THE EFFECT OF SHAREHOLDING ON THE FINANCIAL PERFORMANCE OF THE BANKING SECTOR IN KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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A Research Project Report Presented In Partial Fulfilment of the Requirements for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than United States International University - Africa in Nairobi for academic credit.

Signed: ………………………………… Date: ……………………………

Kennedy Mburu Gachunga (ID.NO 646271)

The project has been presented for examination with my approval as the appointed supervisor

Signed: ………………………………… Date: ……………………………

Kepha Oyaro

Signed: ………………………………… Date: ……………………………

Dean, Chandaria School of Business
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ABSTRACT

The general purpose of the study was to establish the effect of shareholding on the financial performance of the banking sector in Kenya. This study was guided by the following research questions: what are the concentration structures of shareholding adopted by banks in the banking sector in Kenya? What is the relationship between ownership structure and firm performance? What are the factors that determine financial performance and what are the risks in choice of shareholding structure adopted by the banking institutions affecting their performance?

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions about the effects of shareholding on the financial performance of the banking sector in Kenya. Further; the correlation approach was adopted as the study was seeking to describe relationship between the independent and dependent variables. The target population for this study was 243 respondents who oversee the financial performance of the banks. The sampling technique was stratified random sampling method. From the initial target population a sample of 151 questionnaires distributed only 140 were filled and returned giving a response rate of 93%.

The first objective established that regulation in the industry is based on shareholder concentration (local or international). The second objective established that efficiency in the bank is a result of the output that the shareholders have committed to goal attainment. Efficient utilization of assets and management skills contributes to good returns in the banking industry. The third objective revealed that the results established that most respondents agree that the inventory records are updated regularly in the bank. The last objective established that most respondents agree that diversity of investors fosters investment trading activity. Risk exposures determine their trading positions in the banking institutions.

The study concluded that 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. Secondly, institutional ownership is only significant to ROE but insignificant to ROA. Meanwhile, the insignificant results of family ownership and foreign ownership suggest that both types of ownership structure do not have significant impacts to the bank performance. Thirdly, the
relationship between bank performance and capital adequacy and management efficiency was found to be positive and for asset quality the relationship was negative. Although, bank managers who invest their liquid assets can generate income and boost their performance. Lastly, Macroeconomic variables such as inflation are prone to influence the shareholding of banks.

The study recommended that control of shareholding between the domestic and foreign owned banks should be implemented because foreign banks have a higher loan portfolio quality and thus lower levels of insider lending. Secondly, the maintenance of good relationship between the firm’s managers should be maintained and a stable shareholding since it ensures a fixed returns to assets. Thirdly, there is need for commercial banks to improve their performance in terms of their ROEs and ROAs. Finally, banks should improve on their liquidity more so the ability of the banks to promptly repay the depositors. Finally, Industry concentration should be worked on since it has a positive impact on banking performance.

Further studies should be done in other sectors of the economy such as manufacturing sector to determine the firm specific factors that influence their performance. There is also need to carry out the same study in the banking industry in Kenya but by employing a different model and approach in order to test the determinants of bank financial performance.
ACKNOWLEDGEMENT

I would like to thank God the almighty for giving me strength, hope, faith and perseverance to see this project to successful completion. I would also like to express my gratitude to my project supervisor Dr Kepha Oyaro for his guidance in my research. I also am grateful to my research methods lecturer Dr Peter Kiriri for his role in imparting the research knowledge. I really appreciate the help.
DEDICATION

This report is dedicated to my Parents who have been consistent in their prayers, their encouragement and belief in me and their sacrifices they have made throughout their lives to ensure that knowledge through education is the driving force in my life.
# TABLE OF CONTENT

| STUDENT’S DECLARATION | ii |
| COPYRIGHT | iii |
| ABSTRACT | iv |
| ACKNOWLEDGEMENT | vi |
| DEDICATION | vii |
| LIST OF TABLES | x |
| ABBREVIATIONS AND ACRONYMS | xi |

## CHAPTER ONE ................................................................. 1
1.0 INTRODUCTION .................................................................. 1
1.1 Background of the Study .................................................... 1
1.2 Statement of the Problem ................................................... 4
1.3 General Objective ............................................................ 5
1.4 Specific Objectives ........................................................... 5
1.5 Significance of the Study ................................................... 5
1.6 Scope of the Study ............................................................ 6
1.7 Definition of Terms .......................................................... 7
1.8 Chapter Summary ............................................................ 7

## CHAPTER TWO ................................................................. 8
2.0 LITERATURE REVIEW .......................................................... 8
2.1 Introduction .................................................................... 8
2.2 Determination of Concentration of Shareholding leading to Financial Performance... 8
2.3 Relationship between Shareholding Structure and Bank Performance .............. 12
2.4 Determinants of Financial Performance .................................. 17
2.5 Shareholding Risks that Influence Bank Performance .............................. 22
2.6 Chapter Summary ............................................................ 27

## CHAPTER THREE ............................................................... 28
3.0 RESEARCH METHODOLOGY .............................................. 28
3.1 Introduction .................................................................... 28
3.2 Research Design ............................................................. 28
3.3 Population and Sampling Design .......................................... 28
3.4 Data Collection Methods ................................................... 31
LIST OF TABLES

Table 4.1: Response Rate .................................................................................................................34
Table 4.2: Highest Level of Education .............................................................................................34
Table 4.3: Management Level ..........................................................................................................35
Table 4.4: Number of Years Worked In the Bank ..........................................................................35
Table 4.5: Descriptive on Variables of Shareholding Structure. .....................................................37
Table 4.6: Descriptive on Variables of Determinants of Financial Performance ............................38
Table 4.7: Descriptive on Variables of Shareholding Risks that Influence Bank Performance .........40
Table 4.8: Descriptive on Variables of Bank Performance .................................................................41
Table 4.9: Reliability Statistics .........................................................................................................41
Table 4.10: Correlation Analysis .....................................................................................................42
Table 4.11: Regression Analysis ......................................................................................................42
Table 4.12: ANOVA Analysis .........................................................................................................43
Table 4.13: Coefficients of bank performance and Co-Factors ......................................................43
ABBREVIATIONS AND ACRONYMS

ASEAN - Association of the South East Asian
CAMEL - Capital, Management Efficiency, Earnings and Liquidity
CBK - Central Bank of Kenya
EPS - The Earnings per share
GDP - Gross Domestic Product
ROA - Return on assets
ROCE - return on capital employed
ROE - The return on equity
SD - Standard Deviation
SPSS - Statistical package for social sciences
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Researches into the relationship between shareholding and bank performance have been conducted widely among them being Sok-Gee Chan (2016) who empirically did research on how foreign shareholding affected bank performance in the Association of the South East Asian (ASEAN) banks. In Kenya we have Kiambati, Karanja, Katuse, and Waititu (2013) also have looked into whether shareholder control affects the performance of the commercial banks. The studies have identified relationships where assets ownership and technical advancement has had a great influence to the performance of the banking institutions.

The Morck et al (1988) along with McConnell and Servaes (1990) are among the earliest researchers who took to research the effect of ownership structure on firm performance. They both identified a common link which was the relationship between the ratios of ownership to the assets accumulated, and its effect on the corporate value in terms of management or operations of the firm. Large shareholders play an important role on firm performance and policies; it strategically influences control of an entity (Becker, Henrik, & Rudiger, 2011).

In Kenya a study by Ongore (2011) on relationship between ownership structure and performance of listed firms in Kenya found that a high concentration of ownership structure and the involvement of Government ownership lead to an unfavourable relationship in firm performance. He categorized on favourable and unfavourable ownership where positive results were obtained when shareholding was foreign, corporate or managerial. It was negative when there was individual shareholding and government’s shareholding. There was a better chance of survival for corporate or entities that had an external foreign shareholding or foreign shareholding.

The is a positive correlation between shareholder participation on the board of directors which reduced interest conflict in banks, and private ownership was more influential to increase in bank profitability (Son, Thanh, Cuong, Ngoc, & Khanh, 2015). Shareholding can be structured into two that is the ownership concentration and the ownership mix. In the ownership concentration the largest shareholder was influenced by monitoring aspirations and absolute risk, while on the ownership mix focus was on the shareholding
identity, that is whether we have a foreign, local or government shareholding among others.

Performances of banks are related to board composition according to a study by Al-Saidi and Al-Shammari (2013). Non-executive shareholders negatively affected bank performance. Role duality which means the taking up of two positions in the bank such as heading the CEO as well as the finance head was also seen as a positive contribution to the bank performance. The concentration in size of the firm was key in being able to determine how banks performed in Kuwait. (Boateng, Wei, & Kufuor, 2015), foreign ownership outperforms domestic private and state owned banks. In this study by Boating (2014) a suggestion as to whether states should completely divest their shares to the state owned banks and eliminate or minimize their influence on the state owned banks lending activities was proposed by the researchers.

The Stakeholder theory has been influential in the management of corporations. The theory presents a model which seeks to explain an organization constituent or composition and how it is influential in a number of ways, be it management or for competition purposes. Stakeholder theory according to Donaldson (1995) argues that this is a managerial situation and stakeholder management contributes to successful economic performance. He emphasizes that this is not entirely a true projection and the best alternative to this is the management serving to shareowners theory. Firms have an obligation to provide value to stakeholders (Freeman, 1984).

Shareholder Theory details the primary duty of a firm’s manager as the maximization of shareholder wealth (Berle & Means, 1932; Friedman, 1962). The theory has been critiqued along the years since its inception and we find that (Gunasekarage, 2011) identified that the largest shareholders, were influential to a corporation, and more so to a financial institutions which comprises of banks. Boone research in New Zealand involved finding out the varied block investors in firms and their influence to the firm’s performance in the economy.

A good financial performance of banks yields to a sound profitable banking sector as well as stability in the financial system (Ongore, 2013). Banks are critical in their operations in the Kenyan market as they are the intermediary for financial transactions to the business sector. The sector has diversified greatly over the years with the growth in technology as well as expansion in markets within and outside the confines of the state. It is through
continuous analysis and research that banks have been able to improve on their financial capabilities over the years. The benchmarking measuring of banks performance is among the tools that have been able to facilitate the banks performance in the economy Osuagwu (2014).

A research on return of assets, return on equity and the margins of interest also are contributors to the efficiency in the banking sector. Gross Domestic Product and stock market capitalization to total assets considerably influence performance (Jaber & Alkhawalde, 2014). They found that internal factors contribute highly to influence bank performance. This internal factor includes factors such as concentration in shareholding among others. In accordance Central Bank of Kenya CBK (2015), the banking sector was comprised of 43 commercial banks, 12 microfinance institutions, 8 representative offices of the foreign banks, 86 foreign exchange bureaus, 14 money remittance providers, 1 mortgage finance institution and 3 credit reference bureaus. The sector performance improved from the previous years before 2015 with total asset value of Ksh.3.60 trillion.

A Study by Lipunga (2014) focused on the determinants of profitability in listed commercial banks in Malawi. Returns on Assets, Earning Yield were the main measures of profitability. In the terms of Yield Earnings bank size, capital gains and management efficiency held a significant influence to performance of the banking sector. In the recent years there has been a high assessment in determining of factors that influence bank performance among them has been the concentration in ownership of banks this in reference to shareholding positions (Nouaili, Abaoub & Ochi, 2015).

A study by ElBannan (2015) focused on the concentration of the banking sector and its influence on stability. This concentration involved whether the banks are foreign, local or state owned. The study encouraged suitable regulation for emerging economies to allow foreign shareholders to be able to invest in the developing countries by transfer of skills and knowledge. The firms in the banking sector with a higher earning management are able to attract more investors be it local or foreign (Yang, Hsu, & Yang, 2013). An increase in the shareholding and favourable conservative earnings results to a good performance of firms, with an increased or seasoned equity offering. Shareholding therefore should be of value addition to an institution one invests in according to Yang’s findings.
A study by Ongore and Kusa (2013) on the determinants of financial performance of commercial banks in Kenya focused on the use of the CAMEL model found that it was the management efficiency and capital adequacy that had a positive relationship on bank performance. This reveals that the structure of the shareholding in banks with controlling shareholders have a significant influence on bank performance.

The banking sector on Kenya has been lucrative over the past few years and as according to Muiruri & Ngari (2014) the increase of banks to 43 institutions shows the growth in the sector. According to the (CBK, 2016) the composition of banks is at 43 commercial banks, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus.

1.2 Statement of the Problem

In the study of the implication of shareholder types on financial performance by Ongore, (2011) there was a significant negative relationship observed when government took up ownership of corporations. Foreign, national and a mix or diverse shareholding was seen as the best option yielding to a suitable financial performance. The effects of ownership structure on bank profitability in Kenya carried out by Kiruri and Kimani (2013) found that state ownership as well as a high shareholding concentration leads to lower profitability in commercial banks while foreign and domestic shareholding resulted to a higher profitability in commercial banks.

The researches that foreign owned banks are more suited to perform better than state owned banks has been backed up mostly in developing economies(Hsiu-Ling Wu, Chien-Hsun Chen, & Mei-Hsuan Lin, 2007). This has been as a result of transfer of skills and technology, the interest between shareholders and managers has been a determinant to effective management and performance of the banking sector Sok-Gee Chan (2016 ). The Kenyan banking sector has recently been very competitive with a clear tag of market share between local and foreign owned banks. As of 2015 Kenya Commercial bank and Equity were ranked as the most profitable banks while Barclays bank and Standard charted followed suit.

This is the distinction that exists where we have local banks outshining foreign banks in developing nations, while most of the literature tends to lie on the foreign shareholding banks being the best performers to local or state owned banks. In the developed
economies state owned banks tend to be more profitable and have a better liquidity position compared to other banks even though the asset quality is better and overall performance favourable (Agyenim, Wei, & Nana, 2015).

The studies above provide significant information as to the performance of banks; there is a distinct between some of them especially when the research involved developed and developing economies where banks are situated. The studies have not yet highlighted the shareholding shift in Kenya where there are banks with local shareholding banks that are performing better than foreign owned banks contrary to the much of the literature holding to foreign banks as more lucrative to a positive bank performance. The focus on this research gap will incorporate use of the stochastic frontier analysis and the resource base value that is meant to fill (Sok-Gee & Chan, 2016).

1.3 General Objective
The objective of the study is to examine the effect of shareholding on the bank sector performance in Kenya.

1.4 Specific Objectives
1.4.1 To determine the concentration structure of shareholding adopted by banks in the banking sector in Kenya
1.4.2 To investigate the relationship between ownership structure and firm performance
1.4.3 To analyse the factors that determine financial performance.
1.4.4 To determine the risks in choice of shareholding structure adopted by the banking institutions affecting their performance

1.5 Significance of the Study
The study will fill in the gap on the varied shareholding components that affect the financial performance of the banks in the banking sector. The finding will benefit the banking industry as a whole especially in determination of the best role shareholders are suited for while investing in the sector.

1.5.1 Commercial Banks
Commercial Banks will be informed on the varied factors on shareholding that can be able to influence their performance in the banking industry by looking at their control of
shareholding. This includes banks owned by the state, local, block, mixed shareholding or foreign owned banks.

1.5.2 Portfolio Managers
Investors will be able to forecast the market trend and have a determination on the banking industry based on their response of the sector to a shareholding alternation or change in ownership structure.

1.5.3 Regulatory Bodies and the Government
The regulators will be able to control or manage the structure of the banking institutions so as to influence ownership rules or regulations in the banking or corporate ownership sectors. The Government will be able to monitor performance based on the investment of shareholders to the banking institutions.

1.5.4 Researchers
The study will contribute to the research into the banking sector efficiency in the Kenyan economy. An address to a knowledge gap on the effects of varied ownership positions to influence the banking efficiency will be influential to managerial or investor decisions in the market.

1.6 Scope of the Study

The study will be entail the above banking institutions as they are a representative of local, foreign, state, single and block shareholding in Kenya.

The study will make use of quantitative data therefore limiting the ability to make generalisations of the population as the case of probability sampling. This will be tackled with the use of a non-sampling technique which will also serve to derive the required results from the data.

The reliance on correlational data will lead to causal conclusions as a result of the hypothesized relationships in the study. The use of measures to cater for errors such as
addition of other variables will improve the certainty of the study as well as minimize the degree of errors.

1.7 Definition of Terms

1.7.1 ASEAN
The association of Southeast Asian nations or ASEAN involve a community of these countries namely Indonesia, Malaysia, Philippines, Singapore and Thailand. It was set up in 2003 with the objective of creating a single market and production base, enhancing equitable economic development as well as the facilitation of integration into the global economy (Siowyue, 2013).

1.7.2 Ownership Mix
Ownership mix involves the diffusion of ownership among the various different shareholders such as the government, individual, foreign, block or local (Shagufta & Muhammad, 2014).

1.7.3 Ownership Concentration
Concentrated ownership involve the amount of shareholders one has, this is the majority shareholders held by the few shareholders (Shagufta & Muhammad, 2014).

1.7.4 Return on Assets (R.O.A)
Return on assets (ROA), which is frequently defined by net income after tax divided by total assets. ROA is a comparative measure and does not provide an absolute value. (Stoeberl, 2011).

1.7.5 Financial performance
A firm relative position within its industry determines whether a firm’s profitability is above or below the industry average. Financial performance is measured mainly by return on assets and return on equity with a background on of theories concerning ownership structure and size of companies (Radosław, Miszczyńska, & Bartłomiej, 2016).

1.8 Chapter Summary
The study will focus on the shareholding influence on the bank performance. The address of the study is on issues in the banking sector affecting their efficiency, as well the investors on the shareholding platform of the banks. The study in the following chapters focuses on literature review in chapter 2, research methodology in chapter 3.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
The previous chapter highlights the statement and background of the problem, the objectives, importance and scope of the study. In this chapter the literature review is conducted based on the specific objectives. The review will offer a recent, historical and significant research study, sector performance and reports that act as a basis for the proposed study. The specific objectives of the study are how concentration of shareholding, techniques of measuring shareholding, choice of shareholding structure and shareholder risk influences bank performance in Kenya.

2.2 Determination of Concentration of Shareholding leading to Financial Performance

2.2.1 Shareholder Control
Shareholder control revolves around the rights of a shareholder to be able to vote and exercise control over firm assets, removal of inefficient management or effect ownership changes to increase shareholding (Kiambati, Karanja, Katuse, & Waititu, 2013). The need for the major shareholders in banks to have more control of their firm is significant for them as much of the research work on implications of major shareholding in that it reduces agency risks. Modern firms can only function efficiently if shareholders cede control of business operations and decision making efficiently (Mohd-Sulaiman & Rachagan, 2016). The concentration of ownership need to be focused on maximization of shares in an institution for the control to be attained. It creates what is called personal leverage which can be able to influence a firms risk and its performance (Chen & Hu, 2007).

Control of shareholding between the domestic and foreign owned banks reveal that foreign banks have a higher loan portfolio quality and lower levels of insider lending. As the foreigners get more privileges in voting rights the risk adjustment increases while there is a reduction in the default risk. This has a positive effect to bank performance Tacneng (2013). In this situation the control over who has more privileges is a key factor to effective performance according to Tacneng (2013). Insufficient equity investments in a bank summed up with a high control of the firm by the owners, results to a discrepancy between voting rights and cash flow rights (Wu & Wang, 2015). In the long we find that
this results to undermined minority shareholders due to increased agency problems in the firm. This reveals that control can be based on a constraint of equity which is significant for firm control.

An analysis on block shareholding reveals that as long as the major shareholders are financial institutions and foreigners there is an improved performance (Gunasekarage, 2011). In the study the reasons as to the financial institutions influencing performance is on the basis as to some of the investors occupy corporate boards and therefore are responsible for strategic decisions and selection of managers hence the need for control. There are opponents of shareholder control and empowerment who view it as creating interfering shareholders who can abuse their control privileges, but this is usually not the case apart from when we have uncontrolled shareholding with rights to instruct or make decisions (Mohd-Sulaiman & Rachagan, 2016). The Companies Act is therefore a vital guide to the role shareholders are expected to play in engagement in the institutions they have equity.

2.2.2 Regulation

The increasing banks’ capital requirements at its core, emphasizes the need for much regulation as it installs buffers against potential losses and reduces the risk probability by a reduction of the incentives to shareholders and managers to take more risks than expected (Pelstera, Irresberger, & Weiß, 2016). Banks holding capital requirement influences them to be able to diverge to more investments which attract with risks attached to them. According to Pelstera (2016) he identifies that bank regulation depends critically on each bank’s shareholding structure. Banks profit more from fewer restrictions but also incur more risks therefore in order to ensure efficiency aspects of restrictions on entry, supervisory and management need to be considered (Luci, Andy, & Fariborz, 2014).

The Agency theory has it that an agent is as much concerned on his benefit as the principle. This means asymmetry is vital for the agent and therefore the potential to have an advantage over the principle. A study in Taiwan on shareholding requirements sought to focus on restrictions on internal mechanisms. They focused more on insider ownership to improve performance and reduce risks to investments (Hung & Chen, 2009). The more powerful the regulations are in a country the better the chances at preventing risks before and during crisis (Pelstera, Irresberger, & Weiß, 2016). The lower the entry barriers and
the greater the grip on restrictions on bank activities in domestic market the more we find that banks will be associated with lower banking standard in both the domestic and foreign banks (Ongena, Popov, & Udell, 2012).

The entry requirements for banks to appoint or take up shares need to be monitored by the government. This is especially critical when we have foreign shareholdings in banking institutions as we need to control the competition and stability of the banking sector. This will provide a positive relationship between bank stability and competition as greater competition encourages banks to diversify on their risks with varied investments (Anginer & Demirgüç-Kunt, 2014). It is important to regulate the banking sector to avoid financial crisis such as the series of mergers and acquisitions as a result of easing the regulations (Sok-Gee Chan, 2016).

Barrier to entry is an index which is used on providing restrictions that are concerned with entry of new shareholders or investors and privatization. It can be able to answer questions such as to what extent does the government allow entry into a domestic market, does it allow in any case, and the dominance there is in the banking sector, that is are they state, domestic, block or individually owned (Ongena, Popov, & Udell, 2012). Bank restrictions are also another measure that deals with regulatory hurdles that impede banks engagement in market securities such as for example Real estate investment trusts (REITS).

2.2.3 Shareholder Value
Investors are sometimes acquisitions seekers; they take up portions of ownership through shareholding in a firm with a mind on return to investments. They stakeholders bear some risk as a result of having invested some form of capital therefore it is in them to expect returns after success or profits from operations. The investment into shareholder relationships with the management leads to valuable and intangible competencies that maintain a competitive advantage in a firm (Hillman & Keim, 2001). A study by Bo Becker (2011) reveals that shareholder value is in the control of a firm therefore affecting its performance and operations (Becker, Henrik, & Rudiger, 2011).

A shareholder would be as much interested in wealth maximization as control of the firm. Ownership structure allows shareholders to exercise powers, agency costs therefore sustain steady the financial performance (Shagufta & Muhammad, 2014). The determination to control and influence between the majority and minority shareholders is
a driving force that represents their value to an institution (Alipour & Amjadi, 2011). Nendi (2013) in his research of the internal factors found that a concentrated shareholding value was achieved from the largest shareholder. It positively affected the company value and shareholder wealth.

Shareholding in banks especially foreign shareholding is seen as influential in lowering the levels of insider lending and contributing to a higher loan portfolio quality (Tacneng, 2013). Tacneng adds that performance will only be positive if the control is at lower levels by the domestic shareholder. Shareholders will always be granted a voice regarding operational and management and strategic issues. The power granted to stakeholders vary from non-participation to co-decision making (Spitzeck & Hansen, 2010). The shareholders’ value will also base on earnings management other than the control. As shares become more lucrative with an increasing return to portfolio they are induced to heavy insider trading. Shareholder value is so critical that it is outlined in the section 172(1) of the European act stating the duties of a shareholder as being of good faith to promote the success of a company for benefit of the members as a whole (Clarke, 2014).

2.2.4 Size of the Firm

The larger the firm size the greater its capitalization and the sum of capital that is required to own a given stake in such a firm. It comes around with its share of high monitoring costs, constant analysis by financial analysts ‘which decreases the ability for shareholders to interfere and increases their opportunities to exert control from more investments. Capitalization in this case being measured by the ratio of shareholders equity to total assets of the bank can reveal size based on the capital generated (Onuonga, 2014). Large firms are not necessarily safe as they are prone to firm specific risks which make holding a high stake in them less attractive for an investor who is risk-averse. In determination of the size of a firm’s market, capitalization is effective for classification of a market whether it is of large, medium or small capitalization level.

The rate at which bank assets are financed by the shareholders reveal its capital adequacy according to Obamuyi (2013), firms in need for expansion tend to identify potential investors in terms of their contribution to capital, this makes external financing a contributor to size of the firm based on the wealth constraints the institution is experiencing. We therefore expect firms in financial constraints to have a diversified concentration of shareholding so as to handle their financial woes. The control of key
resources is critical in determining the growth of a firm, with resources comes continuity of development Andersén (2010). In some instances the success determines the size of the firm, success can be in terms of a technological advantage and this are the some of the enabling factors to determine the success of a firm Nisakorn Somsuk Jarunee Wonglimpiyarat Tritos Laos (2012).

2.2.5 Country Characteristics
The legal adaptability in a country means that there is protection of rights of small shareholders as well as ensuring that there is equity in decision making when it comes to insider versus outsider cases on shareholding issues in an institution. The legal provisions in a country can shape how dispersed shareholding is depending on the favourability of the laws in place when there are firm activities such as investments or public offerings by institutions. The National Securities and exchange commission in the US gave more flexibility for shareholders to be able to liaise with each other. This means they could be able to affect management when it came to board member selections according to Akhigbe, Tucker, and Madura (1997).

The political arena also has a grip on the Shareholding concentration in that for socialist countries the focus is more on the employee rather than the shareholders while in capitalist nations there are careful observations as to the ownership of firms and the management. The politics therefore can define the structure of an organization based on the policies the hold in place.

Culture also influences an organizations beliefs and objectives. Hofstede cultural dimensions that include collectivism-individualism, power distance, uncertainty avoidance and femininity-masculinity shape up the distribution of ownership based on the held culture by a financial institution. It will represent how they will relate with the existing and potential shareholders. This can involve the ability to accept or adopt to technology. A study on the foreign banks and domestic in the Oman and United Arab Emirates show adoption to modern banking as a key to their success and high competition in the banking sector Mazhar (2003).

2.3 Relationship between Shareholding Structure and Bank Performance
2.3.1 Resource Base Value
Resources are the productive assets of firms, the means through which activities are accomplished (Mathews, 2006). These resources are not limited to the human capital and
their contributions and their control of assets they own which can be tangible or intangible. To an investor the stocks are a valuable resource which they can be able to manipulate to their advantage. To a banking institution in the Kenyan market with its increased competition it is vital to be highly adaptive and innovative to survive. Innovation is the driver for competitive advantage with a combination of resources (Ahmad, 2010). The effect of shareholders in a firm is to inject resources be it material or immaterial so as to affect a positive performance to investments that have been committed.

The rationale for Resource based view factors also diversification. To the banking institutions the engagement into riskier initiatives to gain a competitive advantage results into factoring the entry of shareholders so as to inject capital for investments. Firms are urged to diversify into a market in which they can apply existing resources based on information available (Andersén, 2010). In the recent years in Kenya the banking sector has had to benefit more by an engagement of high investments in the technological sector. Technology based mechanisms create supportive and entrepreneurial environments that increase their survival rates and improve the firm performance (Laosirihongthong, 2012). Resources such as technology investments especially through foreign shareholders are among the best enablers to ensure firm performance and survival in a market with a high intensity of competition.

The banking industry has been characterized as an industry that is transforming itself in unpredictable ways (Crane & Bodie, 1996) and an industry in which competitive advantage is difficult to achieve (Bhide, 1986). In order to build and maintain long-term competitive health in the banking industry, Mehra (1995) recommends the need for banks to develop resource-based strategic focus as a basis of competitive strategy. This section reviews the RBV research conducted to date within the banking industry with the aim to identify the main approaches of measuring banking firm resources and performance outcomes.

The link between banking intangible resources and bank performance has been investigated by a number of researchers since the RBV started to appear in banking research in mid-90s, with results generally suggesting the existence of positive relationship between bank intangible resources and superior performance. The current study reviews the methodological approaches used in these studies. The review covers
studies that include the phrases “resource-based” and “banking” in the title, abstract, or listing of keywords. Using this approach, the current study identified 15 empirical RBV studies that appeared in the strategic management literature between the periods 1995 to 2009.

2.3.2 Stochastic Frontier Analysis of Efficiency
The stochastic model is used in the determination of efficiency by factoring in the production, cost, revenue and other measures for goal attainment in a firm originally developed by Aigner, Lovell and Schmidt (1977). It usually factors in the inputs to a production to result in desired outputs, though much consideration is stressed on efficiency. Banks in countries such as Slovenia and Estonia in Europe are ranked among the most efficient; this is focused on a relationship between foreign shareholding and cost efficiency measures (Banerjee, 2012). The stochastic frontier can be able used to determine the decisions the banks can undertake in order to improve their efficiency, be it entry of foreign shareholders or domestic shareholding.

The notion held that state banks are overstaffed, poorly equipped and technologically reluctant to adopt new innovations is common in developing nations therefore the decision for foreign entrants to invest in them through privatization. Countries such as Croatia, Latvia and Albania have all reached a foreign ownership of above 50% in their banking sector (Group of Banking Supervisors from Central and Eastern Europe, 2000). There is need to determine the efficiency levels resulting from an ownership concentration in banks. Initially studies find that efficiency levels of foreign banks tend to lag behind state owned, eventually consistency in efficiency is achieved and there is a convergence toward a positive performance (Kraft, Hofler, & Payne, 2006). The demand for efficiency by banks has increased over time as the results inform policy decisions and affect individual behaviour (Aiello & Bonannoa, 2016). The shareholders response or behaviour will be based upon the bank efficiency and its reputation in the market.

2.3.3 Return on Equity, Stocks and Earnings
To an investor the return on funds committed to realize organizational goals can be rewarded in term of monetary or physical wealth. A return on ownership of a portion of the firm is what is termed a return on a particular investment. Stable shareholding reduce myopic problem in a firm (Shuto & Iwasaki, Stable Shareholdings, the Decision Horizon Problem and Earnings Smoothing, 2014). A study in Japan by Shuto and Kitagawa (2014)
addresses cross shareholding to ensure firms are closely connected with banks for their primary needs. The maintenance of this relationship and a stable shareholding ensures a fixed return to assets, because of an information asymmetry between shareholders and firm managers stable returns to investments reduces the shareholders estimation of risk about future cash flows (Shuto & Iwasaki, 2014).

Stock returns are negatively correlated with past asset growth rates (Mortal & Schill, 2015). Stock deals which involve shareholder accumulation of shares result to expansion of firms assets than cash deals. In the banking sector in Kenya there is a high investments into assets by firms as a way to diversify investments and ensure a higher survival rate. (Morrtal & Schill, 2012). A shareholder according to Sheifer and Vishny (2003) on stock market driven acquisitions, one should observe firm mispricing and opportunistically targets under-priced shares using a relatively overpriced stock. This ensures a smooth return to stock acquisition and a return on investments.

A bank that is able to ensure it has a sufficient capital level is able to finance its expansion and operations, pay dividends to its shareholders attract more investors as well as improving its reserves (Altan, 2014). This means that with its sufficient returns shareholders are more confident on good dividend returns from their investment to the bank. There is also the need for banks to maximize on the need for efficient utilization of their assets and management skills for there to be good returns in the bank according to Muhmad and Hashim (2015).

In the banking sector, cost efficiency and profit efficiency is two general concepts which represent to bank performance and bank efficiency. Based on that, series of researches was implemented at national level, majority studies conducted in developed countries, less studied in developing ones and at international level as cross section region as European or ASEAN. Regards as cost efficiency literature, Berger and Humphrey (1997) pointed out the different the between results from the estimation of five types of frontier models, namely nonparametric approach (DEA, FDH) and parametric (SFA, TFA and DFA) for assessing cost efficiency from the results of 130 surveys of financial institution analysis across 21 countries. In general, the efficiency estimates from nonparametric methods are similar to those from parametric frontiers, but its results often obtained slightly lower mean efficiency as well as having greater dispersion than the parametric models’ results. Besides, the different among efficiency rankings depend on frontier
approaches. Furthermore, they stated causes or correlates of efficiency should need to be caution in efficiency measurement.

From their surveys, they suggested the importance of estimates of mean efficiency can be reliable guidance for government policy and research in national and business management level. It is necessary for evaluating the effects of deregulation, market power or mergers and acquisitions on industry efficiency to inform government policy. Another study works notable from Berger and Mester (1997) when these authors investigate “inside black box” to explain the Banks’s efficiency with data from 6000 US commercial banks during the period of 1990 to 1995. They suggested how the choice of different design models affects efficiency measures based on the use of three kinds of economics efficiency concepts of the cost structure, standard profit as well as an alternative profit. The benefit and drawbacks of each type discussed quite clear here. In this paper, they investigated the use of the distribution free approach (DFA) and SFA, inclusion examining the differences between the specification of the Fourier flexible functional form and the trans logform.

This study is the first research use a comprehensive set of bank size, organizational ownership and corporate governance, specific bank characteristics, market characteristics, the federal regulator and geographic restrictions by state, called potential correlates of efficiency. The results reported as new evidence when different measurement method or functional form and other variables make very little difference in terms of average banks efficiency or ranking of banks efficiency. One of the important arguments is SFA provides results more useful than other non parametric techniques due to economic optimization.

2.3.4 Agency Relationship
The Agency Theory was developed by Coase (1960), it was further worked on by Jensen and Meckling (1976), Fama and Jensen in (1983). The theory has it that there exists a relationship between principals who can be shareholders or business executives and agents, who are the management team that are responsible for operations of the firm and ensuring sustainability of investments done the shareholder. The conflict in the relationship here occurs between the shareholders and the management and the shareholders and the debt holders.
The pursuit for diversification of an investor provides an opportunity for shareholders and agents to interact with both having a common interest of maximization of their interests. Shareholders seek to managers to maximize organizational performance. The agency theory recognizes that since common stock is dispersed and shareholders have a diversified portfolio, they delegate financial and other decision making to corporate managers (Crutchley & Hansen, 1989). In order to fully be able to evaluate shareholding relationship to bank performance the value of shares in a bank need to be evaluated. The value will be factoring in whether the shareholding is domestic, foreign, State or a block shareholding perspective.

The agency theory prioritizes shareholders above all other participants in an organization when it comes to influencing performance (Clarke, 2014). This can be a positive when shareholding is objective oriented towards performance and it can take a turn for worse when shareholding is based on shareholder enrichment which threatens financials and the future of the firm. The agency and resource based theories suggest that in instances we have foreign shareholding concentration; it may enhance bank efficiency by reducing the risks of the controlling shareholders and by use of superior resources (Sok-Gee Chan, 2016).

2.4 Determinants of Financial Performance

2.4.1 Return on Assets, Equity and Net Interest Margins

The return on assets (ROA) is the ration of income to the total assets of the bank. This can be subjected to shareholder contribution to bank resources to the assets they indulge to invest on. The return on equity (ROE) is the net profit divided by the shareholders equity and is expressed as a percentage. The Net interest margin (NIM) takes into account the differences between income and interest expenses a percentage of total assets.

These are the most widely used profitability rations according to Kabir and Dey (2012) in their research on profitability ratios. The Earnings per share (EPS), return on capital employed (ROCE) in addition to ROA and ROE are usually not affected by the variations or fluctuations in the general price level therefore are a good reflection to conduct a bank’s performance level on profitability (Rao & Lakew, 2012). Fredrick (2014) in his study on Uganda’s banks as well as Ongore and Kusa (2014) in Kenya all display their findings on use of ROA ability to generate profits from bank assets and to ROE to reveal the return to shareholders on their investments.
2.4.2 Capital, Management Efficiency, Earnings and Liquidity (CAMEL) Model

The central bank of Kenya has adopted the CAMELS approach which is also being used worldwide to measure the stability of financial institutions. The system was first initialized in the United States of America to assess banks in 1979. The acronym represents Capital, Adequacy, Asset Quality, Management Quality, Earnings Quality and Liquidity. A study by Ongore (2011) on the financial health of commercial banks in Kenya implemented the use of CAMELS to ascertain the bank performance. In the use of CAMELS rating the component of management quality was found to be the one that had achieved the overall best rating according to a study in Malaysian banks Rozzani & Abdul Rahman (2013). Sarwar and Asif (2011) in a study in Pakistan found it that capital adequacy achieved the best rating. This reveals that the economic environment around the banking sector is able to influence a contradictory result when CAMELS is used to determine efficiency in the Kenyan banking sector.

Traditional method of applying financial ratios to evaluate bank's state of performance has been long practiced, with practitioners using CAMELS rating to measure their banks' performance. CAMELS bank rating is used by bank's management to evaluate financial health and performance (Rozanni & Rahman, 2013). Supervisory regulations enhance transparency and accountability in the operations of the banks thereby compelling them to pay greater attention to the quality of lending. In addition, these regulations conform to the international accounting standards. Hence, adherence to these guidelines would enhance the sustainability of banks and make them competitive (Soni, 2012). In order to be comparative and try a good model for benchmarking, choosing a suitable system to calculate some ratios and analysis for supervisory and auditor unit can be useful and effective. The comparative financial performance of banking sector conducted by using CAMELS rating system (Nimalathasan, 2008).

The Uniform Financial Institutions Rating System (UFIRS) was created in 1979 by the bank regulatory agencies (Datta, 2012). In 1988, the Basel Committee on Banking Supervision of the Bank of International Settlements (BIS) proposed the CAMELS framework for assessing financial institutions (Dash & Das, 2009). CAMELS rating system is an international bank-rating system where bank supervisory authorities rate institutions according to six factors (Datta, 2012) for financial institution's operations: Capital adequacy, Asset quality, Management soundness, Earnings and profitability, and
Liquidity and Sensitivity. In 1997, it included the sixth component, Sensitivity to market risk, to form the CAMELS framework (Dash & Das, 2009, Gunsel, 2005).

Actually CAMELS rating is a common phenomenon for all banking system all over the world. It is used in all over the country in the world. It is mainly used to measure a ranking position of a bank on the basis of few criteria (Datta, 2012). Bank’s performance or rather solvency or insolvency has been given much attention both at the local and international level. Financial ratios are often used to measure the overall financial soundness of a bank and the quality of its management (Wirnkar & Tanko, 2008).

By concentrating on the top line and bottom line, banks across the board have improved their profit while reducing their operational costs and more number of banks has improved their financial performance by using the concept of mergers and acquisitions. CAMEL rating is used by most banks across the world as a performance evaluation technique (Raiyani, 2010). In order to evaluate banks’ overall financial condition, CAMELS supervisory rating system is built and introduced first in USA for on-site monitoring. Now, it is used both on-site and off-site monitoring purposes (Kaya, 2001).

Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Avkiran, 1995).

2.4.3 Capital Adequacy

Capital adequacy is the required amount of capital a firm needs in order to maintain balance with the operational, risks in market and credit exposure in the financial institution for the purpose of safeguarding the debt holders of the institution. The inconsistency that exists now is that the structural design of firms now allows shareholders are resulting to their investments paying huge salaries to mangers instead of keeping the earnings to themselves (Piketty, 2014). The report card for banks to determine its operation efficiency and risk management practices adopted by banks can be determined by use of CAMELS which is a roadmap of key ratios for evaluating performance of banks (Trivedi,, 2013). According to Altan et al (2014) he also considers use of CAMEL system as the most widely used rating system for evaluation of bank safety and soundness.

Capital in the required amount by a firm is necessary for liquidity purposes, since bank’s deposits are susceptible to bank runs according to Ongore and Kusa (2013).
therefore is a measure of how the bank is fairing or its size which can lead to its classification whether it is a tier 1, 2 or 3 banks in Kenya. Capitalization is an indicator of capital adequacy measured by the ratio of shareholders’ equity to total assets of a bank (Onuonga, 2014). Banks with a low capital ratio are considered more risky than those with a higher ratio when what’s in consideration is the existence of a financial crisis and therefore it affect a bank performance according to Onuonga (2014). Well capitalized banks are safer have a great creditworth and gain from reduced cost of funding all of which positively affect performance of commercial banks. A highly capitalized bank has less need for debt financing thus reducing its cost of debt (Nouaili & E, 2015).

Nouaili et al. (2015) study revealed a relationship where capitalization had a positive impact on the interest margins of banks that were selected in Tunisia for research. The results were that capital was a good indicator on banks solvency. In Kenya Onuonga (2014) identified to the positive relationship between capital dominance and bank profitability during the period 2008 to 2013. This studies on capitalization can be applied to the Kenyan Banking sector whereby if they can raise their capital levels they can improve their profits and minimize financial crisis in their operations as well as the sector.

The concept of capital adequacy is rooted in the rearrangement of the existing capital structure of banks to mitigate widespread distress. Banks, as financial institutions and business establishments, gain more opportunity in an atmosphere of adequate capital. The term “capital” is related to recapitalization which serves as a means of absorbing losses that accrue in the process of carrying out banking operational activities and which eventually makes them to have enough capital bases to back up their activities. This increases their services to their customers in form of loans, advances and investments which in return accrue profits to the banks. In the banking system, the concept of recapitalization deals with restructuring the capital base to better positions. It is a measure adopted by the regulatory authorities in Nigerian context. Capital has been a major factor in any business as it indicates how favorable any business will operate in maintaining efficiency and stability.

According to Ebhodaghe (1996), capital inadequacy is a strong indicator of distress situation in any business. It is a big problem that has affected Nigerian banking system in the past years before recapitalization policy in December, 1996. He declares further that inadequate capital reduces the ability of the banks to absorb losses accruing in business
undertakings due to changes in the economic environment such as inflationary measures leading to deterioration in asset quality. He adds that the problem became compounded by the huge amount of non-performing loans which eroded the bank’s capital base. It is Government that generally dictates the level of capital adequacy for banks, although it varies.

This ensures that banks maintain adequate capital to boost efficiency in the system by adhering strictly to the prescription. Capital adequacy performs many functions in the banking system: it determines and affects the level of performance of banks, for example, capital serves as a cushion for operational loss absorption; it creates shareholders’ confidence in the bank, it exposes the bank’s ability to finance its long term projects and capital expenditure. To crown it all, the existence of adequate capital also helps to minimize depositors’ risk.

2.4.4 Management Efficiency

Management competency refers to managers with high integrity, professionalism, quality for service and professional competence can result to stability and suitable profit for banks (Muhmad & Hashim, 2015). Shareholders expect value for their capital injections and this therefore requires managers who can be able to utilise the resources injected effectively. Efficiency can be measured using financial ratios with the representation of efficient utilization of resources, income reduction and maximization of operating costs (Sangmi & Tabassum, 2010). Managerial efficiency also includes a reduction of expenses that tends to improve profitability with utilization of ratios such as credit, deposit, asset utilization, diversification ratio, earning per employee and expenditure per employee ratios (Echekoba & Egbunike, 2014).

Shareholders control requires managerial corporation. This means that bad management increases the chances of bank failure (Nasserinia, Ariff, & Fan-Fah, 2014). Shareholders need to be in control of the managers utilizing their investments to ensure they get value for their investments. Ongore and Kusa (2013) findings were that managerial efficiency represented by operating profit to income ratio had a significant impact on the performance of commercial banks. Nasserina et al (2014) also in a study of commercial banks in Japan indicated managerial efficiency in terms of operating expenses to total assets had a positive relationship to profitability ratios. Fredrick (2014) on his survey on
banks in Uganda established a relationship of operating expenses to a negative impact on profitability.

**2.4.5 Portfolio Selection**

Portfolio selection is based on a theory that investors will focus on optimal portfolios as opposed to optimal assets (Markowitz, 1991). Markowitz emphasizes on diversification to minimize risks. Banks in Kenya have taken up a trend to invest highly in varied investments and so have their shareholders so as to hedge themselves of losses in a turbulent market environment.

The balanced portfolio theory relating to the banking institution has it that contents of a bank portfolio together with its profit and return to shareholders are as a result of board and management decisions according to Ongore and Kusa (2013) study on determinants of financial performance of commercial banks in Kenya. Portfolio diversification by banks is a as a result of shareholder expectations on performance on banks to meet it desired objectives and replicate its ROE to its shareholders. Portfolio theory and diversification is thus as result of managerial decisions to be able to find ways to compete and improve on their financial performance.

**2.4.6 Cost and Profit Efficiencies**

Cost efficiency measures how close a bank’s cost is to what a best practice bank would incur for producing the same output bundle under similar conditions (Sok-Gee Chan, 2016). Profit efficiency measures how close a bank is to producing the maximum possible profit when there is a given level of output and input prices according to Sok-Ghee Chan (2016). An examination of both costs and profit efficiencies provides a long-term view into the banks performance as a whole. According to Fredrick (2014) costs such as operation costs having a positive impact on performance if management is efficient in utilizing them. Operational costs are expressed as a ratio of profits or can also be a percentage of profits and according to Swarnapali (2014) they reveal a negative bank performance. This however changes when management is efficient and will improve the financial performance (Onuonga, 2014).

**2.5 Shareholding Risks that Influence Bank Performance**

**2.5.1 Market Risks**

Market risks refers to changes in value of a financial stand that is incurred form variations in factors such the foreign exchange rates, stock deviations, commodity prices and bond
prices. The deviations or changes are what enable us to perform a market analysis. Shareholders would prefer to fund gathering expertise to investment managers as financial intermediaries (Scherer, 2012). This means that shareholders would prefer to be risk averse and employ managers who would be able to control or minimize their risks as they invest in the banking institutions. The increasing rate of investments opportunities requires a model risk according to (Mark, McCullagh, & Murphy, 2016). Regulators are expected to provide the best practice model in risk management within the banking sector.

Shareholders are sensitive to market risks especially if we have foreign shareholders who would prefer to invest outside their own states. The volatility of the market will determine if they will invest and ensure that they will be able to have value for their investments (Scherer, 2012). In other cases they are also sensitive to take over’s where they would be able to ensure the control of an ailing financial institution and try to reinvent its financial woes. Risk exposures such as interest rates will also affect the foreign investors and will determine their trading positions in the banking institutions (Mark, McCullagh, & Murphy, 2016).

Changes in analyst risk ratings distinctly affect the rate of equity returns (Lui, Markov, & Tamayo, 2012). This sends a signal to the shareholders who have a decision to either limit their shareholding positions or decide to influence management to a better performance by taking up control. According to Lui, Markov and Tamayo (2012) they emphasize on the use of equity risk ratings as compared to credit risk ratings as the equity risk rating decreases stronger than the market reaction to credit ratings.

Bank performance from the point of view of shareholders of a bank is obtaining profit by maximizing the revenue and minimizing the costs. Economic theories show that, in the situation of perfect competition, profit maximization is equal to minimizing costs. In practice, however, factors such as changes in the regulatory framework that would interfere with the desired performance. The factors that could explain the deviation from profit maximization can be grouped into two categories: incorrect incentives and inefficiency (Bikker, 2008).

The global performance of a bank characterizes its overall results, it being given by profitability level correlated with the risks taken by the bank concerned (Olteanu, 2003). In the literature, the banking performance is expressed through indicators of
profitability and financial soundness indicators or risk. Because the control of banking risks is a factor that depends on bank profitability, the interpretation of risk indicators must be made through the causes, consequences and effects on the bank's profitability (Stoica, 1999).

Because banks play a central role in financial intermediation, the analysis of banks performance should be carried out in terms of efficiency, productivity, competitiveness and profitability. Banks grant special attention to permanent monitoring indicators which expresses efficiency of banking activity and analyzing their effectiveness in close interdependence with the bank's exposure to risks or potential that can jeopardize the activity (Lui, Markov & Tamayo, 2012). All these activities at banks highlight the risk profile of individual banks and the exposure in order to obtain financial results. In international banking practice, optimizing risk-profitability relationship is an objective which is applied at each banking product, extending to the entire portfolio of the bank (Bikker, 2008).

The global performance of banks is given by relationship between profit and risk. In the financial statements of a bank are calculated a number of financial indicators that are based on gross closely related to risk assumed by the bank and characterized, however, bank performance (Stoica, 1999). But the information provided by performance indicators are useful not only internally but requires other categories of users, such as those related with external environment of the bank (banking supervisor, fiscal, non-bank customers, bank customers, rating institutions and bank internal users.

2.5.2 Macroeconomic Variables

These are factors that broadly affect a nation or region and are an indicator of economic performance. The four major variables affecting bank profitability with a consideration of internal and external shareholding structure include Gross Domestic product (GDP), Inflation rate, interest rates and exchange rates.

GDP is the measure of a country’s economy. The external determinants of bank profitability such as central bank interest rates, inflation, the GDP are a representation of market characteristics (Athanasoglou, Georgiou, & Staikouras, 2008). There has been a positive relationship found in studies relating to inflation, CBK interest rates, GDP growth and bank profitability. A positive GDP growth results in a high demand for credit
which in turns results to profitability in banks. In economic turbulence such as recessions it negatively affects banks performance as credit is in a low status.

Gross domestic product (GDP) is most commonly used macroeconomic indicator to measure total economic activity within an economy. The growth rate of GDP reflects the state of the economic cycle and is expected to have an impact on the demand for bank loans. The economic conditions and the specific market environment would affect the bank’s mixture of assets and liabilities. Sufian and Habibullah (2010) point out that the GDP is expected to influence numerous factors related to the supply and demand for loans and deposits. Favorable economic conditions will affect the demand and supply of banking services positively.

Bank’s growth and profitability is limited by the growth rate of the economy. If the economy is growing at a good rate, a soundly managed bank would profit from loans and securities sales. Economic growth can enhance bank’s profitability by increasing the demand for financial transactions, i.e., the household and business demand for loans. Strong economic conditions also characterized by the high demand for financial services, thereby increasing the bank's cash flows, profits and non interest earnings. Thus there is a positive relationship between the growth rates of Gross domestic product and the profitability of the bank (Floros, 2012).

Inflation is the general price level of the economy indicated by an inflation rate. A positive relationship was found between inflation and profitability in Chinese banking sector (Floros, 2012). The study also revealed that the interest rates could be adjusted so as to be able to control the rate of inflation. Floros (2012) determined that the banking sector in China was related to cost efficiency, inflation, stock market development and non-traditional activity. Perry (1992) identifies that the relationship between inflation and profitability can be either a positive or negative effect with the determinant being whether inflation can be anticipated or is unanticipated. Inflation has a negative effect on bank profitability if wages and other costs (overhead) are growing faster than the rate of inflation.

Perry (1992) also asserts that the effect of inflation on banking performance depends on whether inflation is anticipated or unanticipated. If inflation is fully anticipated and interest rates are adjusted accordingly, a positive impact on profitability will be exerted. Alternatively, an unexpected rise in inflation causes cash flow difficulties for borrowers
which can lead to premature termination of loan arrangements and precipitate loan losses. Indeed, if the banks are sluggish in adjusting their interest rates, there is a possibility that banks cost may increase faster than bank revenue. Hoggarth et al. (1998) also conclude that high and variable inflation may cause difficulties in planning and negotiating loans.

The findings of the relationship between inflation and profitability are mixed. Empirical studies of Guru et al. (2002) for Malaysia and Jiang et al. (2003) for Hong Kong show that high inflation rates lead to higher bank profitability. The study of Abreu and Mendes (2001) nevertheless report a negative coefficient of inflation for European countries. In addition, Demirguc-Kunt and Huizinga (1999) notice that banks in developing countries tend to be less profitable in inflationary environments particularly when they have a high capital ratio. In these countries bank cost actually increase faster than bank revenue.

Real interest rates are the rate that an investor will receive after an account of inflation has been done. The fisher equation states that real interest rate is approximately the nominal interest minus the inflation rate. The relationship between interest rates and bank performance is positive. As interest rates rise so does the bank profits.

Exchange Rates refer to the value of one currency for purpose of conversion to another. It is also the price of one currency which can be exchanged for another. Exchange rates can hinder or attract shareholder investments. The Foreign shareholders usually have to look at the value of their investments to another Country and therefore a weak currency does not attract foreign investments unless it is takeover. The strength of a currency therefore is critical in determination of investments, or resource injection to influence a bank’s performance in a country. Foreign banks are seen to bring about skills and new technology according to Wu, and Wang, (2015). To developing countries and they have to factor in their return to investments in response to a variation in currency movements.

Real exchange rate is commonly known as a measure of international competitiveness. It is also known as index of competitiveness of currency of any country and an inverse relationship between this index and competitiveness exists. Lower the value of this index in any country, higher the competitiveness of currency of that country will be. It is a widely held view that exchange rate volatility should affect corporate expected cash flows and hence its performance by causing changes in the home currency denominated revenues (costs) and the terms of competition for firms with international activities (Amihud & Levich, 1994)
Opati (2009) did a study on causal relationship between inflation and exchange rates in Kenya where it was established that an increase in inflation leads to the depreciation of the local currency. Ndungu (2000) asserts that exchange rate policy in Kenya has undergone various shifts mostly driven to a large extent by the economic events especially balance of payment crisis.

2.5.3 Industry Specific Variables

Industry concentration has a positive impact on banking performance (Smirlock, 1985). This means that the greater the concentration of firms in the industry the greater the monopolistic power of these banks will be. Contradicting results were found with reports of a negative coefficient between concentration and bank profitability in Tunisia (Naceur, 2003). The stock market grows as the concentration increases therefore resulting to a diversified portfolio for the investors. Analysts are able to follow the diverse stocks in the need to inform their investment managers. The development of the stock market promotes the growth of the firm, industry and country level (Demirgüç-Kunt & Huizinga, 2000). It is evident that countries with an active stock market such as Kenya are able to grow faster than predicted due to their individual traits. The stock market improves equity finance therefore reducing their risks of loan default, increasing their borrowing capacities and giving them the ability to be more capitalized (Floros, 2012).

2.6 Chapter Summary

This chapter has given a review on the literature on shareholding effect on bank performance; the literature highlighted various findings and trends on the research questions in the introduction chapter. The literature review was significant as it revealed what had been researcher on, methodologies used by other researchers and gave a basis for this study. The study in the following chapter focuses on research methodology in chapter 3.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter explains the methodology that the researcher will employ in this study. It also entails in it the research design, the population, sampling design, data collection methods, research procedures and data analysis methods that were used in the study.

3.2 Research Design
This is a framework for the collection and analysis of data to answer research questions and meet research objectives providing reasoned justification for choice of data sources, collection methods and analysis techniques (Saunders, Lewis, & Thornhill, 2016). Blumberg, Cooper, and Schindler (2014) define it as a strategy for a study and the plan by which the strategy will be implemented.

In this study, the researcher used a descriptive research design. Descriptive research involve the collection of data for which the purpose is to produce an accurate representation of persons, events or situations according to Saunders, Lewis, and Thornhill (2016). The descriptive design study demonstrated associations between variables and especially in instances where we have studies involving collection of data using the existing record. The independent variable is the shareholding concentration represented by the various banks either individual, state or foreign shareholding presence in a specific bank that affects its performance. The dependent variable is bank performance which is prone to adjustment be it positive or negative performance from the changes or activities of shareholding that occur in the equity markets for the bank.

3.3 Population and Sampling Design

3.3.1 Population
Blumberg, Cooper, and Schindler (2014) refer to population as gathering of elements about which the research wishes to make inferences. Saunders, Lewis, and Thornhill (2016) explain it as the complete set of cases or group members. In this study, the target population or those cases that contained the desired information consist of the managers at the head office in the commercial banks in Kenya registered by CBK as at December 2016.
Table 3.1: Population

<table>
<thead>
<tr>
<th>Listed Banks</th>
<th>Ownership</th>
<th>Managers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Finance (HF) Group</td>
<td>State</td>
<td>15</td>
<td>6.2</td>
</tr>
<tr>
<td>Standard chartered Bank</td>
<td>Foreign</td>
<td>13</td>
<td>5.3</td>
</tr>
<tr>
<td>Equity Group</td>
<td>Locally</td>
<td>33</td>
<td>13.6</td>
</tr>
<tr>
<td>I &amp; M Bank</td>
<td>Locally</td>
<td>25</td>
<td>10.3</td>
</tr>
<tr>
<td>DTB Bank</td>
<td>Foreign</td>
<td>21</td>
<td>8.6</td>
</tr>
<tr>
<td>Co-op Bank</td>
<td>Locally</td>
<td>35</td>
<td>14.4</td>
</tr>
<tr>
<td>KCB Bank</td>
<td>State</td>
<td>30</td>
<td>12.3</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>Foreign</td>
<td>32</td>
<td>13.2</td>
</tr>
<tr>
<td>NIC Bank</td>
<td>State</td>
<td>18</td>
<td>7.4</td>
</tr>
<tr>
<td>National Bank</td>
<td>State</td>
<td>21</td>
<td>8.6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>243</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: commercial banks (2015)

3.3.2 Sampling

The sampling design is obtained by the action of acquiring the requisite information bearing in mind the industry representation.

3.3.2.1 Sampling Frame

The sampling frame is a complete list of all the cases in the population, from which a probability sample is drawn (Saunders, Lewis, & Thornhill, 2016). According to Blumberg, Cooper, and Schindler (2014) the sampling frame is a list of elements from which the sample will be collected and we find it closely associated to the population. This study focuses on all the managers at the head office in all the 11 listed registered banks in Kenya by the Central Bank of Kenya. This makes up the entire population of the study.

3.3.2.2 Sampling Technique

A sampling technique explains how cases are to be selected from the population according to Saunders & Thornhill (2012). There are two types of sampling techniques that is probability and non-probability sampling.

This banking sector as a whole in Kenya comprises of the 44 banks 31 being locally owned, 13 foreign owned 3 with a significant state shareholding and one mortgage...
finance institution. In this study however a representation of the 10 listed commercial banks where 4 of them are state owned, 3 are locally owned and the finally 3 have a foreign shareholding structure are the basis of the analysis.

The researcher will utilize purposive sampling in selecting respondents in each sampled bank. Questionnaires will be distributed to the managers at the head office in the selected banks.

3.3.2 Sample Size

A sample size is the target population from which the research sample is drawn (Saunders, Lewis, & Thornhill, 2016). It is also a group of cases consisting of a portion of the target population that the researcher carefully selects for analysis in order to determine facts about that population (Blumberg, Cooper, & Schindler, 2014). Blumberg, Cooper, & Schindler, (2014) emphasize on a larger population size as it results to a greater desired precision estimate. This means the larger the population, the smaller the percentage of population required to gain a representative sample and the greater the precision estimate. The study will look at the 11 banks in the banking sector in Kenya in order to examine how their shareholding contribution affects their financial performance. At a margin of error (e) of 5%, confidence level of 95% and a population (N) of 243 the sample size (n) will be determined using the equation below.

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

\[
n= 243 \quad \frac{243}{1 + 243(0.05)^2}
\]

\[
n= 151
\]

Using the above formulae to calculate sample size, the sample size will be used for data collection. The sample size distribution is as presented.
Table 3.2 Sample Size Distribution

<table>
<thead>
<tr>
<th>Listed Banks</th>
<th>Ownership</th>
<th>Managers</th>
<th>Percentage</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Finance (HF) Group</td>
<td>State</td>
<td>9</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Standard chartered Bank</td>
<td>Foreign</td>
<td>8</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Equity Group</td>
<td>Locally</td>
<td>21</td>
<td>13.6</td>
<td></td>
</tr>
<tr>
<td>I &amp; M Bank</td>
<td>Locally</td>
<td>16</td>
<td>10.3</td>
<td></td>
</tr>
<tr>
<td>DTB Bank</td>
<td>Foreign</td>
<td>13</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Co-op Bank</td>
<td>Locally</td>
<td>22</td>
<td>14.4</td>
<td></td>
</tr>
<tr>
<td>KCB Bank</td>
<td>State</td>
<td>19</td>
<td>12.3</td>
<td></td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>Foreign</td>
<td>20</td>
<td>13.2</td>
<td></td>
</tr>
<tr>
<td>NIC Bank</td>
<td>State</td>
<td>11</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>National Bank</td>
<td>State</td>
<td>13</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>151</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

The study incorporated use of primary data. According to Saunders, Lewis, & Thornhill, (2016) primary data refers to data that is collected directly from the respondents to provide different knowledge and new conclusions. In this study data will be obtained from the managers at the head office in the selected banks. The questionnaires will be more applicable as they will allow for large amounts of information to be collected from a large number of people in a short period of time and in a relatively cost effective way with limited affect to its validity and reliability. The results of the questionnaires will also be quickly and easily quantified by the researcher or through the use of a Statistical software package and also be analysed more 'scientifically' and objectively than other forms of research.

3.5 Research Procedure

Research procedures are the steps that the researcher will take to collect the primary data that will be significant to yield the objectives of the study. The questionnaires are designed based on the research questions which will under go a pre-testing to ascertain the reliability. According to Cooper and Schindler (2014), the reason for pilot testing is to detect any short comings in design and instrumentation. The pilot study will be conducted among 10 respondents in 5 sampled banks which are included in the actual
study. This enabled the researcher to fine tuning of the questionnaire for efficiency and ensure simplicity and clarity to enhance speedy acceptance of respondents.

The researcher will obtained an introductory letter from the university to enhance obtaining permission from the bank in order to facilitate the data collection process. The questionnaires will be distributed using a drop and pick method to the targeted respondents and the various heads will be utilised for a speedy data collection. In addition, unstructured interviews will be conducted to provide more generalized information.

3.6 Data Analysis Methods

This is the involvement of descriptive statistics and inferential statistics to aid the researcher to establish that relationship or link between the variables representing financial performance of banks. The process for the collection and analysis of qualitative data that involves three concurrent subprocess of data reduction, data display and drawing and verifying conclusions (Saunders, Lewis, & Thornhill, 2016).

Quantitative data was analysed using Statistical package for social sciences (SPSS) and the mean and standard deviation was presented in tables. To establish relationship between the dependent and independent variables by using correlation and regression analysis. A multi linear regression model is used for representing the effect of shareholding on bank performance. For this study the regression model used was

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]

Where:

- \( Y \) is the dependent variable (bank sector performance);
- \( \beta_0 \) is the regression constant;
- \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables;
- \( X_1 \) is relationship between ownership structure and firm performance;
- \( X_2 \) is factors that determine financial performance;
- \( X_3 \) is risks in choice of shareholding structure adopted; and
- \( \varepsilon \) is the error term.

From the analysis, the regression equation was as follows:

\[ Y = 9.643 + 0.078X_1 - 1.037X_2 - 0.579X_3 + 0.382 \]
3.7 Chapter Summary

This chapter has presented the research methodology with an inclusion of the research design, population and sampling design, data collection methods and research procedures as well as data analysis methods. Descriptive design is to be implemented based on the research questions as well as inferential statistics for data analysis. The target population is highlighted. The next chapter, that is chapter 4 presents the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results established from the data analysis done. This included results relating to the demography and specific research objectives aimed at establishing the factors affecting strategy implementation at chase Bank.

4.1.1 Response rate

The research issued a total of 151 questionnaires and a total of 140 were filled and returned giving a response rate of 93%. This was sufficient for the study as indicated in table 4.1

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and returned</td>
<td>140</td>
<td>93</td>
</tr>
<tr>
<td>Non-response</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2 General Information

4.2.1 Highest Level of Education

To analyse the literacy levels the result established that majority of respondents accounting for 62% were degree holders while 38% had a Master’s degree as shown in table 4.2 below. This implies that the data received that the response received was precise as the respondents were very literate to comprehend the questions asked.

Table 4.2: Highest Level of Education

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Degree</td>
<td>44</td>
<td>62</td>
</tr>
<tr>
<td>Master</td>
<td>27</td>
<td>38</td>
</tr>
<tr>
<td>Doctorate</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.2 Management Level

To analyse the management levels the result established that majority of respondents accounting for 45.1% were managers, and 43.7% were assistant managers, 8.5% were head of departments only 2.8% were senior managers as shown in table 4.3. This implies
that the data received that the response received was relevant as it is the responsibility of managers to evaluate the effect of shareholding on the financial performance of the banks.

Table 4.3: Management Level

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Manager</td>
<td>61</td>
<td>43.7</td>
</tr>
<tr>
<td>Head of Department</td>
<td>12</td>
<td>8.5</td>
</tr>
<tr>
<td>Manager</td>
<td>63</td>
<td>45.1</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>4</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.2.3 Number of Years Worked in the bank.
To establish the duration the respondents have worked in the firm, the findings revealed that majority of the respondents have worked for 3-5 years representing 46.5%, those of between 6-9 years were 23.9%, and those of less than 2 years were 22.5%. The study also established that those of 10 years and above were 7.1% as shown in table 4.4

Table 4.4: Number of Years Worked In the Bank

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 2</td>
<td>32</td>
<td>22.5</td>
</tr>
<tr>
<td>3-5</td>
<td>65</td>
<td>46.5</td>
</tr>
<tr>
<td>6-9</td>
<td>33</td>
<td>23.9</td>
</tr>
<tr>
<td>10 and above.</td>
<td>10</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

4.3. Effect of Shareholding Concentration on Financial Performance
The first objective set to establish how concentration of Shareholding leads to Financial Performance. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to concentration of Shareholding and Financial Performance of the banks. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree
4.3.1. Descriptive of Variables of Concentration of Shareholding leading to Financial Performance.

The results established that most respondents agree that regulation in the industry is based on shareholder concentration (local or international) (4.74). Shareholders have a huge role in determination of the banks objectives based on their capital input (4.50). The size of the firm has a positive relationship to its performance (4.50). The political environment is favorable in attracting investors regionally as well as internationally (4.50).

The respondents also agreed that percentage of shareholders (local or international) influence performance of the banks (4.26). The shareholder value of the firm is dependent on the performance (4.25). The cultural environment in the industry is favorable in attracting investors regionally as well as internationally (2.25). The operations of the bank are monitored by the shareholders (4.00). Lastly; the legal environment is favorable in attracting investors regionally as well as internationally (4.01) as shown in table 4.4.

### Table 4.4. Descriptive on Variables of Concentration of Shareholding.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The operations of the bank are monitored by the shareholder</td>
<td>140</td>
<td>4.00</td>
<td>.707</td>
</tr>
<tr>
<td>Shareholders have a huge role in determination of the banks objectives based on their capital input</td>
<td>140</td>
<td>4.50</td>
<td>.502</td>
</tr>
<tr>
<td>Percentage of shareholders (local or international) influence performance of the banks.</td>
<td>140</td>
<td>4.26</td>
<td>.831</td>
</tr>
<tr>
<td>The shareholder value of the firm is dependent on the performance</td>
<td>140</td>
<td>4.25</td>
<td>.434</td>
</tr>
<tr>
<td>The size of the firm has a positive relationship to its performance</td>
<td>140</td>
<td>4.50</td>
<td>.502</td>
</tr>
<tr>
<td>Regulation in the industry is based on shareholder concentration (local or international)</td>
<td>140</td>
<td>4.74</td>
<td>.437</td>
</tr>
<tr>
<td>The legal environment is favorable in attracting investors regionally as well as internationally</td>
<td>140</td>
<td>4.01</td>
<td>.712</td>
</tr>
<tr>
<td>The political environment is favorable in attracting investors regionally as well as internationally</td>
<td>140</td>
<td>4.50</td>
<td>.502</td>
</tr>
<tr>
<td>The cultural environment in the industry is favorable in attracting investors regionally as well as internationally</td>
<td>140</td>
<td>4.25</td>
<td>.434</td>
</tr>
</tbody>
</table>

4.4. Determinants of the Shareholding Structure

The second objective set to establish how shareholding structure affects banks financial performance. Respondents were asked a set of questions to indicate to what extent they
agree or disagreed with statement related to Shareholding Structure and financial performance of the banks. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.4.1. Descriptive on Variables of Shareholding Structure.

The results established that most respondents agree that the efficiency in the bank is a result of the output that the shareholders have committed to goal attainment (4.74). Efficient utilization of assets and management skills contributes to good returns in the banking industry (4.52). There exists good relations between the shareholder and the management of the firm (4.50). Capital level maintained determines expansion and operations in the industry (4.30). Investment in technology has boosted investor confidence in the industry (4.25). Resources are a preserve of the shareholders’ approval (4.24). Stable returns to investments reduces the shareholders estimation of risk about future cash flows (4.00). A greater return on shares prices traded promote investor confidence (3.59) and high capital determines capability of the bank to attract shareholders as well as improve reserves (3.57) as shown in table 4.5.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources are a preserve of the shareholders’ approval</td>
<td>140</td>
<td>4.24</td>
<td>.836</td>
</tr>
<tr>
<td>Efficiency in the bank is a result of the output that the shareholders have committed to goal attainment</td>
<td>140</td>
<td>4.74</td>
<td>.437</td>
</tr>
<tr>
<td>Investment in technology has boosted investor confidence in the industry</td>
<td>140</td>
<td>4.25</td>
<td>.434</td>
</tr>
<tr>
<td>Capital level maintained determines expansion and operations in the industry</td>
<td>140</td>
<td>4.30</td>
<td>.573</td>
</tr>
<tr>
<td>High capital determines capability of the bank to attract shareholders as well as improve reserves.</td>
<td>140</td>
<td>3.59</td>
<td>1.193</td>
</tr>
<tr>
<td>A greater return on shares prices traded promote investor confidence</td>
<td>140</td>
<td>3.57</td>
<td>.934</td>
</tr>
<tr>
<td>There exists good relations between the shareholder and the management of the firm</td>
<td>140</td>
<td>4.50</td>
<td>.502</td>
</tr>
<tr>
<td>Efficient utilization of assets and management skills contributes to good returns in the banking industry</td>
<td>140</td>
<td>4.52</td>
<td>.501</td>
</tr>
<tr>
<td>Stable returns to investments reduces the shareholders estimation of risk about future cash flows</td>
<td>140</td>
<td>4.00</td>
<td>.707</td>
</tr>
</tbody>
</table>
4.5 Determinants of Financial Performance

The third objective set to establish how shareholders determine the financial performance of the banks. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to how shareholders determine the financial performance of the banks. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.5.1 Descriptive on Variables of Determinants of Financial Performance

The results established that most respondents agree that the inventory records are updated regularly in the bank (4.26). The Earning per share (EPS) of shareholders reflect the banks’ ability to generate returns to equity (3.75). The use of Capital, Adequacy, Asset, Management, Earnings Quality and Liquidity model (CAMEL) is practiced in the bank (3.25). The company has fully utilized the debt facility according to its capabilities (3.49) as shown in table 4.6.

Table 4.6: Descriptive on Variables of Determinants of Financial Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Earning per share (EPS) of shareholders reflect the banks’ ability to generate returns to equity</td>
<td>140</td>
<td>3.75</td>
<td>0.434</td>
</tr>
<tr>
<td>The use of Capital, Adequacy, Asset, Management, Earnings Quality and Liquidity model (CAMEL) is practiced in the bank</td>
<td>140</td>
<td>3.25</td>
<td>0.434</td>
</tr>
<tr>
<td>There is Managerial efficiency in the bank considering the presence of shareholders’ interests such as profit maximization and cost minimization</td>
<td>140</td>
<td>3.49</td>
<td>0.875</td>
</tr>
<tr>
<td>A diverse portfolio is more rewarding to bank performance than being on one investment policy</td>
<td>140</td>
<td>4.25</td>
<td>0.829</td>
</tr>
<tr>
<td>The bank is concerned with implementing measures to curb the cost of operations so as to control the profits it expects to attain</td>
<td>140</td>
<td>3.61</td>
<td>1.095</td>
</tr>
<tr>
<td>The company has a working capital management system</td>
<td>140</td>
<td>3.99</td>
<td>0.712</td>
</tr>
<tr>
<td>The inventory records are updated regularly in the bank.</td>
<td>140</td>
<td>4.26</td>
<td>0.831</td>
</tr>
<tr>
<td>Receivables management system is fully automated in the bank.</td>
<td>140</td>
<td>3.91</td>
<td>0.865</td>
</tr>
<tr>
<td>The company has fully utilized the debt facility according to its capabilities</td>
<td>140</td>
<td>3.77</td>
<td>0.727</td>
</tr>
</tbody>
</table>

Receivables management system is fully automated in the bank (4.25). There is Managerial efficiency in the bank considering the presence of shareholders’ interests such as profit maximization and cost minimization (3.61). A diverse portfolio is more
rewarding to bank performance than being on one investment policy (3.99). The bank is concerned with implementing measures to curb the cost of operations so as to control the profits it expects to attain (3.91). The company has a working capital management system (3.77) as shown in table 4.6.

4.6. Shareholding Risks that Influence Bank Performance
The last objective set to establish Shareholding Risks that Influence Bank Performance. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to how Shareholding Risks Influence Bank Performance. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.6.1. Descriptive on Variables of Shareholding Risks that Influence Bank Performance.

The results established that most respondents agree that diversity of investors fosters investment trading activity (4.50). The increasing number of banks in the country has promoted growth of the sector (4.00). Shareholders are extremely sensitive to market risks such as interest rates (3.00). Risk exposures such as interest rates affect the foreign investors more than local investors (3.75). Risk exposures determine their trading positions in the banking institutions (2.76). Macroeconomic variables such as inflation are prone to influence the shareholding of banks (4.04). The government should mitigate risks in the banking sector environment (3.52). The diversification of banks to engage in new risky business projects usually pay off more on the local than foreign banks (3.65) as shown in table 4.7.
Table 4.7: Descriptive on Variables of Shareholding Risks that Influence Bank Performance.

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders are extremely sensitive to market risks such as interest rates</td>
<td>145</td>
<td>4.00</td>
<td>.707</td>
</tr>
<tr>
<td>Risk exposures such as interest rates affect the foreign investors more than local investors.</td>
<td>145</td>
<td>3.00</td>
<td>.707</td>
</tr>
<tr>
<td>Risk exposures determine their trading positions in the banking institutions.</td>
<td>145</td>
<td>3.78</td>
<td>1.090</td>
</tr>
<tr>
<td>Macroeconomic variables such as inflation are prone to influence the shareholding of banks</td>
<td>145</td>
<td>2.76</td>
<td>1.095</td>
</tr>
<tr>
<td>The government should mitigate risks in the banking sector environment</td>
<td>145</td>
<td>4.04</td>
<td>.351</td>
</tr>
<tr>
<td>The diversification of banks to engage in new risky business projects usually pay off more on the local than foreign banks</td>
<td>145</td>
<td>3.52</td>
<td>.727</td>
</tr>
<tr>
<td>Diversity of investors fosters investment trading activity</td>
<td>145</td>
<td>4.50</td>
<td>.502</td>
</tr>
<tr>
<td>The increasing number of banks in the country has promoted growth of the sector</td>
<td>145</td>
<td>3.65</td>
<td>1.044</td>
</tr>
</tbody>
</table>

4.7. Bank Performance

The last question was set to establish Bank Performance. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to bank performance. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.7.1. Descriptive on Variables of Bank Performance.

The results established that most respondents agree that the bank has had good improvement on return on assets in the last three years (4.50). The bank has better return on assets than industry (3.74). The bank has better return on equity than the industry (3.50). The bank provides equal access to information for Shareholders and investment analysts (3.74). The company tracks changes in its ownership structure so that any and all voting blocks are known (4.00). The bank has had good improvement on return on equity in the last three years (3.99).
### Table 4.8: Descriptive on Variables of Bank Performance

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your bank provides equal access to information for Shareholders and analysts</td>
<td>140</td>
<td>3.74</td>
<td>.437</td>
</tr>
<tr>
<td>The company tracks changes in its ownership structure so that all blocks are known</td>
<td>140</td>
<td>4.00</td>
<td>.707</td>
</tr>
<tr>
<td>The bank has had good improvement on return on equity in the last three years</td>
<td>140</td>
<td>3.99</td>
<td>.712</td>
</tr>
<tr>
<td>The bank has had good improvement on return on assets in the last three years</td>
<td>140</td>
<td>4.50</td>
<td>.502</td>
</tr>
<tr>
<td>The bank has better return on equity than the industry</td>
<td>140</td>
<td>3.50</td>
<td>1.119</td>
</tr>
<tr>
<td>The bank has better return on assets than industry</td>
<td>140</td>
<td>3.75</td>
<td>.829</td>
</tr>
</tbody>
</table>

Valid N (listwise) 140

### 4.8. Inferential Statistics

#### 4.8.1 Reliability Test

A reliability test was done by use of Cronbach Alpha on the variables of Shareholding concentration, Shareholding structure, and determinants of financial performance and Shareholding risks. Cronbach’s alpha measure assesses the reliability or internal uniformity, of a set trial items. The desired cronbach alpha value should be above 0.6 ($\alpha >0.6$) For the study the value all the values were above 0.6 hence making the variables very reliable as indicated in table 4.9

### Table 4.9: Reliability Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholding concentration.</td>
<td>.826</td>
<td>10</td>
</tr>
<tr>
<td>Shareholding structure</td>
<td>.879</td>
<td>9</td>
</tr>
<tr>
<td>Determinants of shareholding performance</td>
<td>.636</td>
<td>9</td>
</tr>
<tr>
<td>Shareholding risks.</td>
<td>.899</td>
<td>5</td>
</tr>
</tbody>
</table>

#### 4.8.2 Correlation

A Pearson correlation analysis was done to establish the relationship between the dependent variable (bank performance) against other core factors and the result established a strong positive relationship between the variables. All the variables were significant as indicated in table 4.10. Therefore, an increase in combined variables of
leadership style, staff competence and resource allocation lead to an increase in strategy implementation.

**Table 4.10: Correlation Analysis**

<table>
<thead>
<tr>
<th></th>
<th>Shareholding concentration</th>
<th>Shareholding structure</th>
<th>Determinant of shareholding</th>
<th>Shareholding risks.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholding concentration</td>
<td>1</td>
<td>.860**</td>
<td>.852**</td>
<td>.680</td>
</tr>
<tr>
<td>Shareholding structure</td>
<td>.860**</td>
<td>1</td>
<td>.647**</td>
<td>.720**</td>
</tr>
<tr>
<td>Determinants of shareholding performance</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>Shareholding risks.</td>
<td>.680**</td>
<td>.720**</td>
<td>.584**</td>
<td>1**</td>
</tr>
</tbody>
</table>

4.8.3. Regression Analysis

The research analyzed the relationship between the dependent variable (bank performance) against other core factors. The results showed that the R2 value was 0.54 hence 54% of the variation in bank financial performance was explained by the variations in Shareholding concentration, determinants of shareholding performance, Shareholding structure and Shareholding risks as illustrated in the table 4.11.

**Table 4.11. Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
<td>F Change</td>
</tr>
<tr>
<td>1</td>
<td>.736a</td>
<td>.542</td>
<td>.532</td>
<td>.38238</td>
<td>.542</td>
<td>55.606</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), risk, determinants, impact of shareholding

4.8.4 ANOVA Analysis

An ANOVA analysis was done between strategy implementation, resource allocation, staff competence, leadership style at 95% confidence level, the F critical was 55.606 and the P value was (0.000) therefore significant the results are illustrated below in table 4.12.
Table 4.12: ANOVA Analysis

<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>24.391</td>
<td>3</td>
<td>8.130</td>
<td>55.606</td>
<td>.000 b</td>
</tr>
<tr>
<td>Residual</td>
<td>20.616</td>
<td>141</td>
<td>.146</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>45.007</td>
<td>144</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: bank performance
b. Predictors: (Constant), risk, determinants, impact of shareholding

Table 4.13: Coefficients of bank performance and Co-Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>9.643</td>
<td>1.936</td>
<td>4.980</td>
<td>.000</td>
</tr>
<tr>
<td>impact of</td>
<td>.078</td>
<td>.772</td>
<td>.019</td>
<td>.101</td>
</tr>
<tr>
<td>shareholding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>determinants</td>
<td>-1.037</td>
<td>.218</td>
<td>-.667</td>
<td>-4.761</td>
</tr>
<tr>
<td>risk</td>
<td>-.579</td>
<td>.210</td>
<td>-.404</td>
<td>-2.754</td>
</tr>
</tbody>
</table>

The regression equation illustrated in Table 4.13 has established that taking all factors into account (shareholding concentration, shareholding structure, financial determinants and shareholding risk all other factors held constant bank performance increases by 9.643.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \]

\[ Y = 9.643 + 0.078X_1 -1.037X_2-0.579X_3 + 0.382 \]

Where:

Y is the dependent variable (bank sector performance);
\( \beta_0 \) is the regression constant;
\( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables;
\( X_1 \) is relationship between ownership structure and firm performance;
\( X_2 \) is factors that determine financial performance;
\( X_3 \) is risks in choice of shareholding structure adopted; and
\( \varepsilon \) is the error term.
4.9. Chapter Summary

This chapter has highlighted results and findings. The first section provided an analysis of demographic data of the respondents, the second section dealt with shareholding concentration, the third section looked at the shareholding structure, the fourth section covered issues on financial determinants and the last section illustrates shareholding risk. In chapter five this results will be discussed and relevant conclusions and recommendations made with regard to bank performance in Kenya.
CHAPTER FIVE

5.0 DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction
This section will seek to analyse the findings and this will be done by comparing and contrasting with previous literature related to bank performance. This will be organized based on the specific research questions which sought to establish how shareholding concentration, shareholding risk, financial determinants, shareholding structure affects bank performance.

5.2 Summary of the Study
The general purpose of the study is to establish the effect of shareholding on the financial performance of the banking sector in Kenya. This study was guided by the following research questions: what are the concentration structures of shareholding adopted by banks in the banking sector in Kenya? What is the relationship between ownership structure and firm performance? What are the factors that determine financial performance and what are the risks in choice of shareholding structure adopted by the banking institutions affecting their performance?

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions about the effects of shareholding on the financial performance of the banking sector in Kenya. Further, the correlation approach was adopted as the study was seeking to describe relationship between the independent variables – shareholding concentration, shareholding risk, financial determinants, shareholding structure and dependent variables – bank performance. The target population for this study was the respondents who oversee the financial performance of the banks. This comprise of Managers, Heads of departments (both of whom in their structure are considered to be in the business level) and assistant managers (who are in the operational level in their structure).

The sampling technique was stratified random sampling method. This entailed dividing the population into mutually exclusive groups, in this case heads of department, managers and assistant managers. Then random samples were drawn from each group. From the initial target population of 243, this being more than 100 but less than 500, and guided by the rule of thumb, the study applied stratified random sampling and a quota of 50% was
drawn from each strata. Out of the total of 151 questionnaires awarded only 145 were filled and returned giving a response rate of 96%.

The first objective set to establish how the concentration structures of shareholding adopted by banks in the banking sector in Kenya affects them. It was established that most respondents agree that regulation in the industry is based on shareholder concentration (local or international). The study also revealed that shareholders have a huge role in determination of the banks objectives based on their capital input. In addition, it was also revealed that the size of the firm has a positive relationship to its performance. The research showed that the political environment is favorable in attracting investors regionally as well as internationally. The respondents also agreed that percentage of shareholders (local or international) influence performance of the banks. The shareholder value of the firm was also found to be dependent on the performance. The cultural environment in the industry is favorable in attracting investors regionally as well as internationally. The operations of the bank are monitored by the shareholders. Lastly; the research revealed that the legal environment is favorable in attracting investors regionally as well as internationally

The second objective was set to establish how the shareholder structure affects firms’ performance. The results established that most respondents agree that the efficiency in the bank is as a result of the output that the shareholders have committed to goal attainment. Efficient utilization of assets and management skills contributes to good returns in the banking industry. The study revealed that there exist good relations between the shareholder and the management of the firm. Capital level maintained determines expansion and operations in the industry. In addition, it was found out that investment in technology has boosted investor confidence in the industry. Resources are a preserve of the shareholders’ approval. Stable returns to investments reduce the shareholders estimation of risk about future cash flows. A greater return on shares prices traded promotes investor confidence and high capital determines capability of the bank to attract shareholders as well as improve reserves.

The third objective set to establish the factors that determine financial performance. The findings revealed that the results established that most respondents agree that the inventory records are updated regularly in the bank. The Earning per share (EPS) of shareholders reflect the banks’ ability to generate returns to equity and also the use of
Capital, Adequacy, Asset, Management, Earnings Quality and Liquidity model (CAMEL) is practiced in the bank. In addition, the company has fully utilized the debt facility according to its capabilities. The research showed that receivables management system is fully automated in the bank. It was found out that there is Managerial efficiency in the bank considering the presence of shareholders’ interests such as profit maximization and cost minimization. A diverse portfolio is more rewarding to bank performance than being on one investment portfolio. Finally, the study revealed that the bank is concerned with implementing measures to curb the cost of operations so as to control the profits it expects to attain and the company has a working capital management system.

The last objective was set to establish the risks in choice of shareholding structure adopted by the banking institutions and how they affect their performance. The results established that most respondents agree that diversity of investors fosters investment trading activity. The finding revealed that the increasing number of banks in the country has promoted growth of the sector. Shareholders are extremely sensitive to market risks such as interest rates. In addition, it was clear that risk exposures such as interest rates affect the foreign investors more than local investors. Risk exposures determine their trading positions in the banking institutions. Macroeconomic variables such as inflation are prone to influence the shareholding of banks. The research discovered that the government should mitigate risks in the banking sector environment and the diversification of banks to engage in new risky business projects usually pay off more on the local than foreign bank.

A Pearson correlation analysis was done to establish the relationship between the bank performances against other core factors established a strong positive relationship between the variables. From a regression analysis 89% of the variation in strategy implementation was explained by the variations in shareholding concentration, shareholding risk, financial determinants and shareholding structure.

5.3 Discussion
5.3.1. Concentration of Shareholding leading And Bank Financial Performance
The first objective of the research was geared towards Concentration of Shareholding leading And Bank Financial Performance. It was established that most respondents agree that regulation in the industry is based on shareholder concentration (local or international). The increasing banks’ capital requirements at its core, emphasizes the need
for much regulation as it installs buffers against potential losses and reduces the risk probability by a reduction of the incentives to shareholders and managers to take more risks than expected (Pelstera, Irresberger, & Weiß, 2016). Banks holding capital requirement influences them to be able to diverge to more investments which attract with risks attached to them. According to Pelstera (2016) he identifies that bank regulation depends critically on each bank’s shareholding structure. Banks profit more from fewer restrictions but also incur more risks therefore in order to ensure efficiency aspects of restrictions on entry, supervisory and management need to be considered (Luci, Andy, & Fariborz, 2014). Barrier to entry is an index which is used on providing restrictions that are concerned with entry of new shareholders or investors and privatization. It can be able to answer questions such as to what extent does the government allow entry into a domestic market, does it allow in any case, and the dominance there is in the banking sector, that is are they state, domestic, block or individually owned (Ongena, Popov, & Udell, 2012). Bank restrictions are also another measure that deals with regulatory hurdles that impede banks engagement in market securities such as for example Real estate investment trusts (REITS).

In addition, it was also revealed that the size of the firm has a positive relationship to its performance. The larger the firm size the greater its capitalization and the sum of capital that is required to own a given stake in such a firm. It comes around with its share of high monitoring costs, constant analysis by financial analysts ‘which decreases the ability for shareholders to interfere and increases their opportunities to exert control from more investments. Capitalization in this case being measured by the ratio of shareholders equity to total assets of the bank can reveal size based on the capital generated (Onuonga, 2014). Large firms are not necessarily safe as they are prone to firm specific risks which make holding a high stake in them less attractive for an investor who is risk-averse. In determination of the size of a firm’s market, capitalization is effective for classification of a market whether it is of large, medium or small capitalization level. The rates at which bank assets are financed by the shareholders reveal its capital adequacy according to Obamuyi (2013).

The shareholder value of the firm was also found to be dependent on the performance. Investors are sometimes acquisitions seekers; they take up portions of ownership through shareholding in a firm with a mind on return to investments. They stakeholders bear some risk as a result of having invested some form of capital therefore it is in them to expect
returns after success or profits from operations. The investment into shareholder relationships with the management leads to valuable and intangible competencies that maintain a competitive advantage in a firm (Hillman & Keim, 2001). A study by Bo Becker (2011) reveals that shareholder value is in the control of a firm therefore affecting its performance and operations (Becker, Henrik, & Rudiger, 2011).

5.3.2. Relationship between Shareholding Structure and Bank Performance

Most respondents agree that the efficiency in the bank is as a result of the output that the shareholders have committed to goal attainment. The stochastic model is used in the determination of efficiency by factoring in the production, cost, revenue and other measures for goal attainment in a firm originally developed by Aigner, Lovell and Schmidt (1977). It usually factors in the inputs to a production to result in desired outputs, though much consideration is stressed on efficiency. Banks in countries such as Slovenia and Estonia in Europe are ranked among the most efficient; this is focused on a relationship between foreign shareholding and cost efficiency measures (Banerjee, 2012). The stochastic frontier can be able used to determine the decisions the banks can undertake in order to improve their efficiency, be it entry of foreign shareholders or domestic shareholding.

Stable returns to investments reduce the shareholders estimation of risk about future cash flows. A greater return on shares prices traded promotes investor confidence and high capital determines capability of the bank to attract shareholders as well as improve reserves. To an investor the return on funds committed to realize organizational goals can be rewarded in term of monetary or physical wealth. A return on ownership of a portion of the firm is what is termed a return on a particular investment. Stable shareholding reduce myopic problem in a firm (Shuto & Iwasaki, Stable Shareholdings, the Decision Horizon Problem and Earnings Smoothing, 2014). A study in Japan by Shuto and Kitagawa (2014) addresses cross shareholding to ensure firms are closely connected with banks for their primary needs. The maintenance of this relationship and a stable shareholding ensures a fixed return to assets, because of an information asymmetry between shareholders and firm managers stable returns to investments reduces the shareholders estimation of risk about future cash flows (Shuto & Iwasaki, 2014).

From the regression analysis done, the findings revealed a positive relationship between shareholder structure and firm performance. Similar findings have been reported and such
studies include Uwalomwa and Olamide (2012) study to determine the relationship between ownership structure with the performance of the 31 firms in Nigeria's financial sector from 2006-2010. It was revealed that the company having shareholders as members of the Board of Directors and presence of foreign shareholders improves the positive company's operations, efficiency and ensure the new skills and techniques are achieved although the influence was not felt as much in developing countries (Gedajlovic and Shapiro, 1998).

Micco et al. (2004) identified a strong relationship between ownership structure and performance. The findings revealed that state-owned banks have lower profitability than the private ones, at the same time, foreign-owned banks had a higher profitability. Similar study done in Kenya by Kiruri (2013) showed that ownership concentration was negatively correlated with bank profitability. However, foreign ownership and the domestic ownership were all positively correlated to banks profitability.

Beyond Africa in the Greek banking sector, Antoniadis et al. (2010) established that having a high level of ownership concentration and diffused ownership increased a bank profitability by a big margin. According to Kobeissi and Sun (2010) there exist a high impact ownership structure on the bank performance among private banks, especially in foreign owned ones which tend to have a higher performance indicators than other banks. Contrary to this, government owned banks are the poorest in ranking and are the worst performers. The study concluded that foreign banks listed in stock exchange markets had a great significant effect on performance.

In Pakistani Equity market, Hasan and Butt (2009) reconnoitred the impact of ownership structure and corporate governance on capital structure of listed Pakistani firms. They suggested that corporate governance factors like ownership structure, size of the board of directors and managerial shareholding were vital in determining the capital structure of the firms, this in turn affects performance.

5.3.3. Determinants of Financial Performance

The results established that most respondents agree that the inventory records are updated regularly in the bank. Inventory plays a vital role in the growth and survival of an organization in the sense that failure to an effective and efficient management of inventory, will mean that the organization will lose customers and sales will decline. Emphasizing on the importance of inventory on the balance sheet of companies, Coyle,
Bardi and Langley (2003) state that “inventory as an asset on the balance sheet of companies has taken an increased significance because of the strategy of many firms to reduce their investment in fixed assets, that is, plants, warehouses, office buildings, equipment and machinery, and so on. The research done by Holdren and Hollings head (1999) in the United States of America witnesses that much of the $ 700 million worth of inventory held by American businesses is financed by bank loans with the goods pledged as security.

An important industrial marketing relationship exists between inventory managers and commercial lending officers who write these inventory loans. Inventory managers need to provide their lenders with sufficient information to obtain financing at the lowest rate. Loan officers need to assess the degree of inventory risk in order to assign a proper interest rate. Issues of risk and return of inventory loans are matters of concern for both inventory managers and creditors.

It was also revealed that receivables management system is fully automated in the bank. Management competency refers to managers with high integrity, professionalism, quality for service and professional competence can result to stability and suitable profit for banks (Muhmad & Hashim, 2015). Shareholders expect value for their capital injections and this therefore requires managers who can be able to utilise the resources injected effectively. Efficiency can be measured using financial ratios with the representation of efficient utilization of resources, income reduction and maximization of operating costs (Sangmi & Tabassum, 2010). Managerial efficiency also includes a reduction of expenses that tends to improve profitability with utilization of ratios such as credit, deposit, asset utilization, diversification ratio, earning per employee and expenditure per employee ratios (Echekoba & Egbunike, 2014).

There was uncertainty about managerial efficiency in the bank considering the presence of shareholders’ interests such as profit maximization and cost minimization. Shareholders control requires managerial corporation. This means that bad management increases the chances of bank failure (Nasserinia, Ariff, & Fan-Fah, 2014). Shareholders need to be in control of the managers utilizing their investments to ensure they get value for their investments. Ongore and Kusa (2013) findings were that managerial efficiency represented by operating profit to income ratio had a significant impact on the performance of commercial banks. Nasserina et al (2014) also in a study of commercial
banks in Japan indicated managerial efficiency in terms of operating expenses to total assets had a positive relationship to profitability ratios. Fredrick (2014) on his survey on banks in Uganda established a relationship of operating expenses to a negative impact on profitability.

The study revealed that a diverse portfolio is more rewarding to bank performance than being on one investment policy. Portfolio selection is based on a theory that investors will focus on optimal portfolios as opposed to optimal assets (Markowitz, 1991). The balanced portfolio theory relating to the banking institution has it that contents of a bank portfolio together with its profit and return to shareholders are as a result of board and management decisions according to Ongore and Kusa (2013) study on determinants of financial performance of commercial banks in Kenya. Portfolio diversification by banks is as a result of shareholder expectations on performance on banks to meet it desired objectives and replicate its ROE to its shareholders. Portfolio theory and diversification is thus as result of managerial decisions to be able to find ways to compete and improve on their financial performance.

5.3.4 Shareholding Risks and Bank Performance

The results established that most respondents agree that diversity of investors fosters investment trading activity. The finding revealed that the increasing number of banks in the country has promoted growth of the sector. Shareholders are extremely sensitive to market risks such as interest rates. In addition, it was clear that risk exposures such as interest rates affect the foreign investors more than local investors. Risk exposures determine their trading positions in the banking institutions. Shareholders are sensitive to market risks especially if we have foreign shareholders who would prefer to invest outside their own states. The volatility of the market will determine if they will invest and ensure that they will be able to have value for their investments.

Changes in analyst risk ratings distinctly affect the rate of equity returns (Lui, Markov, & Tamayo, 2012). This sends a signal to the shareholders who have a decision to either limit their shareholding positions or decide to influence management to a better performance by taking up control. According to Lui, Markov and Tamayo (2012) they emphasize on the use of equity risk ratings as compared to credit risk ratings as the equity risk rating decreases stronger than the market reaction to credit ratings. In other cases they are also sensitive to take over’s where they would be able to ensure the control of an ailing
financial institution and try to reinvent its financial woes. Risk exposures such as interest rates will also affect the foreign investors and will determine their trading positions in the banking institutions. Macroeconomic variables such as inflation are prone to influence the shareholding of banks. Inflation is the general price level of the economy indicated by an inflation rate. A positive relationship was found between inflation and profitability in Chinese banking sector (Floros, 2012).

The study also revealed that the interest rates could be adjusted so as to be able to control the rate of inflation. Floros (2012) determined that the banking sector in China was related to cost efficiency, inflation, stock market development and non-traditional activity. Perry (1992) identifies that the relationship between inflation and profitability can be either a positive or negative effect with the determinant being whether inflation can be anticipated or is unanticipated. The research discovered that the government should mitigate risks in the banking sector environment and the diversification of banks to engage in new risky business projects usually pay off more on the local than foreign bank.

5.4 Conclusion

5.4.1 Effects of Concentration of Shareholding leading on Bank Financial Performance

The data also provide strong evidence that there exists a hump-shaped relationship between ownership concentration and firm performance, in which firm performance peaks at intermediate levels of ownership concentration. The finding provides empirical support for the hypothesis that 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.

Given substantial ownership concentration, the influence of controlling shareholders can lead to the expropriation of minority shareholders. Although a significant linear relationship between ownership concentration and firm performance found in the study suggests that concentrated ownership can be an effective mechanism of corporate governance in a country with limited legal protection of investors, the nonlinear effect of ownership concentration on firm performance shows the possibility that controlling shareholders can expropriate wealth from minority shareholders.
5.4.2. Effects of Shareholding Structure on Bank Performance

Overall, the findings on Kenyan banks provide evidence that different types of ownership structure present different impact to the bank performance. The results show that insider ownership and government ownership have significant impact to changes in bank performance. However, the inconsistent results of insider ownership with the hypothesis implies that the existing shares held by insider is not sufficient to align the interest of the insider with those of the managers and thus, deter them to work towards maximizing the shareholders' interests or increase the banks’ performance. The effects of institutional ownership to bank performance cannot be concluded as the results show that institutional ownership is only significant to ROE but insignificant to ROA. Meanwhile, the insignificant results of family ownership and foreign ownership suggest that both types of ownership structure do not have significant impacts to the bank performance.

5.4.3. Determinants of Financial Performance

This empirical study showed that capital adequacy, asset quality and management efficiency significantly affect the performance of commercial banks in Kenya. However, the effect of liquidity on performance of commercial banks is not strong. The relationship between bank performance and capital adequacy and management efficiency was found to be positive and for asset quality the relationship was negative. This indicates that poor asset quality or high non-performing loans to total asset related to poor bank performance. Thus, it is possible to conclude that banks with high asset quality and low non-performing loan are more profitable than the others.

The other bank specific factor liquidity management represented by liquidity ratio was found to have no significant effect on the performance of commercial banks in Kenya. This shows that performance is not as such about keeping high liquid asset; rather it is about asset quality, capital adequacy, efficiency and others. But, this doesn't mean that liquidity status of banks has no effect at all. Rather it means that liquidity has lesser effect on performance of commercial banks in the study period in Kenya. Thus, it is possible to conclude that those bank managers who invest their liquid assets can generate income and boost their performance.

5.4.4. The Effects of Shareholding Risks on Bank Performance

Macroeconomic variables such as inflation are prone to influence the shareholding of banks. Inflation is the general price level of the economy indicated by an inflation rate. Results suggest that large banks tend to maintain lower insolvency and credit risks and
improved profitability by taking advantage of greater diversification benefits and economies of scale. This suggests the possibility of consolidation of smaller banks that seem to be struggling to cope up with intense competition in the Indian banking sector.

5.5 Recommendation

5.5.1 Recommendation for Improvement

5.5.1.1. Effects of Concentration of Shareholding leading on Bank Financial Performance

The concentration of ownership need to be focused on maximization of shares in an institution for the control to be attained. Control of shareholding between the domestic and foreign owned banks should be implemented because foreign banks have a higher loan portfolio quality and thus lower levels of insider lending.

5.5.1.2. Effects of Shareholding Structure on Bank Performance

The maintenance of good relationship between the firms managers should be maintained and a stable shareholding since it ensures a fixed return to assets, because of an information asymmetry between shareholders and firm managers stable returns to investments reduces the shareholders estimation of risk about future cash flows.

5.5.1.3. Determinants of Financial Performance

The study recommends that there is need for commercial banks to improve their performance in terms of their ROEs and ROAs. There has been a general decline in performance on these two specific ratios and it is clear that the overall performance has been sliding down. The study also recommends that banks should improve on their liquidity more so the ability of the banks to promptly repay the depositors. As the results show, this ability has been steadily declining over the years and it is important that the banks maintain a certain minimum for this.

5.5.1.4. The effects of Shareholding Risks on Bank Performance

Industry concentration should be worked on since it has a positive impact on banking performance. This means that the greater the concentration of firms in the industry the greater the monopolistic power of these banks will be.
5.5.2 Recommendation for Further Studies

This study can be replicated in other industries to establish what the determinants of firm performance are. Thus studies can be done in other sectors of the economy such as manufacturing sector to determine the firm specific factors that influence their performance.

There is also need to carry out the same study in the banking industry in Kenya but by employing a different model and approach in order to test the determinants of bank financial performance. This is because the variables in this study failed to influence bank performance. The study also suggests that another study be done in the banking industry covering a longer period of time in order to establish trends and determine what factors influence bank performance.
REFERENCES


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APPENDICES

Appendix A: LETTER OF INTRODUCTION

Kennedy Mburu Gachunga
P.O Box 3434 - 01002

Dear Respondent,

My name is Kennedy Mburu Gachunga, a postgraduate student at United States International University. I am carrying out a research on The Effect of Shareholding on the Financial Performance of the Banking Sector in Kenya

You have been selected to be part of this study as a respondent. I kindly request you to spare some time and answer the questions to the best of your knowledge. Your identity will be treated with utmost confidentiality and any information provided on this questionnaire will be used for the purposes of this study only.

Yours Faithfully,

___________________
Kennedy Mburu Gachunga
Appendix B: QUESTIONNAIRE

Please Tick √ as appropriate

SECTION A: General Information

1. Please indicate your highest level of education
   a. Diploma ☐
   b. Bachelor ☐
   c. Masters ☐
   d. Doctorate ☐

2. How long have you been working in this bank?
   a. Less than 2 years ☐
   b. 3 – 5 years ☐
   c. 6 – 9 years ☐
   d. 10 years and above ☐

3. How many years of professional experience do you have in the banking industry?
   a. 1-5 years ☐
   b. 6-10 years ☐
   c. 11-15 years ☐
   d. 16 years and above ☐
SECTION B: Determinants of the Shareholding Structure

Using a scale of 1-5 tick the appropriate answer from the alternatives, 1- Strongly Disagree, 2-Dissagree, 3-Uncertain, 4-Agree, 5-Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The operations of the bank are monitored by the shareholder</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Shareholders have a huge role in determination of the banks objectives based on their capital input</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Percentage of shareholders (local or international) influence performance of the banks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The shareholder value of the firm is dependent on the performance</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The size of the firm has a positive relationship to its performance</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Regulation in the industry is based on shareholder concentration (local or international)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The legal environment is favourable in attracting investors regionally as well as internationally</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The political environment is favourable in attracting investors regionally as well as internationally</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The cultural environment in the industry is favourable in attracting investors regionally as well as internationally</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
SECTION C: The Relationship between shareholding structure and bank performance

Using a scale of 1-5 tick the appropriate answer from the alternatives, **1- Strongly Disagree** 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources are a preserve of the shareholders’ approval</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Efficiency in the bank is a as a result of the output that the shareholders have committed to goal attainment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Investment in technology has boosted investor confidence in the industry</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Capital level maintained determine expansion and operations in the industry</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>High capital determine capability of the bank to attract shareholders as well as improve reserves.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>A greater return on shares prices traded promote investor confidence</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>There exists good relations between the shareholder and the management of the firm</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>efficient utilization of assets and management skills contributes to good returns in the banking industry</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Stable returns to investments reduces the shareholders estimation of risk about future cash flows</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
SECTION D: Determinants of Financial Performance

Using a scale of 1-5 tick the appropriate answer from the alternatives, **1 - Strongly Disagree** 2 - Dissagree 3 - Uncertain 4 - Agree 5 - Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Earning per share (EPS) of shareholders reflect the banks’ ability to generate returns to equity</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The use of Capital, Adequacy, Asset, Management, Earnings Quality and Liquidity model (CAMEL) is practiced in the bank</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>There is Managerial efficiency in the bank considering the presence of shareholders’ interests such as profit maximization and cost minimization</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>A diverse portfolio is more rewarding to bank performance than being on one investment policy</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank is concerned with implementing measures to curb the cost of operations so as to control the profits it expects to attain</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The company has a working capital management system</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The inventory records are updated regularly in the bank.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Receivables management system is fully automated in the bank.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The company has fully utilized the debt facility according to its capabilities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
Section E: Shareholding Risks that Influence Bank Performance

Using a scale of 1-5 tick the appropriate answer from the alternatives, 1- Strongly Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders are extremely sensitive to market risks such as interest rates</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Risk exposures such as interest rates affect the foreign investors more than local investors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Risk exposures determine their trading positions in the banking institutions.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Macroeconomic variables such as inflation are prone to influence the shareholding of banks</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The government should mitigate risks in the banking sector environment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The diversification of banks to engage in new risky business projects usually pay off more on the local than foreign banks</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Diversity of investors fosters investment trading activity</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The increasing number of banks in the country has promoted growth of the sector</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
Section F: Bank Performance

Using a scale of 1-5 tick the appropriate answer from the alternatives, 1- Strongly Disagree 2-Dissagree 3-Uncertain 4-Agree 5- Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your bank provides equal access to information for Shareholders and investment analysts</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The company tracks changes in its ownership structure so that any and all voting blocks are known</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank has had good improvement on return on equity in the last three years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank has had good improvement on return on assets in the last three years</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank has better return on equity than the industry</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The bank has better return on assets than industry</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
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</tbody>
</table>
## Appendix C: Performance ROE

<table>
<thead>
<tr>
<th>ROE</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Finance (HF) Group</td>
<td>7.4</td>
<td>7.7</td>
<td>7.26</td>
</tr>
<tr>
<td>Standard chartered Bank</td>
<td>5.2</td>
<td>5.5</td>
<td>5.93</td>
</tr>
<tr>
<td>Equity Group</td>
<td>7.0</td>
<td>5.8</td>
<td>5.44</td>
</tr>
<tr>
<td>I &amp; M Bank</td>
<td>5.9</td>
<td>6.0</td>
<td>6.42</td>
</tr>
<tr>
<td>DTB Bank</td>
<td>4.8</td>
<td>4.7</td>
<td>4.43</td>
</tr>
<tr>
<td>Co-op Bank</td>
<td>10.4</td>
<td>7.0</td>
<td>5.22</td>
</tr>
<tr>
<td>KCB Bank</td>
<td>5.2</td>
<td>5.5</td>
<td>5.64</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>4.9</td>
<td>4.9</td>
<td>4.47</td>
</tr>
<tr>
<td>NIC Bank</td>
<td>4.2</td>
<td>4.6</td>
<td>4.44</td>
</tr>
<tr>
<td>National Bank</td>
<td>4.0</td>
<td>3.6</td>
<td>2.57</td>
</tr>
</tbody>
</table>