THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND LEVERAGE OF FIRMS LISTED IN THE NAIROBI SECURITIES EXCHANGE

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A Research Project submitted to Graduate School, in Partial Fulfillment for the Requirements of the Award of the Degree of Master of Business Administration of Egerton University

Egerton University

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DECLARATION

I declare that this research project is my original work and has never been presented to any institution of higher learning for the award of a degree or diploma.

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APPROVAL

This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my dear parents Mr. Peter Mukonyi Kataka and Mrs. Mary Kataka for their undying love and support all round. I also dedicate it to my siblings: Kennedy, Joshua, Alex and Charles for their moral support. They gave me all the reasons to keep holding on and working hard no matter the challenges that came with it.

ABSTRACT

This study examined the relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange (NSE). The objectives of the study were: to evaluate the relationship between state ownership and leverage, to determine the relationship between private ownership and leverage, to determine the relationship between foreign ownership and leverage and to evaluate the relationship between institutional ownership and leverage. The study adopted a correlational research design. The target population of the study comprised of all the 61 firms which have been listed in the NSE as at December 2014. The study adopted purposive sampling technique which was conducted among the 44 firms that have been consistently listed for a period of 9 years from 2006 to 2014. Data for this study was collected from annual published financial statements. Both descriptive and inferential analysis was conducted where Correlation and regression analysis was applied to test the relationship between ownership structure and leverage. Regression was conducted to test the effect of the various independent variables pooled together on the dependent variable. Two tail t-test and ANOVA test was used to determine the degree of significance of the relationship. The data analyzed was presented in form of tables. The results of the study showed that there is no statistical significant relationship between private ownership and debt ratio, debt to equity ratio and debt to total assets ratio where $P=0.414$, $P=0.407$ and $P=0.405$ respectively. Additionally, there was no statistical significant relationship between foreign ownership and debt ratio, debt to equity ratio and debt to total assets ratio where $P=0.203$, $P=0.279$ and $P=0.280$ respectively. The findings of the study revealed that there was no statistical significant relationship between institutional ownership and debt ratio, debt to equity ratio and debt to total assets ratio where $P=0.478$, $P=0.443$ and $P=0.449$ respectively. Finally the findings of the study revealed that there is a weak positive relationship between ownership structure and leverage ($R=0.475$) with a significance value of 0.807. Therefore this study concludes that there is no statistical significant relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange.

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LIST OF ABRREVIATIONS

ANOVA	One-way Analysis of variance
BR	Bank Ration
CCER	China Center for Economic Research Database
CSMAR	China Stock Market and Accounting Research Database
D	Debt
DY	Dividend Yield
E	Equity
EBIT	Earnings before Interest and Tax
ESP	Earnings per Share
LTDR	Long-Term Debt Ratio
MM	Modigliani and Miller
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
SACCOs	Savings and Credit Co-operative Societies
SASRA	Sacco Society Regulatory Authority
SOEs	State Owned Enterprises
SPSS	Statistical Package for Social Sciences
STDR	Short-Term Debt Ratio
TA	Total Assets
TASE	Tel- Aviv Stock Exchange
TDR	Total Debt Ratio

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Ownership structure and leverage are two important factors in any given organization. This is because they influence all important decisions made regarding the organization. This view considers ownership structure as the shareholder structure which refers to equity ratio occupied by various shareholders (Wu, 2003). Publicly owned firms have legal separation between management and ownership. The owners might be having the funds required but they lack the managerial skills to manage the organization efficiently and effectively. On the other hand, they might be having business ideas but do not have sufficient funds to enable them implement the ideas. For this reason they seek internal and external borrowing. This brings in the relationship between debt holders and shareholders and thus the agency conflict between the two parties (Damodaran, 1997).

Isshaq and Otchere (2011) noted that both the principal and the shareholders are utility maximizers. Therefore, shareholders are forced to incur some monitoring costs in order to reduce the amount of divergence of interest by the managers. According to Slama and Taktak (2014), ownership structure can improve the performance of firms by decreasing monitoring costs and providing better control over the management. This is because the risk taking incentives by management can be reduced by the nature of ownership in a firm. Additionally, ownership structure may prevent the managers from undertaking sub-optimal projects and increasing their earnings leading to a reduction in shareholders wealth (Lappalainen and Niskanen, 2012). Firms that are owned by a block of shareholders may be able to reduce the willingness of the management to engage in strategic changes and this can lead to a risk aversion.

Al-Najjar and Taylor (2006) stated that ownership structure plays a key role in monitoring and directing firms. Large shareholders can be able to elect the board of directors which can in turn act as an agent in overseeing the performance of the managers. Slama and Taktak (2014) noted that firms that are owned by large shareholders can be able to obtain private information from the managers and transfer the information to other shareholders. This acts as a means of reducing asymmetry of information between the shareholders and the managers thereby enabling the owners to obtain more information about the performance of their firms.

Reddy and Locke (2014) affirm that ownership structure can assist in reducing information asymmetry by discouraging managers from exploiting shareholders resources. Furthermore, the ability of large shareholders to collect information has a significant effect on the financial decisions made by the firms.

According to Din et al (2013), firms that have a diverse degree of ownership concentration among different groups can be able to impact on the opportunism behavior and financial decisions by the managers. Large shareholders can be able to align their interests more effectively to those of the managers (Ganguli, 2013). As a result, the large shareholders can be relied upon to reduce the agency conflict. However, Yang et al (2014) notes that large shareholders may act to achieve their interests at the expense of other shareholders. Controlling shareholders are able to make most of the decisions thereby suppressing the minority shareholders. Therefore, ownership structure may not be adequately effective in reducing the agency conflict. Yerram (2013) argues that ownership structure is likely to influence agency conflict at a certain level of stock holding. For that reason, the use of debt becomes paramount in reducing the conflict between shareholders and management.

Financial leverage affects firm value by influencing agency costs (Lee and Lee, 2014). Debt financing limits the amount of free cash available to managers and this act's as a means of controlling the agency problem. According to Ganguli (2013), shareholders prefer debt financing so as to maintain their voting rights to control and monitor their firms. Additionally, debt acts as a disciplining mechanism which lenders utilize in order to monitor the actions of the managers. Yarram (2013) noted that the use of debt enables shareholders to transfer the responsibility of monitoring the actions of the managers to the lenders. Managers of firms financed by debt are forced to reduce wasteful expenditure and enhance operating efficiency so as to meet the debt covenants. Nonetheless, the use of debt can induce managers to forego projects with positive net present values (Din et al, 2013).

Leverage is highly associated with bankruptcy risk. Additionally, lenders impose a lot of restrictions on firms that take up leverage. This helps reduce the probability of default or bankruptcy. This also helps in reducing the agency conflict between the two parties. Companies with high debt ratio tend to disclose more detailed information to assure investors and lenders than those with low risk levels (Naser et al, 2006). A different view shows that as the debt of the company increases, they prefer not to disclose much information because debt holders do not require information as shareholders and again the information may make debt

holders to lose confidence in the organization. The debt holders might start seeing the possibility of firms not being able to settle their debts (Rahman, 2002). Therefore, firms are supposed to gravitate structures that yield the best results through making the best decisions. This is generally because firms that have the best ownership structure tend to operate efficiently and effectively.

Ownership structure and leverage are two important aspects in the governance of firms. According to Lee and Lee (2014), debt financing enables owners to take actions to maximize their wealth. Financial leverage affects agency costs thereby influencing the value of a firm. Huang et al (2013) noted that shareholders have a tendency of raising more debt so as to reduce the agency costs. Consequently, ownership structure may play an important role in determining the capital structure of a firm. Al-Najjar and Taylor (2008) argue that ownership structure has a significant impact on the financial decisions of a firm. Thus, owners may opt for increased levels of debt in an aim to improve the performance of their firms.

1.2 Statement of the problem

Lee and Lee (2014) propose that ownership structure is a primary determinant of the extent of agency problems. Yarram (2013) asserts that ownership structure is likely to have an influence on agency costs. This is because large shareholders have a greater incentive to collect information and monitor the actions of the managers thereby affecting financial decisions made by the firm. According to Din et al (2013), ownership structure can have a significant impact on managerial decisions and opportunism which can consequently have an impact on financial decisions as well as the value of the firm. Nonetheless, the use of debt can also assist in reducing the agency costs. According to Naser (2009), Modigliani and Miller's (MM's) proposition without corporate taxes states that the value of a levered firm is equal to the value of unlevered firm and his proposition with corporate taxes argues that the value of a levered firm is higher than the value of unlevered firm. However, (Rahman, 2010) holds that as the debt increases, the bankruptcy cost of the firm also increases which occurs due to inability of the firm to pay off its debt from earnings. The firm therefore needs an optimal capital structure because ownership structure may not be adequate in reducing agency problem. MM's proposition with personal tax shows that if personal tax rate on interest income is greater than the personal tax rate present value, interest tax shield will be less. Ganguli (2013) noted that leverage is used by lenders and shareholders as a disciplinary mechanism of monitoring the actions of the managers. Consequently, owners may increase

leverage in order to reduce the agency costs. Further, (Bokpin at el, 2013) argue that few studies have focused on the relationship between ownership structure and leverage especially in emerging markets. Therefore, this study aimed at evaluating the relationship between ownership structure and leverage of firms listed at the Nairobi Securities Exchange.

1.3 Main Objective of the study

To evaluate the relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange.

1.3.1 Specific Objectives of the study

i. To evaluate the relationship between state ownership and leverage of firms listed in the Nairobi Securities Exchange

ii. To determine the relationship between private ownership and leverage of firms listed in the Nairobi Securities Exchange

iii. To determine the relationship between foreign ownership and leverage of firms listed in the Nairobi Securities Exchange

iv. To evaluate the relationship between institutional ownership and leverage of firms listed in the Nairobi Securities Exchange

1.4 Hypothesis of the study

H_{01}: There is no statistical significant relationship between state ownership and leverage of firms listed in the Nairobi Securities Exchange.

H_{02}: There is no statistical significant relationship between private ownership and leverage of firms listed in the Nairobi Securities Exchange.

H_{03}: There is no statistical significant relationship between foreign ownership and leverage of firms listed in the Nairobi Securities Exchange.

H_{04}: There is no statistical significant relationship between institutional ownership and leverage of firms listed in the Nairobi Securities Exchange.

1.5 Scope of the study

This research was meant to study the relationship between ownership structure and leverage of firms that have been consistently listed in the Nairobi Securities Exchange for a period of seven years from 2006 to 2014. The study targeted 44 firms whose annual financial reports for nine years were used to draw conclusions on the study objectives. The study focused on NSE listed companies considering the availability of up to date data that facilitated the

success of the study. In addition, NSE was considered due to the vibrancy of stock exchange activities which made it appropriate as the study area.

1.6 Justification of the study

Leverage is one of the most important aspects that every organization needs to pay a lot of attention to. Since it is used to finance the operations of the firm, it therefore greatly affects the levels of returns in a firm. The level of leverage can be influenced by ownership structure either positively or negatively. Most studies have been done on leverage and financial performance both locally and internationally but very little has been done on Ownership Structure and Leverage in Kenya.

1.7 Significance of the study

Ownership structure and leverage are important aspects in every organization especially when it comes to decision making. This study is therefore important in that it will enable organizations and investors to know whether there is a significant relationship between ownership structure and leverage thus have a clear understanding on how to approach this aspect. The study will be significant to upcoming researchers who may be interested in conducting similar or related studies in different academic contexts. This is due to the fact that the findings of this study will form part of rich literature that will be considered significant in developing theories on ownership structure and leverage.

1.8 Limitation and delimitation of the study

This research was based on firms that have been consistently listed in the Nairobi Securities Exchange from 2006 to 2014. This was considered a limitation because some firms which have not been consistently listed were eliminated therefore reducing the sample size and compromising the generalization effect. To this effect therefore, the period of research was quite long in order to increase the sample size to allow generalization of results. The study used secondary data which majorly based on published annual financial reports. As a result, the study was limited to the use of historical data. Therefore there was use of most current data. Furthermore, the time period for the research was not adequate bearing in mind the data analysis procedure. The study employed effective time management measures to ensure the completion of this research within reasonable time.

1.9 Operational definition of terms

Agency relationship   Agency relationship is the relationship that exists between the principals of a company and the agents of the company

Firm age   This is the number of years that a given firm has been in existence

Foreign ownership   Foreign ownership is the percentage of shareholding held by foreigners

Institutional ownership   Institutional shareholding is the percentage of shareholding held by institutions.

Leverage   Leverage refers to the extent to which firms make use of their money borrowings (debt financing) to increase profitability

Ownership structure   Ownership structure is the distribution of equity with regard to votes and share capital and also by the identity of equity owners

Private ownership   Private ownership is the percentage of shareholding held by the private individuals

Profitability   This is the amount that a company gets after deducting all its expenses from its gross income

State ownership   State ownership is the percentage of shareholding held by the state /the government

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a literature review on the study of the relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange. It presents a review on the stock market, ownership structure, leverage, agency theory, Modigliani & Miller theory, trade-off theory and the pecking order theory as well as the empirical review of the study. It also presented the theoretical framework and conceptual framework that supports the study.

2.2 Stock Market

According to Furgang (2010), a stock market is a platform where stocks are bought and sold. The term stock market is a term used to describe the totality of stock within a given economy. It is a corporation or a mutual organization which provides trading facilities for traders and members of the public to either buy or sell securities. Mbaru (2003) contends that an exchange provides a facility for its members to trade securities and it is only restricted to members. Membership in the exchange is valuable since it enables firm to trade their shares freely to the general public. Stock markets often function as continuous auction markets, with buyers and sellers consummating transactions at a central location, such as the floor of the exchange.

Securities traded on a stock exchange include stock issued by listed companies, unit trusts, derivatives, pooled investment products and bonds. Stock markets furthermore provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends (Marcus, 2000). A stock is a partial ownership of a company. The partial ownerships are also called shares. When one owns shares of a company, he is a shareholder of that company. The history of the stock market began in the late 1700s where an organized auction market trading mostly commodities on Wall Street in lower New York City (Hein and Hafer, 2006). The buying and selling of shares in a stock exchange is done only by members who are registered at the stock exchange council. The members of a stock exchange may be either brokers or jobbers. The market value of a share is the amount which appears on the hire certificate while the market value of a share is its price at the stock exchange (Rwabutoga, 2005).

Over time, there has been prove that stock markets with the presence of financial intermediaries have contributed to the world's economic growth and development considering the positive effects that have been brought by it (Seetanah, 2008). However, during the twentieth century, there were two major stock market crashes. The first occurred in 1929 when the United States stock market lost more than one-third of its value. The second transpired in 1987 when stocks fell in value by almost one-third again. Both events are two of the most dramatic examples of risk that stock investors incur (Radcliffe, 1997).

2.3 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) was established in 1954 as an overseas stock exchange through the London Stock Exchange and has played an important role in the Kenyan economy. In 1990, a trading floor and secretariat was set up. The Nairobi Securities Exchange is regulated by the Capital Markets Authority (CMA), which was established in 1989. NSE 20-share index was established in 1966 & was managed by Dyer and Blair Ltd. It is made up of two types of markets which include the primary market where initial public offers (IPOs) are sold and the secondary market where already trading shares are sold (Hein and Hafer, 2006).

There have been a number of changes in the Nairobi securities exchange over the past decade which include automating it's trading in 2006 and 2007.This has enabled traders to trade from wherever they are without having to present themselves physically on the trading floor. Trading hours were also increased from two to six. Nairobi Securities Exchange together with Uganda securities exchange and Dareslaam stock exchange memorandum of understanding led to formation of east Africa securities exchange in 2006 (NSE, 2007). Nairobi Securities Exchange aims at supporting trading settlement of equities, debt derivatives and other associated instruments. It is mandated to list companies on the securities exchange and enables investors to trade in securities of companies thus its charged with the health of Securities Exchange (Komla and Yartey, 2007)

The basic function of a stock exchange is the raising of funds for investment in long-term assets. While this basic function is extremely important and is the engine through which stock exchanges are driven, there are also other quite important functions which include mobilization of savings for investment in productive enterprises as an alternative to putting savings in bank deposits, purchase of real estate and outright consumption. It also encourages the separation of the owners of capital from the managers of capital; a very important process

because owners of capital may not necessarily have the expertise to manage capital investment efficiently. Facilitation of equity financing as opposed to debt financing is also another function of the Securities exchange. Debt financing has been the undoing of many enterprises in both developed and developing countries especially in recessionary periods (Mbaru, 2003).

2.4 Ownership Structure

Rubach (1999) argued that an organization's ownership structure is a major element of its corporate governance. He further states that ownership structure is the distribution of equity with regard to votes and share capital and also by the identity of the equity owners. According to Jensen and Meckling (1976), these structures are so important in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage. Ownership structure is measured by the percentage of shares held. Zhuang (1999) suggests that ownership structure is one of the most important factors in shaping the corporate governance system of any country due to the fact that it is the determinant of the nature of the agency conflict that might exist.

Ongore (2011) broadened the ownership identity in his study to incorporate diverse ownership and ownership by managers. Lee (2008) classifies ownership structure into two; ownership concentration and ownership identity. He defines ownership concentration as the manner in which shares owned by the majority shareholders are distributed. This varies from one firm to another. Ownership identity is `basically about majority shareholders and who they are. These are those who have the ability to influence decision making. They are mainly classified into foreign versus domestic investors and institutional investors (Lee 2008). State ownership has been of much interest by many scholars looking at comparative performance between states versus private ownership structure (Young & Kang, 2008).

Djakov (2001) also classified owners as management, employees, the state, and local outsiders. La Porta et al (1999) further categorized ownership as that which is widely held, family owned, state owned, and that which is controlled by corporations. Charkham (1995) classified owners as pension funds, foreign, legal persons in public law, mutual funds, miscellaneous, corporations, banks, private persons and insurance companies. Murugan and Suresh (2014) observed many of the same classifications, but also classified owners as majority owners, minority owners as well as long-term owners.

Chen et al (2009) suggests that state ownership is when ownership of a resource is vested in the state, or any major branch of the state. He also argues that previous studies have failed to identify the nature of the state share, and if the nature of state ownership is ignored, the real impact of the state shareholders will be obscured. Shleifer and Vishny (1994) suggested that direct state ownership is often associated with the pursuit of political objectives at the expense of other stakeholders in the firm. Most studies have found that state owned firms do not better serve the public interest. One particular distinctive characteristic of many transition economies is that the state has privatized state owned enterprises (SOEs), but has retained an ownership stake in some firms (Djankov and Murrell 2002). While partial state ownership may enhance the investment opportunities available to the firm, empirical evidence suggests that it generally exacerbates agency problems and impairs firm performance.

Private owned firms can be classified into two types, which are founding-family controlled firms that are ultimately controlled by entrepreneurs and go public through initial public offers, and non-founding-family controlled firms that are transformed from former SOEs and go public through mergers and acquisitions. It is argued that the incentive structure of founding-family firms may differ from that of non- founding-family firms (Demsetz and Lehn, 1985). Private ownership is a situation in which a company is owned by private shareholders. It is being owned by a private individual or organization, rather than by the state or a public body. Private ownership should generally be preferred to public ownership and the incentives to innovate and to contain costs must be strong. Private ownership is a crucial source of incentives to innovate and become efficient (Djankov and Murrell 2002).

When institutions have a large percentage of shareholding, it is referred to as institutional shareholding. A considerable body of research has focused on the role of institutional investors as corporate monitors. The rationale is that due to the high cost of monitoring, only large shareholders such as institutional investors can achieve sufficient benefits to have an incentive to monitor (Shleifer and vishny, 1994). Institutions' use of their ability to influence corporate decisions is partially a function of the size of their shareholdings. If institutional investor shareholdings are high, shares are less marketable and are thus held for longer periods. In this case, there is greater incentive to monitor a firm's management. However, when institutional investors hold relatively few shares in a firm, they can easily liquidate their investments if the firm performs poorly, and therefore have less incentive to monitor (Zhuang, 1999).

Lee (2008) proposed that where foreign owners have 50 percent and above shareholding in Indian firms is a comparatively recent phenomenon. They also gain the ability to block both ordinary and special resolutions which may be sponsored by other shareholders and which could be detrimental to foreign firms' interests. They implement ordinary resolutions without the need for recourse to the votes of other sympathetic supporters. Economists generally attribute the rise in foreign investment to comparatively favorable returns on investments relative to risk, a surplus of saving in many areas of the world. Holderness (2009) suggests that better overlap between control and ownership should indeed lead to a reduction in conflicts of interest resulting into higher firm value. The kind of conflicts that might exist includes conflicts between the shareholders and the managers, lenders and shareholders or between the shareholders and the government. In the study conducted by (Zhuang, 1999), it was reported that when ownership of a company is concentrated, large shareholders would play an important role to monitor the management. This therefore means that the shareholders who hold a large percentage of share capital are the ones who influence decision making in any given organization. Ownership composition defines who the shareholders are and who among them belongs to the controlling groups. Ownership is classified into different forms including state ownership, foreign ownership, private ownership, institutional ownership.

2.5 Leverage

Periasamy, (2009) defines leverage as the extent to which firms make use of their money borrowings to increase profitability. He also defines leverage as the employment of funds obtained at a fixed charge and thus the ratio of long term debt to total funds employed. Leverage is viewed as a result of events that determine companies' source of financing to run the business. An entity whose exposure to risky assets exceeds its equity capital is said to be leveraged. Higher leverage magnifies market risk and liquidity risk as leveraged firms may be forced to sell assets in order to reduce exposure under adverse market conditions. Debt constrains managerial expropriation by imposing fixed obligations on corporate cash flow in situations in which default on debt would deprive managers of control and related benefits (Jensen & Meckling 1976, Jensen 1986, Jensen 1989) .

Khan and Jain (2007) argued that there are three types of leverage that is, operating leverage, financial leverage and combined leverage. Financial leverage is related to the financial activities of a firm. It results from the presence of fixed financial charges such as interest on debt and dividend on preference shares. Financial leverage may be favorable that is, when a

firm earns more on the assets than the cost of debt or unfavourable when the firm earns less than the fixed cost or return payable on funds. The operating leverage has its effect on operating risk and it is measured by the percentage change in earnings before interest and tax (EBIT) due to percentage change in sales. When financial and operating leverage are combined, they result into combined leverage.

Spitzer (2007) argues that book values are used to measure leverage and not market values, which already reflect market expectations. Leverage is measured by two alternative measures of leverage: the debt to total asset ratio (D/TA), where total debt is the sum of a company's current liabilities and its `long-term debt and total assets are the sum of fixed assets and current assets. Another measure of leverage is the debt to equity ratio (D/E)), in which the denominator includes debt and shareholder equity, but excludes all non-financial liabilities.

Bhargava (2008) suggests that there are several factors that affect leverage. The first factor is tangibility. Wentges (2008) argue that fixed assets, which are easier to collateralize, reduce the agency costs of debt. There are several factors that affect leverage of a firm which include the following: First is the firm size which is used to determine the probability of default which is lower in large firms. Firm size is one of the determinants of leverage. Large firms therefore have easy access to credit as compared to small firms (Rajan and Zingales 1995). This is because large firms are capable of decreasing transaction costs by being issued long-term debt at a favorable low interest and also it is easier for large sized firms to raise funds from creditors (Qureshi et al, 2012). Size is measured by the natural logarithm of total assets. This state of affairs has made researchers admit that firm size is correlated with leverage. As firm size increases, fixed costs become relatively less important and thus expected waiting times between refinancing are shorter and leverage at refinancing is closer to the no-fixed-cost case. (Rajan and Zingales, 1995)

Secondly, profitability also determines a firm's leverage. This is the amount that a company gets after deducting all its expenses from its gross income. The pecking-order theory suggests that highly profitable companies tend to reduce their external funding which at the end signals to creditors that they have low bankruptcy risk (Sheikh and Wang, 2011). In other cases, profitable firms can be issued debt at low rates of interest since they are seen as less risky by the creditors. Furthermore, profitable firms are able to generate large earnings and

use a lesser amount of debt capital than firms that make little profit (Mazur, 2007, Abor, 2005).

Firm age is the third determinant of leverage. This is the theoretical prediction of the number of years that a firm has been in existence. Younger firms have a shorter history and therefore have a difficulty communicating their quality to investors. The younger a firm is, the lower is its propensity to acquire external capital and on the other hand, the older the firm is the higher is its propensity to acquire external capital (Hoff, 2012). According to Carreira and Silva (2010), start- up firms in particular finds themselves financially constrained.

2.6 Theoretical Review

Theoretical review presents the theories that are linked to the study of the relationship between ownership structure and leverage of firms listed in the NSE. The theories include: Modigliani and Miller theory, agency theory, trade off theory as well as the pecking order theory.

2.6.1 The Modigliani and Miller Theory

Pandey (2010) argues that a levered firm is one that finances its assets by equity and debt. MM's hypothesis that a firm's value does not depend on its debt policy is based on the critical assumption that corporate income taxes do not exist. The total market value of firms that belong to the same risk class is independent of the debt mix and is given by capitalizing the expected net operating income by capitalization rate appropriate to that risk class. The arbitrage argument states that firms of same risk class have similar type of assets and therefore similar value which is not affected by their financing decisions (Nikbakht, 2006).

In reality, corporate income taxes exist and interest paid to debt holders is treated as a deductible expense. The value of a levered firm is the sum of value of equity and value of debt. A levered firm has a high value as compared to an unlevered firm as a result of deductibility of interest charges for tax computation. Interest tax shield is a cash inflow hence valuable to the firm and these cash flows are less risky as compared to the firm's operating income which is subject to business risk (Pandey, 2009). According to Sheeba (2011), most of the tax structures in most nations are differential to debt and equity. The interest paid on debt is treated as an expense and therefore reduces the taxable profit of the firm. With increased leverage, there exists an advantage to the company that results in decrease of effective cost of capital. Moyer et al (2011) suggests that capital structure of a firm is as a

result of the firm's trading off, the advantages arising out of increased leverage in the form of low cost of debt and a debt tax shield against the potential financial distress that may arise as a result of increased debt.

Brigham and Houston (2013) suggests that at lower cost of debt, the firm increases the amount of debt and as a result, the bankruptcy cost of the firm increases thus the equity owner's demand more return to compensate such high risk. Higher equity financing as compared to debt financing is therefore the most appropriate. Increase in cost of equity therefore compensates the decrease in cost of debt resulting to zero effect on the value of the firm.

2.6.2 Agency Theory

Funk (2003) proposed that the separation of ownership and control allows managers, the agents to consume the firm's resources to their own personal benefit and to the detriment of external shareholders, the principals. Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns (Berle & Means 1932, Pratt & Zeckhauser 1985). Agency theory addresses the relationship where in a contract 'one or more persons (the principal(s)) engage another person (the agent(s)) to perform some services on their behalf which involves delegating some decision making authority to the agent (Jensen and Meckling, 1976).This comes in as a result of the separation of management and ownership, when the shareholders of the company or the board of directors have to employ managers to run the business on their behalf and need to monitor their performance to ensure they act in the owner's interest. The major agency relationships in business are those between shareholders and managers and between debt holders and shareholders. As a result of these relationships, there exist agency conflicts. The agency theory is basically concerned with agency conflicts between managers and shareholders or lenders and shareholders. Alchian and Demsetz (1972) argued that monitoring the performance of individual work effort is always a cost of any firm and organizational inefficiencies are created when the flow of information on individual performance is decreased or blocked. This can happen if there are large teams, unmonitored professionals, or executives of corporations who act autonomously.

Jensen and Meckling (1976) reported that the main concern of agency theory is how to engage in agreements whereby the performance of agents can be measured and incentivized for them to act in a manner that goes hand in hand with the interests of the shareholders.

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Lenders are the people or organizations that lend money to other people or organizations. Before they lend money they do an analysis of the shareholders capital structure, the risk level of the firm's existing assets, expectations about the riskiness of the asset additions and expectations about future capital structure. Conflicts between shareholders and debt holders arise as a result of differences in the choice of projects to take and in determining how these investment decisions will be financed, the sale of assets which have been used as a collateral, high levels of dividends paid out, when shareholders exceed their borrowing power as well as withholding information that may injure firm's performance in the market (Damodaran, 1997). The higher the level of debt the higher the risk and therefore an increase in debt is directly related to an increase in risk of bankruptcy.

The lenders may take special steps to protect themselves by including protective covenants in bond agreements (Brayshaw, 1995). Some of these covenants include restrictions on the nature of investments shareholders should undertake, restrictions on the amounts of dividends that should be paid out a protective put and restrictions on further borrowing unless there is a minimum asset backing. This allows a bondholder to return the bonds to the issuer before maturity and receive the face value. The other mitigation is that lenders insist on taking equity stocks in the companies. Covenants reduce a company's flexibility to a greater extent. Covenants often require financial conditions to be maintained. It is the cheapest way of limiting conflicts of interest between shareholders and bondholders, and must be taken seriously since a broken covenant can lead to default (Damodaran, 1997).

2.6.3 Trade-off theory

As a result of Modigliani and Miller's provocative irrelevance propositions, Myers (1972) came up with the static trade off theory of capital structure. The theory states that a firm's optimal debt ratio is viewed as determined by a trade -off between the costs and the benefits of borrowing, holding the firm's assets and investment plans constant. Baker & Powell (2009) argues that static trade off theory states that companies with larger portion of tangible assets are likely to have a higher debt to equity ratio. Firms which highly depend on growth opportunities and intangible assets tend to have high costs of distress. Firms that experience high levels of business risk are not sure of generating enough income to utilize their debt tax shield and therefore issue less debt.

Mohapatra (1999) suggested that leverage is an advantage to shareholders as long as they are rewarded up to the point where tax benefit deductibility of interest offsets potential

bankruptcy costs. The trade-off theory consists of two parts: Static trade off theory and dynamic trade- off. Static trade off- theory suggests that firms select an optimal capital structure that balances the advantages and disadvantages of using debt and equity. Goldstein et al (2001) observed that dynamic trade- off theory suggests that firms may move away from their target capital structure adjusting leverage only when it strays beyond extreme bounds due to fixed cost of issuing equity. Dynamic trade-off models can be used to consider the option values embedded in deferring leverage decisions to the next period. A firm with low leverage today has the subsequent option to increase leverage. Under their assumptions, the option to increase leverage in the future serves to reduce the otherwise optimal level of leverage today.

Martin & Baker (2011) argues that trade off theory does not put into consideration the realities of capital markets such as the aggressive use of debt in leverage buyouts, hostile takeovers and restructuring and use of debt as a signal for higher values of the firm. Jensen (1986) states that firms have optimal capital structures which they determine by trading-off the costs against the benefits of the use of debt and equity.

2.6.4 The Pecking Order Theory

The Pecking Order theory was formalized by Mayers (1984). He holds that firms finance their operations in a hierarchy starting with internal funds followed by debt issuance and lastly by issuance of equity. Equity issuance is the last resort simply because managers do not want to dilute the shareholding of the firm. Powell & Baker (2009) argue that the pecking order theory of capital structure states that a firm prefers to be at the top of the pecking order where the firm relies on internal financing. This firm is said to have financial slack which can have great value to a firm. A firm that is near the bottom of pecking order may choose to pass some positive NPV projects if the firm has to sell equity to finance these projects at a price less than what managers think is fair.

Famma& French (2004) suggested that when it comes to profitability, firms prefer internal financing as compared to taking up new debt or equity. Profitable firms proved to be less levered as compared to non-profitable firms. Goyal (2003) held that large firms tend to accumulate debts in order to support and keep up with the payments of dividends while small firms tend to behave in opposite behavior. Firms that have a high potential of growth choose to use less long term debt with less restrictions from the lenders in order to allow high level of financial flexibility (Wu, 2004).

Fama and French (2004) holds that firms raise more capital via methods that potentially suffer less from an adverse selection problem like mergers and options than they raise through SEOs. Adverse selection costs affect financing choices and therefore firms issue equity in ways that are potentially less prone to adverse selection costs. Powell & Baker (2009)argue that the more profitable a firm is, the greater is its capacity to accumulate retained profits, and so there is less need to turn to external finance. When internal finance is exhausted, firms prefer debt rather than external equity for funding growth opportunities, which are associated with a greater risk. Myers (2001) reports that external finance covers only a small proportion of capital formation and that equity issues are minor, with the bulk of external finance being debt.

2.7 Empirical Studies

Avulamusi (2013) studied the relationship between ownership structure and financial performance of commercial banks in Kenya. The purpose of the study was to determine the relationship between ownership structure and the financial performance of commercial banks in Kenya. The study used descriptive research design. It sampled 20 commercial banks drawn from the different ownership identities. Data was collected from secondary sources such as the annual reports of the Central Bank of Kenya, the Kenya Banking Survey 2013 and annual reports of the individual commercial banks. The data was then analyzed using the SPSS and the correlation regression and multicollinearity of the data together with their tests of significance were presented. Findings of the study showed a positive relationship between foreign ownership and the different parameters of financial performance. This finding, consistent with earlier findings showed high monitoring capabilities of foreign owners and efficiency. Government ownership showed a negative relationship with asset quality, earnings quality and management efficiency indicating laxity in prudent credit management practices and also inefficiency of operations and poor returns. Institutional ownership on the other hand showed a positive relationship with most of the parameters with an exception of some commercial banks. This brought out the negative relationship of block holders with very high shareholding to financial performance. Such block holders were characterized by unopposed unfavourable decisions by management. Individual ownership on the other hand showed a negative relationship with earnings quality indicating the laxity among individual owners to monitor since their interest was mainly on diversification of risk. Based on the findings of the study, it was recommended that government and individual owners need to increase their monitoring capability. Individual owners need to make qualified decisions in

their investments and government should step up to improve their credit management and ensure higher returns in their investments by working on the quality of their earnings and efficiency.

Ongore (2011) studied the implications of firm ownership identity and managerial discretion on financial performance with empirical evidence from Nairobi Stock Exchange. The purpose of the study was to find out the interrelationships between ownership identity and managerial discretion, and their impact on financial performance. Pearson's Product Moment Correlation and Logistic Regression were conducted on SPSS. A census approach was used, and thus the sampling frame consisted of all listed firms in Kenya. Using the Nairobi Stock Exchange Handbooks (2006, 2008), 54 firms were on the roll, out of which six had not compiled their financial reports for the relevant period of study. Another six failed to take part in the study. The final sample therefore, consisted of forty-two firms, representing about 78 percent response rate. The sample comprised four firms from the Agricultural sector (9.5%), seven from Commercial Services (16.7%), ten from Finance and Investment (23.8%), fourteen from Industrial and Allied (33.3%), and seven from Alternative Investment Market (16.7%). The results of ownership identity were analyzed based on five elements: government; foreign; institution; diverse; and manager (insider). The findings of the study showed the interrelationships between ownership identity and managerial discretion, and their impact on financial performance as measured by ROA, ROE and DY. State ownership of firms was particularly indicted for poor stewardship, whereas foreign, insider, diverse and institutional ownership gave the best results. The results also showed significant positive relationship between managerial discretion and performance.

Huda and Nayeem (2013) carried out a study on the relationship between ownership structure and dividend policy on Chittagong Stock Exchange. The purpose of the study was to examine whether there is any relationship between ownership structure and dividend policy of the selected companies listed in the CSE-30 index and if so, determine to what extent such a relationship is significant in influencing the dividend policy of a firm. This study attempted to do so, by using a set of cross-sectional time series data of 21 highly traded blue-chip companies listed on the CSE-30 index over the period 2006-2010. The dividend per share of the firms for the various years was studied in relation to board ownership and institutional ownership, while controlling for leverage, return on equity (ROE) and firm size. A hierarchical multiple regression and correlation analysis were conducted to arrive at the results. It was found that board ownership has a significant positive effect whereas,

institutional ownership showed a significant negative effect on the dividend per share. ROE showed a significant positive effect and leverage had a significant negative effect on the dividend policy of a firm.

Mang'unyi (2011) studied ownership structure and corporate governance and its effects on performance using a case of selected banks in Kenya. The purpose of the study was to establish the effects of ownership structure and corporate governance on performance. A survey design was used. The population of the study comprised of banks within Nairobi City in Kenya. Stratified sampling was employed to select the banks. A total of 40 bank managers drawn from state-owned, locally-owned and foreign-owned banking institutions selected through purposive sampling procedure participated in the study. The stratification of the sample allowed for diversity of views and statistical analysis. A semi structured questionnaire consisting of both closed and open-ended questions was used. The questionnaire was personally administered to the bank managers to collect primary data from the selected banks. Descriptive ways of Statistical Package for Social Sciences (SPSS) were used to analyze the data into frequencies and percentages. One-way Analysis of Variance (ANOVA) was used to test the hypotheses. The study revealed that there was no significant difference between type of ownership and financial performance, and between banks ownership structure and corporate governance practices. Further results revealed that there was significant difference between corporate governance and financial performance of banks. However, foreign-owned banks had slightly better performance than domestically-owned banks.

Rokwaro (2013) studied the effects of ownership structure on bank profitability. The purpose of the study was to investigate the effects of ownership structure on bank profitability in Kenya. Primary data was obtained through questionnaires that were structured to meet the objectives of the study. According to the central bank of Kenya, there were 43 licensed commercial banks in Kenya. Data was obtained for a five year period from 2007 to 2011. The study used annual reports that were available from their websites and in the Central bank of Kenya website. The study used a descriptive study design. The findings of the study were that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. The study concluded that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and domestic ownership lead to higher profitability in commercial banks.

Lins and Lemmon (2001) carried out a study on ownership structure, corporate governance and firm value with evidence from the East Asian financial crisis. The purpose of the study was to find out the effect of ownership structure on firm value during the East Financial crisis that began in July 1997. Using data from over 800 firms in eight East Asian countries, he found out that the crisis represented a negative shock to the investment opportunities of firms in these markets that raises the incentives of controlling shareholders to expropriate minority shareholders. Moreover, the large separation between cash flow and control rights that often arise from the use of pyramidal ownership structures and crossholdings in these markets suggests that insiders have both the incentive and the ability to engage expropriation. Tobin's Q ratios of those firms in which minority shareholders were potentially most subject to expropriation decline of twelve percent more than Q ratios in other firms during the crisis period.

Ntoiti (2008) carried out a study on the relationship between ownership structures and dividend policy in the oil marketing industry in Kenya. The purpose of the study was to establish the relationship between ownership structures and dividend policy, with particular reference to oil companies in Nairobi Kenya. The target population of the study was all the 38 oil marketing companies in Nairobi registered by Petroleum Institute of East Africa as at December 2008. Secondary data was derived from the companies' audited financial statements and reports for 5 years from 2006 to 2010. Descriptive research design was adopted. The study further used census to collect the information where by all the 38 oil companies were studied. The study employed quantitative data analysis techniques; univariate, descriptive statistics, chi square test respectively were done using SPSS software. The findings of the study showed that state ownership, private ownership and public ownership were positively related with dividend policy, whereas the institutional and managerial ownership structures were found to be negatively related. The findings also provide partial evidence that the ownership structure does not influence dividend payout policy uniformly.

Fiske (2007) carried out a study on ownership structure and the leverage of listed firms in China. In the study the relationship between leverage, performance and a firm's ownership structure was investigated. The most significant result was that foreign holdings were found to have a significant relationship with the leverage of listed firms in China. Whereas, somewhat unexpectedly, institutional ownership, through Legal Person holding companies,

state ownership and private holdings were not found to have a significant relationship with the capital structure choices of firms in China. Various tests were used to check for normal distribution, heteroscedasticity, correlation and multicollinearity. The variables were relatively normally distributed and a Pearson Correlation test indicated that state and legal person ownership were highly correlated at 84.98%. As state ownership and legal person ownership were highly correlated, the regressions were run separately for these variables. Collinearity tests showed no significant multicollinearity.

Bruslerie and Latrous (2012) carried out a study on ownership structure and debt leverage on French firms. A sample of 112 firms listed at the French stock market for the period from 1998 to 2009 was tested. They tested the hypothesis of a non-linear relationship between leverage ratios and controlling shareholders' ownership. They used panel data regression analysis. It supports an inverted U-shape relationship between shareholders' ownership and leverage. At low levels of ownership, controlling shareholders use more debt in order to inflate their stake in capital and to resist unfriendly takeovers attempts. When ownership reaches a certain point, controlling shareholders' objectives further converge with those of outside shareholders. Moreover, financial distress will prompt controlling shareholders to reduce the firm's leverage ratio. Empirically, it was shown that the inflection point where the sign of the relationship between ownership and debt changes was around 40%.

Driffield et al (2007) carried out a study on the effect of ownership structure on capital structure and firm value among listed non-financial companies in Indonesia, Korea, Malaysia and Thailand (East Asia). They argued that the effects of separation of control from cash flow rights on capital structure and firm value also depend on the separation of control from management as well as on legal rules and enforcement defining investors' protection. Data used for this analysis came from two sources. Firm-level accounting data from 1994 to 1998 extracted from World scope were matched with 1996 ownership data for those firms described in CDFL. He did not directly observe the managerial shareholding in the data, but captured the presence of a controlling manager using the Cronyman variable in the data. A high correlation between the presence of a Cronyman and family ownership in their samples indicated a close correlation between owners and managers of a family firm. The existing literature suggested that efforts to minimize managerial opportunism and moral hazard play an important role in determining how ownership structure could affect capital structure and firm valuation.

Al- Najjar& Taylor (2008) studied the relationship between capital structure and ownership structure with evidence from Jordanian panel data. The purpose of the study was to investigate the comparatively under-researched relationship between ownership structure and capital structure in an emerging market. A sample of 86 non-financial Jordanian firms was used. The data set was therefore composed of a panel of 86 firms observed over a period of ten years. The study applied econometrics modeling using both single equation and reduced equation models for panel data. The results demonstrated that Jordanian firms follow the same determinants of capital structure as occurred in developed markets, namely: profitability, firm size, growth rate, market-to-book ratio, asset structure and liquidity. In addition, institutional ownership structure was found to be determined by: assets structure, business risk (BR), growth opportunities and firm size. Finally, the results revealed that asset tangibility, firm size, growth opportunities and bank ratios (BR) were considered to be joint determinants of ownership structure and capital structure.

Qigui et al (2011) studied the effect of ownership structure on leverage with evidence from Chinese listed firms. The purpose of the study was to examine the effect of state control and ownership structure on the leverage decision of firms listed in the Chinese stock market. A sample of 1,111 firms was used in the study. Data used in the study was gathered from the China Stock Market, Accounting Research Database (CSMAR), the University of Hong Kong and the China Centre for Economic Research Database (CCER).This study used four different measures of capital structure for the dependent variables: total debt ratio (TDR), short-term debt ratio (STDR), long-term debt ratio (LTDR) and bank ratio (BR). Descriptive statistics was used for data analysis. The findings of the study showed that state-owned enterprises (SOEs) have higher leverage ratios than non-SOEs, and SOEs in regions with a poorer institutional environment have higher leverage ratios than SOEs in better regions. They also found out that the largest shareholding in the SOEs has a negative relationship with the leverage ratio, while the largest shareholding in non-SOEs has a non-linear relationship with the short-term and long-term debt ratios. Finally, the study also showed that the share split reform and the improvement of institutional environment both weaken the negative relationship and strengthen the positive relationship between largest shareholding and leverage of SOEs and non-SOEs to some extent.

Ang et al (2000) studied the relationship between agency costs and ownership structure. The purpose of the study was to find out how ownership structure affects agency costs. They used

a sample of 1708 small corporations from the Federal Reserve Board's National Survey of Small Business Finances data base in February 2004. They measured agency costs by the ratio of annual sales to total assets and the ratio of operating expenses to annual sales. The findings showed that agency costs are significantly higher when an outsider rather than an insider manages the firm. They also found out that agency costs are inversely related to the manager's ownership share, agency costs increase with the number of non- manager shareholders and that to a lesser extent, agency costs are lower with greater monitoring by banks.

Onsomu (2014) carried out a study on the relationship between capital structure and agency costs of firms listed at the Nairobi Securities Exchange. The purpose of the study was to determine the relationship between agency costs and capital structure of firms listed at the Nairobi Securities Exchange. The study covered a target population of all companies quoted at Nairobi Securities Exchange between 1st January 2009 and 30th December 2013. The study used secondary data from Nairobi Securities Exchange. Statistical Package for Social Scientist (SPSS) was used for data analysis. Regression analysis was applied to determine the effect of capital structure on agency costs. A simple regression was used to test the main model and t-test was used as a test of significance. The findings of the study revealed that there is a positive correlation between capital structure and agency costs. Based on the findings, it was concluded that indeed capital structure determines agency costs.

Vaninsky et al (1999) studied the relationship between ownership structure and firm performance in Israel. The sample included 280 public companies traded on the Tel- Aviv Stock Exchange (TASE) during 1994. The study examined the effect of ownership structure on firm performance. The purpose of the study was to find out whether ownership structure affects firm financial performance. They distinguished between family firms, firms controlled by partnerships of individuals, concern controlled firms, and firms where block holders have less than 50% of the vote. The empirical work analyzed data on 280 Israel firms and employed the technique of Data Envelopment Analysis. It was found that owner manager firms are less efficient in generating net income than firms managed by a professional (non-owner) manager, and that family firms run by their owners perform the worst. This evidence suggested that the modern form of business organization, namely the open corporation with disperse ownership and non-owner managers, promotes firm performance.

Ochieng (2013) studied the determinants of leverage of savings and credit co-operatives in Kenya. The aim of the study was to empirically investigate the determinants of leverage of Savings and Credit Co-operative Societies (Saccos). The sample of the study included 40 Saccos registered by Sacco Society Regulatory Authority (SASRA) extended from the period 2010 to 2012. Regression model was employed for data analysis. The explanatory variables comprised of firm size, growth rate, liquidity profitability and tangibility, whereas the explained variable was the leverage ratio. The results showed that for Saccos, there were statistical significant relationships. The results from the study revealed that firm size has significant relationship with leverage at 99% confidence level, whereas liquidity and tangibility have significant relationship with leverage at 95% confidence level.

Chege (2013) studied the relationship between ownership structure and financial performance among commercial banks listed in the Nairobi Securities Exchange in Kenya. The purpose of this study was to establish relationship between ownership structure and financial performance among commercial banks listed in the Nairobi securities exchange in Kenya. The population of the study was banks listed at the Nairobi Stock Exchange. The target population was also the sample of the study which was 10 commercial banks which are listed at the NSE. The four year period data was gathered by use of a secondary data collection template. Averages and percentages were used in the study. The researcher used Statistical Package for Social Sciences (SPSS) to generate the descriptive statistics and also to generate inferential results. Regression analysis was used to demonstrate the relationship between the investment strategies and the profitability of the investment firms. Findings indicated that there is a positive relationship between Profitability and Foreign Shares, Local Retail, Debt to Equity and Share Capital as indicated by the beta coefficients. Local Corporate, showed a negative relationship. Foreign Shares were statistically significant in explaining profitability. Results indicated that a unit change in Foreign Shares, Local Retail, Debt to Equity and Share Capital led to a positive change in profitability while the inverse was the case with Local Corporate.

Ang et al (2000) studied the relationship between agency costs and ownership structure. The purpose of the study was to find out how ownership structure affects agency costs. They used a sample of 1708 small corporations from the Federal Reserve Board's National Survey of Small Business Finances data base in February 2004. They measured agency costs by the ratio of annual sales to total assets and the ratio of operating expenses to annual sales. The

findings showed that agency costs are significantly higher when an outsider rather than an insider manages the firm. They also found out that agency costs are inversely related to the manager's ownership share, agency costs increase with the number of non- manager shareholders and that to a lesser extent, agency costs are lower with greater monitoring by banks.

Maury and Pajuste (2009) carried out a study on the relationship between ownership structure and capital structures in Russia, an economy with a state-run banking sector, weak corporate governance, and highly concentrated ownership. The sample consisted of firms listed on the Russian Trading System and Moscow Interbank Currency Exchange during the period 2000 to 2004. The firms that had been delisted or introduced during the period were included. A sample of 95 firms with 368 firm observations was used. Leverage was measured by total debt to total equity ratio and total debt to total asset ratio ownership structure was measured by the percentage of shareholding. Descriptive statistics and regression analysis were used for data analysis. The study found out that firms with the state as controlling shareholder have significantly higher leverage than firms controlled by domestic private controlling shareholders other than oligarchs. Both firms controlled by the state or oligarchs finance their growth with more debt than other firms. Profitability is negatively related to leverage across all types of controlling owners indicating a preference for internal funding over debt. The results indicated that firms with owners that have political influence or ties to large financial groups enjoy better access to debt.

Lippert (2013) carried out a study on ownership concentration and financial performance of listed firms in Kenya: An Econometric Analysis Using Panel Data. The purpose of the study was to establish the effect of ownership concentration on financial performance of firms listed at the Nairobi Stock Exchange for the period 2007 to 2011. They used panel methodology comprising 53 listed firms. Data was analyzed using descriptive statistics, correlation analysis and pooled multiple regression analysis. The study findings revealed that on average, firms listed at the Nairobi Securities Exchange enjoy a return on equity and return on assets of about 16.5 percent. The sectors that registered the highest return on equity included insurance, commerce and construction at 20.8 percent, 19.3 percent and 20.1 percent, respectively. On the other hand, the sectors that registered relatively higher return on assets included commerce, telecommunications and manufacturing with average ROA of 23.0 percent, 20.0 percent and 25.4 percent; respectively. The study also found that the highest

ownership concentration is 96.310 %, while the lowest is 11.040%, with an average ownership concentration of 64.286 % and variability of 17.292 % implying that the percentage of shares held by those considered as large shareholders range between 96.310 % and 11.040 %, with a mean of 64.286 % and finally the results of correlation analysis revealed non-significant relationship between ownership concentration and performance of firms at the Nairobi Securities Exchange. Ownership concentration was found to be negatively related to all the three measures of performance in firms listed at the Nairobi Securities Exchange namely ROE, ROA and Tobin's Q with coefficients of -0.0005, -0.0002 and 0.0057 respectively.

2.8 Conceptual Framework

Independent variables   **Dependent variable**

```
┌─────────────────────────────┐                    ┌─────────────────────────────┐
│  Ownership Structure        │                    │  Leverage                   │
│                             │                    │  -  Debt to Equity Ratio    │
│  -  State owned             │                    │                             │
│                             │                    │  -  Debt Ratio              │
│  -  Private owned           │───────────────┐───▶│                             │
│                             │               │    │  -  Debt to Total Assets    │
│  -  Foreign owned           │               │    │     Ratio                   │
│                             │               │    │                             │
│  -  Institution owned       │               │    │                             │
└─────────────────────────────┘               │    └─────────────────────────────┘
                                               │
                                ┌──────────────┴──────────────┐
                                │   -  Firm size              │
                                │   -  Firm profitability     │
                                │   -  Firm age               │
                                └─────────────────────────────┘
                                      Control Variables
```
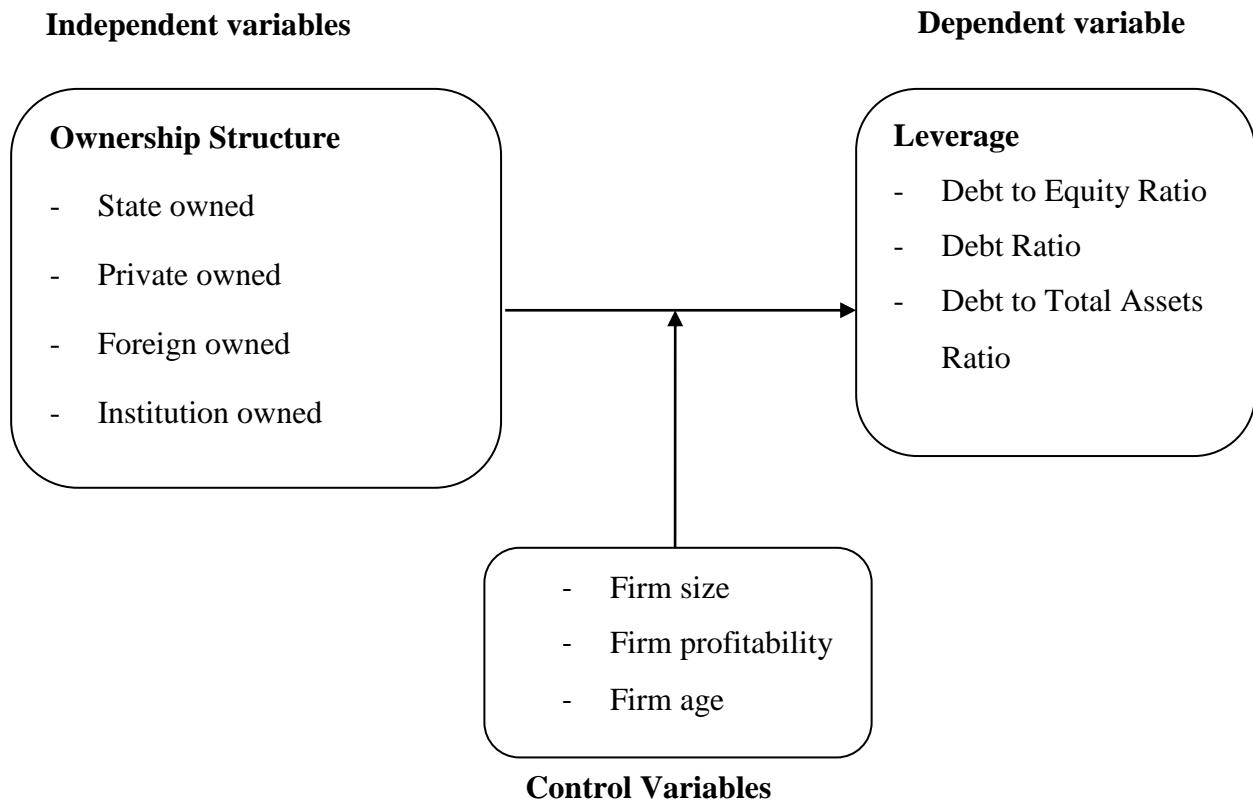
Figure 1: Conceptual Framework

Source: Literature review

The conceptual framework above represents the relationship between the independent variables and the dependent variable under study. The framework has been formulated from general and specific objectives of the study. It therefore highlights the relationship between a firm's ownership structure and leverage. By this, the framework has been used to present the key variables under ownership structure including state owned, private owned, foreign and institutional owned companies with regard to their listing in the NSE. Consequently, the dependent variable, that is leverage, has been characterized by a firm's debt to equity ratio, debt ratio and debt to total assets ratio. On the other hand, the various forms of ownership structure have been characterized by the percentage of shareholding. In addition, the framework has also presented control variables. They include firm size, firm profitability, and firm age of the respective companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter presents the methodology that was used to achieve the research objectives. In this regard, it contains the research design, target population, sampling and sample size. Consequently, it looks into validity and reliability of the research instrument besides data collection procedure. It also contains data processing and presentation techniques.

3.2 Research Design

This study adopted the correlation research design since it provided a basis to determine the relationship between the various variables under study. This is because Correlational study is the joint variation of two or more variables for determining the amount of correlation between the variables.

3.3 Target population

The population is an aggregate of subjects who have shared characteristics. In other words, it is a set which includes all measurements of interest to the researcher (Schoenherr&Tummala, 2007). This study targeted the 61 firms listed in the Nairobi Securities Exchange (NSE) as at December 2014. The study therefore targeted information on the published annual financial reports of the companies considered active in the NSE.

3.4 Sampling procedure and sample size

The study adopted a purposive sampling design. According to Sim and Wright (2000) purposive sampling enables a researcher to select units that will best achieve the objectives and aims of a study. The sample constituted 44 firms which have been consistently listed in the Nairobi Securities Exchange from 2006 to 2014.

3.5 Data collection

The study used secondary data to draw research findings and conclusions. By this, data on ownership structure and leverage was collected from secondary sources which majorly comprised of annual published financial statements covering the eight year (2006-2014) period. Data on leverage comprised of total debt, equity and total assets. Conversely, data on ownership structure comprised the percentage of private, government, institution and foreign

shableholding. This method of data collection was considered appropriate as it provided readily available and accurate data.

3.6 Data Analysis

The statistical method for this study was both descriptive and inferential statistics. Data analysis was done using Statistical Package for Social Sciences computer software (SPSS) version 21. Inferential statistics, that is, Karl Pearson Correlation was used to apply a one-on-one relationship between the independent variables and the dependent variable, while holding all other factors constant. This formed the basis for rejecting or accepting the null hypothesis. Correlation co-efficient (r) value that is greater than 0.5 indicated a strong relationship between the variables while r value below 0.5 indicated a weak relationship between the variables. Two tail t-test and analysis of variance (ANOVA) test were used to determine the degree of significance of the relationship. The following model was employed:

$$\mathbf{LEV_{it}} = \alpha_0 + \beta_1 \mathbf{STOWN_{it}} + \beta_2 \mathbf{PRIVOWN_{it}} + \beta_3 \mathbf{FOROWN_{it}} + \beta_4 \mathbf{INSTOWN_{it}} + \mu$$

Whereby:

LEV_{it} (Leverage)	Debt to equity ratio=LTD/E
	Debt ratio =LTD/E+LTD
	Debt to total assets ratio =LTD/TA
STOWN (State ownership)	Percentage of state shareholding
PRIVOWN (Private ownership)	Percentage of private shareholding
FOROWN (Foreign ownership)	Percentage of foreign shareholding
INSTOWN (Institutional ownership)	Percentage of shares held by institutions
α_0	Y intercept
β	Coefficient of explanatory variables
μ	Error term

Adopted and modified from Fiske (2007)

3.7 Data Presentation

The data analyzed is presented in form of tables. This will enable the readers to clearly and easily understand the relationship between ownership structure and leverage.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results and findings of the study based on the research objectives. The specific objectives of the study were: to evaluate the relationship between state ownership and leverage, to determine the relationship between private ownership and leverage, to determine the relationship between foreign ownership and leverage and to evaluate the relationship between institutional ownership and leverage of firms listed in the Nairobi Securities Exchange. The general objective of the study was to evaluate the relationship between ownership structure and leverage of firms listed at the Nairobi Securities Exchange. Regression analysis and analysis of variance was used to determine the level of significance.

Table 4.1: Descriptive Statistics of State Ownership

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
State ownership	44	0.00	70.17	0.00	0.00	4.12	3.85	15.55	1.38
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to the results in table 4.1, the minimum percentage of state ownership among the companies that were studied was 0.00 while the maximum was 70.17. The mode of 0.00 signifies that the most frequent state ownership percentage of the companies that were studied was 0.00 percent. Moreover, table 4.1 reveals that firms with 0.00 percent state ownership formed the midpoint of the sample.

Table 4.1 show that the mean of state ownership was 4.12 with a skewness of 3.85. The positive skewness indicates that most of the companies that were included in the sample had state ownership percentage of more than 0.00 percent. Furthermore, the positive kurtosis of 15.55 points out that the state ownership of the companies that were studied was distributed to the right of the mean and they were not normally distributed. The standard deviation of 1.38 indicates that the state ownership of most of the companies ranged between 3 and 6 percent.

Table 4.2: Descriptive Statistics of Private Ownership

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
Private ownership	44	1.04	59.53	1.04	20.17	20.90	0.72	0.27	15.35
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to table 4.2, the minimum percentage of state ownership among the companies that were studied was 1.04 while the maximum was 59.53. The mode of 1.04 signifies the most frequent private ownership percentage of the companies that were studied. Moreover, table 4.2 reveals that firms with 20.17 percent private ownership formed the midpoint of the sample.

Table 4.2 shows that the mean of private ownership was 20.90 with a skewness of .072. The positive skewness indicates that most of the companies that were included in the sample had private ownership percentage of more than 20.17 percent. Furthermore, the positive kurtosis of 0.27 points out that the private ownership of the companies that were studied was distributed to the right of the mean and they were not normally distributed. The standard deviation of 15.35 indicates that the state ownership of most of the companies ranged between 6 and 36 percent.

Table 4.3: Descriptive Statistics of Foreign Ownership

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
Foreign ownership	44	0.45	94.34	0.45	15.29	28.71	1.32	1.32	22.54
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to the results in table 4.3, the minimum percentage of foreign ownership among the companies that were studied was 0.45 while the maximum was 94.34. The mode of 0.45 signifies the most frequent foreign ownership percentage of the companies that were studied. Moreover, table 4.3 reveals that firms with 15.29 percent foreign ownership formed the midpoint of the sample

Table 4.3 shows that the mean of foreign ownership was 28.71 with a skewness of 1.32. The positive skewness indicates that most of the companies that were included in the sample had foreign ownership percentage of more than 15.29 percent. Furthermore, the positive kurtosis of 1.32 points out that the foreign ownership of the companies that were studied was distributed to the right of the mean and they were not normally distributed. The standard deviation of 22.54 indicates that the foreign ownership of most of the companies ranged between 6 and 51 percent.

Table 4.4:Descriptive Statistics of Institutional Ownership

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
Institutional ownership	44	1.40	82.78	1.40	52.36	49.00	-0.43	-0.67	20.74
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to the results in table 4.4, the minimum percentage of institutional ownership among the companies that were studied was 1.40 while the maximum was 82.78. The mode of 1.40 signifies the most frequent institutional ownership percentage of the companies that were studied. Moreover, table 4.4 reveals that firms with 52.36 percent institutional ownership formed the midpoint of the sample.

Table 4.4 shows that the mean of institutional ownership was 49.00 with a skewness of -0.43. The negative skewness indicates that most of the companies that were included in the sample had institutional ownership percentage of less than 52.36 percent. Furthermore, the negative kurtosis of -0.67 points out that the institutional ownership of the companies that were studied was distributed to the left of the mean and they were not normally distributed. The standard deviation of 20.74 indicates that the institutional ownership of most of the companies ranged between 28 and 70 percent.

Table 4.5: Descriptive Statistics of Debt Ratio

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
Debt Ratio	44	0.00	0.94	0.00	0.03	0.21	2.86	11.36	0.17
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to table 4.5, the minimum debt ratio among the companies that were studied was 0.00 while the maximum was 0.94. The mode of 0.00 signifies the most frequent debt ratio of the companies that were studied. Moreover, table 4.5 reveals that firms with 0.03 debt ratio formed the midpoint of the sample.

Table 4.5 shows that the mean of debt ratio was 0.21 with a skewness of 2.86. The positive skewness indicates that most of the companies that were included in the sample had debt ratio of more than 0.03. Furthermore, the positive kurtosis of 11.36 points out that the debt ratio of the companies that were studied was distributed to the right of the mean and they were not normally distributed. The standard deviation of 0.17 indicates that the institutional ownership of most of the companies ranged between 0.04 and 0.38.

Table 4.6: Descriptive Statistics of Debt to Equity Ratio

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
Debt to Equity Ratio	44	0.00	71.49	0.00	0.42	1.83	6.62	7.91	1.07
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to table 4.6, the minimum debt to equity ratio among the companies that were studied was 0.00 while the maximum was 71.49. The mode of 0.00 signifies the most frequent debt ratio of the companies that were studied. Moreover, table 4.6 reveals that firms with 0.42 debt to equity ratio formed the midpoint of the sample.

Table 4.6 shows that the mean of debt to equity ratio was 1.83 with a skewness of 6.62. The positive skewness indicates that most of the companies that were included in the sample had debt to equity ratio of more than 0.42. Furthermore, the positive kurtosis of 7.91 points out that the debt to equity ratio of the companies that were studied was distributed to the right of the mean and they were not normally distributed. The standard deviation of 1.07 indicates that the institutional ownership of most of the companies ranged between 0.76 and 3.00.

Table 4.7: Descriptive Statistics of Debt to Total Assets Ratio

	N	Min	Max	mode	Median	Mean	Skew	Kurt	Std. D
Debt to Total Assets Ratio	44	0.00	29.72	0.00	0.02	2.74	6.63	7.94	1.47
Valid N	44								

Min   Minimum

Max   maximum

Skew   Skewness

Kurt   Kurtosis

Std. D   Standard deviation

Source: Research Data, (2015)

According to table 4.7, the minimum debt to total assets ratio among the companies that were studied was 0.00 while the maximum was 29.72. The mode of 0.00 signifies the most frequent debt to total assets ratio of the companies that were studied. Moreover, table 4.7 reveals that firms with 0.02 debt to total assets ratio formed the midpoint of the sample.

Table 4.7 shows that the mean of debt to total assets ratio was 2.74 with a skewness of 6.63. The positive skewness indicates that most of the companies that were included in the sample had debt to total assets ratio of more than 0.42. Furthermore, the positive kurtosis of 7.94 points out that the debt to total assets ratio of the companies that were studied was distributed to the right of the mean and they were not normally distributed. The standard deviation of 1.47 indicates that the institutional ownership of most of the companies ranged between 0.76 and 4.21

Table 4.8: Pearson Correlation Analysis and two tailed t test of the relationship betweenstate ownership and leverage.

		State ownership	Debt ratio	Debt to equity ratio	Debt to total assets ratio
State ownership	Pearson Correlation	1			
	Sig. (2-tailed)				
Debt ratio	Pearson Correlation	.416[**]	1		
	Sig. (2-tailed)	.003			
Debt to equity ratio	Pearson Correlation	.186	.756[**]	1	
	Sig. (2-tailed)	.113	.000		
Debt to total assets ratio	Pearson Correlation	.189	.751[**]	1.000[**]	1
	Sig. (2-tailed)	.110	.000	.000	
	N	44	44	44	44

Source: Research data, (2015)

State ownership and debt ratio are positively correlated as shown in table 4.8 by 0.416. Furthermore, the study indicates that there is a statistical significant relationship between state ownership and debt ratio P=0.003 (P<0.05). From the table, state ownership and debt to equity ratio are positively correlated by 0.186. The table also shows that there is no statistical significant relationship between state ownership and debt to equity ratio P=0.113 (P>0.05).These findings contradict those of Qigui et al (2011) who found that there is a

statistical significant relationship between ownership structure and leverage ratios of Chinese listed firms. State ownership and debt to total assets ratio are positively correlated by 0.189. However there is no statistical significant relationship between state ownership and debt to total assets ratio P= 0.110 (P >0.05).

Table 4.9: Pearson Correlation Analysis and two tailed t test of the relationship between private ownership and leverage.

		Private ownership	Debt ratio	Debt to equity ratio	Debt to total assets ratio
Private ownership	Pearson Correlation	1			
	Sig. (2-tailed)				
Debt ratio	Pearson Correlation	-.034	1		
	Sig. (2-tailed)	.414			
Debt to equity ratio	Pearson Correlation	-.037	.756**	1	
	Sig. (2-tailed)	.407	.000		
Debt to total assets ratio	Pearson Correlation	-.037	.751**	1.000**	1
	Sig. (2-tailed)	.405	.000	.000	
	N	**44**	**44**	**44**	**44**

Source: Research Data, (2015)

From table 4.9 above private ownership and debt ratio areinversely correlated by -0.34. There is no statistical significant relationship between private ownership and debt ratio P=0.414 (P> 0.05). Private ownership and debt to equity ratio are inversely correlated by -0.037. On the other hand, there is no statistical significant relationship between ownership structure and debt to equity ratio P=0.407 (P>0.05). Private ownership and debt to total assets ratio are inversely correlated by -0.037. The table also shows no statistical relationship between private ownership and debt to total assets ratio.

Table 4.10: Pearson Correlation Analysis and two tailed t test of the relationship between foreign ownership and leverage.

		Foreign ownership	Debt ratio	Debt to equity ratio	Debt to total assets ratio
Foreign ownership	Pearson Correlation	1			
	Sig. (2-tailed)				
Debt ratio	Pearson Correlation	-.128	1		
	Sig. (2-tailed)	.203			
Debt to equity ratio	Pearson Correlation	-.091	.756**	1	
	Sig. (2-tailed)	.279	.000		
Debt to total assets ratio	Pearson Correlation	-.090	.751**	1.000**	1
	Sig. (2-tailed)	.280	.000	.000	
	N	**44**	**44**	**44**	**44**

Source: Research Data, (2015)

Table 4.10 indicates that foreign ownership and debt ratio are inversely correlated by -0.128. The table also shows that there is no statistical significant relationship between foreign ownership and debt ratio P= 0.203 (P>0.05). Foreign ownership and debt to equity ratio are inversely correlated by -0.091. The table shows no statistical significant relationship between foreign ownership and debt to equity ratio P=0.279 (P>0.05). Foreign ownership and debt to total assets ratio are inversely correlated by -0.090.There is no statistical significant relationship between foreign ownership and debt to total assets ratio P=0.280 (P>0.05). These findings contradict those of Fiske (2007) who found that there is a statistical significant relationship between foreign holdings and leverage of listed firms in China.

Table 4.11: Pearson Correlation Analysis and two tailed t test of the relationship between institutional ownership and leverage.

		Institutional ownership	Debt ratio	Debt to equity ratio	Debt to total assets ratio
Institutional ownership	Pearson Correlation	1			
	Sig. (2-tailed)				
Debt ratio	Pearson Correlation	-.008	1		
	Sig. (2-tailed)	.478			
Debt to equity ratio	Pearson Correlation	.022	.756**	1	
	Sig. (2-tailed)	.443	.000		
Debt to total assets ratio	Pearson Correlation	.020	.751**	1.000**	1
	Sig. (2-tailed)	.449	.000	.000	
	N	**44**	**44**	**44**	**44**

Source: Research data, (2015)

From table 4.11 above, institutional ownership and debt ratio are inversely correlated by – 0.008 however there is no statistical significant relationship between institutional ownership and debt ratio P=0.478 (P >0.05). Institutional ownership and debt to equity ratio are positively correlated. However the table shows no statistical significant relationship between institutional ownership and debt to equity ratio. Institutional ownership and debt to total assets ratio are positively correlated by 0.020, however the tables shows no statistical significant relationship between institutional ownership and debt to total assets ratio P=0.449 (P>0.05).

Table 4.12: Multiple regression analysis of the relationship between ownership structure and debt ratio

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.475	.226	.146	.1601535	.226	2.839	4	39	.807	2.262

a. Predictors: (Constant), Institutional ownership, Private ownership, State ownership, Foreign ownership

b. Dependent Variable: debt ratio

Source: Research Data, (2015)

From table 4.12 above, coefficient correlation (R) was 0.475 (r<0.5) which means there is a weak positive relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange. The significance value was 0.807 (P>0.05) which shows that there is no statistical significant relationship between ownership structure and leverage. In addition, the coefficient of determination (R2) was 0.226 implying that leverage is explained by 22.6% of the variations in ownership structure. From the table, it is evident that there is no autocorrelation because theDurbin-Watson value is 2.262 which is between 1.5 and 2.5.

Table 4. 13: ANOVA test of the relationship between ownership structure and debt ratio

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.291	4	.073	2.839	.807
	Residual	1.000	39	.026		
	Total	1.292	43			

a. Dependent Variable: debt ratio

b. Predictors: (Constant), Institutional ownership, Private ownership, State ownership, Foreign ownership

Source: Research Data, (2015)

From table 4.13 above, the level of significance was 0.807 with an F value of 2.839.This indicates that there is no statistical significant relationship between ownership structure and leverage because P value is greater than 0.05.

Table 4.14: Regression coefficients of the relationship between ownership structure and debt ratio

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.351	.288		-1.219	.230		
State ownership	.010	.003	.749	2.889	.006	.246	3.382
Private ownership	.005	.003	.452	1.531	.134	.228	4.385
Foreign ownership	.004	.003	.512	1.330	.191	.234	7.458
Institutional ownership	.005	.003	.554	1.517	.137	.249	6.705

a. Dependent Variable: debt ratio

Source: Research Data, (2015)

From table 4.14 above, the study indicates that there is no statistical significant relationship between ownership structure components and leverage ratios because all P values (0.006, 0.134, 0.191 and 0.137) are greater than 0.05. Furthermore, as a result of a point decrease in ownership structure components, leverage is predicted to decrease by -0.351. Table 4.8 further indicates that there is no multi-collinearity as shown by tolerance (T>0.2) and variance inflation factor (VIF<10)

Table 4.15: Multiple regression analysis of the relationship between ownership structure and debt to equity ratio

Model R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
.475	.040	-.059	11.0631073	.040	2.015	4	39	.804	2.054

a. Predictors: (Constant), Institutional ownership, Private ownership, State ownership, Foreign ownership

b. Dependent Variable: Debt to equity ratio

Source: Research Data, (2015)

From table 4.15, coefficient correlation (R) was 0.475 (r<0.5) which means there is a weak positive relationship between ownership structure and leverage. The level of significance was 0.804 (P>0.05) which indicates that there is no statistical significant relationship between ownership structure and leverage. The coefficient of determination (R^2) was 0.040 implying that leverage is explained by 4% of the variations in ownership structure. From the table, it is evident that there is no autocorrelation because the Durbin-Watson value is 2.054 which is between 1.5 and 2.5.

Table 4. 16: ANOVA test of the relationship between ownership structure and debt to equity ratio

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	197.966	4	49.491	2.015	.804
Residual	4773.301	39	122.392		
Total	4971.267	43			

a. Dependent Variable: Debt to equity ratio

b. Predictors: (Constant), Institutional ownership, Private ownership, State ownership, Foreign ownership

Source: Research Data, (2015)

From table 4.16 above, the level of significance was 0.804 with an F value of 2.015. This indicates that there is no statistical significant relationship between ownership structure and debt to equity ratio because P value is greater than 0.05.

Table 4.17: Regression coefficients of the relationship between ownership structure and debt to equity ratio

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-3.217	19.873		-.162	.872		
State ownership	.185	.227	.235	.814	.421	.246	3.382
Private ownership	.045	.230	.064	.195	.846	.228	4.385
Foreign ownership	.021	.204	.045	.104	.917	.234	7.458
Institutional ownership	.058	.211	.111	.274	.786	.249	6.705

a. Dependent Variable: Debt to equity ratio

Source: Research Data, (2015)

From table 4.17 above, the study indicates that there is no statistical significant relationship between private ownership, foreign ownership and leverage ratio because the values (P=0.421, P=0.846, P=0.917& P=0.786) respectively are greater than 0.05. Furthermore, as a result of a point decrease in ownership structure components, leverage is predicted to decrease by -3.217. Table 4.11 further indicates that there is no multi-collinearity as shown by tolerance (T>0.2) and variance inflation factor (VIF<10).

Table 4.18:Multiple regression analysis of the relationship between ownership structure and debt to total assets ratio

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.475 -	.041	-.058	4.5981764	.041	2.315	4	39	.799	2.049

a. Predictors: (Constant), Institutional ownership, Private ownership, State ownership, Foreign ownership

b. Dependent Variable: Debt to total assets ratio

Source: Research Data, (2015)

From table 4.18 above, coefficient correlation (R) was 0.201 (r<0.5) which means there is a weak positive relationship between ownership structure and leverage. The significance value was 0.799 (P>0.05) which shows that there is no statistical significant relationship between ownership structure and leverage. In addition, the coefficient of determination (R2) was 0.041 implying that leverage is explained by 4.1% of the variations in ownership structure. From the table, it is evident that there is no autocorrelation because the value is 2.049 which is between 1.5and 2.5.

Table 4.19: Multiple regression analysis of the relationship between ownership structure and debt to total assets ratio

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.840	4	8.710	2.315	.799
	Residual	824.586	39	21.143		
	Total	859.426	43			

a. Dependent Variable: Debt to total assets ratio

b. Predictors: (Constant), Institutional ownership, Private ownership, State ownership, Foreign ownership

Source: Research Data, (2015)

From table 4.19 above, the level of significance was 0.799 with an F value of 2.315.This indicates that there is no statistical significant relationship between ownership structure and leverage because P value is greater than 0.05.

Table 4.20: Regression coefficients of the relationship between ownership structure and debt to total assets ratio

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.242	8.260		-.150	.881		
State ownership	.077	.094	.234	.813	.421	.246	3.382
Private ownership	.018	.096	.060	.184	.855	.228	4.385
Foreign ownership	.008	.085	.040	.093	.926	.234	7.458
Institutional ownership	.023	.088	.105	.259	.797	.249	6.705

a. Dependent Variable: Debt to total assets ratio

Source: Research Data, (2015)

From table 4.20 above, the study indicates that there is no statistical significant relationship between state ownership, private ownership, foreign ownership, institutional ownership and leverage because the values (P=0.421, P=0.855, P=0.926& P=0.797) respectively are below 0.05. The study also indicates that there is no statistical significant relationship between state ownership and leverage ratio because the value (P=0.077) is greater than 0.05. Furthermore, as a result of a point decrease in ownership structure components, leverage is predicted to decrease by -1.242. Table 4.14 further indicates that there is no multi-collinearity as shown by tolerance (T>0.2) and variance inflation factor (VIF<10)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the study and makes a conclusion based on the findings. It also presents the recommendations of the study and areas for further research.

5.2 Summary of findings

The aim of the study was to establish the relationship between ownership structure and leverage of firms listed in Nairobi securities exchange. Data was analyzed using inferential statistics ranging from 2006 to 2014.The first objective of the study was to evaluate the relationship between state ownership and leverage. The results of the study revealed that there is a weak positive relationship between state ownership and leverage with a correlation coefficient value of 0.475. The study also revealed that there is no statistical significant relationship between state ownership and debt to equity ratio and debt to total asset ratio where P=0.110, P=0.113 respectively. The results also indicated a decrease in debt ratio by -0.351, debt to equity ratio by -3.217 and debt to total assets ratio by -1.242. This implies that a point decrease in state ownership leads to variations in all the three leverage ratios.

The second objective of the study was to determine the relationship between private ownership and leverage. Findings of the study indicated that there is a weak positive relationship between private ownership and leverage by 0.475. The study also revealed that there is no statistical significant relationship between private ownership and all the three leverage ratios where P=0.414, P=0.407 and P=0.405 respectively. The results also indicated a decrease in debt ratio by -0.351, debt to equity ratio by -3.217 and debt to total assets ratio by -1.242. This implies that a point decrease in private ownership leads to decrease in all the three leverage ratios.

The third objective of the study was to determine the relationship between foreign ownership and leverage. From the findings of the study, it was evident that there is a weak positive relationship between foreign ownership and leverage by 0.475. The study also showed that there is no statistical significant relationship between foreign ownership and all the three leverage ratios where P=0.203, P=0.279 and P=0.280 respectively. The results also indicated a decrease in debt ratio by -0.351, debt to equity ratio by -3.217 and debt to total assets ratio

by -1.242. This implies that a point decrease in foreign ownership leads to decrease in all the three leverage ratios.

The fourth objective of the study was to evaluate the relationship between institutional ownership and leverage. The results of the study revealed that there is a weak positive relationship between institutional ownership and leverage by 0.475. The study also showed that there is no statistical significant relationship between institutional ownership and all the three leverage ratios where P=0.478, P=0.443 and P=0.449 respectively. The results also indicated a decrease in debt ratio by -0.351, debt to equity ratio by -3.217 and debt to total assets ratio by -1.242. This implies that a point decrease in institutional ownership leads to variations in all the three leverage ratios.

Finally the findings of the study revealed that there is a weak positive relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange with a correlation coefficient value (R) of 0.475. The level of significance between ownership structure and debt ratio was P=0.807 which indicates that there is no statistical significant relationship between ownership structure and leverage. Significance level between ownership structure and debt to equity ratio was P=0.804 which indicates that there is no statistical significant relationship between ownership structure and leverage. Lastly, significance level between ownership structure and debt to total assets ratio was P=0.799 which indicates that there is no statistical significant relationship between ownership structure and leverage. Therefore this leads to failure to reject the null hypothesis which states that there is no statistical significant relationship between ownership structure and leverage of firms listed in the Nairobi Securities Exchange.

5.3 Conclusions

The study shows that leverage of listed firms does not depend upon ownership structure because there is no statistical significant relationship between ownership structure and leverage. The study therefore concludes that there is a weak positive statistical significant relationship between ownership structure and leverage. These findings concur with those of Bruslerie and Latrous (2012) who carried out a study on ownership structure and debt leverage on French firms and found that there is no statistical significant relationship between ownership structure and debt leverage.

5.4 Recommendations

From the above findings the study recommends that before investors invest in firms listed in the Nairobi securities exchange, they need to partially focus on ownership structure of the firms since a point difference in ownership structure causes a small change in leverage thus there is no statistical significant relationship between ownership structure and leverage.

5.5 Suggestions for further research

A similar study should be conducted using other measures of leverage as well as other components of ownership structure. A comparative study with a longer period should be undertaken to determine the nature of the relationship between the variables. Lastly a similar study should also be conducted focusing on firms that are not listed in the Nairobi Securities Exchange.

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% of ownership	2006	2007	2008	2009	2010	2011	2012	2013	2014	Mean
State	165.70	171.38	170.64	169.80	168.74	170.04	171.62	171.23	172.20	189.41
Private	874.20	886.21	907.23	897.27	880.71	886.34	882.94	998.26	891.23	919.65
Foreign	985.28	967.76	955.55	949.20	997.01	990.90	974.27	979.78	966.05	999.05
Institution	2132.01	2131.22	2117.42	2115.46	2019.84	2095.47	2129.19	2128.75	2117.38	2156.13
Leverage										
Debt to Equity ratio	10.1699	14.000	14.7684	55.000	94.00	270.00	134	82.0	49.0	80.3259
Debt ratio	3.5899	4.1148	5.172782	6.000	6.000	11.00	5.00	5.00	5.00	4.9720
Debt to total assets ratio	2.4666	2.0000	2.6345	3.000	4.000	269.00	3.00	5.00	4.00	32.7690

APPENDIX II: WORK PLAN

Activity	Sept 2014	Jan-March 2015	April-May 2015	June 2015
Review of literature	■			
Drafting/ submission/presentation of research proposal		■		
Data collection and analysis			■	
Compilation/ submission/presentation of final report				■

APPENDIX III: BUDGET

ITEM	COST (Kshs)
1. Printing @ Kshs. 30	15,000
2. Photocopy 6 copies @ Kshs. 2	8,000.
3. Traveling expenses	4,000.
4. Binding @ 30	3,600.
5. Personal expenses	8,000.
6. Miscellaneous expenses	5,000
7. Subsistence	4,000.
8. Data collection	3,000
9. Publication	30,000
TOTAL	**80,600**

APPENDIX IV: LIST OF LISTED COMPANIES

0S/No.	Name	Year Listed	Year Suspended	Year Delisted	Year Relisted
	Agricultural Sector				
1.	Eaagads Limited	1972			
2.	Kakuzi Limited	1951			
3.	Kapchorua Tea Company Limited	1972			
4.	Limuru Tea Company Limited	1967			
5.	Rea Vipingo Plantations Limited	1996			
6.	Sasini Tea and Coffee Limited	1965			
7.	Wiliamson Tea Kenya Limited	1972			
	Automobiles and Accessories Sector				
8.	Car And General (Kenya) Limited	1950			
9.	CMC Holdings Limited	1950	2011		
10.	Marshalls (EA) Limited	1969			
11.	Sameer Africa Limited	1995			
	Banking Sector				
12.	Barclays Bank of Kenya Limited	1986			
13.	CFC Stanbic Bank	1970			
14.	Co-op Bank of Kenya	2008			
15.	I and M Bank	2013			
16.	Diamond Trust Bank (Kenya) LTD	1972			
17.	Equity Bank Limited	2006			
18.	Housing Finance Company Limited	1992			
19.	Kenya Commercial Bank Limited	1989			
20.	National Bank of Kenya Limited	1994			
21.	NIC Bank Limited	1971			
22.	Standard Chartered Bank Kenya LTD	1989			
	Commercial and Services Sector				
23.	Express Kenya Limited	1978			

24.	Kenya Airways Limited	1996			
25.	Longhorn Kenya Limited	2012			
26.	Nation Media Group Limited	1973			
27.	Scangroup Limited	2006			
28.	Standard Group Limited	1954			
29.	TPS Eastern Africa Ltd (Serena Hotels)	1997			
30.	Uchumi Supermarket Limited	1992	2006		2011
	Construction And Allied Sector				
31.	ARM Cement Limited	1997			
32.	Bamburi Cement Company Limited	1996			
33.	Crown Paints Kenya Limited	1992			
34.	East African Cables Limited	1973			
35.	East African Portland Cement Company	1950			
	Energy And Petroleum Sector				
36.	KenolKobil Limited	1959			
37.	Kenya Electricity Generating Company (KENGEN)	2006			
38.	The Kenya Power Co. Limited	1972			
39.	Total Kenya Limited	1988			
40.	Umeme Limited	2012			
	Insurance Sector				
41.	Britam Limited	2012			
42.	CIC Insurance Limited	2011			
43.	Jubilee Holdings Limited	1984			
44.	Kenya Reinsurance Corporation Limited	2007			
45.	Liberty Kenya Holdings Limited	2012			
46.	Pan Africa Insurance Company Limited	1963			
	Investment Sector				
47.	Centum Investment Company (ICDCI) Ltd	1967			

48.	Olympia Capital Holdings Limited	1976			
49.	Transcentury Limited	2011			
50.	NSE	2014			
	Manufacturing and Allied Sector				
51.	Boc Kenya Limited	1969	2009		
52.	Baumann Co. Ltd	1948	2012		
53.	British American Tobacco Kenya LTD	1969			
54.	Carbacid Investments Limited	1971			
55.	East African Breweries Limited	1972			
56.	Eveready East Africa Limited	2006			
57.	Mumias Sugar Company Limited	2001			
58.	Kenya Orchards Limited	1959			
59.	Unga Group Limited	1971			
	Telecommunication and Technology Sector				
60.	Access Kenya limited	2007		2013	
61.	Safaricom	2008			

Source: Hisanet Africa (2014)