EFFECT OF OWNERSHIP STRUCTURE ON THE FINANCIAL PERFORMANCE OF INSURANCE FIRMS LISTED ON NAIROBI SECURITIES EXCHANGE

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Abstract

This study sought to determine the effect of ownership structure on the financial performance of Insurance Firms listed on the Nairobi Securities Exchange. The specific objectives of this study were to determine the effect of institutional ownership, government ownership, foreign ownership and Employee ownership on the financial performance of Insurance Firms listed on Nairobi Securities Exchange. The theoretical literature focused on the institutional theory, agency theory, resource dependency theory and stewardship theory. The empirical literature review was centered on the broad area of ownership structure as well as the specific areas of the effect of institutional ownership, government ownership, foreign ownership and Employee ownership on the performance of insurance Companies. A critique of the existing literature and identification of gaps were provided. This study adopted a descriptive research design. The target population for the study was the Insurance companies listed at the Nairobi Securities Exchange (NSE) in Kenya. The study used both primary and secondary data sources in gathering data for analysis. Data collection involved administration of questionnaires to the respondents of the listed insurance firms. Secondary data was collected by downloading and/or collecting published annual reports from these listed Companies’ websites and information from the Insurance regulators and Kenya National Bureau of Statistics. A pilot test was conducted on one of the Companies to field test the reliability and the validity. The study used the Cronbach (Alpha – α) model to test the reliability of the data. Multiple regression analysis, descriptive statistics and inferential statistics was used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings. The findings of this study showed that Ownership structure influenced financial performance of insurance firms listed on NSE. Inferential results indicated that institutional ownership, foreign ownership and Employee ownership positively and significantly influenced financial performance of listed insurance firms while government ownership had negative albeit significant effect. The study concludes that institutional ownership positively and significantly influenced financial performance of insurance firms listed on NSE; government ownership negatively but insignificantly influenced financial performance of insurance firms listed on NSE; foreign ownership positively and significantly influenced financial performance of insurance firms listed on NSE and Employee ownership positively and significantly influenced financial performance of insurance firms listed on NSE. For the purpose of improving financial performance, the study recommends insurance firms listed on NSE to consider increasing institutional ownership, foreign ownership or Employee ownership.

Key words: Institutional, Ownership, Government, Foreign, Employee, Financial Performance

Background of the study

The ownership structure of companies has attracted much attention in the wake of scandals involving corporate governance (Varcholova&Beslerova, 2013). The ownership structure is defined by the distribution of equity with regard to votes and capital, but also by the identity of the equity owners. Varcholova and Beslerova, (2013) defines ownership structure as a mechanism used in
corporate governance which necessitates efficiency of financial institutions and it is believed to affect performance of the firm for quite a number of years.

The last two decades the relationship of ownership structure and firm performance has become an area of interest among investors and has developed considerable attention in the broader field of corporate finance and among other stakeholders. This is evidenced by Treadway Commission Report of 1987 in U.S.A which addressed the issue of fraudulent company financial reporting resulting to Sarbanes – Oxley Act (SOX) due to collapse of reputable firms like Enron and WorldCom in U.S.A. The trend was replicated across the globe as evidenced by collapse of Parmalat Company in Europe, Chuo Aoyama in Asia, JCI and Randgold in South Africa, Cadbury company in Nigeria, Uchumi, imperial bank and Chase bank in Kenya.

Liouiad et al. (2012) and Qui (2012) argue that firms’ ownership is organized in order to maximize firm value and suggested that firms’ ownership and capital structure decisions reflect attempts to mitigate agency problems between various stakeholders to avoid potential conflicts of interest between a controlling shareholder and minority investors. According to Hassan and Butt (2009) the relationship between ownership structure and firm performance is laid on the issue of corporate governance.

Singh (2014) argued that corporate ownership structures encourage firms to create value in industry in terms of advanced innovations, technology, and skilled workforce development in devising control system that affects the firm’s financial performance. Eisenhardt et al. (1988) and Shah (2009) the relationship between firm’s performance and how managers view their discretion is systematically related to ownership structure ability to select an effective board and the type of corporate governance structure adopted. Anselm (2014) emphasizes that the question of what may be the most efficient ownership structure is relevant as the owners of a firm have economic relations with the firm. Owners of the firm priority is to protect their interests even though this may lead to low investment returns, and low profitability as their investment choices are influenced by the extent to which they can take risks (Berk&DeMarzo, 2007).

Statement of the Problem

According to Anthony (2014) as long as the company’s shares are trading, their ownership is bound to change at any time. By a click of the mouse many companies in Nairobi Securities Exchange have changed hands from government ownership to foreign ownership or to public ownership. Srivastava (2011) noted that since the initiation of economic reforms, various laws and government policies relating to corporation have changed resulting to several changes in ownership structures, stakeholder expectations and the corporate environment. This is evidenced by a deliberate policy of divestiture pursued by Kenyan Government aimed at reducing state ownership of corporations with a view of attracting private sector participation in management of the state corporations by infusing modern management styles that would ultimately improve performance of these companies (Ndemo, 2009)

SirtajKaur (2016) since the initiation of economic reforms, several changes have taken place in the corporate environment, corporate structure and even government policies relating to corporations. Namusonge (2014) managers need to review and position themselves strategically in order to cope up with changes brought by economic reforms. Miring’u and Muoria (2011) observe that the ownership structures of companies are rapidly changing to match the global challenges and demands. Varcholova and Beslerova (2013) contributes to the research problem by asserting that the impact of ownership structure on Companies that deals with finances and their performance is very significant in countries of Eastern European than in the developing world.

Wanyama and Olweny (2013) was the only study that focused on listed insurance firms in Kenya. However, Wanyama and Olweny (2013) studied the effect of Corporate Governance on the financial performance of listed Insurance Firms in Kenya and did not address the ownership structure of the firms. This posed a need for further research with an attempt of eliminating the confusion that befalls the need for choice between which ownership structure is important in order to boost firm performance since if ownership structure does affect performance, the choice between alternatives can prioritized. This study aimed to clear this air by determining the effect of ownership structure on the financial performance of Insurance Firms listed on NSE.

**Objectives of the Study**

The general objective of this study was to determine the effect of ownership structure on the financial performance of Insurance Firms listed on Nairobi Securities Exchange

The specific objectives of this study were:

1. To determine the effect of institutional ownership on the financial performance of Insurance Firms listed on Nairobi Securities Exchange.
3. To evaluate the effect of foreign ownership on the financial performance of Insurance Firms listed on Nairobi Securities Exchange.
4. To establish the effect of Employee ownership on the financial performance of Insurance Firms listed on Nairobi Securities Exchange

**Theoretical Literature**

This section focuses on the theories upon which the study is based. Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions (Abend, 2008).

**Institutional Theory**

The theory says the institutional environment sometimes can highly affect the growth of formal structures of the organization, even more strongly than pressures of the market. Innovative structures that bring up technical efficiency in early organizations that have adopted are justifiable in the said environment. At long last, these innovations reach a level of legitimization where they are all regarded as legal mandates. At this very point both existing and new organizations implements the structural form well as schemes, norms, rules and routines even if it is not a guarantee that the form improves efficiency (Scott, 1995)
According to Khanna et al. (2000), firms should come up with business models that are not very less prone to problems. They put forward that performance of an institution deteriorate in the first place with group diversification and later on increase when group diversification is more than a certain threshold level. New strategies and insights need to be created since many methods applied in the already developed nations do not rightly fit in the upcoming markets. Both local firms and MNCs face divergent focus more especially when encounters same challenges in upcoming markets like Kenya depending on the company’s caliber. Institutional theory was therefore adopted in this study to create a background used as basis for analyzing and giving an insight on how different ownership structures creates governance structures that enable the institutions come up with strategies and insights to counter the challenges.

Agency Theory

This theory was advanced by Meckling and Jensen (1976) and is founded on the assumption which states that the organizations’ role is to maximize shareholders’ wealth (Blair, 1995). Further the theory gives the core problem for absent or distant owners who depend on the employed professional executives to work on their behalf. According to Eisenhardt (1989), many businesses work under circumstances of incomplete information as well as uncertainty which lead them to exposure of two agency problems, that is, moral hazard and adverse selection. Adverse selection is when owners are not able to establish whether an agent represents accurately his ability to do the work which is entitled to do and paid for while moral hazard arises when the principal is not sure if an agent has utilized maximum effort. According to Eisenhardt (1989), agency theory is involved in the analysis and problem solving that arise between agents and shareholders and this is the reason why this theory was adopted in this study. The theory also tries to make sense on how to suitably organize relationships between the professionals (agents) and the owners (principals) and therefore determine the work, which the agent undertakes and the level of measurement owners have to put in place so as to maximize the returns associated with them (Eisenhardt, 1989). Agency theory was therefore adopted in this study because the study focuses on relationship between shareholders and their professional agents existing in different ownership structure and how they affect financial performance of listed firms in Nairobi securities Exchange.

Resource Dependency Theory

Resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access to resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure.

It has been argued that the provision of resources enhances organizational functioning, firm’s performance and its survival (Daily et al, 2003). According to Hillman, Canella and Paetzold (2000); directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community influentials.

Resource dependence theory was therefore adopted in this study to create a background used as basis for analyzing and giving an insight on how different ownership structures creates governance structures that enable their management to provide the firm with a vital set of resources in terms of;
information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy which in the long-term enhances firms financial performance.

**Stewardship Theory**

Donaldson and Davis (1991) advanced this theory as an alternative to the agency theory. He argued from the view of Employee motivation by stating that management far from being an opportunist shirker essentially wants to do a good job, to be a good steward of the corporate assets. The basic idea behind the stewardship theory is that it states humans to be in greater needs than the neo classical view in the sense of them to be opportunistic, untrustworthy and focused on personal gains. The theory tries to identify the situation where both the principal and the steward are aligned. Its utility is maximized when the stewards’ goals are coordinated with the principals’. The theory accepts that agents are opportunistic but that human motives are more than just self-actualization. Therefore agents that are driven by organizational and collectivistic motives have a higher utility by aiming for goals that are the best for the business which often align with the interest of its principal (Bender, 2011). This situation is attained more readily where the CEO is also chair of the board. Stewardship theory was adopted in this study to enable analyze how different ownership structures have put in place, facilitating and empowering structures rather than monitoring and controls, that are proposed by the agency theory which interferes with the motivation of the steward instead of ensuring thin pursuit of improved firms financial performance in the long-term at both the principal and the steward interests are aligned to enhance effectiveness of agent.

**Conceptual Framework**

The independent variables include Institutional Ownership, Government Ownership Foreign Ownership and Employee Ownership while the dependent variable will be financial performance of insurance Companies listed on NSE.

![Conceptual Framework Diagram]

**Independent Variables**

- Institutional Ownership
  - Percentage of shares held by institutional investors
  - Ratio of institutional investors to total investors

- Government Ownership
  - Percentage of equity shareholding by Government
  - Board control attributable to Government ownership

- Foreign Ownership
  - Percentage of shares held by foreigners
  - Board control attributable to Foreign ownership

- Employee Ownership
  - Percentage of shares held by managers
  - Percentage of employee incentives paid to employee owners

**Dependent Variable**

- Financial Performance of Insurance Firms Listed on NSE
  - Return on Assets
  - Return on Equity

**Figure 2.1: Conceptual Framework**
Institutional Ownership

The institutional ownership measure as the percentage of common shares held by institutional investors including mutual funds, pension funds, banks, insurance companies and other investment trusts divided by total issued outstanding shares of firms. Institutional owners normally have more financial competencies and can monitor management with less costs (Thomsen & Coynon, 2012).

Czarnitzki (2015) study observed that the dispersed ownership percentage affects performance indicators but not stock market performance indicators, which suggest that there might be some other factors affecting firm’s performance other than ownership structure. Kiruri (2013) researched on the effects of ownership structure on banks profitability in Kenya and found local ownership and foreign ownership had positive and significant effects on the banks profitability while institutional ownership and state ownership had negative and significant effects on the banks profitability. He concluded that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and local ownership lead to higher profitability in commercial banks.

Government Ownership

State ownership measure as the percentage of common shares held by state/government divided by total issued outstanding shares of firms. Boubakri et al. (2005) argued that government owned firms are advantaged as the government can allocate capital to them for investments to trigger economic and financial development, especially, for countries that have underdeveloped economic institutions and are undertaking government finance projects with social benefits. However he points out that government should transfer control rights of the decision making process from politicians to managers to improve firm performance as managers are more concerned with firm performance than the politicians. According to Mutisya (2015), Government ownership is said to be bureaucratic and inefficient and that even the rights of ownership of firms of the government do not have clear incentives to improve performance of the firm. However there was a significant negative relationship between government ownership and firm performance. Alulamusi (2013) supported their findings that Government ownership had a negative relationship with financial performance and attributed this to asset quality and low management efficiency due to laxity in prudent credit management practices and inefficiency of operations and poor returns.

Foreign Ownership

Foreign ownership is measured by the ratio of foreign ownership stake to total shareholding as evidenced by Al Manaseer et al., (2012). According to Cuerra et al. (2004) foreign shareholders can have a moderate effect on the performance of the firm despite the fact that it is being endowed with good of monitoring since they have a financial focus and emphasizes on liquidity.

Chege (2013) examined the relationship between ownership structures and financial performance among commercial banks listed in the NSE in Kenya. He found out that there is a positive relationship between profitability and foreign shares ownership and observed that, foreign shares were significant in explaining results as a unit changes in foreign shares were found to be significant in explaining profitability. However local ownership both retail, and corporate, has a negative relationship with profitability.

Chege findings were consistent with Alulamusi (2013) study on the relationship between ownership structure and financial performance of commercial banks in Kenya which established that there is a significant relationship between foreign ownership and the different parameters of financial performance. He attributed the significant relationship to high monitoring capabilities of foreign owners.
Aydin, Sayim and Yalama, (2007) argued that on an average foreign owned firms have performed better than the domestically owned firms because foreign owners are more likely to have the ability to monitor managers and give them performance based incentives to avoid behaviours’ that undermine the wealth creation motivation of the firm owners and by the fact that transfer of new technology and globally tested management practices to the firm, which help in enhancing the efficiency by decreasing operating expenses, generating savings for the firm and significantly impacting on their financial performance.

Employee Ownership

According to Bozec et al. (2002) the agency theory assumes that managers seek to maximize their own advantage rather than that of the owners of the firm or the firm itself. However, Cuervo and Villalonga, (2000) argues that managers are disciplined by a number of external control mechanisms, such as the market forces and also by internal control mechanisms, such as compensation and rewards incentives which prevents the managers from seeking their own advantages.

Wang & Fang (2011) argued that to increase firms value you must align Employee interests with the interests of capital suppliers. For instance Allayannis et al. (2012) concentrated on monitoring pressure on managers from shareholders and its impact on firms’ value and found that use of excessive pressure reduces the firm value as the managers have limited freedom to exert control on financial performance of the firm but rather results to pursue self-interests.

Financial Performance

Profit being the ultimate goal of the firm, to measure profitability, various ratios is used such as Return on Equity, Return on Asset and Net Interest Margin (Murthy, 2003). ROA is said to be a major ratio that gives an indication of bank’s profitability. According to Khrawish (2011), it is a ratio of Income to its total asset. It shows the ability of the management of the organization to generate income by employing company assets that are at their disposal.

Net Interest Margin (NIM) which is a measure of the difference that exist between interest income that is generated by banks’ sources of revenue and the interest amount that is paid out to lenders in relation to the amount of their respective assets. It is expressed as a percentage of the earnings of the financial institution on loans as well as other assets at a given period of time less interest paid on funds that have been borrowed divided by the total average of the assets on which income was earned in that specific time period. ROE being one of the financial ratios, it refers to what profit a company earned as compared to the total amount invested by the shareholder equity or available on the balance sheet. Among the ratios shareholders look in return of their investment is the ROE.

Research Methodology

This study adopted a descriptive research design. The target population for the study was 900 individuals.
Table 1: Target Population

<table>
<thead>
<tr>
<th>s/no</th>
<th>Company</th>
<th>Management</th>
<th>Employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jubilee Holdings Ltd</td>
<td>50</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>2</td>
<td>Pan Africa Insurance Holdings Ltd</td>
<td>35</td>
<td>150</td>
<td>185</td>
</tr>
<tr>
<td>3</td>
<td>Kenya Re-Insurance Corporation Ltd</td>
<td>20</td>
<td>100</td>
<td>120</td>
</tr>
<tr>
<td>4</td>
<td>Liberty Kenya Holdings Ltd</td>
<td>30</td>
<td>120</td>
<td>150</td>
</tr>
<tr>
<td>5</td>
<td>British American Investment Company Ltd</td>
<td>15</td>
<td>90</td>
<td>105</td>
</tr>
<tr>
<td>6</td>
<td>CIC Insurance Group</td>
<td>10</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>900</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The sample size is determined by Nasuirma (2000) formula which is expressed as follows:

\[ n = \frac{NC_v^2}{C_v^2 + (N-1)e^2} \]

Where:
- \( n \) – is the sample size
- \( N \) – is the target population (900)
- \( C_v \) – is the coefficient of variation (take 0.5)
- \( e \) – is the tolerance of desired level of confidence, at 95% level (take 0.05)

\[ n = \frac{900 \times 0.5^2}{0.5^2 + (900-1) \times 0.05^2} \]

\[ = \frac{225}{2.5} \]

\[ = 90 \text{ respondents} \]

The study sample was 90 respondents

Table 2: Sample Size

<table>
<thead>
<tr>
<th>Company</th>
<th>Management</th>
<th>Employees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jubilee Holdings Ltd</td>
<td>5</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Pan Africa Insurance Holdings Ltd</td>
<td>3</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Kenya Re-Insurance Corporation Limited</td>
<td>2</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Liberty Kenya Holdings Ltd</td>
<td>3</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>British American Investment Company Ltd</td>
<td>3</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>CIC Insurance Group Ltd</td>
<td>1</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The study used both primary and secondary data sources in gathering data for analysis. The primary data source was the use of a semi-structured (matrix) questionnaire consisting of both open and close-ended questions. Secondary data was collected from journals, books, published annual reports and websites of the selected Companies and other search engines. Collected data was edited to ensure accuracy and completeness, and then items were coded and scored. Multiple Regression Analysis (Standard), Descriptive Statistics (means and standard deviations) and inferential statistics were used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings. Quantitative data was presented using
statistical techniques such as tables, pie charts, and bar graphs while qualitative data was presented descriptively. The following regression model guided the study:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \ldots + \varepsilon$$

Whereby; $Y_i$ = financial performance of listed insurance firms in Kenya; $X_1$ = Institutional ownership; $X_2$ = government ownership; $X_3$ = foreign ownership; $\beta_0$ = Intercept; $\beta_1$ to $\beta_4$ = Coefficients of the independent variables; $\varepsilon$ = error term

Research Findings and Discussion

A total of 90 questionnaires were administered to the respondents of the study. As indicated in Figure 4.1, 84 questionnaires were completed and returned. This signified a general response rate of 91.11%. The 8.89% non-response rate is attributable to the reluctant attitude of the respondents to disclose information they deemed sensitive. The response rate is in accordance with the suggestions of Fincham (2008) that a response rate of above 70% is adequate to conduct statistical analysis.

Descriptive Findings and Analysis

The study used mean as well as standard deviation descriptive statistics to capture the responses based on the various indicators of study variables on a Likert scale of 1-5 (Where 1- strongly agree, 2- Agree, 3-Strongly disagree, 4-Disagree, 5-Neither Agree nor Disagree). This section presents the average responses on institutional ownership, government ownership, foreign ownership and Employee ownership whereby the standard deviation indicates the magnitude of variations in the responses to each of the statements.

Institutional Ownership

Respondents were asked to rate various statements on institutional ownership and financial performance of insurance firms listed on NSE. As shown in Table 4.2, majority of the respondents, mean 4.17, agreed that institutions by perfect knowledge of local market may influence performance of listed insurance firms positively with a standard deviation value of 0.81 showing low variation in responses to this statement. Majority of the respondents, mean 4.43, also strongly agreed that listed insurance firms that have more dispersed ownership encounter greater agency costs which lower their financial performance with a standard deviation value of 0.74 showing low variation in responses to this statement. The results of this study on institutional ownership also indicate that majority of the respondents, mean 4.62, strongly agreed that institutional ownership percentage that is dispersed affects performance indicators. A standard deviation value of 0.68 showing low variation in responses to this statement. The results also indicated that majority of respondents, mean 3.78, agreed that institutional ownership has a significant positive effect on the profitability of listed insurance firms 3.78 with a standard deviation value of 1.4 showing low variation. On the same note, majority of the respondents, mean 4.22, agreed that a higher Institutional ownership results to higher profitability of listed insurance firms in Kenya. The results of this study on institutional ownership also indicate that majority of the respondents, mean 4. Strongly agreed that institutional investors can be more knowledgeable on matters related to local environment than foreign investors and this may at long last lead to better performance of local owned firms with a standard deviation value of 1.19 showing low variation on the responses. On average, the
mean of 3, indicated that institutional ownership affects financial performance of insurance firms listed on NSE. The results of the study are consistent with the argument by Margaritis and Psillaki (2010) that listed firms that have more dispersed ownership encounter greater agency costs which lowers their financial performance but listed firms whose ownership is more concentrated have sound controls which improve financing efficiency and lower agency costs leading to good financial performance.

**Table 3: Institutional Ownership**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions by perfect knowledge of local market may influence performance of listed insurance firms positively.</td>
<td>4.17</td>
<td>0.81</td>
</tr>
<tr>
<td>Listed insurance firms that have more dispersed ownership encounter greater agency costs which lower their financial performance</td>
<td>4.43</td>
<td>0.74</td>
</tr>
<tr>
<td>Institutional ownership percentage that is dispersed affects performance indicators</td>
<td>4.62</td>
<td>0.68</td>
</tr>
<tr>
<td>Institutional ownership has a significant positive effect on the profitability of listed insurance firms</td>
<td>3.78</td>
<td>1.40</td>
</tr>
<tr>
<td>A higher Institutional ownership results to higher profitability of listed insurance firms in Kenya</td>
<td>4.22</td>
<td>0.98</td>
</tr>
<tr>
<td>Institutional investors can be more knowledgeable on matters related to local environment than foreign investors and this may at long last lead to better performance of local owned firms</td>
<td>4.00</td>
<td>1.19</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>4.20</strong></td>
<td><strong>0.97</strong></td>
</tr>
</tbody>
</table>

**Government Ownership**

Respondents were asked to rate various statements on government ownership and financial performance of insurance firms listed on NSE. As shown in Table 4, majority of the respondents, mean 4.59, strongly agree that a higher government ownership results to higher profitability of listed insurance firms in Kenya while a standard deviation of 0.78 shows low variation of the responses to this statement.

The results of this study on government ownership also indicate that majority of the respondents, mean 4.87, strongly agreed that government ownership influences performance through appointments of managers that are done politically whose interest may not be performance oriented but politically oriented. A standard deviation value of 0.38 is an indication of low variation on responses to this statement. Majority of the participants, mean 4.04, also agreed that government ownership is said to be bureaucratic and inefficient and that even the rights of ownership of firms of the government do not have clear incentives to improve performance of listed firm. A standard deviation value of 1.33 is an indication of low variation on responses to this statement. A mean of 3.54 representing majority of the respondents agreed that there is an improvement in performance of listed insurance firms if there is a decreased government ownership. A standard deviation value of 1.52 is an indication of low variation on responses to this statement.

Majority of the respondents, mean 3.93, strongly agreed that there is a higher level of state ownership which is superior to a dispersed structure of ownership due to government support benefits and political connections. A standard deviation value of 0.83 is an indication of low variation on responses to this statement. Similarly, majority of the respondents, mean 4.59, strongly agreed that the relationship between high state ownership and financial performance of listed insurance firms is positive while a standard deviation value of 0.8 is an indication of low variation on responses to this statement. On average, the mean of 4.26, indicated that government ownership affects financial performance of insurance firms listed on NSE. The results of the study are consistent with the
argument by Alulamusi (2013) that there is a relationship between government ownership and financial performance attributed to asset quality and low management efficiency due to laxity in prudent credit management practices and inefficiency of operations and poor returns.

**Table 4: Government Ownership**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>A higher government ownership results to higher profitability of listed insurance firms in Kenya</td>
<td>4.59</td>
<td>0.78</td>
</tr>
<tr>
<td>Government ownership influences performance through appointments of managers that are done politically whose interest may not be performance oriented but politically oriented.</td>
<td>4.87</td>
<td>0.38</td>
</tr>
<tr>
<td>Government ownership is said to be bureaucratic and inefficient and that even the rights of ownership of firms of the government do not have clear incentives to improve performance of listed firm.</td>
<td>4.04</td>
<td>1.33</td>
</tr>
<tr>
<td>There is an improvement in performance of listed insurance firms if there is a decreased government ownership.</td>
<td>3.54</td>
<td>1.52</td>
</tr>
<tr>
<td>There is a higher level of state ownership which is superior to a dispersed structure of ownership due to government support benefits and political connections.</td>
<td>3.93</td>
<td>0.83</td>
</tr>
<tr>
<td>The relationship between high state ownership and financial performance of listed insurance firms is positive</td>
<td>4.59</td>
<td>0.80</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>4.26</td>
<td>0.94</td>
</tr>
</tbody>
</table>

**Foreign Ownership**

Respondents were asked to rate various statements on foreign ownership and financial performance of insurance firms listed on NSE. As shown in Table 5, majority of the respondents, mean 4.33, strongly agreed that there is a significant relationship between different parameters of financial performance and foreign ownership which are attributed to high monitoring capabilities of foreign owners. A standard deviation of 0.86 indicates low variation in the responses on this statement.

Similarly, majority of the participants, mean 4.3, strongly agreed that foreign shareholders mostly prefer exit strategies rather than the voice to monitor the management thereby resulting to decreased performance due to low growth focus of the firm. A standard deviation of 1.01 is an indication of low variation on responses to this statement. Majority of the respondents, mean 3.98, strongly agreed that foreign ownership has a positive impact on the performance of listed insurance firms in Kenya while a standard deviation of 0.9 is an indication of low variation on responses to this statement. On the same note, a mean of 4.4 representing majority of participants strongly agreed that foreign investors can be less knowledgeable on matters related to local environment and this may at long last lead to low performance of foreign owned firms. A standard deviation of 0.9 is an indication of low variation on responses to this statement.

As shown in Table 4.4,majority of the respondents, mean 3.96, strongly agreed that listed insurance firms that are foreign-owned usually out-perform those that are locally owned in matters of financial performance. A standard deviation of 1.2 is an indication of low variation on responses to this statement. On average, the mean of 4.2 indicated that foreign ownership affects financial performance of insurance firms listed on NSE. The results of the study are consistent with the argument by Djankov and Simeon (2008) that there is a positive relationship between the provision of generic and specific knowledge to the local company and foreign ownership and financial performance.
Table 5: Foreign Ownership

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>StdDev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a significant relationship between different parameters of financial performance and foreign ownership which are attributed to high monitoring capabilities of foreign owners.</td>
<td>4.33</td>
<td>0.86</td>
</tr>
<tr>
<td>Foreign shareholders mostly prefer exit strategies rather than the voice to monitor the management thereby resulting to decreased performance due to low growth focus of the firm</td>
<td>4.30</td>
<td>1.01</td>
</tr>
<tr>
<td>Foreign ownership has a positive impact on the performance of listed insurance firms in Kenya</td>
<td>3.98</td>
<td>1.28</td>
</tr>
<tr>
<td>Foreign investors can be less knowledgeable on matters related to local environment and this may at long last lead to low performance of foreign owned firms</td>
<td>4.40</td>
<td>0.90</td>
</tr>
<tr>
<td>Listed insurance firms that are foreign-owned usually out-perform those that are locally owned in matters of financial performance</td>
<td>3.96</td>
<td>1.20</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>4.20</strong></td>
<td><strong>1.05</strong></td>
</tr>
</tbody>
</table>

Employee Ownership

Respondents were asked to rate various statements on employee ownership and financial performance of insurance firms listed on NSE. As shown in Table 6, majority of the respondents, mean 4.06, strongly agreed that our company has share ownership policy scheme for management. A standard deviation of 0.79 is an indication of low variation on responses to this statement. The results also showed that majority of the study participants, mean 4.49, strongly agreed that management influences the distribution of shares in the firm while a standard deviation of 0.57 is an indication of low variation on responses to this statement. Majority of the respondents, mean 4.5, also strongly agreed that shares held by management has been increasing for the last five year with a standard deviation of 0.72 is an indication of low variation on responses to this statement. The findings further revealed that majority of the respondents, mean 4.1, strongly agreed that management constantly reviews financial decisions to cope up with changing environment. Moreover, the results indicate that majority of this study’s participants, mean 4.07 and 4.56, agreed that majority of management are shareholders representatives and that the relationship between high Employee ownership and financial performance of listed insurance firms is positive respectively. On average, the mean of 4.3 indicated that Employee ownership affects financial performance of insurance firms listed on NSE. The results of the study are consistent with the argument by argument by Bruton and Filatotchen et al. (2010) that concentrated ownership has an overall significant impact on firms’ financial performance.

Table 6: Employee Ownership

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our company has Share ownership policy scheme for management</td>
<td>4.06</td>
<td>0.79</td>
</tr>
<tr>
<td>Management influences the distribution of shares in our firm</td>
<td>4.49</td>
<td>0.57</td>
</tr>
<tr>
<td>Shares held by management has been increasing for the last five year</td>
<td>4.50</td>
<td>0.72</td>
</tr>
<tr>
<td>Management constantly reviews financial decisions to cope up with changing environment</td>
<td>4.10</td>
<td>1.29</td>
</tr>
<tr>
<td>Majority of our management are shareholders representatives</td>
<td>4.07</td>
<td>1.16</td>
</tr>
<tr>
<td>The relationship between high Employee ownership and financial performance of listed insurance firms is positive</td>
<td>4.56</td>
<td>0.63</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>4.30</strong></td>
<td><strong>0.860</strong></td>
</tr>
</tbody>
</table>
Trend Analysis of Financial Performance

The study established the trends of the financial performance of insurance firms listed in NSE for the study period (2007-2016).

Trend Analysis of ROA

The study established the trends of ROA of insurance firms listed in NSE for the study period (2007-2016). Average means of ROA of the six insurance firms listed on NSE for the period 2007 to 2016 were used to show the trends. As shown in Figure 2, the results for the trends of ROA indicated unsteady fluctuation in this measure of financial performance of insurance firms. This implies that insurance firms listed on NSE recorded fluctuating financial performance in terms of ROA.

![Figure 2: Trend Analysis of ROA](image)

Trend Analysis of ROE

The study also established the trends of ROE of insurance firms listed in NSE for the study period (2007-2016). Average means of ROE of the six insurance firms listed on NSE for the period 2007 to 2016 were used to show the trends. As shown in Figure 3, the results for the trends of ROE indicated unsteady fluctuation for the period 2007-2016. This implies that insurance firms listed on NSE recorded fluctuating financial performance in terms of ROE.

![Figure 3: Trend Analysis of ROE](image)
Inferential Analysis

Correlation Analysis

The results as shown in Table 7 indicated a positive and significant association between institutional ownership and financial performance of insurance firms listed on NSE ($R = 0.489$, $P=0.000<0.05$). This implies that an increase in institutional ownership results to significant improvement in financial performance of insurance firms listed on NSE. The results as shown in Table 4.6 indicated a negative but insignificant association between government ownership and financial performance of insurance firms listed on NSE ($R = -0.065$, $P=0.562>0.05$). This implies that an increase in government ownership results to insignificant decline in financial performance of insurance firms listed on NSE.

The results as shown in Table 4.6 further indicated a positive and significant association between foreign ownership and financial performance of insurance firms listed on NSE ($R = 0.599$, $P=0.000<0.05$). This implies that an increase in foreign ownership results to significant improvement in financial performance of insurance firms listed on NSE.

Moreover, the results indicated a positive and significant association between Employee ownership and financial performance of insurance firms listed on NSE ($R = 0.647$, $P=0.000<0.05$). This implies that an increase in employee ownership results to significant improvement in financial performance of insurance firms listed on NSE.

Table 7: Correlation Analysis

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Institutional Ownership</th>
<th>Government Ownership</th>
<th>Foreign Ownership</th>
<th>Employee Ownership</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Ownership</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>1</td>
<td>-0.011 1</td>
<td>0.274 0.101 1</td>
<td>0.533 -0.099 0.472 1</td>
</tr>
<tr>
<td>Government Ownership</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>-0.011 1</td>
<td>0.274 0.101 1</td>
<td>0.274 0.101 1</td>
<td>0.274 0.101 1</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>0.053 0.367</td>
<td>0.053 0.367</td>
<td>0.053 0.367</td>
<td>0.053 0.367</td>
</tr>
<tr>
<td>Employee Ownership</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>0.058 0.376 0.06</td>
<td>0.058 0.376 0.06</td>
<td>0.058 0.376 0.06</td>
<td>0.058 0.376 0.06</td>
</tr>
<tr>
<td>Financial performance</td>
<td>Pearson Correlation Sig. (2-tailed)</td>
<td>0.000 0.562 0.000 0.000</td>
<td>0.000 0.562 0.000 0.000</td>
<td>0.000 0.562 0.000 0.000</td>
<td>0.000 0.562 0.000 0.000</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

The model summary findings in Table 8 show that Ownership structure is positively correlated with financial performance of insurance firms listed on NSE as shown by a Pearson correlation coefficient.
(R) of 0.748 which is high positive. The table also showed the (coefficient of determination) R-square value of 0.559. R-squared is a statistical measure of how close the data are to the fitted regression line. In this study, it represents the percentage of variation in financial performance of insurance firms listed on NSE that is explained by the model of the study. Accordingly, as shown in Table 4.7, R-square of 0.559 reveals that Ownership structure accounts for up to 55.9% of financial performance of insurance firms listed on NSE. This implies that 44.1% of variation of financial performance of insurance firms listed on NSE is explained by other factors other than the ones included in this study’s model.

Table 8: Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.748</td>
<td>0.559</td>
<td>0.536</td>
<td>0.19984</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), Employee Ownership, Government Ownership, Foreign Ownership, Institutional Ownership

The F-statistic indicates the deviation between the observed and fitted values. It shows the significance of the overall model. The p-value (0.000) is significant at 5% (Sig < 0.000) showing that the model was significant. The F calculated statistic of 24.382 > F (4, 77) critical of 2.4904 and that also supports the finding that the model was significant. The model significance confirms the suitability of Ownership structure independent variable in predicting variation of financial performance of insurance firms listed on NSE.

Table 9: ANOVA (Model Significance)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>3.895</td>
<td>4</td>
<td>0.974</td>
<td>24.382</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>3.075</td>
<td>77</td>
<td>0.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.97</td>
<td>81</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Dependent Variable: Financial performance
b Predictors: (Constant), Employee Ownership, Government Ownership, Foreign Ownership, Institutional Ownership

Optimal Model

Financial Performance = 1.263 + 0.254 Foreign Ownership + 0.337 Employee Ownership + 0.16 Institutional Ownership – 0.034 Government Ownership

The regression results as shown in Table 4.9 indicated that institutional ownership positively and significantly influenced financial performance of insurance firms listed on NSE (Beta = 0.16, p=0.034<0.05). This implies that a unit increase in institutional ownership results to 0.16 significant improvement financial performance of insurance firms listed on NSE. This is consistent with the argument by Thomsen and Coynon (2012) that institutional ownership is significant in monitoring management because it can monitor management more effectively since institutional owners normally have more financial competencies and can monitor management with less cost.

The regression results as shown in Table 4.9 also indicated that government ownership negatively but insignificantly influenced financial performance of insurance firms listed on NSE (Beta = -0.034, p=0.393>0.05). This implies that a unit increase in government ownership results to 0.034 insignificant
decline in financial performance of insurance firms listed on NSE. This is consistent with the argument by Mutisya (2015) that government ownership is bureaucratic and inefficient and that even the rights of ownership of firms of the government do not have clear incentives to improve performance of the firm.

The regression results further indicated that foreign ownership positively and significantly influenced financial performance of insurance firms listed on NSE (Beta = 0.254, p=0.000<0.05). This implies that a unit increase in foreign ownership results to 0.254 significant improvement financial performance of insurance firms listed on NSE. This is consistent with the argument by Chege (2013) that there is a positive relationship between profitability and foreign shares ownership with foreign shares significant in explaining results as a unit changes in foreign shares were found to be significant in explaining profitability.

The regression results also indicated that Employee ownership positively and significantly influenced financial performance of insurance firms listed on NSE (Beta = 0.337, p=0.001<0.05). This implies that a unit increase in Employee ownership results to 0.337 significant improvement financial performance of insurance firms listed on NSE. This is consistent with the argument by Bruton and Filatotchen et al. (2010) that low concentrated ownership has an overall significant impact on firms’ financial performance.

Table 10: Regression Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.263</td>
<td>0.384</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>0.16</td>
<td>0.074</td>
</tr>
<tr>
<td>Government Ownership</td>
<td>-0.034</td>
<td>0.04</td>
</tr>
<tr>
<td>Foreign Ownership</td>
<td>0.254</td>
<td>0.058</td>
</tr>
<tr>
<td>Employee Ownership</td>
<td>0.337</td>
<td>0.094</td>
</tr>
</tbody>
</table>

a Dependent Variable: Financial performance

Conclusions of the Study

This study concludes that institutional ownership positively and significantly influenced financial performance of insurance firms listed on NSE. This implies that an increase in institutional ownership results to improvement in financial performance of insurance firms listed on NSE. The study also concludes that government ownership negatively but insignificantly influenced financial performance of insurance firms listed on NSE with the implication that an increase in government ownership results to an insignificant decline in financial performance of insurance firms listed on NSE.

The study further concludes that foreign ownership positively and significantly influenced financial performance of insurance firms listed on NSE. The implication here is that an increase in foreign ownership results to improvement in financial performance of insurance firms listed on NSE. The final conclusion made by this study is that Employee ownership positively and significantly influenced financial performance of insurance firms listed on NSE implying that an increase in Employee
ownership results to significant improvement in financial performance of insurance firms listed on NSE.

**Recommendations**

This study recommends that in order for insurance firms listed on NSE to improve their financial performance, there is need to expand institutional ownership as its increase results to improvement in financial performance of the firms. It is therefore important that insurance firms listed on NSE consider institutional ownership because the institutions can effectively monitor the activities of management due to the fact that institutional owners normally have more financial competencies to monitor management with less costs.

Though the findings of this study revealed a negative insignificant influence of government ownership on financial performance, there is need for insurance firms listed on NSE to decrease the level of government ownership. It is therefore important that insurance firms listed on NSE not to lean to government ownership because except in a few institutions, government ownership tends to bureaucratic and inefficient and that even the rights of ownership of firms of the government do not have clear incentives to improve performance of the firm.

Based on the results of this study on foreign ownership, this study also recommends that in order for insurance firms listed on NSE to improve their financial performance, there is need to expand foreign ownership as its increase results to improvement in financial performance of the firms. Significantly, insurance firms listed on NSE need to consider foreign ownership on the grounds that foreign owners are endowed with an effective financial focus, emphasis on liquidity and Employee prudence.

This study finally recommends that in order for insurance firms listed on NSE to improve their financial performance, there is need to increase Employee ownership as its increase results to improvement in financial performance of the firms. It is therefore important that insurance firms listed on NSE consider Employee ownership because the managers of the insurance firms being the owners will encounter low agency problems and will also act for the betterment of the institution.

**Areas for Further research**

The study established the effect of Ownership structure on financial performance of insurance firms listed on NSE. The study was limited to institutional ownership, government ownership, foreign ownership and Employee ownership that jointly accounted for 55.9% of the variations in financial performance of the listed insurance firms as shown by regression model summary. This implies that there are other factors that account for variation in financial performance of listed insurance firms other than the ones examined in this study. Future studies can be conducted to establish these other factors not covered in the model of the study.

Further, the unit of analysis of this study was insurance firms listed on NSE. However, the effect of Ownership structure on financial performance may vary from one organization to another depending on sector and context. Similarly, existing studies failed to show consensus on the effect of government ownership on financial performance with some indicating negative influence while other studies showed that government ownership positively influences financial performance. On this basis, there is need to conduct further research with the same conceptual constructions and methodology to establish effect of ownership structure particularly government ownership on financial performance in other institutions.
References


