

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

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## **ABSTRACT**

*In Kenya, a number of problems relating to the way companies are controlled and directed have been identified. These problems range from errors, mistakes to outright fraud. The origins of these problems range from concentrated ownership, weak incentives, and poor protection of minority shareholders to weak information standards. Despite impressive performance at the Nairobi Securities Exchange, firm's at the Nairobi Securities Exchange are still characterized by higher ownership concentration providing the controlling shareholders with the opportunity to use their power to undertake activities intended to obtain personal gains to the detriment of minority shareholders and other stakeholders while adversely affecting the firms' performance. The study aimed at establishing the effect of ownership structure on the financial performance of firms listed at Nairobi securities exchange.*

*The study was based on transaction cost theory, agency theory and the stewardship theory. The research design that was used in this study is both cross sectional and descriptive survey method. The target population consists of all the stocks listed at NSE as at 31st December 2014. Currently there are 63 firms who are members of the Nairobi Securities Exchange. Secondary data was used in this study. Specifically the study used financial statements. All the data was collected by review of documents, annual reports of the companies, the Nairobi Securities Exchange Handbooks and published books of accounts. Content analysis was used to determine the score for ownership structure. Regression analysis was used to test the relationship between ownership structure and financial performance of firms listed in the NSE. The study found that a strong positive correlation coefficient between financial performances of companies listed in NSE and*

*Ownership structure, ( correlation factor of 0.512, significant value 0.022) the research also revealed that Ownership structure influence the decision making segment of the firm, the degree of ownership concentration in a firm determines how power is distributed between its shareholders and managers. Study found strong positive correlation between financial performance of companies listed in NSE and Ownership concentration (correlation factor of 0.601, significant value 0.014), the research also established that ownership concentration is one of the main corporate governance mechanisms influencing the scope of a firm's agency cost. The study further found strong positive correlation between financial performance of companies listed in NSE and size of the firm as shown by correlation (coefficient factor 0.757, P- value 0.003) the research also established that The size of the company can have a positive effect on financial performance because larger firms can use this advantage to get some financial benefits in business relations. The research recommends that the management of the firms listed in NSE should therefore strike a balance between their choice of capital structure and ownership concentration as they were found to effect on its performance as it affect the shareholders risks, returns and the cost of capital.*

**Key words: ownership structure, financial performance, firms and effect**

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