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ANALYSIS OF THE EFFECT OF BLOCK OWNERSHIP ON PERFORMANCE OF LISTED COMMERCIAL BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

This study examined the effect of block ownership on organisational performance of listed commercial banks in Kenya. The study used descriptive cross-sectional survey. The study targeted 11 commercial banks in Kenya which are listed in the NSE. The total population that was being studied was a total of 283 staff at managerial level employed at headquarters of commercial banks in Kenya. The unit of observation was 164 respondents selected using Fisher, Laing and Stoeckel formula. Each member of the selected sample was issued with a questionnaire by the researcher. Descriptive statistics were used in analysing quantitative data by use of SPSS and presentations were done using standard deviations, percentages, frequencies and frequencies means. Qualitative data was tested using content analysis. Correlation analysis was conducted to establish the degree of association between the predictor and the response variables. Multiple regressions were then done to establish the influence of block ownership on organisational performance of listed commercial banks in Kenya. The study established that "block ownership', had significant effect on organisational performance of listed commercial banks in Kenya. The study concluded that there was statistically significant relationship between block ownership and organisational performance. Therefore it is important that organizations incorporate block ownership in their firms since block holders are essential in ensuring so as to safeguard the organizational performance.

Key words: *Block Ownership and Performance of Banks*

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INTRODUCTION

The role played by organizations in our daily lives is of great importance thus a successful organization implies growth. Any company aims to continuously perform because it is through performance that every company will be able to grow progressively (Ismi, 2014). Therefore, performance of the organization is a very important element in in determining the success of a company and in research management (Barney, 2001). The performance of an organizational can be explained in various constituencies, which leads to different explanations 'successful performance". The different ways in which performance of the organization can be explained is said to be distinct. Furthermore, every single company has a unique set of situations that make measuring of performance inherently situational (Cameron & Whetton, 1983).

Institute of International Finance (IIF) observes that the global economy has entered a period of adjustment in the last one year, leading to differentiated banks' performance results (IIF, 2014). The banking industry in the US and the UK has witnessed an up-turn in growth, whereas in Japan and other Euro Zones the growth is sluggish. Against the backdrop of the economic pattern in China, assets, liabilities and net profit growth slowed down in the banking industry, and credit risk pressure increased. Moreover, because of the challenges of macroeconomic environment experienced in Europe, it has affected the revenues of their banks and has led to negative trend revenue and remain well below the levels recorded in the period preceding the global financial slump (Schildbach, 2013).

As noted by Beck and Cull (2014), Africa is lagging behind compared to other regions worldwide in terms of financial developments. For example in the year 2011, "credit' to the private sector in Africa stood at an average of 78% of Gross Domestic Product (GDP) compared to 132.5% for other emerging markets in East Asia and Pacific (Amidu & Wilson, 2014). Prior to the 2008 financial crisis, bank's average liquid liability in Sub-Saharan Africa (SSA) was 30%, compared to 4% for other developing countries (Allen, Carletti, Cull, Qian & Senbet, 2009). The lack of financial development is in itself a function of widespread poverty and large proportion of the population in many African countries being engaged in subsistence agriculture (Honohan & Beck 2007). Moreover, the large concentration of population in subsistence production limits the financial resources available for intermediation.

In the case of Kenya, corporate governance is also becoming prominent (Ekadah & Mboya, 2012). One of the reasons why this is being experienced is because of failures by corporate and poor performance witnessed in both the private and public organizations (Barako et al., 2006). In Kenya, corporate failures and regulatory initiatives have also placed corporate governance systems under closer scrutiny than ever for instance, 'CMC Motors and NHIF" (Lekaram, 2014). In the case of Kenya, corporate governance hasn't been focused on conclusively. The Capital Market Steering Committee report (2014) stated that during the past year, there were a number of scandals in boardrooms of those companies that are large. Because of the issue of corporate governance experienced in Kenya, there has been stagnation experienced in the manufacturing industry which is the main pillar for the attainment of the vision 2030. Research need to be carried out for the purpose of establishing how the performance of corporations is being affected by corporate governance this will enable the issue of stagnation in the manufacturing industry in Kenya be addressed.

Corporate Governance refers to the processes and structures that are being used in directing and managing businesses affairs of the firm toward improving the prosperity and corporate accounting with the aim of attaining the long term shareholder

value while putting into consideration the interest of the shareholders (CMA Act, 2002). It can also be referred to as the system through which governance and controlling of the company is done. It's a set of associations existing between directors of the organization, stakeholders and other shareholder's as it deals with the power of directors and to control shareholders over the interests of the minority, the rights of the employees, creditors and the stakeholders (Muriithi, 2009).

Corporate governance in the banking industry improves service delivery, efficiency and overall performance in the retail banking industry (Wayland & Cole, 2009). Because of the significance of governance, the Basel II committee on the banking sector overlooked on the need for commercial banks to adopt practices of the corporate governance that are similar in order to boost stability and performance of the industry. Because of the failure of the sector, the banking industry in the period between 1984 and 2005, a total of 34 banks failed because of poor performance (Upadhyaya, 2011).

Between 2015 and 2016 there were 3 banks failures, which attributed to lack of adherence to corporate governance practices (CBK, 2016). Various studies that have been done have established that poor performance that is witnessed is as a result of failing to adhere practices of corporate governance. There are three main guidelines that have been issued by CBK regarding commercial banks corporate governance: 2001, 2006 and 2013. From the current trend, it is right to say that poor governance if not addressed then the cases of banks failures will increase. Linyiru, (2016), argued that despite there being awareness and existence of corporate governance mechanisms in the banking industry in Kenya, there is need for strengthening of the because of the special nature of the banks.

From the findings of studies done on the association between corporate governance and the way banking companies perform in various regions globally are contradicting. Love and Rachinsky, (2007) found that corporate governance and performance of the banks were negatively related. Kiruri, (2013) established that the main cause of reduced profitability are ownership concentration and state ownership while profitability is increased with higher foreign and domestic ownership, Nyarige, (2012), found that the size of the board affected the performance of the market of commercial banks in a negative way whereas board independence had a positively affected performance of the market, Mang'unyi, (2011) found that there was no significant distinction between the structure of banks ownership, financial performance and practice of corporate governance in Kenyan commercial banks. Because of the contradicting findings, there could be the question of whether the way commercial banks in Kenya perform is affected by corporate governance. Based on the establishments above, Al-Manseer *et al.* (2012) reached a conclusion that there is need for further research to be done on corporate governance in the banking industry. Therefore, this study sought to establish the effect of block ownership on organisational performance of listed commercial banks in Kenya.

THEORETICAL LITERATURE REVIEW

Agency Theory was first founded by and Demsetz (1972") and further developments were done by Jensen and Meckling (1976). The theory is explained as the association between principles like the stakeholders and agents like managers of a company. The theory indicates that the owners who could be the stakeholders of a company employ agents to carry out some duties. The principals assign the managers/directors the duty of overseeing the running of the business (Clarke, 2004). Through the theory, there is reduction in the corporation to participants; this is the managers and the stakeholders.

The theory also indicated that managers or even the workers of a company can have self-interests. The expectations of the stakeholder are that the decisions made by the agents will be in line with the interests of the principals. But the agents might not necessarily make decisions that are in best interest of the principals (Padilla, 2000). Adam Smith were he first people to give an highlight of the issue in the 18th century and later it was explored by Ross (1973) and it was first explained in details in the agency theory by Jensen and Meckling (1976). Davis, Schoorman and Donaldson (1997) have confirmed the notion in agency theory of issues that arise because of separating ownership and control.

The theory indicate that the agent could have; "own self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits". The approach of risk is different from its understanding. Despite the setbacks, the theory was still established as separation of ownership and control (Bhimani, 2008). Holmstrom and Milgrom (1994) did argue that the main focus of agents might be on projects which yield high returns and have fixed wages without incentive instead of provision of fluctuating payments on incentives. Despite the fact of it providing the assessment that is fair, it doesn't reduce or even completely eliminate the issue of corporate misconduct. The approach that is applied is the positivist where controlling of agents is done by principal-made rules, aiming at optimizing the value of stakeholders. Therefore, a view that is more of individualistic is used in the theory (Clarke, 2004). It is therefore very appropriate to use this theory in exploring the association between the structure of ownership and that of management.

The theory suggests that workers are held responsible for their duties as well as their responsibilities. Workers need to be made up of governance structure that is good and not just the provision of the requirements by stakeholders which pose a great challenge to the governing structure. This theory of agency theory is applied in the study in investigating the effect of corporate governance on organisational performance of listed Commercial Banks in Kenya.

Empirical Literature Review

Mang'unyi (2011) explored the ownership structure and Corporate Governance and how they affect the way companies perform. The focus of his study was banks located in Kenya. From his study he found that the difference that existed between corporate governance and financial performance of banks were significant. The recommendation of the study was that the corporate entities need to be promoting corporate governance send a positive signal to investors and other agencies that are responsible for regulation which include the government which need to promote and socialize corporate governance and its association to the performance of the company across the company.

Dadson (2012) did a study on concentrated block share ownership and how listed companies in Ghana perform. The study used data that was collected for the period of 10 years between 1999 and 2008. Panel regression analysis was used and the study measured performance by use of Tobin's Q and ROA. From the findings, it was established that the variables were significantly associated. It was found that share ownership on the GSE was highly concentrated on hands of Ghanaians and that the concentration of ownership, institutional and insider ownership precipitate led to improved performance in the company. The study recommended that there is need for the ownership structure of the investment design of the institution owners to be to be promoted for the purpose of ensuring that monitoring is properly done in order to lower agency costs and better the performance.

Al- Manaseer, Alchian and Demsetz (2012) did an empirical study on the effect of corporate governance

on the way 15 banks located in the Jordan performed. The study used data obtained for the period of 2007 to 2009 where 45 observations were made. The study used pooled data and OLS estimation technique on the panel data. ROA, ROE, PM and EPS were adopted as performance measures (dependent variables) whereas board size, board independence, CEO status, block foreign ownership and bank size were adopted as independent variables. From the findings, it was established significantly negative association between "board size' and banks performance as measured by returns on equity and earnings per share; but insignificant negative association of board size with return on asset and profit margin. It is only bank size that was significant and positively related to earning per share. The study also revealed a positive association between board independence and foreign ownership and bank performance measures (ROA, ROE, PM and EPS). In addition, CEO status had a negative significant influence on profit margin.

RESEARCH METHODOLOGY

This study was a descriptive cross-sectional survey which is performed once as stated by Cooper and Schindler (2006). The advantage of this research design is that the researcher was able to determine the association between the variables at a particular time (Mugenda & Mugenda, 2008). Descriptive research design involves facts finding that seeks to provide an explanation on the state of affairs as it exists in the current (Collins, 2002) and is concerned with recounting the uniqueness of a particular entity or group (Mugenda & Mugenda, 2003; Kothari, 2004). Extant empirical literature is replete with studies whose research strategy has been informed by descriptive research design (Mbai, Kinyua & Muhoho, 2018; Kobia & Kinyua, 2018; Kimaru & Kinyua, 2018).

The targeted population for this study was 11 commercial banks in Kenya that are listed in the Nairobi Securities Exchange. The study population was the employee at the management level. The study targeted senior workers in commercial banks employed at their headquarters. The company had a total of 286 employees at managerial level who were employed at the headquarters of commercial banks in Kenya. The reason why employees at the managerial positions were selected is because they could provide the needed information for this study. Using Fisher, Laing and Stoeckel formula, the sample size of the study was 164 respondents out of 286, which represented 57.3% of the target population. The study applied the use of stratified random sampling in selecting the sample. Kothari (2010) indicated that stratified random sampling method results to samples that are of great precision making sure that the sample is representative and from a population that is homogeneous.

Analysis of quantitative data that was obtained was done using descriptive statistics computed in SPSS (Version, 21) and presentation done by use of "percentages, means, standard deviations and frequencies'. The findings were displayed using bar charts, graphs and pie charts and in prose-form. Correlation analysis was done to establish the degree of association between the explanatory and the response variables. The study conducted a univariate analysis to determine the effect of block ownership on organisational performance of listed commercial banks in Kenya. The regression equation was:

$Y= \beta_0+ \beta_1X_1 + \varepsilon$ ……………………. Model (i)

Where; Y was the 'dependent variable (Performance), β_0 was the 'regression constant', β1, is the 'coefficient of independent variables", X_1 is block ownership. ANOVA was used to establish the level of significance of the established model.

RESULTS AND DISCUSSION

Out of 164 respondents that were served with the questionnaires 158 of them filled the questionnaire and returned forming a response rate of 96%. The rate was very satisfactory to conclude on the study since it was representative. Mugenda and Mugenda

(1999) stated that a rate of 50% is adequate to carry out analysis and make a report; a response rate of 60% is good and a rate of 70% and above is considered excellent. Basing on Mugenda was considered excellent.

Descriptive Statistics

The study carried out descriptive statistics on the data that was collected. These data was summarized by computing sample mean and sample standard deviation.

Table 1: Results of Descriptive Statistics

Block Ownership	**Strongly Disagree**	**Disagree**	**Moderate**	**Agree**	**Strongly agree**	**Mean**	**Std. Dev.**
Block holders results to improved performance in the company	10	14	25	55	54	3.816	0.743
Bock holders have the capability of monitoring and controlling agents	11	15	23	59	50	3.772	0.728
Block ownership helps to protect the benefits of minority shareholders	15	19	20	65	39	3.595	0.681
Block holder have less incentives of monitoring the managers and pursuing the goals that are intended to optimize goals	12	21	28	63	34	3.544	0.622
Block ownership ensures proper operation of the firm for the good of the shareholders	16	17	21	60	44	3.627	0.677
Block ownership lower self-realization by managers who get discouraged consequently	13	20	20	50	55	3.722	0.721

Performance	**Strongly Disagree**	**Disagree**	**Moderate**	**Agree**	**Strongly agree**	**Mean**	**Std. Dev.**
Corporate governance helps in improving Customer satisfaction	7	9	14	53	75	4.139	1.011
Corporate governance helps in improving employee satisfaction	9	9	12	48	80	4.146	1.063
Corporate governance improves the organization market share	6	8	13	56	75	4.177	1.028
Corporate governance improves the organization profits	8	10	16	64	60	4.000	0.886

Source: Author (2018)

From the findings in table 1 the respondents agreed that “block holders’ yields a better performance of the firm as shown by a mean of 3.816, block holders have both the ability and the incentive to monitor and control agents as shown by a mean of 3.772, block ownership reduces the self-realization of managers who consequently get discouraged as shown by a mean of 3.722, block ownership ensures

proper operation of the firm for the good of the shareholders as shown by a mean of 3.627, block ownership helps to protect the benefits of minority shareholders as shown by a mean of 3.595 and block holder had less incentive to monitor the managers to pursue profit-maximization goal as shown by a mean of 3.544. Al- Manaseer, Alchian and Demsetz (2012) noted a positive association between board independence and foreign ownership and bank performance measures (ROA, ROE, PM and EPS). In addition, CEO status had a negative significant influence on profit margin.

The results further showed that corporate governance improved the organization market share as shown by a mean of 4.177; corporate governance helped in improving employee satisfaction as shown by a mean of 4.146, corporate governance helped in improving Customer satisfaction as shown by a mean of 4.139 and corporate governance improved the organization profits as shown by a mean of 4.000.

Inferential Statistics

The study carried out correlation and univariate regression analysis to investigate the effect of block ownership on organisational performance of listed Commercial Banks in Kenya.

Table 2: Results for Correlations Coefficient

		Organisational performance	Block ownership
Organisational performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	158	
Block ownership	Pearson Correlation	.776**	1
	Sig. (2-tailed)	.002	
	N	158	158

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

Source: Field Data (2018)

The results revealed that block ownership and organisational performance were strongly and positively correlated as shown by r = 0.776, statistically significant p = 0.002<0.01.

Table 3: Results of Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.132	0.202		5.604	0.002
	Block ownership	0.428	0.099	0.385	4.323	0.009

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.528[a]	0.279	0.251	0.164

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.643	1	19.643	34.277	.001[b]
	Residual	89.399	156	0.573		
	Total	109.042	157			

a. Predictors: (Constant), block ownership

b. Dependent Variable: Performance

Source: Field Data (2018)

The regression model that was estimated through the results of regression analysis in Table 3 and the regression model presented below.

Performance = 1.132 + 0.428 Block Ownership .... Model (ii)

From the findings of the model summary the coefficient of determination was 0.251 which implied the block ownership was responsible for 25.1% of variations in performance. From the findings of ANOVA, the model fitted was found to be significant at F (1, 156) = 34.277 and the p-value were found to be 0.001 which was less that the value which was adopted which was 0.05. From the regression analysis, it was concluded that block ownership when held at a constant of zero performance of the commercial banks would be at 1.132.

The study sought to establish the effect of block ownership on organisational performance. From the findings of the regression analysis in Table 3 block ownership was significant at β = 0.428; t = 4.323; p = .009. This implied that at 95% confidence level, block ownership positively affects organisational performance commercial banks in Kenya. This implied that increasing block ownership by a single unit will result to 0.428 increases in organisational performance. Therefore, the study concluded that performance commercial banks in Kenya were affected by block ownership. The findings of this study were consistent with the findings of Dadson (2012) that the share ownership on the Ghana Stock Exchange had a high concentration in the hands of Ghanaians and that the financial performance of the companies were improved by "ownership concentration, institutional and insider ownership precipitate'. The study also agreed with the stakeholder theory which states that a company is a system made up of shareholders and the intention of the company is to generate wealth to the shareholders.

CONCLUSION AND RECOMMENDATIONS

From the findings the results showed that block ownership is significantly related with organization performance. The study also revealed that block ownership a positive association with organizational performance. Therefore, the study concluded that block ownership positively affects organization performance. The study established that institutional ownership with organizational performance was positively and significantly related. From the findings the study concluded that institutional ownership positively affects organizational performance.

Organizations should at least incorporate block ownership in their firms since block holders are important in making sure that the public companies remain to be the property of the public. It implies that there exists at least one owner having the right incentives to make decisions that create value. There is need to encourage institutional ownership in banks. The institutional owners have been showing increased will of using their ownership rights in pressurizing the managers of the company to act in the interest of stakeholders.

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