



The Nexus Existing Between Ownership Structure and Value of Firms Listed in East Africa Securities Exchanges

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Abstract

Firm's value also referred to as enterprise value or firm value, reflects the aggregate worth of a business or an enterprise. Firm value is investor perception towards the company's degree of success often reflected as share price for publicly listed companies. The firm value parameter reflects the market value of the business and thus determines the market competitiveness, bargaining power, and brand value of the enterprise. Growth of firm value, however, is interlinked to corporate governance features. This study postulates that the value of firms is affected by ownership structure. The study sought to evaluate the influence of ownership structure on the firm value of firms listed in East Africa Securities Exchanges. The study was guided by agency theory. The study used the pragmatist research philosophy and ex post facto research design. The target population was comprised of 104 companies listed in the East African Securities Exchanges. Data was drawn from the annual reports and information circulars for the years 2011 to 2020 of all listed companies at the East Africa Security Exchanges listed in the said period from their respective websites. The study found that ownership structure did not have a significant effect on the firm value measured using both ROA and ROE. The study concludes that ownership structure does not affect the value of listed firms in East Africa Securities Exchanges. There is a need for listed firms to embrace the institutional and managerial form of ownership that builds investor confidence and thus firms' value.

Keywords: *Ownership Structure, Firm Value, Listed Firms, East Africa Securities Exchanges*

1.0 Introduction

Firm value is the sum of the actual market value of common stock and the estimated market values of preferred stock and debt (Abdullah et al., 2017). The firm's value must equal that of the assets' stream cash flows. A firm's value is usually expressed as the total discounted value of future profits. Firm value is dependent on the expected future dividend stream that shareholders anticipate receiving from a firm during the going concern life cycle of that firm, which is discounted back to the present (Rajni & Kawalpreet, 2013). The greater the firm value the better the position of the firm financially and the better the prospects for prospective investors (Rajni & Kawalpreet, 2013).

A firm's value may be affected directly or indirectly by factors related to the nature of the firm. Various factors have been found to impact firm value. They include capital structure, size, growth, efficiency, profitability, and dividend policy (Gharaibeh & Qader, 2017). Moreover, firm value is dependent to some extent on physical capital, labor, knowledge capital, and brand capital (Belo et al., 2019). Firm value has been found to be negatively influenced by dividend payout and gearing ratio (Kamunde, 2011). Growth opportunities can also impact firm value and may differ according to a firm's ownership structure (Martín-Reyna et al., 2012). For

example, in situations where a firm has no growth opportunities, managers could undertake unprofitable investments or prerequisite consumptions and thus affect the firm's value. Vital financial and non-financial information disclosed by firms depicts the value of such firms. Investors, management, and other stakeholders partly use disclosed information to make decisions on investments (Wahyuni et al., 2018).

The value creation of a firm indicates an improvement in the firm's worthiness to its stakeholders. Managers of any given firm will always desire to enhance its market value. As such, managers have no choice other than making some critical decisions, especially concerning the development of a superior product, thorough marketing strategy, serious investment portfolios, finance strategy as well as how the firm's earnings will be distributed or utilized (Sudiyatno et al., 2012). The value of the firm is determined by the market price of the firm's stock (Rajni & Kawalpreet, 2013). Tobin's Q is widely utilized as a measure of the firm's value. Under Tobin's Q, the firm's value is arrived at by dividing the market value of the firm by the asset's replacement value. Its wide use makes it the best measure for the valuation and comparison of cross-listed firms' value (Makanga & Gateri, 2015).

Firm's ownership structure has been cited as one of the key antecedents of corporate transparency and disclosure quality. Jentsch (2019) pointed out that results on the relationship between ownership structure and firm value are country specific. For instance, Jentsch (2019) indicated that the presence of a controlling shareholder decreases firm value and that the presence of institutional investors as significant shareholders may also decrease the value in Switzerland even though previous studies had conflicting results. On the other hand, Reyna and Encalada (2012) pointed out that ownership structure plays a dual role on performance (increase or decrease the firm value) and determines whether the firms have profitable investment projects. On the contrary, Abdullah et al. (2017) found that managerial and institutional ownership has an insignificant association with firm value in Malaysia. This implies that the effect of ownership structure may vary from country to country or region to region and hence the need to ascertain its effect on firms listed on the East African Securities Exchanges.

In East African Community four securities exchanges formed the East African Community Securities Exchange (EACSE) market, namely: The Nairobi Securities Exchange (NSE), the Uganda Securities Exchange (USE), the Dares Salaam Securities Exchange (DSE), and the Rwanda Securities Exchange (RSE). Among the four, the oldest security exchange is NSE which was established in 1954 and has 61 listed firms followed by DSE which has 16 firms and was admitted into EACSE in 1996 as a private limited company. The USE has 16 listed firms run under the jurisdiction of the Capital Market Authority which reports to the Central Bank of Uganda (Okiro et al., 2015). The Rwanda Securities Exchange (RSE) bond traded in January 2008 Over the Counter Exchange (ROTCE), while Burundi does not have a security exchange and firms finance their financial needs through commercial banks (CMA, 2012). The framework for operations in the EACSE is guided by a policy that demands the security exchange from each country adheres to an acceptable code of corporate practices (Makau et al., 2015). The code of corporate practices involves the recognition of the role of good governance in corporate performance, capital formation, and maximization of shareholders' value as well as the protection of investors' rights.

Although studies have been conducted on ownership structure and firm value, the findings remain contentious among scholars. A study by Sakawa and Watanabel (2020) showed that the monitoring role of institutional shareholders, or foreign shareholders, functions effectively in Japanese corporations and strengthens firms through higher growth opportunities. Consistent with this, Pedersen and Thomsen (2003) found that ownership concentration positively affected firm value. However, this was only true if the largest owner was a financial institution or another corporation but negative if the largest owner was a government organization. Another study by Dewata and Isnurhadi (2012) indicated that managerial ownership, institutional ownership, and foreign ownership significantly influence the value of a firm on manufacturing companies listed in the Indonesia Stock Exchange. Likewise, in Nigeria, Obasan et al. (2016) found that insider and foreign ownership structures had a statistically significant effect on the performance of small and medium enterprises. Dakhllalh et al. (2019) found that among Jordanian public shareholders' companies, institutional ownership had a significant positive relationship with Tobin's Q.

Abdullah et al. (2017) found that there was no significant relationship between either managerial or institutional and firm value in Malaysia. Dakhllalh et al. (2019) showed that block holders' ownership had a significant negative relationship with Tobin's Q. Similarly, Jentsch (2019) suggested that controlling shareholders and the presence of institutional investors as significant shareholders decrease the firm value in Switzerland. On the other hand, Xin (2014) showed that the higher the level of state ownership in the ownership structure of a firm, the better the financial performance among Vietnamese firms. On the contrary, Vintila and Gherghina (2015) indicated a negative influence of insider shareholdings and employees' organizations' ownership on firm value and a lack of association between state shareholdings and firm value in Bucharest, Romania. These studies imply that the effect of ownership structure, whether institutional, family, government, or foreign ownership, on the value of firms differs from country to country or sometimes from region to region. Thus, there is a need to ascertain the relationship between ownership structure and the value of firms in the case of firms listed in the East African Securities Exchanges. It is against this that the study sought to test the following hypothesis;

H₀₁: Ownership structure has no influence on value of firms listed in the East Africa Securities Exchanges

2.0 Theoretical Literature

This study was guided by agency theory. The agency theory was proposed by Jensen and Mackling (1976). The 'principal-agent' problem revolves around the extent to which a principal must devote effort to minimise shirking behaviour by an agent who is motivated by self-interest and cannot be trusted (Spencer, 2013). The theory is founded on distrustful and pessimistic notions of human motivation and behaviour. It assumes that agents are shirkers, with a self-interest incentive to avoid work and viewed as 'resourceful, evaluative maximisers' (Jensen, 1994; Roehling et al., 2005; Russell et al., 2011), pursuing money, respect, honour, love and whatever else is in their interests, while being willing to sacrifice the common good to do so. This theory is relevant to the study since ownership structure may minimize or escalate agency problems which affect firm value. Thus, understanding ownership structure help streamline the operations of the firm impacting its firm value.

3.0 Research Methodology

This study was guided by the pragmatist research philosophy which deals with the facts. In this research philosophy, practical results are considered important (Lancaster, 2005). Thus, in this study, the practical relationship between independent (board characteristics and ownership structure), mediating (voluntary disclosure), and dependent (firm value) variables were investigated. In addition, according to Alghamdi and Li (2013), pragmatism does not belong to any philosophical system and reality. This research freely chose methods, techniques, and procedures that ensured the relationship between independent, mediating, and dependent variables was established.

This study adopted an ex post facto research design. The design was appropriate since it used pre-existing data, that is, board characteristics, ownership structure, voluntary disclosure, and firm value without interference from the researcher (Kumar, 2018). It was also appropriate since it acted as a substitute for true experimental research to test hypotheses about cause-and-effect relationships between independent variables, mediating variables, and dependent variables (Salkind & Silva, 2010).

The targeted population was 104 companies listed in the East African Security Exchanges that are 63 companies listed at Nairobi Security Exchange, 16 at Dares Salam Security Exchange, 16 at Uganda Security Exchange, and 9 companies listed at Rwanda Security Exchange. This study used the census to study all the 104 listed companies at the East Africa Security Exchanges which were listed for the period 2011 to 2020. The information was drawn from the annual reports and information circulars in the years 2011 through 2020 of all the listed companies at the East African Security Exchanges which had been listed in the said period.

Data analysis entailed panel data analysis. The study analyzed firms listed at East Africa Security Exchanges for ten years starting from 2011 to 2020. Various tests were carried out to determine whether the analysis should use pooled ordinary least squares (pooled OLS), random effect (RE), or fixed effect (FE).

Table 1: Panel Analysis to be used

Test statistic	P-value	Panel Analysis to be used
Breusch-Pagan Lagrange multiplier (LM)	>0.5	Pooled ordinary least squares (OLS) panel
Breusch-Pagan Lagrange multiplier (LM)	<0.05	Random effect (RE)
Testsparm	<0.05	Fixed Effect (FE).
Hausman	>0.05	RE
Hausman	< 0.05	FE

In order to ascertain the influence of ownership structure on value of firms listed in East Africa Securities Exchanges model 3.1 was used:

$$VF_{it} = \beta_0 + \beta_1FO_{it} + \beta_2IO_{it} + \beta_3MO_{it} + \beta_4GO_{it} + \beta_5ILO_{it} + \beta_6 OC_{it} + \epsilon_i \dots\dots\dots 3.1$$

Where VF is value of firm β_0 is constant, FO is foreign ownership, IO is institutional ownership, MO is managerial ownership, GO is government ownership, ILI is individual local investors, OC is ownership concentration and ϵ_j is the error term for all companies over the period.

The study conducted the model assumption tests before estimating the regression models. The diagnostics tests conducted include Heteroskedasticity using Modified Wald Test, Serial correlation using the Wooldridge Drukker test, and Unit roots test using the Levin-Lin-Chu Unit test. Table 2 shows how model assumption tests were conducted.

Table 2: Diagnostic tests

Diagnostic test	Presence of
Modified Wald Test	Heteroskedasticity
Wooldridge Drukker test	Serial correlation
Levin-Lin-Chu Unit test for icfs/ Harris-Tzavalis test	Unit roots or stationary alternative

4.0 Empirical Findings

The study objective sought to establish the influence of ownership structure on the value of firms listed in East Africa Securities Exchanges. The hypothesis tested was;

H₀₄: Ownership structure has no influence on the value of firms listed in the East Africa Securities Exchanges

In order to ascertain the influence of ownership structure on the value of firms listed in East Africa Securities Exchanges the model below was used:

$$VF_{it} = \beta_0 + \beta_1FO_{it} + \beta_2IO_{it} + \beta_3MO_{it} + \beta_4GO_{it} + \beta_5ILO_{it} + \beta_6 OC_{it} + \epsilon_i$$

VF is the value of the firm (ROA, ROE TOBIN'S Q β_0 is constant,

FO is =foreign ownership,

IO is = institutional ownership,

MO is = managerial ownership,

GO is = government ownership,

ILI is = individual local investors,

4.1 Diagnostic Tests

Ownership structure and ROA

The study sought to examine the relationship between ROA and ownership structure. Preliminary diagnostic tests were carried out before running regression analysis.

Table 3 shows the summarized results of the various tests performed.

Table 3: Diagnostic tests

Diagnostic Test	Test type	Statistic	P-value
Use of pooled or random effects	Breusch-Pagan Lagrange multiplier (LM)	Chibar2 (01)	100.70 0.0000
Time Fixed Effects (re or fe model)	Hausman test	Chi2 (2)	10.74 0.0567
Tests of heteroscedasticity	Modified Wald test for groupwise heteroskedasticity	Chi2 (100)	7.30E+07 0.0000
Tests of stationarity for ROA	Unit root Fishers (Pperron, lags (1))	Inverse Chi2 (216)	631.68 0.0000
Test of multicollinearity	Variance Inflation Factor	mean VIF	1.92

Table 3 shows that the Breusch-Pagan Lagrange multiplier (LM) statistic was statistically significant (Chibar2 (01) =100.7, $p < .05$). Thus, it was concluded that pooled OLS was not appropriate for the regression analysis and instead panel data regression analysis would be applied. Table 3 shows that the Wald test statistic was significant, hence it was concluded that there was presence of heteroscedasticity in the data ($p < .05$).

This means that the robust method would be used along with xtreg in the panel data regression. The Hausman test showed that the random effects model was more appropriate ($p < .05$). The dependent variable, ROA, was found to be stationary ($p < .05$). The mean of the Variance Inflation Factors (VIF) was less than 10, hence it was concluded that there was no multicollinearity (mean VIF = 1.92).

Ownership structure and ROE

The study sought to examine the relationship between Ownership structure and ROE. Preliminary diagnostic tests were carried out before running a regression analysis. Table 5 shows the summarized results of the various tests performed.

Table 5: Diagnostic tests

Diagnostic Test	Test type	Statistic	P-value
Use of pooled or random effects	Breusch-Pagan Lagrange multiplier (LM)	Chibar2 (01)	6.01 0.0071
Time Fixed Effects (re or fe model)	Hausman test	Chi2 (2)	10.58 0.0603
Tests of heteroscedasticity	Modified Wald test for groupwise heteroskedasticity	Chi2 (100)	1.60E+07 0.0000
Tests of stationarity for ROE	Unit root Fishers (Pperron, lags (1))	Inverse Chi2 (214)	466.51 0.0000
Test of multicollinearity	Variance Inflation Factor	mean VIF	112.52

Table 5 shows that the Breusch-Pagan Lagrange multiplier (LM) statistic was statistically significant (Chibar2 (01) =6.01, $p < .05$). Thus, it was concluded that pooled OLS was not appropriate for the regression analysis and instead panel data regression analysis would be applied. The Modified Wald test for groupwise heteroskedasticity was used and showed that the statistic was significant, hence it was concluded that there was presence of heteroscedasticity in the data ($p < .05$).

The Hausman test indicated that the random effects model was the most ($p > .05$). The dependent variable, ROE, was found to be stationary ($p < .05$). The mean of the Variance Inflation Factors (VIF) was greater than 10, hence it was concluded that there was multicollinearity (mean VIF = 112.52).

Ownership structure and Tobin’s Q

The study sought to examine the relationship between Ownership structure and Tobin’s Q. Preliminary diagnostic tests were carried out before running regression analysis. Table 6 shows the summarized results of the various tests performed.

Table 6: Diagnostic tests

Diagnostic Test	Test type	Statistic	P-value
Use of pooled or random effects	Breusch-Pagan Lagrange multiplier (LM)	Chibar2 (01)	9.56 0.0029
Time Fixed Effects (re or fe model)	Hausman test	Chi2 (2)	8.62 0.1252
Tests of heteroscedasticity	Modified Wald test for groupwise heteroskedasticity	Chi2 (100)	11.02 0.0009
Tests of stationarity for Tobin’sQ	Unit root Fishers (Pperron, lags (1))	Inverse Chi2 (214)	78.04 0.0007
Test of multicollinearity	Variance Inflation Factor	mean VIF	1.02

Table 5 shows that the Breusch-Pagan Lagrange multiplier (LM) statistic was statistically significant (Chi-bar² (01) =9.56, $p < .05$). Thus, it was concluded that pooled OLS was not appropriate for the regression analysis and instead random panel data regression analysis would be applied. The Modified Wald test for groupwise heteroskedasticity was used and showed that the statistic was significant, hence it was concluded that there was the presence of heteroscedasticity in the data ($p < .05$).

The Hausman test indicated that the random effects model was the most ($p > .05$). The dependent variable, Tobin's Q, was found to be stationary ($p < .05$). The mean of the Variance Inflation Factors (VIF) was less than 10, hence it was concluded that there was no severe multicollinearity (mean VIF = 1.02).

4.2 Coefficient Regression Models of Ownership structure and Tobin's Q, ROA, and ROE

Table 7 shows the panel model depicting the relationship between ownership structure and firm value of listed firms in East Africa Securities Exchanges. Firm value was operationalized using Tobin's Q, ROA, and ROE.

Table 7: Coefficient Regression Models of Ownership structure and Tobin's Q, ROA and ROE

Ownership Structure	Tobin's Q				ROA				ROE			
	Coef.	Std. Err.	z	P>z	Coef.	Std. Err.	z	P>z	Coef.	Std. Err.	z	P>z
Foreign	0.000234	0.000691	0.34	0.735	0.001286	0.001227	1.05	0.295	0.00047	0.000837	0.56	0.575
Institutional	0.00154	0.000343	4.51	0.000***	0.00857	0.003838	2.23	0.026**	0.003647	0.001623	2.25	0.025**
Managerial	0.001412	0.002135	0.66	0.508	-0.00017	0.000642	-0.27	0.786	-0.00483	0.005057	-0.95	0.34
Government	-0.00812	0.001004	-8.09	0.000***	-0.00194	0.001765	-1.1	0.271	-0.00058	0.00232	-0.25	0.801
Local	0.00048	0.000957	0.5	0.616	-0.00286	0.001708	-1.67	0.094	-0.00367	0.002207	-1.66	0.096
_cons	1.106877	0.017063	64.87	0.000	0.092498	0.034489	2.68	0.007	0.191653	0.044196	4.34	0.000
Wald chi2(4)	84.56				9.76				8.67			
Prob > chi2	0.0000				0.0824				0.123			
R-sq:												
Within		0.0572				0.0083				0.0089		
Between		0.6165				0.2428				0.0554		
Overall		0.0646				0.0090				0.0079		

n=1232, Sig* 10%, Sig ** 5% and Sig*** 1%

Table 7 results shows that foreign, managerial and local had insignificant effect on firm value of listed firms in East Africa Securities Exchanges. Institutional ownership yielded a positive and significant influence on firm value of listed firms in East Africa Securities Exchanges. However, government ownership structure presented a negative but positive influence on firm value measured using Tobin's Q.

Foreign, government and local ownership yielded p-values greater than 0.05 indicating that foreign, government and local ownership did not significantly influence firm value of listed firms in East Africa measured using ROA and ROE. Only institutional ownership had positive and significant influence on the firm value of the East African listed firms operationalized using ROA and ROE. The null hypothesis of the study was that ownership structure has no influence on the value of firms listed in the East Africa Securities Exchanges. It was established that ownership structure has no influence on firms listed in East Africa Securities Exchanges. The study fails to reject the null hypothesis and makes a conclusion that ownership structure does not influence the value of firms listed in the East Africa Securities Exchanges. These findings are in conflict with those of Sakawa and Watanabel (2020) who found that the monitoring role of institutional shareholders, or foreign shareholders, functions effectively in Japanese corporations and strengthens firms through higher growth opportunities. The ownership structure is one of the important factors affecting firm performance. The separation of ownership and management may cause costs, which detract firms from optimal performance and maximum potential shareholder value, which is the main purpose of firms.

The kind of ownership determines the level of firm value. For instance, family ownership and individual ownership may deter firm value because of curtaining and lack of independence on the management and advisory of the firm. Likewise, government ownership may be characterized by political interference and manipulation resulting in the deterioration of firm value. On the other hand, institutional ownership and managerial ownership may follow certain corporate governance practices in the creation of a board and are more likely to enhance firm value. The results are in tandem with Abdullah et al. (2017) who found that there was no significant relationship between either managerial or institutional and firm value in Malaysia. Dakhllalh et al. (2019) showed that block holders' ownership had a significant negative relationship with Tobin's Q. Similarly, Jentsch (2019) suggested that controlling shareholders and the presence of institutional investors as significant shareholders decrease the firm value in Switzerland.

However, the results contrast with the study by Sakawa and Watanabel (2020) who showed that the monitoring role of institutional shareholders, or foreign shareholders, functions effectively in Japanese corporations and strengthens firms through higher growth opportunities. Similarly, Pedersen and Thomsen (2003) found that ownership concentration positively affected firm value. Another study by Dewata and Isnurhadi (2012) and Obasan et al. (2016) indicated that managerial ownership, institutional ownership, and foreign ownership significantly influence the value of a firm. Likewise, Dakhllalh et al. (2019) found that among Jordanian public shareholders' companies, institutional ownership had a significant positive relationship with Tobin's Q.

5.0 Conclusion and Implication of the Study.

It was found that ownership structure does not significantly influence firm value as measured by ROA and ROE. The study concludes that ownership structure has no influence on the firm value of firms listed in East Africa Securities Exchanges. The kind of ownership determines the level of firm value. For instance, family ownership and individual ownership may deter firm value because of curtaining and lack of independence on the management and advisory of the firm. Likewise, government ownership may be characterized by political interference and manipulation resulting in the deterioration of firm value. On the other hand, institutional ownership and managerial ownership may follow certain corporate governance practices in the creation of a board and are more likely to enhance firm value. There is a need for listed firms to embrace the institutional and managerial form of ownership that builds investor confidence and thus firm value.

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