ABSTRACT

Financial leverage literature shows plausible but mixed relationships between leverage and performance. Prior studies show mixed relationships between ownership concentration and performance. Ownership concentration has not been previously studied in relation to financial leverage. Nairobi Securities Exchange (NSE) is the single capital market in Kenya which enables listed firms to gain access to long-term investment funds by issuing equity and debt securities. The effect of financial leverage on performance of listed firms, effect of ownership concentration on firm performance, and the association between ownership concentration and financial leverage for firms listed at the NSE, are not known. The main purpose assesses effect of financial leverage and ownership concentration on performance of firms listed at the NSE, Kenya. Specific objectives are to: establish the effect of financial leverage on performance of listed firms; determine the effect of ownership concentration on performance of listed firms and establish the association between ownership concentration and financial leverage of listed firms. This study adopts a conceptual framework, in which financial leverage and ownership concentration are independent variables, firm performance as the dependent variable and firm size, age, asset tangibility, management efficiency and profitability as control variables. A causal research design is employed through a panel census survey. The effective target population (N = 47) companies listed for the period: 2007 -2011 resulting to 235 firm year observations. Secondary data is collected using data collection sheet. Unit root test results indicate: all the variables are integrated of order zero (p = .000). Data is analyzed using descriptive statistics such as mean, median, and standard deviation and Pearson's correlation and panel multiple regression analyses. Multivariate panel regression analysis show a good fit, ROE (Adj. R^2 = 77.32 %), ROA (Adj. R^2 = 88.52 %) and Tobin's Q (Adj. R^2 = 85.94 %). Results show financial leverage is a significant negative predictor of performance measured in terms of ROA, β = - .0438 (p = .0350) and Tobin's Q, β = -.5144 (p = .0124) meaning a unit change in financial leverage leads to a significant decrease in ROA and Tobin's Q of .0438 and 0.5144, respectively, all else being equal. Ownership concentration, β = -.0057 (p = .0353) is significant meaning a unit change in ownership concentration leads to a significant decrease in Tobin's Q of .0057, all factors being constant. Association between ownership concentration and financial leverage, r = .1889 (p = .0002) meaning that high ownership concentration leads to a significant increase in financial leverage used by listed firms. The study concludes: financial leverage has a significant negative effect on financial performance (ROA and Tobin's Q); ownership concentration has a significant negative effect on financial performance (Tobin's Q); while ownership concentration and financial leverage co-exist positively and in a significant manner. The study recommends: managers of listed firms should reduce financial leverage in their companies as this undermines performance; corporate governance strategies and policies be designed to ensure that firms reduce their ownership concentration and capital market regulators encourage diffused ownership so as improve the rights of shareholders. The study may be useful in adding value to existing knowledge in financial management and capital market policy formulation