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EFFECT OF OWNERSHIP STRUCTURE ON PERFORMANCE OF FINANCIAL INSTITUTIONS

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Abstract

Purpose*:* The purpose of the study was to examine the effect of ownership structure on performance of financial institutions.

Methodology: The study used explanatory research design. The study used stratified random sampling to select respondents from target population comprising of managers of 46 commercial banks, 52 Micro Finance institutions (MFIs) and 200 SACCOs and a sample size of 239 respondents obtained. Data was collected using questionnaires. Descriptive statistics was presented, while inferential statistics was done using Pearson product moment correlation.

Results: Risk monitoring [r = .206, p<.05] had a positive relationship performance of financial institutions. The more there was risk monitoring the higher the performance of financial institutions. A proper risk monitoring practices was used to ensure that risks are in line with financial institution's management goals in order to uncover mistakes at early stages. The risk monitoring had positive relationship on performance of financial institutions (P<0.05). The null hypothesis (HO4) stating that there is no significant effect of risk monitoring on the performance of financial institutions was rejected

Unique contribution to theory, practice and policy: The Central Bank of Kenya and Sacco's Regulatory Authorities as regulators should make considerations due to the complexity of the financial sector nowadays makes it necessary before any policy analysis should rely upon different indicators and mainly upon those that reflect the whole reality of the industry performance and explicitly consider and carefully impose some regulations that consider different characteristics of ownership structure of financial institutions and the level of risk tolerance. The policy implications might be different across different types of financial institutions. Consider establish effective and efficient risk analysis mechanisms that will assist financial institutions ascertain their risk earlier.

Key words: *ownership structure, performance, financial institutions*

1.0INTRODUCTION

1.1 Background of the Study

Firm performance is a concept that explains the extent to which an organization achieves objectives. It indicates how organizations have been scrutinizing key business activities over time (Saeidi *et al.,* 2014). Firm performance is an indicator that helps to evaluate and measure how an organization succeeds in realizing business objectives to all its stakeholders (Antony & Bhattacharyya, 2010). Firm performance refers to a firm's ability to achieve its goal through the application of available resources in an efficient and effective manner (Asat *et al.,* 2015). Studies have used different types of performance indicators to measure firm performance.

For instance, measures such as return on investment, return on sale and return on equity are some of the commonly used parameters to measure performance (Saeidi *et al.,* 2014). Thus, for a more comprehensive assessment, organizations have resorted to the utilization of both financial and non-financial performance measures. Judge *et al.* (2003) used both financial and non-financial indicators such as process improvements, customer satisfaction, capacity utilization and product service quality to measure firm performance.

The financial performance assessment is devoid of such a multitude of options and methodologies despite critical importance of financial sustainability. Though an ambition for sustainable institutions has been oftenly articulated, there was also an opinion that most financial institutions working in this field have been unsustainable. Research studies have shown that this is predominantly connected to the perception of micro borrowers' risk and creditworthiness, and the diseconomies of scale in making small loans (Quach, 2005).

Many studies examined the determinants of banks' financial performance in many countries around the world considering the bank specific factors derived from Capital adequacy Asset quality Management efficient Earnings ability Liquidity (CAMEL) Vogel, (2013) for SSA banks, (2012) for China banks, Sarita (2012) for Indonesian banks Dietrich, (2009) for Switzerland banks, Sufian (2011) for Korean banks, Sufian (2009) for Bangladesh banks, Mohana and Tekeste (2012) for Ethiopian banks, Yadollahzadeh *et al.,* 2(013) for Iran banks.

Adeusi, Akeke, Adebisi and Oladunjoye (2013) study focused on the effect of risk management practices on bank financial performance in Nigeria. Using a panel of secondary data for 10 banks and for four years reported an inverse relationship between financial performance of banks and doubt loans, capital asset ratio was found to be positive and significant. Similarly it suggests that the higher the managed funds by banks, the higher the performance. The study concludes a significant relationship between banks performance and risk management. Hence, the need for banks to practice prudent risks management in order to protect the interests of investors.

On the ownership structure of firms, by Kwon (2013) who investigated the relationship between CEO compensation and accounting performance measures as a function of ownership structure in the publicly-held property-liability insurers in USA. They found a significant positive association between Return on Assets (ROA) and the level of compensation for publicly-held insurers but, consistent with optimal contracting theory, no such relationship for privately-held insurers was found.

Clarke *et al*. (2003) find a positive relationship between bank privatization and performance. They look at the relationship in three major areas; Competition, political intervention and Corporate Governance. State ownership of banks is deemed inefficient in operations. The corporate governance structure has no clear objective hence there is less responsibility for bank monitoring as opposed to privatized banks. There are also high information asymmetries and political interventions. However, Sun *et al*. (2002) findings indicate the government has positive impact on firm performance by sending a positive signal to markets, by being effectively involved in monitoring the management.

Douma *et al.* (2006) study the relationship between foreign ownership and firm performance by separating foreign corporate shareholders from foreign institutional shareholders. They suggest that foreign corporate ownership stakes are larger and less fragmented than stakes held by foreign institutional shareholders hence the incentives of these larger share holders are more aligned to perform an effective monitoring role. Foreign corporations holding an ownership stake in a domestic company also tend to invest in firms related to their core business.

Fazlzadeh (2011) noted both a positive and negative relationship between institutional ownership and firm performance. Institutional investors are effective owners, because they have the resource and ability to properly monitor management's decisions hence the positive relationship. However, a negative relationship may emanate when an institutional investor owns a large block of share of a company, the management would be impressed by its power and instead of pursuing the benefits of all shareholders, management would only try to gratify specific institutional shareholder who owns the majority of share of company and leading to failure in firm performance.

The financial reforms in the Kenyan Banking System have seen dynamic changes in the ownership structure. The sector has seen the government reducing its shareholding in once fully owned state owned banks. The reforms have also encouraged foreign ownership in banks to enter and expand banking operations in the country (Mang'uyi, 2011) and also other institutions. However, due to the diverse types of ownership structure, there in increasing research into how these structures interact with risk management and firm performance, which is why the current study is relevant. This has been seen in its efforts in reduction of its ownership in some banks it fully controlled and opening up to potential investors. There are mixed reactions on how the several ownership structures affect firm performance hence making it inconclusive.

1.2 Statement of the Problem

Performance refers to money that a firm can produce with the resources it has. The goal of most financial institution is profit maximization (Niresh & Velnampy, 2014). Profitability involves the capacity to make benefits from all the business operations of a financial institution (Muya & Gathogo,2016).Theoretically, risk management plays a key role in improving firms' financial performance (Kaplan *et al.,* 2008).Risk management affect financial performance of a firm by reducing surprises arising from business complexities, unpredictable business environment and evolving risks. Effective risk management practices and profitability when aggregated affects financial performance of firms in today's competitive environment, profitability is a key factor for smooth running of the business that has a significant effect on performance of the bank and economic development as well ;Tariq *et al*., (2014).

Financial institutions are bestowed with an imperative responsibility to execute in the economy by acting as intermediaries between the surplus and deficit units, making their job as mediators of critical significance for efficient allocation of resources in the modern economy;El-Hawary *et al.*, (2007). The stability of the entire economy is affected by a crumple of the financial institutions, as a result a robust risk management system is mandatory to keep the financial institutions up and running (BNM, 2008; Blunden, 2005). Risk management is an issue that needs to be stressed and investigated, especially in the banking industry, where the need for a good risk management structure is extremely important.

In the financial sector, risk management is seen as one of the most essential internal itineraries upon which decisions are made by financial institutions (Pauzuolis, & Cvilikas 2014). A good risk management framework helps the institution to protect from unfavorable consequences (downside risks) and permit the institution to take the benefit of any possible opportunities (up-side risks). Moreover, as the nature of business for financial institutions are accepting and managing credit risk, thus they act as shock absorbers.

Ludquist (2014) identified the possibility that ownership structure tamper the magnitude of relationship between risk management and firm performance. Ownership structure to banks is important because the basic motivation of owners of capital is to maximize their wealth by enhancing the value. (Eduardus *et al.*, 2007) study on ownership structure of financial institutions finds ownership to some extent determines their risk management approaches, and these in turn affect their performance .One may wonder whether these factors may affect each other, and thereby affect performance jointly, this study sought to determine this gap.

There are few local studies on risk management which include; Kimeu (2008) who studied credit risk management techniques of unsecured banks loans of commercial banks in Kenya, Ngare (2008) who studied credit risk management practices by commercial banks, Simiyu (2008) studied techniques of credit risk management in microfinance institutions in Kenya, Mutwiri (2007) studied credit risk management practices by oil companies in Kenya, Muteru (2007) who studied credit risk management practices by Pharmaceuticals manufacturing firms in Kenya, Mwirigi (2006) who studied credit risk management techniques adopted by micro finance institutions in Kenya and Njiru (2003) who studied credit risk management by coffee co-operatives in Embu District.

1.3 Objectives of the Study

The general objective was to determine the effects of ownership structure on performance of financial institutions.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Agency Theory

According to the agency theory of the firm espoused by Jensen and Mekling (1976), the modern corporation is subject to agency conflicts arising from the separation of the decision-making and risk-bearing functions of the firm. In this setting, Jensen and Mekling (1976) show that managers have a tendency to engage in excessive perquisite consumption and other opportunistic behavior since they receive the full benefit of such activity but bear less than their full share of the costs.

Diffuse ownership (individual owners) also makes it difficult for owners to effectively coordinate their actions. Higher levels of monitoring could encourage managers to avoid strategies decisions that harm shareholder value. In fact, research evidence shows that ownership concentration is associated with lower levels of firm product diversification. Thus, with high degree of ownership concentration, the probability is greater that managers' strategic decisions will be intended to maximize shareholder value. Much of this concentration has come from increasing equity ownership by institutional investors.

This theory has its origins in the early 1930s when Berle and Means (1932) explored the corporate revolution. They revealed that at the early stage, corporations were managed by the founders themselves. As corporations grew, the owners sought external sources of financing. Hence, corporations issued equity. As a result, corporations became owned by external shareholders, where the evolution of separation between owners (ownership) and managers (control) commenced. There are two types of investors, which are either as an individual, they invest directly in purchasing the corporation's stocks or bonds, or invest indirectly by investing in insurance companies, banks and investment trusts, which will invest in corporate securities on behalf of the investors.

Goergen and Renneboog (2001) argued that if there are insufficient monitoring mechanisms in a firm such as having a diffuse ownership structure (which is the opposite of the ownership concentration structure), it may lead to high managerial discretion which may increase the agency costs. As has been argued in the literature, the level of monitoring is a function of such variables as institutional ownership, block ownership by outsiders, the technology in place to monitor the managers Bajaj, Chan and Dasgupta (1998) and forecasted profit gain derived from the monitoring (Demsetz & Villalonga,2001).

Lee (2008) conceptualized most shareholders as those who are interested in the future dividend stream rather than the future of the firm hence, and they would rather sell the shares rather than exercise their rights. Most of them do not have knowledge to make informed decisions about their investments. Therefore, the agency problem is high in dispersed ownership since shareholders tend to free ride hence reducing their incentive to monitor. He also noted that foreign owners and institutions have the resource capability to properly monitor compared to the other ownership identities. Douma *et al*., (2006) also suggest that foreign financial institutions' investment decisions are made by fund managers hence lesser agency problems because they have better monitoring capabilities.

The agency theory holds that most businesses operate under conditions of incomplete information and uncertainty. Such conditions expose businesses to two agency problems namely adverse selection and moral hazard. Adverse selection occurs when a principal cannot ascertain whether an agent accurately represents his or her ability to do the work for which he or she is paid to do. On the other hand, moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort (Eisenhardt, 1989).

It has been pointed out that separation of control from ownership implies that professional managers manage a firm on behalf of the firm's owners. Conflicts arise when a firm's owners perceive the professional managers not to be managing the firm in the best interests of the owners. According to Eisenhardt (1989), the agency theory is concerned with analyzing and resolving

problems that occur in the relationship between principals (owners or shareholders) and their agents or top management. The theory rests on the assumption that the role of organizations is to maximize the wealth of their owners or shareholders (Blair, 1995).

According to the agency theory, superior information available to professional managers allows them to gain advantage over owners of firms. The reasoning is that a firm's top managers may be more interested in their personal welfare than in the welfare of the firm's shareholders. Managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders. Therefore, the agency theory advocates that the purpose of corporate governance is to minimize the potential for managers to act in a manner contrary to the interests of shareholders.

Proponents of the agency theory opine that a firm's top management becomes more powerful when the firm's stock is widely held and the board of directors is composed of people who know little of the firm. The theory suggests that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management (Mallin, 2004). Wheelen and Hunger (2002) argue that problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation.

The agency theory also advocates for the setting up of rules and incentives to align the behaviour of managers to the desires of owners. However, it is almost impossible to write a set of rules for every scenario encountered by employees. Carpenter and Westpal (2001) opine that the agency theory is mainly applied by boards of profit making organizations to align the interests of management with those of shareholders, and that the demands of profit making organizations are different from those of stakeholders such as shareholders, local communities, employees and customers. The conflicting demands can be used to justify actions that some may criticise as immoral or unethical depending on the stakeholder group.

This theory brings out an understanding to the relationship between ownership concentration, foreign ownership and performance. Agency problems are seen to be more in dispersed ownership as shareholders tend to free ride and hence are less effective in their monitoring leading to ineffectiveness in performance. On the other hand, foreign owners are depicted to have more capacity and resources hence increasing their monitoring capabilities. Their investment decisions also tend to be more informed since they seek the services of professional managers. Foreign ownership therefore, would lead to better performance. This theory is relevant to this study because the State ownership would be deemed inefficient due to the lack of capital market monitoring which according to the Agency theory would tempt manager to pursue their own interest at the expense of the enterprise. Managers of private banks will have greater intensity of environmental pressure and capital market monitoring which punishes inefficiencies and makes private owned firms economically more efficient (Lang and So, 2002).

2.2 Literature Review

The concept of ownership can be defined along two lines of thought: ownership concentration and ownership mix. The concentration refers to proportion of shares held (largest shareholding) in the firm by few shareholders and the later defines the identity of the shareholders Ongore (2011). On the relationship between ownership and financial institutions performance different scholars came

up with different results. For instance according to Claessens *et al.,* (2000) domestic banks' performance is higher as compared to their foreign counterparts in developed countries and the opposite is true in developing countries. Ownership is one of the factors explaining the performances of financial institutions across the board; yet the level and direction of its effect remained unresolved. There are scholars who claimed that foreign firms perform better with high profit margins and low costs as compared to domestic owned banks. This is so because foreign owned firms are believed to have experienced management expertise in other countries over years. Moreover, foreign banks often customize and apply their operation systems found effective at their home countries (Ongore, 2011).

Kamau (2009) used a sample of 40 banks in Kenya from1997-2006 and linear regression method to analyze factors that influences efficiency and Productivity of the banking sector in Kenya. The results showed that foreign-owned banks influence the performance of the local banking sector. The author claimed that foreign banks generally bring with them superior know-how and technical capacity. The ownership structure of banks in Kenya has changed over the last few years. Kenya financial reforms have encouraged foreign banks to enter and expand banking operations in the country. As resulted 13 out of the 44 commercial banks are foreign owned and in terms of asset holding, foreign banks account for about 35% of the banking assets as of 2011 (CBK, 2011).

Lee (2008) in a period from 2000-2006, examined the effect of equity ownership structure on firm financial performance in South Korea. He focused on two dimensions of ownership structure; Ownership concentration (the distribution of shares owned by majority shareholders) and identity of owners (especially, foreign investors and institutional investors). With secondary data obtained from Korea Information Service, he sampled 539 firms from the 630firms listed on the Korea Stock Exchange. His analysis used Multivariate regression analysis on panel data. Lee's findings were that firm performance improves as ownership concentration increases; however, as ownership concentration increases; the positive monitoring effect of concentrated ownership first dominates but later is outweighed by the negative effects, such as the expropriation of minority shareholders. Contrary to previous empirical findings, he found the effects of foreign ownership and institutional ownership on firm performance to be insignificant.

Young and Kang (2008) used the new classification scheme on the ownership identity suggested by Delios *et al*. (2006) by analyzing the data of public companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange during the period 1994-2002. Their objective was to investigate the performance implications of the ownership structures of listed companies in China. The study compared performances across three ownership identities: government shareholding marketized corporate shareholding, and private shareholding. It also examined how equity ownership by the controlling shareholder and the minority shareholders (from top 2 to top 10 shareholders) affected firm value, in order to explore the role of the controlling shareholder and minority shareholders in the ownership structure in China. Their findings were that the argument that the state deteriorates firm value by pursuing policy goals rather than profits. Other findings are that marketized SOEs are not outperformed by private firms, higher equity ownership by the controlling shareholder leads to higher valuation of firms by intensifying incentives to monitor management or by reducing incentives to expropriate minor shareholders and also they find evidence of higher valuation of firms which have minority shareholders with large shareholding.

Fazlzadeh *et al*. (2011) determined the role of ownership structure on firm performance by sampling 137 listed firms of Tehran stock exchange within the period 2001 to 2006.They used balanced panel data in the regression analysis with their design concentrating on three ownership variables; ownership concentration, institutional ownership, and institutional ownership concentration. Their findings were that ownership concentration doesn't have any significant effect on firm performance with the interpretation that since there are both advantages and disadvantages on ownership concentration, the integration of both positive and negative effects of ownership. On the other hand, there was a positive effect of institutional ownership on firm performance because institutional investors are effective owners, since they have the resource and ability to properly monitor management's decisions and lead to better performance of the firm. However, Ownership concentration had a negative impact on performance because when an institutional investor owns a large block of share of a company, the management would be impressed by its power and instead of pursuing the benefits of all shareholders, management would only try to gratify specific institutional shareholder which owns the majority of share of company which would finally lead to failure in firm performance. The type Industry is viewed as a moderating variable which could describe the different results for the effect of ownership structure on firm performance.

Ongore *et al*. (2011) used a census approach in their research design with an objective of determining the relationship between shareholder types and firm performance. Their findings indicate a significant negative relationship between state ownership of firms and financial performance. On the other hand, foreign, insider, diverse and institutional ownership gave significant positive relationships with financial performance. Their results however fail to establish the critical level of shareholding, beyond which there would be accelerated firm performance arising from commitment of managers.

A survey of partially privatized firms listed at the Nairobi Securities Exchange sought to assess the effect of government ownership/control on financial performance of partially privatized listed companies. It sampled 16 firms, 7% of whom had government control. The others were considered government investments. With the aid of SPSS version 19, a descriptive, univariate and multivariate analysis of data was performed. The findings were that financial performance of firms listed on the NSE is not affected by government shareholding or control since financial performance of partially privatized but listed firms is indifferent to the government control.

Ongore (2011) investigated the relationship between ownership structure and performance of listed firms in Kenya. From the different segments of the listed firms at the NSE, he sampled two firms from the Agricultural sector, seven from Commercial Services, ten from Finance and Investment, fourteen from Industrial and Allied and seven from Alternative Investment Market. He analyzed the data using Pearson's Product Moment Correlation and Logistic Regression. His finding was that in Kenya, ownership concentration is inimical to manager creativity and innovation, and curtails firm performance. He also found out that when managers, double up as shareholders, they are motivated to work towards realization of the wealth creation objective of the shareholders of whom they are part. On the other hand, managers who are not shareholders are more likely to engage in insider dealings as a way of enhancing their personal wealth and prestige. Government ownership was found to have a negative impact on firm performance. In the ownership by corporations his findings suggested a positive relationship with firm performance since most of

the holding companies are usually large corporations who translate their investment practices and risk taking behavior to those firms. He however found a positive relationship between diverse ownership and firm performance.

Bouwens and Verriest (2014) have argued that managers who have equity interest take less risk because they feel the consequences of poor decisions more than other shareholders. Hence, managers with equity holding may be meticulous when it comes to risk management issues. Ownership is one of the factors explaining the performances of financial institutions across the board; yet the level and direction of its effect remained unresolved.

Kiruri (2013) sought to determine the relationship between ownership structure and bank profitability in Kenya. Using a descriptive study design, data was drawn from all the 43 registered banks by the Central Bank of Kenya. The study used annual reports that are available from the websites of the banks and also in the Central bank of Kenya website. Primary data was also collected through questionnaires. He obtained data for a five year period from 2007 to 2011. His findings were that ownership concentration is negatively correlated with bank profitability implying that higher ownership concentration leads to lower profitability of commercial banks in Kenya. The study also found that state ownership is negatively correlated with bank profitability. However, his study was a little bit contradictory after findings of both positive correlation between foreign ownership and domestic ownership with bank profitability. This study therefore sought to examine whether ownership structure significantly moderate the relationship between risk management practices and financial institutions performance in Kenya or not.

3.0 RESEARCH METHODOLOGY

The study used explanatory research design. The study used stratified random sampling to select respondents from target population comprising of managers of 46 commercial banks, 52 Micro Finance institutions (MFIs) and 200 SACCOs and a sample size of 239 respondents obtained. Data was collected using questionnaires. Descriptive statistics was presented, while inferential statistics was done using Pearson product moment correlation.

4.0 RESULTS

4.1 Demographic Information of the Respondents

A total of 279 questionnaires administered to the respondents but only 236 were used in the analysis and this accounted for a response rate of 81.7% which was found to be very good. This agrees with Babbie (1990) that a response rate of over 70% is very good. Although these are rules of thumb that ignore the compounding effect of sampling, measurement, and coverage errors. The demographic information sought from the respondents included; the gender, age, educational level, department worked, duration the firm has been in operation. All these were relevant in establishing the extent to which personal characteristics may influence risk management practices as summarized in table 1. Majority of the respondents involved in the study were male. Of the 236 respondents included in the study, 58.5% (138) were male, while 41.5% (98) were female. This indicates that there was gender disparity in the employees working in financial institutions in Kenya.

Regarding age, the results showed that 30.5% (72) of the respondents were in the age bracket of 35 and 44 years, 29.2% (62) were in the age bracket of 25 and 34 years and 26.3% (62) were in

the age bracket of 45 and 54 years and 8.9% (21) were over the age of 54 years. The findings showed that dominant 64.8% (153) of the tea firms' employees were in their active working age of below 44 years. The academic levels of employees were varied and 61 (25.8%) had diploma qualification, 104 (44.1%) had degree, 64 (27.1%) having masters, 3% had PhD. The findings indicated that majority of the employees had at least a diploma as the highest level of Education and were in good position to perform well during the adoption of risk management practices. During the study 88 of the respondents (37.3%) held the position of credit officers, 49(20.8%) as risk and compliance, 43 (18.2%) from mortgage department and 56(23.7%) from debt recovery.

Regarding duration of operation of the financial institution, the results showed that 50.4% had been in operation for between 26 and 30 years', 16.5% between 16 and 20 years', with 11.9% between 11 and 15 years, while10.6% between 6 and 10 years and 7.2% being in operation between 21 and 25 years. The findings showed that most of the financial institutions had been in operation for more than 20 years.

Table 1: Respondents Demographic Characteristics

	Response	Frequency	Percent
Gender	Male	138	58.5
	Female	98	41.5
	Total	236	100.0
Age bracket	18-24 years	12	5.1
	25-34 years	69	29.2
	35-44 years	72	30.5
	45-54 years	62	26.3
	55– 64 years	21	8.9
	Total	236	100.0
Highest level of education	Diploma	61	25.8
	Bachelors	104	44.1
	Masters	64	27.1
	PhD	7	3.0
	Total	236	100.0
Type of department	Credit	88	37.3
	Risk and compliance	49	20.8
	Mortgage	43	18.2
	Debt recovery	56	23.7
	Total	236	100.0
Duration of operation of the institution	0-5 years	8	3.4
	6-10 years	25	10.6
	11-15 years	28	11.9
	16-20 years	39	16.5
	21-25 years	17	7.2
	26-30	119	50.4
	Total	236	100.0

4.2 Financial Institution Background Information

The background Information of financial institution sought from the respondents included; duration the financial institution implemented risk management compliance, nature of activities and size of the firm. All these were relevant control variable in establishing the extent to which risk management practices maybe influenced by size of the firm as summarized in table 2.

Table 2: Financial institution Background Information

	Response	Frequency	Percent
Duration the financial institution implemented risk management compliance	0-1years	7	3.0
	2- 4 years	56	23.7
	5-7 years	39	16.5
	8-10 years	47	19.9
	11-15 years	37	15.7
	15 years and above	50	21.2
	Total	**236**	**100.0**
Nature of activities	Commercial Banking	109	46.2
	Investment banking	28	11.9
	offshore banking	17	7.2
	Foreign Banking	3	1.3
	Investment (including funds)	9	3.8
	Stock brokers	17	7.2
	Deposit Taking	53	22.5
	Total	**236**	**100.0**
Size of the Firm	Large (Over 40 Bn Assest)	40	16.9
	Medium (10-40 Bn)	56	23.7
	Small (below 10m)	140	59.3
	Total	**236**	**100.0**

Regarding duration the financial institution has implemented risk management compliance, the results showed that 21.2% had implemented risk management compliance for more than 15 years', 19.9% between 8 and 10 years', with 16.5% between 5 and 7 years, while 15.7% between 11 and 15 years. The findings showed that most of the financial institutions had implemented risk management compliance for more than 5 years. This concurs with Hull, (2012) that commercial banking in virtually all countries has been subject to a great deal of regulations. One of the regulations is the minimum capital commercial banks must keep absorbing loss if unexpected things happen. This kind of capital requirement is, in particular, conducted by Basel Committee which aims to enhance the key supervisory issue and improve the quality of banking supervision (Bis.org, 2014).

On the nature of activities the commercial bank 109 (46.2%)of the respondents identify the financial institutions engage in commercial banking activities, 22.5% deposit taking, with 11.9% in investment banking, 7.2% in offshore banking and stock brokers. This indicated that most of

the financial institutions engage in banking. On the size of the firm most of the financial institutions 140(59.3%) had a small asset base of below 10 million, with 32.7% being medium sized with 10 to 40 million asset base and 16.9% with large asset base of over 40 billion. This indicates that commercial banks hold deposits, bundling them together as loans and operating payments mechanism.

4.3 Ownership Structure

Most of the respondents 215 (91%) indicated that the ownership structure of the financial institution was local, with 21 (9%) being foreign as shown in Figure 1This indicated that most of the financial institutions were owned locally. The study indicates that a higher ownership was locally owned compared to foreign owned. This agrees with CBK, (2011) that 13 out of the 44 commercial banks are foreign owned and in terms of asset holding, foreign banks account for about 35% of the banking assets as of 2011. Kenya financial reforms have encouraged foreign banks to enter and expand banking operations in the country.

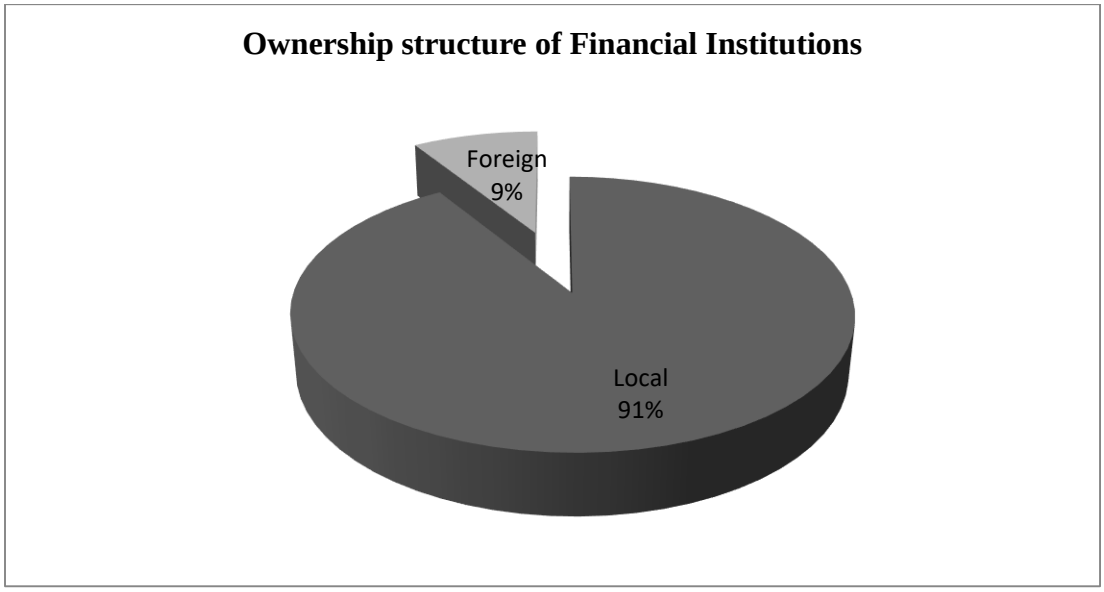

Figure 1: Ownership structure

4.4 Descriptive Statistics of ownership structure

From the study, the mean of each statement explaining ownership structure was computed from a five point likert scale. The respondent's views on the ownership structure were sought and their responses presented in table 3. The findings showed that all the statements representing ownership structure had a mean of above 3.8, indicating that the respondents highly rated the ownership structure. The overall skewness was -2.94 and kurtosis was 11.30, indicating that the distribution of values deviates from the mean.

Table 3: Descriptive Statistics of Ownership Structure

	Mean	Std. Deviation	Skewness	Kurtosis

The ownership structure has a significant effect on bank risk.	4.3686	1.09336	-1.955	3.039
The type of ownership may increase or decrease depending on the objectives of shareholders and bank risk managers	3.9788	.95627	-1.489	2.457
The ownership structure influences the decisions of managers and their risk aversion.	4.0339	1.04724	-.942	.324
Public ownership reduces operational risk due to resource implicit state guarantee.	4.1059	1.03626	-1.255	1.065
Increasing public ownership is related to inefficient financial system	3.8178	1.12451	-1.048	.610
Private ownership encourages more respects commitments to depositors and creditors, which reduces the risk of default of the bank.	4.1949	1.02113	-1.391	1.486
Public banks are less sensitive to macroeconomic shocks in comparison with the private banks	3.8008	1.25077	-1.038	.100
Private banks have a goal of maximization profit that encourage more transactions in the capital market and deposits	4.0593	1.13956	-1.266	.801
Public banks have the protection of the state which their precedence over private banks.	3.9661	1.11418	-1.143	.735
Foreign ownership may influence the risk of local banks in several ways.	3.8771	1.23674	-1.112	.330
Mean	**4.0428**	**.65945**	**-2.944**	**11.304**

From the 10 statements used in explaining ownership structure characteristics had an overall mean score of 4.04 indicating that respondents agreed on its ownership structure. This implies that the ownership structure was highly rated among the respondents. This agrees with Ongore, (2011) that ownership is one of the factors explaining the performances of financial institutions across the board. The foreign firms perform better with high profit margins and low costs as compared to domestic owned banks. This is so because foreign owned firms are believed to have experienced management expertise in other countries over years.

4.5 Factor Analysis for Ownership structure

The factor analysis results of ownership structure, indicated that the KMO was 0.774 and the Bartlett's Test of sphericity was significant (p<.05). The Varimax rotated principle component resulted in three factor loading on ownership structure variable that explained 58.72 % of variance with Eigen values larger than 1 (table 4). Only the increasing public ownership is related to inefficient financial system was deleted and the other statements retained, computed and renamed ownership structure for further analysis.

Table 4: Factor Analysis of ownership structure

	Component		
	1	2	3
The ownership structure has a significant effect on bank risk.	.818		
The type of ownership may increase or decrease depending on the objectives of shareholders and bank risk managers	.814		
The ownership structure influences the decisions of managers and their risk aversion.	.698		
Public ownership reduces operational risk due to resource implicit state guarantee.	.565		
Increasing public ownership is related to inefficient financial system			
Private ownership encourages more respects commitments to depositors and creditors, which reduces the risk of default of the bank.		.608	
Public banks are less sensitive to macroeconomic shocks in comparison with the private banks			.715
Private banks have a goal of maximization profit that encourage more transactions in the capital market and deposits		.817	
Public banks have the protection of the state which their precedence over private banks.		.541	
Foreign ownership may influence the risk of local banks in several ways.			.749
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.774		
Bartlett's Test of Sphericity (df-45)	.000		
Total Variance Explained	58.718		

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

4.6 Correlations

Pearson moment correlation was used to describe the relationship between independent and dependent variables, depending on the level of measurement. The relationship between independent variable (ownership structure) and dependent variable (performance of financial institutions) were investigated using Pearson product-moment correlation coefficient as shown in table 5. The ownership structure had a positive relationship performance on financial institutions [r = .468, *n* = 236, p<.05]. This implies that an increase in ownership structure the, more the

performance of financial institutions. This agrees with Kiruri, (2013) that higher foreign and domestic ownership lead to higher profitability in financial institutions.

Table 5: Pearson moment correlation Results

	Performance	Ownership Structure
Performance	1	
Ownership Structure	.468**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
c. Listwise N=236

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The study concluded that ownership structure had a positive relationship performance on financial institutions

5.2 Recommendations

The Central Bank of Kenya and Sacco's Regulatory Authorities as regulators should make considerations due to the complexity of the financial sector nowadays makes it necessary before any policy analysis should rely upon different indicators and mainly upon those that reflect the whole reality of the industry performance and explicitly consider and carefully impose some regulations that consider different characteristics of ownership structure of financial institutions and the level of risk tolerance. The policy implications might be different across different types of financial institutions. Consider establish effective and efficient risk analysis mechanisms that will assist financial institutions ascertain their risk earlier.

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