performance is the gauged outcome in a business's procedures as well as practices estimated value. Further, how an institution is utilizing wealth to yield profits. Owolabi and Obida (2012) Businesses have to make essential decisions to make returns. The selection critical given that the capacity of an enterprise to generate profits in this resilient business determines whether it will be able to survive. Kirimi, Kariuki and Ocharo (2022) For a considerable amount of time, academics, managers, investors, legislators, and researchers around the world have been deeply concerned about the connection within owners' shareholding and enterprise's success. Kirimi (2022) Control arrangement affects an organization's corporate governance on serious choices hence affecting the business's finance health.

Different researchers debated connection depended on different forms holdings in diverse enterprises. Faller and Knyphausen-Aufseß (2018) outlined that holdings and business yield is a controversial topic of discussion in all businesses worldwide. Holding segments show allotment of capital of a business and the identification of various owners. Corporate administration procedures, founded on control patterns established by businesses, have an impact on board decisions. Agyei and Owusu (2014) Ownership structures can rise to agency issues because of disagreements between shareholders and management. When management prioritize their interests over the holders', the firm's value is reduced.

According to Harahap, Septiani and Endri (2018) study which noted that return on equity showed a significantly negative influence contrary net profit margin (NPM) was positively affecting organization's value showing when ROE decreases, the value of the institution will go up, if ROE expands, the value of the company will lower. Similar to Sari and Endri (2019) they determined that 3 elements influenced ROE: NPM, debt ratio and total asset turnover. It illustrated that an increased debt usage increases interest obligations which greatly impacts the profit to investors, a higher return on equity brings great usage of debt resulting to low investors pricing. Investment performance with return on assets proxy based on accounting-based and Tobin's Q indicated by markets can invent a competitive advantage for firms and raise the effect of economic conditions in performance of developing countries (Ademi & Klungseth, 2022).

Manufacturing and Allied Sector

The NSE represents a platform in Kenya where multiple securities are traded. It is automated and well-regulated for bonds and equity trading (Raubenheimer, 2019). A variety of analyzed data is presented and customized to all investment clients on this stock exchange platform. It was constituted in 1954 and has been a leading securities exchange in East Africa. Manufacturing firms recorded in NSE include British Oxygen Company Kenya LTD, British American Tobacco Kenya LTD, Carbacid Investments LTD, East African Breweries LTD, Mumia's Sugar Company LTD, Unga Group LTD, Eveready East Africa LTD, Kenya Orchards and Baumann Company LTD (NSE, 2021). The ownership structure of manufacturing firms in this context will be limited to foreign holding, government, institutional portion, and individual holding. Ownership structure is defined as the distinct characteristics of business identity.

It is also a mandatory requirement under section 975 (2) (b) of the Companies Act 2015, for foreign companies who want to register in Kenya to see to it that during the application for registration stage, not less than 30% of holding goes to the Kenyan nationals by birth. Nevertheless, the 30% threshold is only applicable to the branch office registrations in Kenya and excludes the locally incorporated companies which can be 100% foreign-owned (Capital Market Authority, 2016). A firm's production estimates efficiency of a business as well as power to attain specified purpose indicated by revenues and profits (Ongore & Kusa, 2013). Additionally, understanding that business outcome happens within definite surroundings with difficulties as well as chances (Njanja, Ogutu, & Pellisier, 2012).

Statement of the Problem

Manufacturing industry has a great capacity to improve the economics of Kenya. However, from the analysis of the 9 manufacturing firms audited financial statements there was a notably downward trend of the return on asset value (ROA). A firm's financial profit position is influenced by several factors in the company but the key among them is the ownership structure. Institutions listed at the NSE are characterized by major ownership compactness that provides the majority shareholders a chance to undertake activities to benefit themselves hence adversely affecting performance. The Capital Markets Authority restricted the shareholding by individuals in NSE-listed firms to five percent in the year 2016 except under certain exceptions from the regulator. Ownership structure influences management in making major financial, liquidity and investment decisions that will cause improved company yield. Individual, institutional, government and foreign ownership are measures for shareholding structure in this paper. Strong and efficacious corporate governance activities bring vital increase in the financial market by strengthening shareholders' self-confidence and right administration of portfolio holdings. Corporate governance indicated by board independence will be the moderating variable in this research. Several studies have been undertaken to determine the company shareholding structure of investors' effect on firm yield.

In their study, Peter, Nduati and Nyabuto (2022) noted that financial performance measures were earning per share (EPS), ROA and ROE. Aboud and Diab (2022) in their paper financial performance was estimated by Tobin's Q. Olugbenga, Aribaba, Asenuga, Egbewole and Kolawole (2022) In their paper used supervisory ownership, institutional ownership, ownership concentration as indicators for ownership structure. Shahab, Arshad, Majid and Muhammad(2022) In their research ROA, ROE, Tobin Q and market-to-book ratio were used as indicators of business yield. Yang and Pocheng (2019) The study context of the shareholding structure was indicated by state shareholding ratio, legal shareholding ratio, and public shares proportion. The profitability in the study was measured by economic value added.

D Suhardjanto, N Ajibroto (2017) Business outcome was measured by ROE. Nzuki and Njoka (2021) The context of the paper targeted all companies listed in NSE. Its study variables were Institutional Local Ownership, Managerial Ownership. The current article's business value will be calculated by ROA. Olugbenga, et.al (2022) adopted purposive random sampling techniques. Nzuki and Njoka (2021) Journal adopted a causal research design. D Suhardjanto, N Ajibroto (2017) Sampling method was purposive sampling. Sunday, et.al (2017) The research sampling methodology used was purposive sampling. Kyere and Marcel (2019) It was noted that multiple regression models were adopted. Suhardjanto and Ajibroto (2017) Sampling method was purposive sampling. Mokaya and Jagongo (2015) The study research technique was both cross-sectional as well as descriptive survey approach. This study current study will adopt a census study technique, a panel linear regression model, and also employ a descriptive research design. The main focus will be on the 9 NSE recorded manufacturing enterprises. On this basis, undertaking the research will add to the finance discipline.

Research Objectives

General Objective

To examine the relationship between of ownership structure on the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya.

Specific Objectives

(i) To determine the relationship between individual ownership and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya.
(ii) To examine the relationship between institutional ownership on the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya.
(iii) To determine the relationship between government ownership on the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya.
(iv) To examine the relationship between foreign ownership on the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya.
(v) To evaluate the moderating effect of corporate governance in the relationship between ownership structure and the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya.

Scope of the Study

Paper scope is confined to manufacturing firms recorded at the NSE, Kenya. Ownership structure aspect is limited to individual, institutional, government, and foreign holding. Corporate governance as moderating variable on this association of ownership segments and business value of manufacturing institutions in the Kenyan NSE. The scope will cover ten years from 2014 to 2023. This is mainly because the manufacturing sector in Kenya contribution to GDP has exhibited a declining trend, mainly because the annual trend of Gross Domestic Product (GDP) growth rate from 2014 to 2023 was lowering over the years.

LITERATURE REVIEW

Theoretical Review

Four finance theories guided this study, agency theory developed in 1976 by Jensen and Mecklings, stewardship theory proposed by Donaldsons and Davis' in 1991 & 1993, stakeholder theory developed by Ian Mitroff in 1883 and resource dependence theory originated by Pffeffer and Salancik' in 1978 were applied.

The Agency Theory

Jensen and Meckling (1976) originated this proposition focuses on connection of an individual (Principal) that delegates authority to the second (Agent) to represent him in economical exchange. The decisions made by the agent affect the business welfare, consequently affecting the principal. The main concern of this theory is the welfare of the principal may not be maximized because the

principal goals and the agent goals tend to be different. There are also differing predispositions towards risk between the two. Additionally, they posited when managers behave in the stockholders' best interests and incur cost for prioritizing shareholders' interests and fail to pursue their own goals by this only less advantages achieved. Therefore, managers should be given incentives to increase their propensity to make decisions that maximize shareholder value.

Bosse and Phillips (2016) agreed that the hypothesis was pegged on the assumptions of opportunism where regardless of the provision of monitoring and incentives, it is anticipated that opportunism may still prevail because of moral hazard and adverse selection. Risk-averse agents this assumption outlines that the agent exhibits risk-averse behaviors in decision making. Persons within the market act based on their own self-interest rather than considering collective or society's interests. Jensen (2000) Agency conflicts may arise in the managers' effort level where they may lower effort than they would if they owned the company. This may lower the company's yield and its share prices. The size of the company may determine earnings retention since it relates to remuneration of directors and senior managers, not institutional profits.

Management may re-invest yields to increase enterprise's productivity, instead of disbursing dividends. Managers get an opportunity to expand business by increasing its assets and sales turnover without boosting the company's shareholder returns (Mafiejor & Benjamin, 2021). When companies invest in capital projects with expected profitability that is low, and the net present value (NPV) of the investment may turn out negative, as a result investment may not generate enough returns to justify the initial expenditure. This proposal is applicable in this research as it elaborates on usefulness of corporate governance in a firm to examine the connection in enterprise holding along with monetary outcome for Kenyan manufacturing enterprises' in NSE. Corporate governance will be the study moderating variable.

Stewardship Theory

According to Donaldson and Davis (1991 & 1993), stewardship theory is the organizational behavior theory that opposes rational action theories of management. According to this idea, there is no disagreement of interest between managers and owners, and the purpose of governance is to identify the procedures and framework that allow for the best possible cooperation (Donaldson, 1990). According to stewardship rationale, organizational managers typically act in a benign manner since there is no intrinsic issue with executive control (Donaldson, 2008). The fundamental presumption that guides the Stewardship theory's recommendations is that the manager's actions reflect the interests of the principals.

This proposition emphasizes that aligning goals of all those with an interest in corporate governance over based on the agent's personal gain (Van-Slyke, 2006). In principal-steward relationship, the financial benefit of the principal comes from lower transaction costs due to diminished need for economic incentives and monitoring. This means that when the objectives of principals and stewards are in harmony, the need for costly oversight and incentive structures is minimized, facilitating smoother governance processes and potentially enhancing organizational performance.

Stewardship Theory proposes that "model of man" is a someone who has traits are in pre-organized manners possess greater usefulness than individual's personal demeanors (Davis et al., 1997). Although this ideal man is also logical, he believes that cooperation characteristic' as opposed to in egocentric traits. This theory will inform the link of company managers and shareholder's because aim of all businesses is to maximize the wealth of their shareholders.

Stakeholder Theory

Ian Mitroff in 1883 originally laid out the concept in the 1983 book "Stakeholders of the Organizational Mind,". Quarm and Richmond Sam (2021)R. Edward Freeman later in 1984 modified it. This proposition suggests that considering the relationship between an organization and the people and groups that it may influence or effect as the unit of investigation, there's a more notable probability of successfully tending to three key issues. Revolves around how consumers, suppliers, staff, lenders, communities as well as managers connected to mutually created and business worth (Freeman, 1984; Jones, 1995; Walsh, 2005). Understanding these relationships and how they change over time will help you infer more about a particular firm.

It is the executive's duty to oversee and shape these relationships to make as much gain as possible for stakeholders and to control the allocation of that value (Freeman, 1984). When conflicting stakeholder interests arise, the executive needs to find a method to reframe issues so that the broad group stakeholder's needs are addressed, and to a higher degree greater worth might be produced for each (Kempster & Jackson, 2021). This hypothesis analysis failed because acting with the interests of the stakeholders in mind is different from simply gathering and presenting facts about the stakeholders. Secondly, **associate's synthesis -** They are vital synthesis of stakeholders and multi-fiduciary Stakeholder Theory Synthesis. Stahl, Brewster, Collings and Hajro (2020) When the stakeholders with the greatest level of influence inside the company are recognized and brought into the decision-making process of the organization, strategic stakeholder synthesis takes place. Stakeholders' interests are taken into consideration to the extent that they impact shareholders, but they are not given priority over other interests. This proposition will be informing effect of foreign holding, government possession, institutional, and individual proprietorship.

Resource Dependency Theory

This theorem proposed by Pfeeffer and Salancik 1978 which stated that enterprises require resources in order to support their long-term existence. Moreover, these resources from their space however there exists institutions with the aim to use similar reserves. They emphasized that the change of strategies determined by organizations to obtain resources increases dependence on the environment / other organizations (Mozos, Duarte & Ruiz, 2016). This theory refers to the activities of managers in finding resources the company needs by connecting with external environment (Hillman, Canella & Paetzold, 2000). Further, the proposition provides guidance on recruiting directors who help acquire necessary corporations' resources for sustainable existence (Johnson, Daily & Ellstrand, 1996). This hypothesis also enunciates control and utility. Within the context of this theorem, power was defined as the capacity of a market participant to exert control over the resources required by others (Harris & Holden 2001).

From this perspective, it is understood that the unequal power arising from the relationships between resources, the organization that owns the resource and creates the requirement need for approval. One of the most significant environmental issues in this scenario is resource uncertainty. The three sub-factors that fall under the resource's dependency are resources prevalence, reserves importance and the control of resources. Pfeffer and Salanci'k (2003); Fink (2006) stated that this perspective is significant because the organization's performance will depend on its capacity to gather, process, and utilize raw materials more quickly than its rivals. Companies often adjust their marketing strategies to adapt to changes in power relationships with other companies. One of the assumptions of the concept of success is that uncertainty affects the resources of the organization and makes it important to choose strategies that will reduce success (Tehseen & Sajilan, 2016). As uncertainty and dependency increase, so does the need for connections with other organizations. It is paramount that companies establish how much control they have over where their resources are coming from, as well as over the contract they have with other organizations regarding resource management.

Empirical Literature Review

The empirical research analyzes peer assessed literature to address empirical analysis on the study.

Foreign Ownership and Financial Performance

Kirimi, Kariuki and Ocharo(2022)studied about Kenyan commercial banks holding and business output. The scope of the study was for 2009-2020 with study variables including state, Management, Institutional, Foreign and financial performance. Financial performance measures were EPS, ROA and ROE. Secondary data were yearly financial stating for 12-year time from 39/42 commercial banks. Diagnostic tests employed in the study were tests for heteroskedasticity, autocorrelation, multicollinearity, stationarity, and normalcy. The study established an insignificant relationship between Net interest margin, ROE, ROA, and foreign possession, but a significantly negative linkage between foreign ownership on EPS. Low regulation is often attributed to foreign investors.

Aribaba, Samson and Kolawole (2022) Study examined impact of holding on business outcome of Nigerian quoted building material institutions. Ex-post-facto type of qualitative design was used. Research population consisted of (6) reported cement enterprises on Nigerian stock Exchange as of December-2020. Four (4) firms were picked using purposive and random sampling techniques. Data was taken from secondary sources of data between the period 2011 to 2020 annual published financial reports of building material firms. Descriptive and ordinary least square regression statistics were incorporated to estimate inference of variables (independent) on financial output of the firms. The unit root stationarity is used in measuring the normality distribution. Results reveals; supervisory holding showed a significantly positive effect on the financial outcome of Nigerian quoted building material institutions, while holding concentration showed negative significant effect on business value of quoted construction material Nigerian enterprises. The aim of the article will dive into establishing influence of ownership segments on the business value of manufacturing firms in the Kenyan Nairobi Securities Exchange.

Uwalomwa and Olamide (2012) evaluate ownership arrangement and business output relationship with enterprises quoted in Nigeria's finance sector. The population for their study included all quoted organizations in Nigeria's financial sector up to December 31, 2010. The size of the sample chosen included quoted institutions in the financial segment of the economy, totaling 31 firms. Hypotheses of the study computed by multivariate evaluation. Conclusions posited institutional appropriation, and foreign holding had a significantly positive impact on yield of Nigerian firms.

Government Ownership and Financial Performance

Aboud and Diab (2022), in their paper they investigated the link between concentrating and centralized state-owned attributes of corporate governance and institution financial earnings with fresh and comprehensive evidence from emerging economies. The variables of the study were ownership characteristics; stock division overhaul; concentrated, state involvement, as well as profitability. This study further examined the implication of the current China the consequences of China's present divide in share restructuring on the causal connection of investor characteristics and company efficiency. Group studied had 234 institutions with 2340 yearly observation values. Hypotheses of the paper were tested by regression analysis of findings of panel data. Concentrated ownership had a positively significant association to business profits. State control had a considerable detrimental influence on company efficiency. China's divided stock policy had an advantageous impact on the links between holding and earnings.

Shahab, Muhammad, Majid and Muhammad (2022) study examined the implication of shareholding patterns on businesses' monetary results, 146 industrial enterprises quoted in Pakistani Stock Exchange for the years between 2003 and 2012. Agency theory was adopted as a theoretical background for the study. Ownership portions were indicated by institutionalized, insider, foreign, and federal stakes, whilst Tobin's Q metric, ROE, ROA & market-to-book metrics were employed to test the company's achievements. The dynamical panel generalised approach to moment (GMM) was implemented for addressing the endogeneity problem. The research found institutional ownership positively affecting ROE and market-to-book ratio. Furthermore, the results demonstrated a substantial positive correlation between insider trading with ROE, return on asset, market-to-book ratio and Tobin's questionnaire. It seemed compatible with the doctrine of agency which stated that concentration of insider shareholders aligns with that of the supervisors and therefore increases efficiency. There was a considerable beneficial correlation established between governmental stakes and ROAs, with ROAs along with ROE. The article suggested that policymakers can encourage government involvement in companies, which could improve corporate sustainability.

Suhardjanto and Ajibroto (2017) examined ownership segmentation and financial performance of Asian and Australian quoted airlines industry. Paper's independent variables consisted of foreign holding, government participation, and institutional holding with the company's size functioning as limiting factor and yield was weighed by calculating ROE. Study methodology was quantitative research method and purposive sampling technique assisted in selecting 76 yearly reports of the institutions from 2010 to 2015. The analysis approach employed was multiple regression analysis

where results showed that foreign and federal stake had the advantageous impact on revenue of airlines, yet the institutional control along with company size had a negative impact (return on equity).

Institutional Ownership and Financial Performance

Nuryana and Surjandaris (2019) examined impact of effective corporate oversight and earnings handling on Indonesian enterprises success. Number of executives, organizational and managerial control, the majority directors and audit panels were indicators of corporate governance. This study adopted purposive sampling to choose 25 manufacturing enterprises listed at the Indonesian Stock Exchange submitted reports on finances between the years 2012 and 2016. The approach of analysis used was multi and single regression. The results showed that BOD's, Independent, managerial ownership and the size of the audit committee did nothing on control of yield, institutional posses'sion had a prejudicial force.

Damilola (2020) investigated the link between institutional investors and the economic health of Nigerian deposits. The primary goal for paper was exploring effect of corporate participation of fiscal health of deposit-taking institutions placed on the Nigerian Stock Exchange. The assumptions provided were that corporate holding impacted the fiscal health of Nigerian deposit banks positively and negatively. The study was conducted between 2011 and the end of 2018. Data originated from the fiscal years of fifteen banks registered on the Nigerian StockS Exchange'. Panel data concluded favorable significant link between institutional stake and bank economic success.
Arthur, Abanis, Mabonga, Byamukama and Tukei (2017) examined Ugandan proprietorship of businesses and financial achievements. Variables include institutional shareholders, Large individual shareholders as well as control parameters such as capital, company scale, and debt. Between 2010 to 2016, intentional sampling was adopted to pick private enterprises from each of Uganda's traded corporations. The info assessment method applied was a combination of statistical, correlational, panel as well as regression analysis. Additionally, Hausman test determined if it Fixed Effects (FE) or Random Effects (RE) regression model would be employed. Research results show a beneficial link between institutional controls to ROA. Large and small shareholders had no substantial impact on ROA.

Individual Ownership and Financial Performance

Yang and Pocheng (2020) A study on shareholding and enterprise performance in China. They examined the bond between ownership and efficiency of Chinese numbered enterprises from 2005 to 2010 and use economic value added (EVA) as a tool to evaluate the relationship. The empirical outcome showed that the ratio of state shares held was negatively correlated with business performance (EVA). The other proposition stated that the portion of individual share held had a significantly positive correlation with corporate performance. Once the retail shareholding percentage and external control forces increase, the management will face more pressure to work hard. Therefore, using EVA to measure performance of institutions, the ratio of state-owned shares to the listed business shares had significant impact on the corporate profits in China.

Ogabo, Ogar and Nuipoko (2021) research of portion of ownership and business yield in determining the duty of leadership and institutional possession portion of United Kingdom. This investigation seeks to verify or debunk claims of ownership spread arrangements leading to agency expense and managerial control management. Additionally, it attempted to reveal whether managerial ownership had any implication on firms' revenue. This study also examined how institution holding affects organizational output. In this study, panel data econometric model was adopted. Descriptive statistics including measures of principal tendency, variability and correlationship; simple least-squares (OLS) regression analysis of independent as well as dependent variables; and two-phase least square (2SLS) regression evaluation to and post-regression diagnostics testing to detect endogeneity. Research conclusions exhibited managerial control negatively influences performance. Equity concentration had pro implication on ROE, whereas institutional portion favored ROA. Possession segmentation does positively impact an institution's performance.

Ikeobi, Nneka, and Bitrus (2016) studied on the key factors that influences an entrepreneur to contribute to manufacturing companies in the Nigeria's capital market. This article aimed to identify the vital variables that drive retail buyers to make purchases of shares in those businesses. Primary data obtained 130 questionnaire and analyzed by descriptive method of averages and deviation from mean to figure out the significance of relevant variables for choices about investments. Critical elements including net income, expected bonuses, growth potential, future dividends paid, affect business profitability.

Ownership Structure, Corporate Governance and Financial Performance

Kyere and Ausloos (2019) Studied corporate governance and institutional yield in United Kingdom. The corporate governance process used in the study covers insider shareholders, the size of the board, meetings of the audit committee, CEO duality, and board independence. Multiple regression model was used. Research hypotheses proposed were companies with large insider shareholding, large board sizes, and a greater proportion of board independence were with those that tend to have great financial results. Lastly, companies with CEO duality achieve less business output. The size and independence of its board showed great predictive power for two financial metrics: Tobin's Q and ROA. Audit panel meetings frequency displayed some influence on ROA but none on Tobin Q. CEO duality had no influence on either Tobin's Q and ROA.

A study conducted by Simon and Aghedo (2014) on corporate governance and business outcome of Nigerian companies. Mechanisms of corporate governance selected, BOD, its measurements, CEO status, and strong independent holding. Ordinary least square regression estimated the association between corporate governance and business yield. Conclusion favoured association of size of the board, makeup of its members as independent factors with financial outcome. CEO status was also positively related to business outcome. Furthermore, there was no connection between ownership concentration and corporate revenue.

Sidra and Javed (2013) examined the determinants that drive the Pakistan enterprises yields. The study analyzed how ownership along with other factors; corporate governance, risk management and capital structure explain the business output trends. Data on explanatory variables and degree of business outcome (ROE and shareholder compensation) analyzes the non-financial information of 60 institutions listed in the Karachi stock exchange 100 index between 2007 and 2011. Collected data analysis was collected by panel data. All the corporate governance mechanisms were positively related to business profits except ownership structure. The result showed that the composition and size of board members were significant. CEO status and shareholders concentration was not related to business financial results with metrics of profit margin and ROA

Conceptual Framework

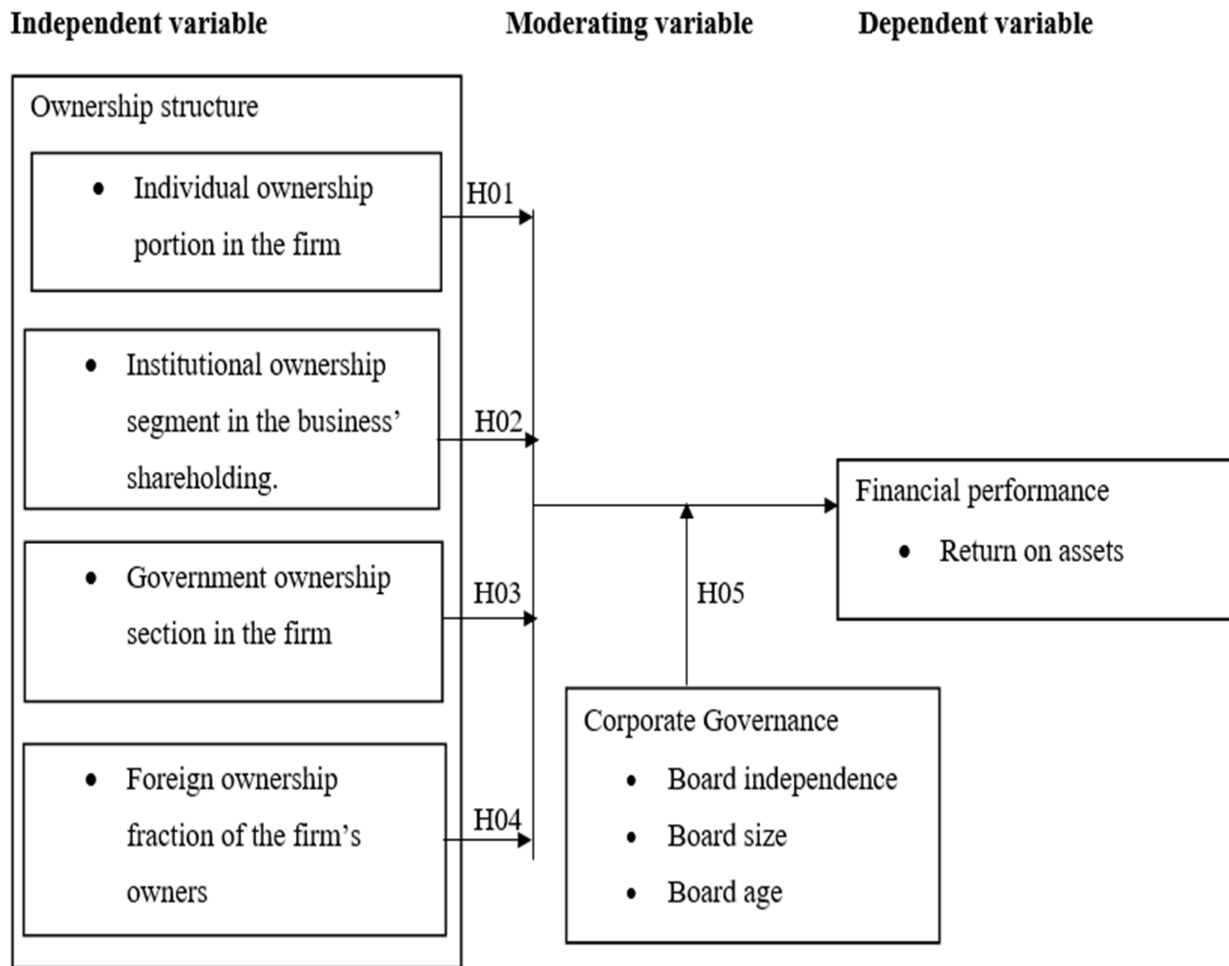

Figure 2.1 Conceptual Framework

Source: Researcher, (2024)

RESEARCH METHODOLOGY

This research adopted a descriptive research design and since it focused on firms trading at the NSE, Kenya, it collected quantitative data from the supervisory and statistical reports from the insurance regulator's portals, and qualitative data was collected using questionnaires. The data was then checked for completeness and consistency and further, diagnostic tests were run for multicollinearity, normality, and homoscedasticity.

A panel regression model was adopted to present the existing relationship between the various variables and to determine and tell the strength of each independent variable presented as shown below.

Equation one is a simple direct model and equation two is a joint effect model.

i) $P= \beta_0 + \beta_{1it}SS_{it}$…………………………………………… equation one

ii) $P= \beta_0 + \beta_{1it}F_{it} + \beta_{2it}G_{it} + \beta_{3it}T_{it} + \beta_{1it}D_{it} + \beta_{1it}C_{it} + \beta_{1it}X_{it}C_{it} + \beta_{1it}F_{it}C_{it} + \beta_{2it}G_{it}C_{it} + \beta 3_{it}T_{it}C_{it} + \beta_{4it}D_{it}C_{it} + \mu_{it}$……………………………… equation two

Where:

P - financial performance

SS - the Ownership structure

C - corporate governance

β_0 - Constant

F - foreign ownership

G - government ownership

T - institutional ownership

D - individual ownership

μ - the error term

β_1, β_2, β_3 and **β_4** represent Regression coefficients of Ownership structure

$_i$ - a firm

$_t$ - time in years

For the moderating effect model, the Fairchild and MacKinnon (2009) two-step procedure was used as indicated in the equations below: -

i) **Step One**

There is no interaction term in this step.

$P= \beta_0 + \beta_{1it}F_{it} + \beta_{2it}G_{it} + \beta_{3it}T_{it} + \beta_{4it}D_{it} + \beta_{1it}C_{it} + \mu_{it}$

ii) **Step Two**

The step that shows interaction term expressing corporate governance aspect of the firm as a moderating variable.

$P= \beta_0 + \beta_{1it}F_{it} + \beta_{2it}G_{it} + \beta_{3it}T_{it} + \beta_{1it}D_{it} + \beta_{1it}C_{it} + \beta_{1it}X_{it}C_{it} + \beta_{1it}F_{it}C_{it} + \beta_{2it}G_{it}C_{it} + \beta 3_{it}T_{it}C_{it} + \beta_{4it}D_{it}C_{it} + \mu_{it}$

Research Findings and Discussions

Correlation Analysis

To determine the strength and direction of the linear relationship between two or more variables, Pearson's correlation analysis was conducted, and the results are shown below.

Table 4.10: Pearson Correlation Analysis

	Pit	Dit	Tit	Git	Fit	Cit
Pit	1.0000					
	90					
Dit	0.0759	1.0000				
	0.4551					
	90	90				
Tit	0.0707	0.6743*	1.0000			
	0.4867	0.0000				
	90	90	90			
Git	0.2354*	0.2214*	0.2373*	1.0000		
	0.0190	0.0276	0.0180			
	90	90	90	90		
Fit	0.1450	0.0725	0.6966*	0.1817	1.0000	
	0.1523	0.4755	0.0000	0.0719		
	90	90	90	90	90	
Cit	0.0493	-0.3025*	-0.2417*	0.1090	-0.1133	1.0000
	0.6283	0.0023	0.0159	0.2830	0.2642	
	90	90	90	90	90	90

Source: Researcher, (2024)

The analysis results presented in table 4.10 above revealed that individual ownership (D) and financial performance (P) had a positive and insignificant correlation with a coefficient of 0.0759 at a 0.05 level of significance (Coscia 2021). Institutional ownership (T) had a weak positive association with financial performance (P) with a correlation of 0.0707 at a 0.05 significant level

but there was a strong positive correlation between Institutional ownership (T) and individual ownership (D). Additionally, government ownership (G) had a moderate positive and significant association with financial performance (P) with a correlation of 0.2354 at a 0.05 significant level. Therefore, since the association was significant, this indicated that government ownership impacts financial performance positively in terms of investors and financial performance of the manufacturing firms. Foreign ownership (F) had a positive but insignificant relationship with the financial performance (P) of 0.1450 at a 0.05 level of significance. Corporate governance (C) that acted as a moderating variable had a weak positive and insignificant association with financial performance (P) with a correlation of 0.0493 at a 0.05 level of significance.

Regression analysis

To establish the relationship of explanatory variables on response variables a panel regression model was adopted. conducted. Two steps were involved in the study. First step, a panel regression model was carried out without interaction, while in the second step interaction effect.

Panel regression without interaction

Table 4.20 No interaction Panel

P	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
D	.0033567	.0017635	1.90	0.037	-.0000997	.0068131
T	-.0712955	.035713	-2.00	0.046	-.1412917	-.0012992
G	.0783033	.0441804	1.77	0.076	-.0082886	.1648953
F	.0115181	.0050441	2.28	0.022	.0016318	.0214045
C	.0013551	.002092	0.65	0.517	-.0027452	.0054554
_cons	.0136679	.0356561	0.38	0.031	-.0562168	.0835525
R-square	**0.1163**					
F (9,81)	**11.7**					
Prob>Chi2	**0.0487**					

Source: Researcher, (2024)

The equation for moderating effect

$P = 0.01367 + 0.01152F_{it} + 0.07830G_{it} - 0.07129T_{it} + 0.003356D_{it} + 0.001355C_{it} + \mu_{it}$

Whereby: P represents financial performance (ROA)

F_{it} = Foreign ownership

G_{it} = Government ownership

T_{it} = Institutional ownership
D_{it} = Individual ownership

In Table 4.6, the results from the analysis showed that the explanatory variables in the study explained 11.63% of the financial performance of the firms and the remaining percentage explained the factors that were not in the model. The model had an F (9,81) statistic of 11.7 and a p-value ($p<0.0487$) that was below the alpha (0.05) level of significance. Therefore, we can confidently conclude that foreign ownership (F), individual ownership (D), and institutional ownership (T) had a significant effect on the financial performance of the manufacturing firms under study. It is clear that without explanatory variables in the model, the financial performance appreciates at a constant rate of 0.01367 units.

Panel regression with interaction

Table 4.30 With interaction Panel

P	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
D	.0437744	.0180847	2.42	0.015	.0083291	.0792197
T	-.0406566	.0398302	-1.02	0.017	-.1187223	.0374091
G	.2671647	.0820849	3.25	0.001	.1062812	.4280481
F	-.028186	.0179455	-1.57	0.016	-.0633585	.0069865
C	.0048347	.0023048	2.10	0.036	.0003174	.0093519
DxC	-.0253767	.0107551	-2.36	0.018	-.0464563	-.0042971
TxC	.000665	.0073146	0.09	0.928	-.0136713	.0150013
GxC	-.0150451	.0052409	-2.87	0.004	-.0253172	-.004773
FxC	.0115169	.0053492	2.15	0.031	.0010326	.0220011
_cons	-.0135918	.0340569	-0.40	0.690	-.0803422	.0531585
R-square	**0.3046**					
F(9,81)	**3.94**					
Prob>Chi2	**0.7827**					

Source: Researcher, (2024)

Model equation in step two:

$P = -.01359 - .028186F_{it} + .26716G_{it} - 0.04065T_{it} + 0.04377D_{it} + 0.00483C_{it} + 0.01151F_{it}C_{it} - 0.01504G_{it}C_{it} + 0.000665T_{it}C_{it} - 0.02537D_{it}C_{it}$

Where:

C_{it} = *Corporate governance of company i at time t (moderating variable)*

$F_{it}C_{it}$= *Interaction between foreign ownership and corporate governance*

$G_{it}C_{it}$= *Interaction between government ownership and corporate governance*

$T_{it}C_{it}$= *Interaction between institutional ownership and corporate governance*

$D_{it}C_{it}$= *Interaction between individual ownership and corporate governance*

The results showed that the introduction of moderating variables with interaction on foreign ownership (F), individual ownership (D), government ownership (G), and institutional ownership (T) indeed influenced the financial performance of the firms in Kenya. The R-square after the introduction of interaction changed from 11.63% in step one to 30.46% in step two with an F statistics value of 3.94 and a p-value of 0.7827 at a 0.05 level of significance. This indicates that the interaction of corporate governance between foreign, individual, and government ownerships had a statistically significant coefficient of (*$\beta = .01152$, $\beta = -.0253767$, $\beta = -.0150451$, and p-value ($p<0.031$, $p<0.018$, $p<0.004$) respectively.*

The researcher rejected the null hypothesis and concluded that the interaction of corporate governance significantly moderated foreign, individual, and government ownership as the indicator of influencing the financial performance of the manufacturing firms and allied sectors under study.

Hypotheses Testing

Individual ownership had a positive and significant coefficient of ($\beta = 0.003356$, p-value = 0.037). This indicates that a unit change in individual ownership impacts positively financial performance by 0.003356 units while holding other factors constant. As such, the null hypothesis (**HO_1**) is rejected and conclude that individual ownership had a positive impact on the financial performance of manufacturing firms.

Institution ownership had a negative significant coefficient of ($\beta = -0.07129$, p-value = 0.046). This shows that, while all other conditions are held equal, a unit shift in institution ownership has a negative impact on financial performance of 0.07129 units. As such, the null hypothesis (**HO_2**) is rejected and conclude that institutional ownership hampered the financial performance of manufacturing enterprises.

Government ownership had a positive insignificant coefficient ($\beta = 0.07830$, p-value = 0.076). As such, we accept the null hypothesis (**HO_3**) and come to the conclusion that government ownership has no negative impact on the financial performance of manufacturing companies. This shows that, while all other variables are held equal, the financial performance stays unchanged even if there is a 0.07830 unit change in government ownership.

Foreign ownership had a significant and negative coefficient (β = 0.01152, p-value = 0.0220). This shows that, while all other conditions are held constant, a unit shift in foreign ownership has a positive impact on financial performance of 0.01152 units. As such, we reject the null hypothesis (**HO_4**) and come to the conclusion that foreign ownership improved the financial performance of Kenyan manufacturers.

Corporate governance had a positive but negligible coefficient (β = 0.001355, p-value = 0.517). draw the conclusion that corporate governance had an impact on Kenyan manufacturing firms' financial performance, proving that it did, in fact, meet the requirement that it was a moderating effect. This suggests that, while all other variables are held constant, a unit change in corporate governance has a 0.001355 unit positive impact on financial performance. As such the null hypothesis (**HO_4**) is accepted.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Individual ownership impacted organization size, decision-making procedures, and investor contributions were favorably, which promoted expansion and growth during the production quarter. "There is no significant relationship between individual ownership and the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya," according to the first null hypothesis. We rejected the null hypothesis and accepted the alternative null hypothesis, which states that "There is a significant relationship between individual ownership and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya," because the results demonstrated that individual ownership had a positive and significant effect.

The second hypothesis, which contends that there is no significant relationship between institutional ownership and the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya, was rejected in favor of the alternative null hypothesis, which states that there is a significant relationship between institutional ownership and the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya. The correlation analysis of institutional ownership revealed a strong negative association with financial performance (P). This paradoxical dating showed that institutional ownership had an effective effect on investors that enhanced the firms' financial performance.

Government ownership, as depicted by using a median ratio of 0.34, showcased its vast role in imparting financial guidance, stabilizing investments, and positively impacting inventory assessment within the manufacturing firms, the findings together underscore the multifaceted nature of ownership systems and their implications for the monetary health of producing firms inside the Kenyan context. The third hypothesis that stated, **"**There is no significant relationship between government ownership and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya." The results showed that government ownership had a positive but insignificant coefficient the null hypothesis was rejected and accepted the alternative

null hypothesis that "There is a significant relationship between government ownership and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya."

There was a slight but favorable correlation between foreign ownership (F) and financial performance (P). "There is no significant relationship between foreign ownership and the financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya," according to the fourth hypothesis. The findings demonstrated a strong and positive coefficient for foreign ownership. As a result, the alternative null hypothesis—that "There is a significant relationship between foreign ownership and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya"—was accepted and the null hypothesis was rejected.

One important moderating factor in the study was corporate governance. These findings were reinforced by the correlation analysis, which showed a strong negative and significant relationship between corporate governance and return on assets (ROA). The fifth and final hypothesis is that "the relationship between ownership structure and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya, is not significantly moderated by corporate governance." The findings indicated a positive but negligible coefficient for corporate governance. The alternative null hypothesis, according to which "corporate governance has a significant moderating effect on the relationship between ownership structure and financial performance of manufacturing firms listed at the Nairobi Securities Exchange, Kenya," was adopted after the null hypothesis was rejected. The improvement of overall financial performance was made possible by stable and strong corporate governance.

According to the results of the Pearson correlation, there was a positive but negligible relationship between financial performance (P) and individual ownership (D). Since the VIF was less than 10, multicollinearity was not broken. The results of the Shapiro-Wilk test indicated that the data was regularly distributed. Heteroscedasticity was not found in the studied residuals, according to the chi-square statistic. The findings of the Hausman test indicated that the random effect was the model under consideration. The financial performance of the manufacturing companies was significantly impacted by the introduction of moderating variables with interactions on foreign ownership (F), individual ownership (D), government ownership (G), and institutional ownership (T). This governance structure was essential in reducing perceived risks, drawing in traders who were wary of threats, and enabling strategic choices that aided in the expansion of the company.

Recommendations

Industrial executives should lower operating costs in order to increase return on assets (ROA) and overall financial output, which will draw in both domestic and foreign investors. To determine the viability of the business, investors look at financial metrics like sales growth and profitability.
The research findings will also be useful to policymakers. The empirical findings provide greater insight into how manufacturing companies can follow sustainable board independence, age, and size in order to favorably moderate ownership structure and produce high-quality financial results. Policies should dictate the size, age, and independence of company boards since they enhance the

performance.

Because the research findings serve as a foundation for identifying additional areas of progress to make the manufacturing sector throughout its entirety a national economic engine, academicians are well-guided by them. This is due to the fact that this study makes the conceptual, contextual, and methodological inadequacies very evident.

Suggestions for Further Research

All Kenyan businesses, listed or not, may be taken into future studies using the same criterion. Future research could use longitudinal data to better understand how the ownership hierarchy and company governance impact financial performance and how those relationships change over time. To gain a thorough grasp of how they relate to corporate governance, ownership, and financial performance, the researcher suggests that future research include more moderating elements, such as the condition of the market. Future research could examine qualitative perceptions, such as customer opinion, which would improve the study's thoughtful conclusions.

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