



FOREIGN OWNERSHIP AND FINANCIAL PERFORMANCE OF MANUFACTURING AND ALLIED COMPANIES LISTED ON NAIROBI SECURITIES EXCHANGE, KENYA

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Abstract: Manufacturing firms play an essential function in economic growth and national economy. The contribution of manufacturing sector to Kenya's economy has been stable at 10 per cent of Gross Domestic Product. Foreign ownership is an essential in ensuring an improvement in the capital adequacy and liquidity of manufacturing and allied firms. However, despite the adoption of foreign ownership to obtain capital, the financial performance of these firms still remains poor. Return on assets among manufacturing and allied companies listed in Nairobi Securities Exchange decreased from 6.85% in 2015 to 5.83% in 2016 and 2.42% in 2017, but increased to 9.65% in 2018. Therefore, the study sought to examine the influence of foreign ownership on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange. The study was anchored on eclectic paradigm of Dunning theory. The researcher adopted an explanatory research design. Moreover, target population was 9 manufacturing and allied companies listed in Nairobi Securities Exchange. Since the study population was small, the researcher used a census approach and hence all the manufacturing and allied companies listed in Nairobi Securities Exchange were included. The study used secondary panel data obtained from Capital Market Authority and Nairobi Securities Exchange covering the period between 2015 and 2020. The descriptive and also inferential statistics were employed to analyse data with assistance of STATA version 14. The study established that foreign ownership has a positive and significant effect on the financial performance of listed manufacturing and allied firms in Nairobi Securities Exchange ($\beta_1=0.7638$, $p\text{-value}=0.368$). The study recommends that the government of Kenya should come up with policies to make the Kenyan market more attractive to investors. This can also be done by coming up with favourable labour policies to protect both the employees and investors in various projects. In addition, the firms should encourage foreign investors to take ownership of their companies in order to improve the firms' financial performance as well as increase the company's exports.

Key Words: Foreign Ownership, Financial Performance, Manufacturing and Allied Firms

Introduction

Globally, manufacturing firms play essential function in economic growth and national economy. The manufacturing industry employs a rapidly rising population across the world more so in developing countries (Sovaniski, 2020). It aids in the acquisition of foreign currencies from other countries and leads to diversification of the country's economy and reduction of dependency on a single product (Scott, 2018). Therefore, poor performance of the manufacturing sector leads to a reduction in economic growth as well as an increase in unemployment rate. However, despite their important role in the national economy, the manufacturing firms, all over the world has been experiencing challenges in their financial performance causing closure to some of them (Adamu & Embugas, 2017).

In the last two decades, manufacturing firms have been utilizing foreign ownership to improve their working capital and finance their expansions. Foreign ownership is an acquisition of enterprises in a

country by persons who are not citizens of that country or by firms whose headquarters are not in that country (Mihai & Mihai, 2013). Foreign ownership occurs when multinational companies with operations in numerous countries start a long-term investment in foreign country, typically via FDI or acquisition (Arman, 2016). In Kenya, foreign ownership of companies increased from 12% in 2018 to 19% in 2019 and 27% in 2020 (Central Bank of Kenya, 2020).

Between the year 2007 and 2018, manufacturing output in the United States reduced by 10.3 per cent, which was attributed to by inadequacy in working capital (Scott, 2018). In the year 2009, General Motors, an automotive manufacturer, filed for government-assisted bankruptcy after making losses for several years. To salvage its financial situation, the company has adopted foreign ownership. For instance, the company's operations in China entail 2 foreign enterprises and 10 joint-venture partnerships. In Nigeria, 272 manufacturing firms closed between the year 2015 and 2016 due to the high cost of production and increased competition (Raji, 2018). However, as indicated by Adamu and Embugus (2017), most manufacturing firms had adopted foreign ownership and equity financing. Manufacturing firms in Kenya like EAPCC, Mumias Sugar Company and Eveready East Africa have been making losses and others have all been issued profit warnings, denoting that their net earnings would be 25% below the profit obtained in the previous year (Nairobi Securities Exchange, 2020). According to Koskei (2017), foreign ownership has significant effect on manufacturing and allied firms' financial performance in Kenya.

Statement of the Problem

All firms have one common goal and that is to ensure maximum profit. But ensuring adequacy of capital for expansion and meeting financial obligations is very essential as well. To ensure liquidity and the same time ensure firms growth through expansion manufacturing firms have resorted to foreign investment portfolios including foreign ownership. However, despite the use of foreign ownership to obtain capital, manufacturing firms in Kenya are still performing poorly.

Between the year 2016 and 2020, the manufacturing and allied companies listed in the NSE have been experiencing a fluctuation in performance. In the year 2018, Carbacid Investments limited reported a drop in their profit after tax by 36 per cent to Sh105.3 million and in 2020, it made profit warning announcement showing that its profit after tax for the year 2019 was likely to fall by at least 25 per cent (Nairobi Securities Exchange, 2021). BOC Kenya, Carbacid Investment, East Africa Breweries and Kenya Orchards all incurred a drop in profits after tax in 2017. Profit after tax of BOC Kenya decreased by 50.1% from Kshs. 255 million in 2016 to Kshs. 127 million in the year 2017 (Capital Market Authority, 2019). In the year 2020, Unga Group experienced a drop in profit after tax by 44.8% to Kshs 83.5 Million. In British American Tobacco Kenya, the profit after tax reduced by 21.21% from Kshs. 4,234 million in 2016 to Kshs. 3336 million in 2017 (Nairobi Securities Exchange, 2018). In Flame Tree Group Holdings ltd, the profit after tax decreased by 72.58% from Kshs. 144,980 million in 2016 to Kshs. 39,754 million in 2017 (Nairobi Securities Exchange, 2021). With the changing business environment and increasing competition, manufacturing and allied companies require heavy investment to upgrade their production process and distribution lines. In the last 5 years, Kenya has experienced an increase in foreign ownership. For instance, foreign ownership of manufacturing and allied companies increased from 14.52% in 2019 to 14.86% in 2020.

In Kenya, numerous researches have been performed on foreign inflows and firms' financial performance. For example, Kariuki (2018) examined effect of FEC on bank performance in Kenya; and Oirere (2020) assessed the influence of foreign financial inflows on NSE stock market growth. However, Kariuki (2018) research was conducted in banking sector while Oirere (2020) study was on commercial and financial services firms. In addition, while Oirere (2020) study used stock market development as the dependent variable, Kariuki (2018) study measured financial performance using

ROE. The financial performance in this study was measured using ROA. In addition, both Oirere (2020) and Kariuki (2018) used an explanatory research approach, but this study used descriptive research approach. Despite the heavy investments by foreign companies, the performance of manufacturing and allied companies listed in the NSE has been declining. Therefore, this research sought to establish whether foreign ownership influence the performance of the manufacturing and allied companies listed in Nairobi Securities Exchange.

This study was guided by the below null hypotheses;

H₀₁: Foreign ownership has insignificant effect on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya.

Literature Review

Theoretical Review

The study will be anchored on eclectic paradigm of Dunning theory. Dunning (1980) proposed eclectic paradigm of international production which examines two categories of engagement in global relations to determine the nature of a country's involvement (Batschauer, Eliete & Amal, 2020). The first involves economic operations that take place within the country's borders, thereby utilizing national resources to yield goods and services that are intended for a foreign market. The second area of involvement is national economic agents' actions including the use of resources from diverse countries to manufacture goods as well as services for the international market According to Dunning (1980), first engagement is covered by traditional international commerce theory. The second project is in the field of international production and foreign investment. The theory indicates that both are a component of the same procedure. It claims that when it comes to country's participation, one must explain when and why global markets are obtained via foreign investment and also international production instead of domestic exports and production. This method attempts to determine why and when ownership, locational, as well as internalization benefits are made (referred to as OLI (Ownership, Location and Internationalization) advantages) (Arman, 2016).

The core of the electric method is to take all these advantages into account and apply them to international trade as well as manufacturing. Ownership benefits (O) are unique to a specific business (including marketing, technology and also production skills). Moreover, if this is fully utilized, a company can conquer and also be reimbursed for the increased expenditures of setting up production amenities in another country (Batschauer, Eliete & Amal, 2020). This advantage also allows the company to cover the higher expenditures of developing production plants in other countries. The advantages of location (L) are unique to diverse countries that are likely to catch the attention of foreign investors. Large markets, tax incentives government regulations and country's trade policy, are all encompassed in this category. Finally, internalization allows the company to gain more benefits by leveraging ownership and also locational advantages (I). Internalization is done by businesses since markets for assets and products like technology as well as expertise are imperfect. Internationalization and ownership are unique to single firm, however location benefits are unique to host country in particular and also have significant impact on foreign investment inflows. For foreign investments to take place, the benefits must occur simultaneously (Olawajaju, 2018).

This theory states that if the cost of performing similar tasks in-house or internally is lower, institutions will stay away from open market transactions. One of the criticisms of Eclectic Paradigm of Dunning Theory is that it fails to put into consideration the role of the managers. In addition, it lacks the ability to handle the dynamic evolution of the multinational companies easily (Arman, 2016).

In 2016, the government of Kenya ratified new rules allowing foreign direct investment (FDI) in the establishment of special economic zones (SEZ), where products are manufactured for the export

market. Export Processing Zones Act (Cap 517 of the laws of Kenya) and the Special Economic Zones Act (16 of 2015) establish export processing and special economic zones respectively. The special economic zones Act is aimed at promoting and facilitating global and local investments in these areas through tax incentives (Ministry of Industrialization, Trade and Enterprise Development, 2019).

In a *Kenya Gazette* notice, county governments were also at liberty to allocate land to any local or foreign investor planning to put up an SEZ (Kariuki, 2017). The identified facilities will also enjoy a one-stop regulatory regime manned by officers from the Special Economic Zones Authority (SEZA) who will help foreign investors acquire all documentation that will allow them to launch their operations within the shortest possible time. The 2016 Special Economic Zones Regulations state that SEZA must maintain an open investment environment to facilitate and encourage business via the setting up of “simple, flexible and transparent procedures for registration of the investor”. In addition,

This study used the Eclectic Paradigm of Dunning Theory to show the effect of foreign investments in terms of foreign capital and foreign ownership on financial performance of firms. When ownership, internalization advantages and location are high, Dunning's eclectic paradigm implies that enterprises will favor an integrated entry strategy, such as overseas investments or joint ventures, over licensing or export. According to Morris and Cyree (2018), strategic asset seeking investments take place in the first situation, in which foreign investment funds is employed in mergers and acquisitions and horizontal effectiveness is sought. Investments is defined by search for resources and markets, making them vertically efficient.

Empirical Review

In Vietnam, Duong, Vu, Vo, Nguyen-Le and Nguyen (2021) examined the link between foreign ownership and publicly traded companies' performance. This study analysed a large panel data that included 288 non-financial cited Vietnamese companies over five-year duration between 2015 and 2019. Findings demonstrated that the larger the FO ratio, the better the performance; nonetheless, the link between FO and business performance was a U-shaped association. Having been done in Vietnam, the study results cannot be applied to Kenyan firms owing to disparity in business environment and also legal framework regulating the operation of firms.

In a different study, Nguyen, Pham, Dao, Nguyen and Tran (2020) assessed the impact of foreign ownership on firms' performance in Vietnam. From 2014 to 2018, secondary data was collected on 427 publicly traded companies across all industries. Tobin's Q, ROA, and ROE were used to assess financial performance. Moreover, the study tested each model by least squares technique of Pool OLS, assessed random effects (REM) and evaluated fixed effects (FEM). The results showed that foreign ownership ratio and the firms' size influences financial performance positively. Nonetheless, the research was performed in Vietnam and therefore results cannot be applied to firms in Kenya.

Among Romanian listed manufacturing companies, Mihai and Mihai (2013) investigated the link between foreign ownership and companies' performance. The research was carried out on companies listed on the Bucharest Securities Exchange, in both regulated and unregulated areas. The final sample comprised 261 companies and secondary data was derived from the companies' websites. The percentage of shares held by foreign investors was used to calculate foreign ownership. The study's findings imply that there is insignificant link between economic and foreign ownership. However, the study was conducted in Romanian listed manufacturing companies, which operate under different business environment from those of Kenya. In addition, this study measured performance by employing ROE, but in this study employed ROA to measure performance.

In Indonesia, Arman (2016) assessed the link between FO and listed banking companies' financial performance. Moreover, the study sample comprised of 14 banking issuers with majority of their ownership held by foreign investors. The study used data from two years before and after foreign

ownership. The study findings reveal that after foreign ownership of banking businesses listed on Indonesia Securities Exchange, there is a substantial increase in LDR, insignificant improvement in CAR, insignificant fall in ROE, as well as significant decline in NPLs. However, this study was conducted among firms in the banking sector, whose operations, resources requirements and products differ from those of manufacturing firms.

In South Africa, Naidu (2020) examined the effect of foreign ownership on firm performance. The panel data used in this study covered the seven-year period from 2012 to 2018 for non-financial enterprises listed on JSE. The GMM method was used to solve the problem. The direct effects of foreign ownership are non-linear only when ROE is utilized, and the results differ among performance measures. The data reveal that foreign ownership has a favourable influence on ROE when it is less than 40.1 percent, but a negative effect when it is more than that. However, besides being limited to South Africa, the study used return on equity to measure financial performance, but this study used return on assets.

Using correlation research and cross-sectional study designs, Ng'ang'a, Namusonge and Sakwa (2016) assessed whether FO influences NSE listed firms' financial performance. The study's population comprised of 264 executives from each 61 NSE-listed firms. Questionnaires were utilized to obtain qualitative data for analysis, which was then supplemented with secondary quantitative data gleaned from the companies' published final accounts and quarterly market reports. The study discovered a link between foreign ownership and financial performance of Kenyan listed companies on the Nairobi Stock Exchange (NSE). The stability of share prices, agency costs, performance targets, new technology, monitoring and evaluation, collaborative links and network, foreign funding, and highly skilled professionals were all used to analyze foreign ownership but in this study it was measured in terms of amount of shares owned by foreigners.

Conceptual framework

The independent variable was foreign ownership. The dependent variable was financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange. Figure 1 shows the relationship between foreign ownership and financial performance.

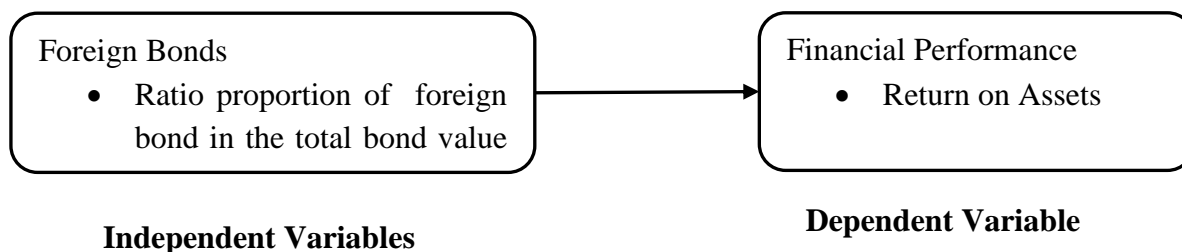


Figure 1: Conceptual framework

Research Methodology

The study used an explanatory research design. Given that the purpose of this study was to assess the effect of foreign ownership on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, the explanatory research design was considered appropriate. The target population was based on NSE-cited manufacturing and allied companies. There are a total of 9 manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya (NSE, 2020). The study used a census approach and hence included all 9 manufacturing and allied companies listed in Nairobi Securities Exchange.

The study used secondary panel data. Secondary source of data was collected from audited balance sheets and profit and loss accounts as contained in annual financial statements maintained at the respective firms; the NSE, Regulators and the Capital Markets Authority (CMA) were reviewed by the researcher. Data for the study was collected for the period 2015 to 2020. The research employed a data collection guide to collect the data.

Panel data in this study was generated via secondary data. A 6 years period was covered in this study and examined 9 manufacturing and allied companies listed in Nairobi Securities Exchange. The study used inferential and descriptive statistics in data analysis. Frequency distributions, percentages, mean, variances, and standard deviations are examples of descriptive statistics. Inferential statistics, on the other hand, were performed using panel regression analysis.

This study adopted a panel regression model was as shown below;

$$FP_{it} = \beta_0 + \beta_1 FO_{1it} + \varepsilon_{it} \dots\dots\dots (1)$$

Where; FP_{it} is dependent study variable (Financial Performance (ROA)); B_0 is y intercept (Constant); β_1 are Beta coefficients; FO is Foreign Ownership for firm i at time t; and ε is error term,

Diagnostic tests were conducted in this study before conducting inferential statistics. The diagnostic tests included Normality test, Multicollinearity test, heteroscedasticity Test, conintegration tests, stationarity Test and Hausman Specification Test.

Research Findings and Discussions

This study focused on 9 manufacturing and allied companies listed in Nairobi Securities Exchange. However, data for one company was not available and hence 8 manufacturing and allied companies listed in Nairobi Securities Exchange were used. The data covered a period starting from 2015 to 2020.

Descriptive statistics

Descriptive statistics included standard deviation(s), minimum(s), mean (s) and maximum values of the variables. The results were as depicted in Table 1. There were 48 observations from 9 manufacturing and allied companies listed in NSE (2015 to 2020). From the findings, the average return on assets among 9 manufacturing and allied companies listed in Nairobi Securities Exchange was 12.8048 per cent and the standard deviation was 10.95348. The minimum return on assets during the study period was -4.05 per cent and the maximum was return on assets was 46.782 per cent. The average foreign ownership measured in terms of percentage of shares held by foreign investors among manufacturing and allied companies listed in NSE was 13.27458% and the standard deviation was 8.68268%. The minimum foreign ownership was 3.16% and the maximum was 30.97%.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	48	12.8048	10.95348	-4.05	46.782
FO	48	13.27458	8.68268	3.16	30.97

Trend Analysis

Financial performance was measured in terms of ROA. Figure 2 presents trend of ROA for 9 manufacturing and allied companies listed in NSE for the period between 2015 and 2020.

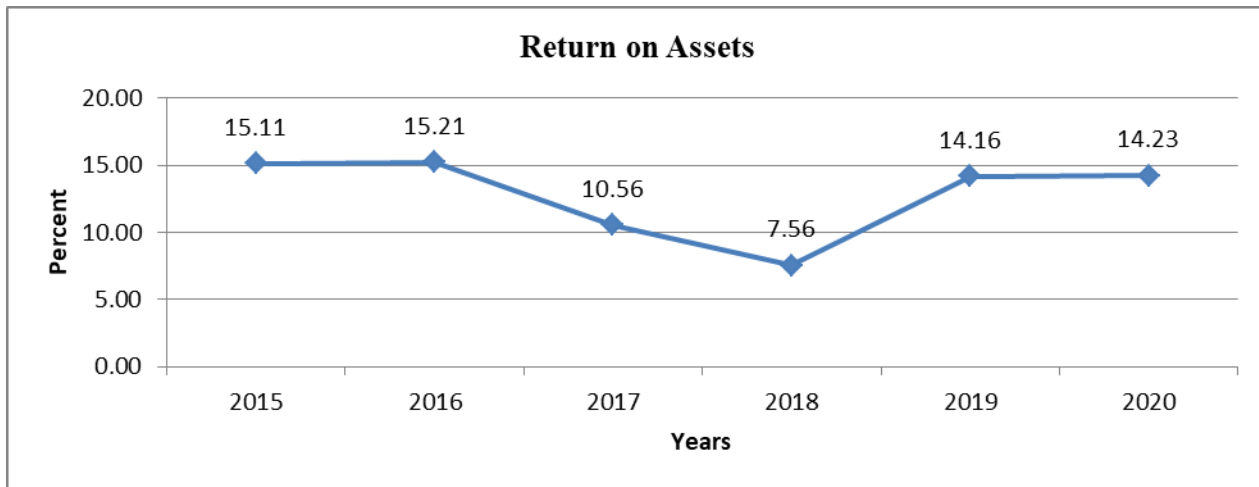


Figure 2: Trend Analysis of Return on Asset (2015-2020)

From the findings in Figure 4.1, the percentage of ROA has been fluctuating during the study period. The high percentage of ROA was 15.21 percent in 2016, followed by 15.11 percent in 2015 and 14.23% in 2020. The lowest percentage of ROA was 7.56 percent in 2018 followed by 10.56 percent in 2017. The decline in the return on assets between 2016 and 2018 can be explained by decline in investments during before and during the electioneering period. After the election period, the return on assets increased again. The findings are in line with Ochieng, Jagongo and Ndede (2020) observation that the return on assets in manufacturing and allied companies listed in NSE has been fluctuating for the period between 2015 and 2019.

The foreign ownership was measured in terms of the percentage of shares held by foreign investors. Figure 3 presents trend analysis of foreign ownership for 8 manufacturing and allied companies listed in NSE for period between 2015 and 2020.

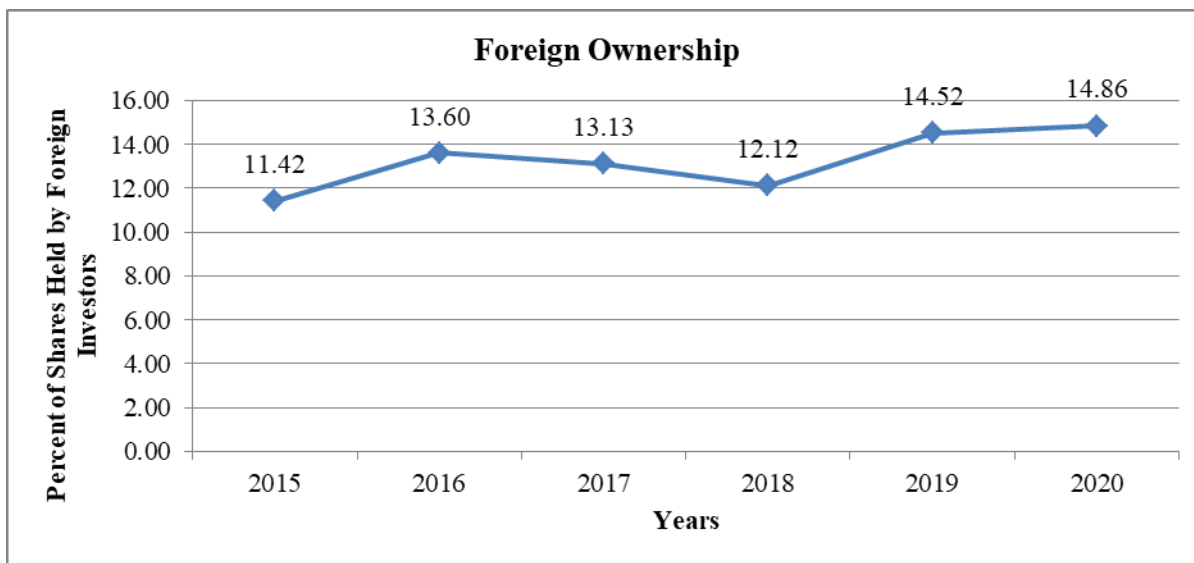


Figure 3: Trend Analysis of Foreign Ownership (2015-2020)

The foreign ownership for the 8 manufacturing and allied companies listed in NSE for the period between 2015 and 2020 increased from Kshs. 11.42 billion in 2015 to Kshs. 13.60 billion in 2016. However, the figure decreased to Kshs. 13.13 billion in 2017 and further decreased to Kshs. 12.12 billion in 2018. The figure increased steadily to Kshs. 14.52 billion in 2019 and further increased to Kshs. 14.86 billion in 2020. Between the year 2016 and 2018, there was a decrease in foreign

ownership of firms because investors tend to reduce their investments to Kenya during the elections, but re-invest after the elections. The findings agree with Oirere (2020) who highlighted a decrease in foreign ownership of firms during elections.

Diagnostic Tests

Diagnostic tests included autocorrelation test, normality test, heteroscedasticity test, linear test, Hausman test and unit root tests.

Test for Normality

The Shapiro–Wilk test was used to test normality and the results were as presented in Table 2. From the results, return on assets (p-value=0.111), foreign equity capital (p-value=0.732), foreign bonds (p-value=0.123), and foreign ownership (p-value=0.578) were normally distributed. This implies that all the independent variables and the dependent variable were normally distributed.

Table 2: Shapiro-Wilk Test

	Statistic	df	p-value
Return on Assets	.961	48	.111
Foreign Ownership (Percent of Shares Held by Foreign Investors)	.945	48	.578

Heteroscedasticity Test

Cook- Weisberg test was used to test heteroscedasticity and the results were as presented in Table 3. From the findings, it was revealed that the p- value of 0.0003 was greater than the significance level (0.05) implying that the there was constant variance in the dataset. This implies that there was homoscedasticity in the data set.

Table 3: Breusch-Pagan/Cook-Weisberg Test for Heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of ROA

chi2(1) = 17.56

Prob > chi2 = 0.0000

Autocorrelation Test

The Lagrangian multiplier test was used to test for autocorrelation. As shown in Table 4, the p-value (0.000) is less than the significance level (0.05), we can conclude that variances across entities are not zero, which means that there is significant difference across units (there is panel effect).

Table 4: Breusch-Godfrey Langrage Multiplier test

Breusch and Pagan Lagrangian multiplier test for random effects

$$\text{ROA}[\text{Company}, t] = Xb + u[\text{Company}] + e[\text{Company}, t]$$

Estimated results:

	Var	sd = sqrt(Var)
ROA	119.9787	10.95348
e	26.70409	5.1676
u	81.40862	9.022672

Test: $\text{Var}(u) = 0$

chibar2(01) = 57.08
 Prob > chibar2 = 0.0000

Unit Root Test

Im, Pesarian and Shin was used to test for unit root and the results were as presented in Table 5. In relation to foreign ownership, the null hypothesis is that foreign ownership, measured in terms of percentage of shares held by foreign investors in all panels (9 manufacturing and allied companies listed in NSE) contains unit root. Since the p-value (0.1333) was more than the significance level (0.05), we can accept the null hypothesis and hence foreign ownership, measured in terms of percentage of shares held by foreign investors has no partial unit root (some panels are not stationary).

In regard to the dependent variable, financial performance measured in terms of return on assets, the null hypothesis is that return on assets in all panels (9 manufacturing and allied companies listed in NSE) contains unit root. Since the p-value (0.0997) was more than the significance level (0.05), we can accept the null hypothesis and hence return on assets has no partial unit root (some panels are not stationary).

Table 5: Im-Pesaran-Shin Unit-Root Test

Variable	t-statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
Foreign Ownership	-2.0265	0.1333	-2.320	-2.060	-1.930
Return on Assets	-1.9947	0.0997	-2.320	-2.060	-1.930

Hausman Test

Hausman Test was used to detect the presence of endogenous repressors in a particular regression model (Bryman & Cramer, 2012). The Hausman Test was conducted and the results were as presented in Table 6. As illustrated in Table 6, Hausman specification test p value (0.4798) was more than the alpha value of 0.05 (at 95% confidence interval). This implied that the null hypothesis failed to be rejected implying that the study need to use random effects model.

Table 6: Hausman Test

	Coefficients			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
FO	.9436614	.8493369	.0943244	.133478

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$$\begin{aligned}
 \text{chi2(1)} &= (b-B)' [(V_b-V_B)^{-1}] (b-B) \\
 &= 0.50 \\
 \text{Prob>chi2} &= 0.4798
 \end{aligned}$$

Panel Data Regression Analysis

Panel data regression analysis was used to measure the weight of the association between the independent variables and the dependent variable. The basic model was specified as follows:

The regression model is as shown below;

$$FP_{it} = \beta_0 + \beta_1 FO_{1it} + \varepsilon_{it} \dots\dots\dots (2)$$

Where; FP_{it} is dependent study variable (Financial Performance (ROA)); B_0 is y intercept (Constant); β_1 are coefficients of determination; FO is Foreign Ownership; ε is error term; t subscript denotes time; i subscript denotes number of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya.

Panel regression analysis was conducted and the results were as presented in Table 7. In the results, the R-squared shows the variation in the dependent variable that can be explained by the independent variable. From the findings the r-squared for the relationship between foreign ownership and financial performance (return on assets) of manufacturing and allied companies listed in NSE was 0.2594. This implies that the foreign ownership explain 25.94% of the dependent variable (financial performance). In this study, the p-value for the F-test was 0.0001, which is less than the significance level (0.05). This means that the model is a good fit for the data.

Interpretation of the coefficients includes both the within-entity and between-entity effects. In this study data represents the average effect of X over Y when X changes across time and between companies by one unit. In addition, two-tail p-values test the hypothesis that each coefficient is different from 0. To reject this, the p-value has to be lower than 0.05, if this is the case, then the variable has a significant influence on the dependent variable (Y).

The study found that foreign ownership, measured in terms of percentage of shares held by foreign investors, has a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE as shown by a regression coefficient of 0.7637679. This shows that a unit increase in percentage of shares held by foreign investors across time and manufacturing and allied companies listed in NSE would lead to a 0.7637679 increase in financial

performance. The association was significant as the p-value (0.000) was less than the significance level (0.05). These findings concur with Nguyen, Pham, Dao, Nguyen and Tran (2020) findings that foreign ownership ratio and the firms' size influences financial performance positively in Vietnam. Further, the findings agree with Ng'ang'a, Namusonge and Sakwa (2016) argument that there exists a link between foreign ownership and financial performance of Kenyan listed companies on the Nairobi Stock Exchange (NSE).

Table 7: Regression Results

Random-effects GLS regression	Number of obs	=	48
Group variable: Company	Number of groups	=	8
R-sq: within = 0.2664	Obs per group: min =		6
between = 0.2674	avg =		6.0
overall = 0.2594	max =		6
	Wald chi2(1)	=	16.01
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.0001

ROA	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
FO	.8493369	.2122728	4.00	0.000	.4332899	1.265384
_cons	1.530206	4.308019	0.36	0.722	-6.913357	9.973769
sigma_u	9.0226724					
sigma_e	5.1675998					
rho	.75299769	(fraction of variance due to u_i)				

Conclusion and Recommendations

The study concludes that foreign ownership, measured in terms of percentage of shares held by foreign investors, has a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE. This implies that an increase in percentage of shares held by foreign investors as a measure of foreign ownership would lead to an improvement in the financial performance of manufacturing and allied companies listed in NSE.

The study found that foreign ownership of firms significantly influence financial performance. The study recommends that the government of Kenya should come up with new policies and improve current polices to make the Kenyan business market more favourable to foreign investors. For instance, the government should work at improving the infrastructure as well as reduce the cost of electricity so as to make the Kenyan market more attractive to investors. This can also be done by coming up with favourable labour policies to protect both the employees and investors in various projects.

The study found that foreign ownership, measured in terms of percentage of shares held by foreign investors, has a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE. This study therefore recommends that the

manufacturing and allied companies listed in NSE should encourage foreign investors to take ownership of their companies in order to improve the firms' financial performance as well as increase the companies' exports. Moreover, foreign acquisition will help improve output, employment opportunities and wages for the listed manufacturing and allied firms.

Areas for Further Research

This study was limited to manufacturing and allied companies listed in NSE and hence its findings cannot be generalized to other categories of companies listed in the NSE. As such, further studies need to be conducted to examine how foreign ownership influences the financial performance of other categories of listed firms in NSE. This study found that foreign ownership explains 25.94% of the financial performance of manufacturing and allied companies listed in NSE. Further, this study measured financial performance in terms of return on assets. The study therefore suggests further studies to look at how foreign ownership affect financial performance measured in terms of return on investment and return on equity. The study also suggests studies on other factors that affect the financial performance of manufacturing and allied companies listed in NSE.

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