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The Effect of Managerial Ownership on Stock Performance of Firms Listed at the Nairobi Securities Exchange

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Abstract: Managerial ownership is the percentage of equity owned by insiders, where insiders are defined as the officers and directors of a firm .This research had the objective of determining the effect of managerial ownership on stock performance for the companies listed at the Nairobi Securities Exchange (NSE). Sixty five firms listed at the NSE for the year ending December 2015 formed the population for this research and it was a census. The results showed a positive relationship between managerial ownership and stock performance . However the relationship was found to be insignificant since the results revealed a p value that was low. This means that a low percentage change in stock performance was explained by variation in managerial ownership.

Keywords: Managerial ownership, equity, stock performance

INTRODUCTION

Background of the Study

Managerial ownership refers to the percentage of equity owned by insiders, where insiders are defined as the officers and directors of a firm [1]. The number one reason for the existence of companies today remains shareholder's wealth maximization. Since shareholders are most of the time not gifted enough, or simply because not all of them can manage the company, they end up hiring a management team to handle the day to day running of the company including decision making. This brings about an agency relationship. Agency relationship most times results in conflicts between shareholders and directors. Shareholders may offer share ownership plans resulting in managerial ownership as one of the mitigating efforts towards the said conflicts.

This study was anchored on three theories; agency theory [2], stewardship theory [3] and stakeholder theory (Freeman, 1980). Agency theory is by Jensen and Meckling [2] who put forward an agency relationship as that of a person or a group of people referred to as the principal getting into a contract with another person or people referred to as the agent. The agent is then required to deliver certain objectives having the decision making authority delegated by the principal. Stewardship theory is by Donaldson and Davis [3] who did not believe that managers' intentions are different from those of the owners and thus made it clear that management team always have the intention to maximize the going concern status of a firm and are thus in line with owners' interests. Stakeholder theory was originally developed by Freeman (1980). It does not agree with agency assumptions that it's all about the owners' interests. It advocates for the management of a company to consider all the stakeholders' interests when running the businesses.

The Nairobi Securities Exchanges are made up of sectors such as investment, energy and petroleum, construction and allied, agricultural, telecommunication and technology, growth enterprise, automobile and accessories, commercial and services, manufacturing and allied, banking and insurance. They total eleven segments of the market. Managerial ownership exists at the NSE and despite being under regulation by the Capital Markets Authority, a company like Uchumi's stock has consistently declined in performance. This research thus contributes to the research area around stock performance.

Managerial Ownership

Managerial ownership refers to the percentage of equity owned by insiders, where insiders are defined as the officers and directors of a firm [1]. Managerial ownership comes in as a solution to conflict in the agency relationship between directors and shareholders. In this case, the shareholders offer directors share ownership plans that delivers part ownership of the firm to directors in an effort to ensure that their efforts will completely be towards wealth maximization for the shareholders because that includes themselves, the directors.

Managerial ownership is important because its intention is to ensure that the decisions taken by the directors are in the firm's interest. There is a difference in propensity to risk where managers, because of the large stake that they hold at the firm, whatever happens to the firm has a huge impact on them. The managers own stock and sometimes even options to acquire more stock then also their salary is tied to the firm. On the other hand, the shareholder has stock in several firms hence a risk affecting only one of the many firms may not affect their total portfolio. The real effect whatever happens to the firm thus ways heavily on the manager that the shareholder [4]. Managerial ownership is measured by calculating the percentage of shares held by officers against total number of shares issued by the firm.

Stock Performance

Stock performance refers to total returns on stock held over a given period of time. It includes two components, that is, the gains or losses from capital and dividends. A gain or loss in capital comes from movements in stock prices. When there is an increase in price, it is a gain whereas a loss comes about where there is a decrease in price. Payments made by firms out of their profits to shareholders are the dividends. Total returns result when the dividends and capital gains are added together. The market benchmark or industry benchmark are important considerations when measuring stock performance. Any portfolio that represents the stock held by an investor is the benchmark. It is important to compare the portfolio and benchmark returns because this enables the performance of the stock to be categorized in relation to the benchmark used [5].

There are several measures of stock performance including Return on Investment (ROI) which refers to cash made or lost by a company in an investment. The other measure is Earnings per Share (EPS) which measures the earnings of a company on each share and Price to Earnings Ratio (P/E ratio) which is a comparison of current price and earnings on each share. A P/E ratio that is considered better than those of similar companies may mean that the value of that stock is higher than it should be. This only changes if the company has some large growth prospects or the entrance of a major customer into the business that makes an investor want to put their money in the company. The value of a stock is never indicated by the actual price. The P/E when examined could reveal a lower value for a stock that was initially highly priced.

Managerial Ownership and Stock Performance

Kamardin [6] carried out a research with a main aim of examining the family directors' influence on the performance of a firm of public listed companies (PLCs) in Malaysia .In relation to ROA, managerial ownership was found to be positively significant. There was also a relationship that was positive between managerial ownership was contributed by the managerial non family ownership.

Kiruri [7] carried out a study that sought to determine the effect of composition of equity on the profitability of Kenyan banks. The results showed state ownership and ownership concentration were significantly negative on the effects of profitability of banks while domestic and foreign ownerships had significantly positive effects on the profitability of banks.

Okoth and Owoko [8] examined the relationships among board, ownership and characteristics of managers and firm performance. The results showed a positive relationship that was significant when considering insiders, foreign, institutional, diverse ownership against firm performance.

Palia and Lichtenberg [9] showed managerial ownership changing positively in relation to productivity changes. Ruan, Tian and Ma [10] carried out a research on the influence of managerial ownership on the performance of a firm. The research findings showed a relationship that is not linear between managerial ownership and the value of the firm.

Nairobi Securities Exchange

Nairobi Securities Exchange (NSE) is mandated to facilitate trade in securities and supports settlement of various trade instruments like debt, derivatives and equities. Another mandate for NSE is to list firms on the securities exchange so that investors can have options to trade in the instruments of the firms that have been listed. As at December 2015, there were 65 companies listed at the market. The NSE plays a vital role in the growth of Kenya's economy by encouraging savings and investment, as well as helping local and international companies' access cost-effective capital. NSE operates under the jurisdiction of the Capital Markets Authority of Kenya.

Managerial ownership exists at the NSE where companies have their officers or directors owning equity at the firms. Examples of such companies are Kenya Airways whose managers own about 2.9 million shares and Standard Group where 58,765 shares are under managerial ownership. Managerial ownership reduces agency costs because once managers are owners, the need for close monitoring by shareholders reduces as they are expected to act in good faith at all times given their stake in the firm. The possibility of mitigating managerial myopia is also put across by Palia and Lichtenberg [9].

Stock performance at the NSE is evidenced by the activities undertaken by the listed firms. In the year ending December 2015, several companies declared dividends both interim and final. The performance of stocks at the NSE can also be seen in the subscription levels whenever IPOs are made. In April 2006, the IPO for Ken Gen was oversubscribed at 333% while in June 2006 while the one for Scan group was oversubscribed at 620%.

Research Problem

Several researches have been done touching on the variables managerial ownership and firm performance. In Malaysia, Noradiva, Parastou and Azlina [11] did a study on the effects of managerial ownership where intellectual capital performance and firm value were the variables and the results revealed an insignificant, nonlinear effect of managerial ownership on the relationship between intellectual capital performance and firm value. While other researchers identified a relationship that was positive between managerial ownership and firm value or firm performance, there are studies that found a negative effect.

Mueller and Spitz [12] did a study which checked the effect of managerial ownership on performance. The determinants of managerial ownership for small and medium sized companies that are privately owned in Germany were considered and found that managerial ownership, to the extent of 80 per cent had an impact that is positive the performance of firms but the effect then became negative.

In the USA, Palia and Lichtenberg [9] wrote a paper which found managerial ownership changes to be positively related to productivity changes. More empirical evidence that will be shown in the literature review of this research have had equally mixed results and the gap that this research intends to address is the fact that locally, there have been minimal research to examine the effect of managerial ownership on stock performance. This research will thus attempt to answer the research question; does managerial ownership have an effect on stock performance?

In Kenya, there are several companies listed at the NSE with managerial ownership. Uchumi Supermarket for example went into receivership in 2006. The reason given was incompetence by the management team. It was noted that this was one of the most disappointing case of corporate failure since Kenya got its independence in 1969 revealing just how negative the effects of agency conflicts can be (CMA, 2011). At CMC, the Kenyan public also witnessed war in the boardroom orchestrated by those entrusted to lead the company to prosperity by the shareholders. The caliber of management made up of members of the board was brought into question both in the public and private listed firms in Kenya (CMA, 2012). These examples in the Kenyan scenario indicate that even with managerial ownership the effect on performance will not always be positive.

Kiruri [7] carried out a study whose findings indicated a concentration of ownership where also governmental ownership had huge negative effects on the ability of banks to make money while ownership by shareholders who are overseas and local ownership had highly positive effects on the ability of banks to make profits. These conflicting results necessitate more research around managerial ownership.

Research Objective

To determine the effect of managerial ownership on stock performance of the firms listed at the Nairobi Stock Exchange.

Value of the Study

This study now adds knowledge into the area of finance .While it provides much needed local empirical evidence in this area, it also adds into the literature already available regarding research findings globally when it comes to studies that seek to determine the effect of managerial ownership on stock performance.

In regard to policy making, the study gives a basis for shareholders to decide to include share ownership plans in their executive compensation plans or not. The study also adds value to existing and potential stakeholders of the companies listed or intending to get listed at the NSE. The findings of this study thus enormously add to the efforts to make company directors and managers take responsibility for their actions and thus improve actions and decision making processes within organizations by encouraging directors and officers to buy stocks of the firm to help in reducing agency costs. For example, the shareholders will find out whether or not owning stocks in the company contributes to the overall profitability of the company thus inform their decisions on how to reward their management teams as a mitigating factor on conflicts arising from the agency relationship between shareholders and directors.

LITERATURE REVIEW

Theoretical Review

The theories that are discussed here are agency theory [2], stewardship theory [3] and stakeholder theory (Freeman, 1980).

Jensen and Meckling [2] gave a definition of the agency relationship as that of a contract between the principal, one or several people, who enter into an engagement with another person called the agent where the agent handles certain activities as delegated by the principal. This relationship requires delegation of some authority to make decisions from the principal to the agent. The agency problem therefore deals with how to ensure that the actions of the agents are in line with the principal's interests at all times thereby reducing conflict of interest and ensure set goals (by principal) are achieved. It also deals with how to manage risk associated with the agents desire to put their interest before those of the principal. This is done through monitoring and motivation. Shareholders delegate the day to day running of the organization to the directors and thus they become principals in that relationship. According to Davis, Schoorman and Donaldson [3] if both parties to the agency arrangement in the modern firms are geared towards maximizing their own personal gains, this is what brings about conflict of interest. This conflict is usually mitigated by among other ways, SOPs. Agency theory is very much in line with this research because it gives the origin of managerial ownership as a way to mitigate some of the conflicts that arise between the principals as shareholders and the directors as the agents.

Stewardship theory was propagated by Donaldson and Davis [3]. The suggestion by stewardship theory is that there is potential for actions that are completely geared towards the benefit of the organization by managers. Performance here is driven by personal identification with what the organization stands for, its vision and mission and the desire to accomplish those. It is not greed. This theory therefore does not support the assumption that directors' motives are different from those of owners and insists that the directors want to maximize stewardship of the company to the foreseeable future and thus are already well aligned. The suggestion here is that governance issues are not necessarily because of self-interest of the directors but rather in the assumption that the owners who are always distant from the firm and the regulators are the ones with the said self-interest motives.

Stakeholder theory was originally developed by Freeman (1980), but has since gained audience in the wider United Kingdom and the rest of the world. This theory also challenges the assumptions fronted by agency theory that everything a company does is about the shareholders and their interests only. The theory argues that all the stakeholders of the company should be at the heart of its operations. The interests are thus not only of shareholders but also of all parties affected either directly or indirectly by the actions of the company. The key stakeholders are directors ,other employees ,customers ,suppliers, local communities as well as the general society . This argument of stakeholder stake in the firm has however received a disapproval that is constantly raised against it that putting it into practice is not easy given the challenge of deciding what weight to allocate to each stakeholder's interest. Also, the argument continues that if directors are to be made accountable to all and sundry in terms of stakeholders, they would end up being answerable to none.

Determinants of Stock Performance

The commonly used fundamental factors that determine stock performance include market capitalization, book to market value, financial leverage, dividends, price to earnings ratio, liquidity and firm size [13]. Market capitalization refers to the total value of a firm's shares when the current market price is taken into account. To arrive at market capitalization, existing price at the market is multiplied by the number of shares of a company that are outstanding. This figure determines firm size as opposed to the regular use of turnover or total asset figures. The use of market capitalization to determine firm size is crucial because firm size is a basic determinant of some of the characteristics of a firm that interest investors. Market capitalization thus affects stock performance by informing investors on the riskiness or not of the company as a whole.

Another determinant is book to market ratio that is normally used to determine firm value by making a comparison between book value of a company to its value in the market. This value is usually available from the company's books which are prepared using the historical cost less accumulated depreciation to date. This information is normally available in the statement of financial position. Market value is calculated by multiplying the number of shares outstanding and the current market price. The bigger this ration is, the more fundamentally cheap is the stock of the company. Financial leverage use can either have a negative or a positive effect on a firm's returns. This is contributed by the level of risk which inadvertently increases. Therefore, an addition of value resulting from financial leveraging delivers an associated risk level that is positive. When financial leverage is at acceptable levels, a firm's return on equity will increase. This is because stock volatility will increase as a result of the use of leverage which results in increased returns. Also, when earnings before taxes and interest are higher than financial leverage cost then it will be worth the increase in the risk experience by the firm as a result of leverage.

Dividend announcements have a signaling effect. When a company announces dividends, the message to investors is that the company is stable thus will attract attention from investors hence a positive effect on stock performance. The price earnings ratio will give an indication in terms of how much to invest in order to gain one measure of the firm's earnings. For this reason, the price earnings ratio is often given the name the multiple. This ratio is usually administered to determine if a firm's stock price is over or undervalued thus the investors are able to make purchase decisions on undervalued stocks and sell the overvalued stocks.

The ability of a security to be quickly changed into cash without its price reducing is referred to as liquidity. A high trading level characterizes liquidity combined with a small spread between bid and offer. Normally, illiquid assets have higher returns compared to liquid assets. This is the risk premium which compensates for the increased risk and higher trading costs. This therefore affects stock performance as illiquid assets attract risk takers thus increasing their stock prices. Farhan and Sharif [14] did a study to determine the impact of the size of a firm size on stock returns. The study took place at Karachi Stock Exchange and it checked the effect of the size of the firm on stock returns between the periods of January and July. A relationship was found to exist between firm size and stock returns where firms that are small enjoyed higher returns that have been adjusted for risk compared to larger firms. This finding remains true in other empirical studies that have been carried out relating to firm size and stock returns.

Empirical Review

Noradiva, Parastou and Azlina [11] carried out a study whose objective was to study the effect of managerial ownership on the relationship between intellectual capital performance and firm value. For methodology, Pulic's Value Added Intellectual Coefficient method was used as the measure of efficiency and it measured capital performance when it comes to intellect. Panel data was used in this study to check the effect if any of managerial ownership on the relationship between ICP and the value of a firm. Sampling was used and same was collected for the period 2009 to 2012 from firms listed at the Bursa Malaysian ACE Market. Final sample was made up of 46 companies having four year data. This gave rise to 184 observations. The results had non linear effect that was not significant.

Kamardin [6] carried out a research with a main aim of examining the family directors' influence on the performance of a firm of public listed companies (PLCs) in Malaysia which gave empirical evidence on the agency issues that exist between big shareholders with control and the shareholders with minority interests. The methodology included a sample of 112 PLCs in year 2006 and the two ways of measuring the performance of a firm were used. These were Tobin's Q and Return on assets (ROA) and Tobin's Q. In relation to ROA, managerial ownership was found to be positively significant. There was also a relationship that was positive between managerial ownership was contributed by the managerial non family ownership. Positive relationships between managerial ownership and the two measures of firm performance existed. This indicates that managerial ownership and family ownership yield greater efficiency. The study also showed that when it comes to governance, on ROA and Tobin's Q, the results were somewhat different. It provided some evidence on the need to use appropriate measure of firm performance.

Kipkorir, Aboko and Bitange [15] studied the relationship between executive compensation and performance financially when it comes to Kenyan insurance firms. The objective of the paper was to assess the effect of executive compensation on the performance financially of Kenyan insurance companies. The methodology was a relationship in the functional form considering the variables of level of executive pay and performance ratios that are key using a model of regression that establishes the relationship between pay and financial performance. The findings showed that there is a relationship that is non-significant when it comes to executive pay and performance financially of the said insurance companies. The correlation that is negative suggested the capping of compensation for executives to maximize shareholders returns. There is therefore need to sensitize executives to make their payment plans in line with measures that use accounting data to gauge performance since these are linked to maximization of shareholders wealth directly.

Oguna [16] did a research whose objective was to examine the effect of debt equity decisions on performance financially of manufacturing, allied sector and construction firms listed at the NSE. Return on Equity and Return on Assets formed the variables and were used to measure the performance of the said firms. Total debt, short term debt and long term debt were the representatives of the structure of capital. The study covered the allied sector, construction and manufacturing firms listed at the NSE for the period 2010 to 2013. The methodology employed a descriptive research design and data was collected from the firms' consolidated financial statement which was then analyzed using linear regression models using SPSS to establish a relationship that is significant if any between structure of capital and the performance of the said firms financially. The findings showed correlation between return on equity and current debt to be significant compared to the correlation between long term debt and return on equity. The study also noted that there was a relationship that is significant between long term debt and ROA but not with ROE.

Kiruri [7] carried out a study that sought to determine the effect of composition of equity on the profitability of Kenyan banks. The aim of the study therefore was to determine the effects of ownership structure on bank profitability in Kenya. The methodology that the study adopted used primary data that was obtained through a questionnaire that was structured to meet the objectives of the study. The results showed state ownership and ownership concentration were significantly negative on the effects of profitability of banks while domestic and foreign ownerships had significantly positive effects on the profitability of banks.

Ruan, Tian and Ma [10] carried out a research on the influence of managerial ownership on the performance of a firm. The research was carried out using debt and equity decisions across a sample of civilian-run companies listed on the stock market in China. The study period was 2002 and 2007. The methodology included selection of a sample of the said civilian-run listed companies on the Shanghai and Shenzhen Stock Exchanges during the period 2002 and 2007. The study period was decided on because Chinese firms implemented new standards of accounting in 2001 hence the effects would start being felt the following year in 2002. The research findings showed a relationship that is not linear between managerial ownership and the value of the firm. Capital structure was driven into a non linear shape by managerial ownership but in a different direction to the effect of managerial ownership on the value of the firm.

Sulong, Gardner, Hussin, Sanusi and McGowan [17] did a research whose objective was to extend literature around cost of the agency relationship by examining if managerial ownership, the quality of audit and leverage in any way have an effect on increased performance of firms trading on the stock market in Malaysian called ACE market. The methodology followed a sampling method which resulted in 82 firms that were listed between the periods of 2007 to 2009. Multiple regression, correlation analysis and descriptive statistics formed the methodology for the study. The findings revealed that the firms listed did not perform any better during the three years that were reviewed. The result was thought to be the explanation as to why the firms listed dropped in the period 2006 to 2009. This was different from the hypotheses that had been proposed as the study also found that the quality of audit had a negative effect statistically when firm performance is a variable. The suggestion here was that bonding between auditors and their clients may happen as a result of high audit fees paid to the auditors.

Aduda [18] carried out a research whose objective was to find out if there exists a relationship between executive compensation and firm performance for banks that fit the criteria for commercial and are listed at the NSE. The methodology used in the study was a regression analysis that regressed pay and performance while also considering the functional relationship form between levels of executive pay and performance measures in accounting terms. The results made a suggestion to the effect that accounting measures of performance do not hold much weight when it comes to the determination of executive pay among the big commercial banks in Kenya. The findings also showed that size is an important consideration in determining executive pay because it was significant but the relationship with compensation was inverse. A suggestion on capping of executive pay to ensure shareholder’s wealth maximization was put across by the correlation.

Okoth and Owoko [8] wrote a paper whose objective was to examine the relationships among board, ownership and characteristics of managers and firm performance. The study involved a sample of 54 companies listed at the NSE. Methodology used included stepwise and logistic regressions. The results showed a positive relationship that was significant when considering insiders, foreign, institutional, diverse ownership against firm performance. There was however, a different revelation when it comes to government, ownership concentration and the performance of a firm which was actually negative. Board role was found to be insignificant and thus of very little value mostly due to lack of following of guidelines that relate to selection criteria for the said board. The findings were a positive relationship that was significant between managerial discretion and performance.

Palia and Lichtenberg [9] wrote a paper in the United States of America whose objective was to re-examine the variables managerial ownership and firm performance. Productivity measurement was used in the paper. The ownership stake of the firm directors was used by the paper to argue for and estimate the firm’s production function. The paper thus brought together issues of corporate finance and existing literature relating to productivity. The methodology involved obtaining the managerial ownership evidence from the annual statements of proxy filed by each company as a requirement. Use of the entire population was extremely costly hence a sample was created with no bias in size from the publicly traded companies. The companies also had to have no going concern issues and they were selected randomly. The findings of this research showed managerial ownership changing positively in relation to productivity changes.

RESEARCH METHODOLOGY

Research Design

A descriptive design of research was employed in this research to describe whether or not a relationship exists between managerial ownership and stock performance. Sekeran and Boujie [19] explains that a design that is descriptive is used to check and give a description to the variables' characteristics that are of interest in a research situation. According to Burns and Grove (2003), the research design that is descriptive is intended to give a clear picture of the situation as it is in the natural. It may actually be used to put forward practices that are current and make judgment while also developing theories. In this research, the design was used to get a picture of the financial statements that are used to calculate stock returns that enabled the determination of the performance or not of the said stocks.

Population

The Nairobi Stock Exchange had 65 listed firms as at the end of December 2015 (NSE, 2015). All the 65 firms formed the population for this research. It was important to analyze all the 65 firms because it was not obvious that there would be a representative firm in every grouping at the NSE that has managerial ownership.

Data Collection

Secondary data was used in this research. The data was accessed on the websites of the NSE, CMA and those available on the listed firms' websites. Financial statements for the companies under study were used as well. The data from the Statement of Income and Statement of Financial Position was used to calculate stock returns. The data collected included share prices, dividend, net income and asset information.

Data Analysis

Statistical Package for Social Science (SPSS) program was used in this research together with Microsoft Excel. An analysis that uses regression was applied to model the relationship between stock performance (dependent variable) and managerial ownership (independent variable). The data was then analyzed and presented using tables for ease of understanding and interpretation.

Analytical Model

The relationship between managerial ownership and stock performance was estimated using the following regression model:

Model: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

Y = stock performance, β_0 = constant (intercept of the variable), X_1 = managerial ownership, X_2 = market capitalization, X_3 = size of the firm, e = error term

Table 1: Operationalization of Variables

Variable	Measure
Stock Performance	Returns
Managerial Ownership	Percentage of shares held
Market capitalization	Outstanding shares x market price
Size of Firm	Total assets

Test of Significance

The t-test and f-tests were used to test for significance at 5%. T-test is normally used to check the significance level of the coefficient of regression while f-test is used to test significance of the whole model.

DATA ANALYSIS, RESULTS AND CONCLUSION

Regression Analysis

The model that was used is as shown below:

Model: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

Y = stock performance, β_0 = constant (intercept of the variable), X_1 = managerial ownership, X_2 = market capitalization, X_3 = size of the firm, e = error term

Table 2 on the next page indicates the regression coefficients, the t statistic and the p-value (significance level). The variables result in the following equation:

Stock Performance=$0.58+14.301X_1-1.052E\text{-}013X_2-6.030E\text{-}010X_3+0.148$

Table 2: Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	.058	.036		1.630	.109
	Managerial Ownership	14.301	9.722	.194	1.471	.147
	Market Capitalization	-1.052E-013	.000	-.065	-.465	.644
	Size of the firm	-6.030E-010	.000	-.153	-1.091	.280

a. Dependent Variable: stock performance

From the regression model obtained above, holding all other factors constant, stock performance at the NSE would be 0.58. In addition, it means that when managerial ownership increases by one unit, stock performance increases by 14.301 units. When market capitalization increases by one unit, stock performance decreases by 1.052e-013units. Finally when size of the firm increases by one unit, stock performance decreases by -6.030e-010units.

Table 3: R and R^2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.306[a]	.094	.046	.148740158

a. Predictors: (Constant), Size of the firm, managerial ownership, market capitalization

Table 3 above reports the regression statistics obtained when managerial ownership and the other variables were regressed against stock performance. The value of R-square which is a coefficient of determination in regression analysis is normally used to show how well the real data points are approximated by the regression line. The result here of 94% shows that the regression line fits the data almost perfectly. The value of R is 0.306 which implies that a relationship exists between the variables. This is because the value is not zero which usually means that a relationship is nonexistent. The p value which is also shown in table 3 below shows a significance level of 0.129. The result of this regression was not significant at 5% since the F statistic has level of significance of 0.129 which is greater than 0.05.

Analysis of Variance

Table 4: Analysis of variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.131	3	.044	1.968	.129[b]
	Residual	1.265	61	.022		
	Total	1.392	64			

a. Dependent Variable: Stock Performance
b. Predictors: (Constant), Size of the firm, Managerial Ownership, Market Capitalization

Table 4 above shows the result of analysis of variance. From the table it is noted that the simple regression model has an F statistic of 1.968 with a significance level of 0.129. The result of this regression was not significant at 5% since the p value of 0.129 is greater than 0.05.

DISCUSSION

The coefficient of managerial ownership was found to be positive meaning that managerial ownership has a positive effect on stock performance. However, the existing relationship was insignificant since the research results revealed a p value that was low. This means that a low percentage change in stock performance was explained by variation in managerial ownership. Market capitalization and the size of the firm each showed a negative effect on stock performance given by the negative coefficients that resulted from the regression analysis. The findings of a negative effect of market capitalization for example, can be supported by the market anomaly of small firm effect which implies that it is not necessarily the big firms that have stocks with high performance.

Market capitalization is obtained by multiplying the number of shares outstanding with the current market price. Given that the market price do not normally reflect the intrinsic value of a stock, it is possible that the values obtained for market capitalization are either understated or overstated. An understatement would occur if the stock is undervalued while an overstatement will occur when the stock price is overvalued.

SUMMARY OF THE FINDINGS

This study sought to establish the effect of managerial ownership on stock performance at the Nairobi Securities Exchange. Regression statistics obtained when managerial ownership and the other variables were regressed against stock performance implied that 94% of the total variance of stock performance is explained by the model. Managerial ownership had a positive effect on stock performance. The positive effect was indicated by the coefficient of 0.058 reported in table 1. However the effect was not significant at 5% level because the p-value was 0.129 which is greater than 0.05 hence the conclusion that the effect is not significant.

The coefficients for the other two variables in the model, market capitalization and size of the firm were negative implying a negative effect on stock performance. Market capitalization had -1052E013 while size of the firm had -6.030E010. R-square value was 94% showing a regression line that fits the data almost perfectly. R value of 0.306 also implied that there exists a relationship between the variables.

CONCLUSIONS

This study sought to determine the effect of managerial ownership on stock performance. The results of regression analysis indicated that managerial ownership has a positive effect on stock performance. However the p value of 0.129 showed that the effect is not significant at the 5% level of significance. The effect of managerial ownership on stock performance remained positive but insignificant when modelled with market capitalization and size of the firm. This study concludes that there exist a positive but statistically insignificant effect of managerial ownership on stock performance at the Nairobi Securities Exchange.

The effect of size of the firm was found to be negative implying that a negative effect exists between size of the firm and stock performance. Another negative effect was that of market capitalization on stock performance. This effect was also found to be negative hence among the three variables one had a positive effect on stock performance, that is, managerial ownership, while the remaining two variables had a negative effect.

RECOMMENDATIONS

This study found that managerial ownership had positive but statistically insignificant effect on stock performance while market capitalization and size of the firm had negative effects on stock performance. It recommends that shareholders consider share ownership plans as a means to mitigate the conflicts that arise from agency relationships. Also, the regulator, Capital Markets Authority, can consider making it a policy to have a percentage of shares owned by insiders for every listed firm.

For the investors that want to make investment decisions as to which stocks to purchase, they might consider avoiding firms that are very big in size. This is because this research findings show that the stocks of such firms will not necessarily be positively affected by an increase in firm size. For this reason, the investors might not enjoy capital gains resulting from increase in stock prices. Market capitalization results also show a negative effect on stock performance. This also adds to the need for investors to look at these variables keenly even as they make their decisions on which firm's stocks to purchase.

LIMITATIONS OF THE STUDY

This study covered one year, that is, year ending December 2015. Data over several years might provide different results. There are also other factors that affect stock performance that are outside the control of an organization for example inflation hence combining such micro economic factors might also give different results.

SUGGESTIONS FOR FURTHER STUDY

Further studies may seek to explore the effect of managerial ownership on stock performance when looking at firms in the same industry. This is because each industry has different factors that affect their stock performances hence zeroing in on a sector might shed more light as to the extent of the effect of managerial ownership on stock performance. Another area of research might be to study the effect of managerial ownership where the percentage of ownership is minimal against firms that have a huge part of their stock owned by managers.

APPENDICES

Appendix 1: Nairobi Securities Exchange Listed companies

Sl. No.	Agricultural
1	Eaagads Ltd
2	Kapchorua Tea Co. Ltd
3	Rea Vipingo Plantations Kenya Ltd
4	Williamson Tea Kenya Ltd
5	Kakuzi
6	Sasini
7	The Limuru Tea Co.
	Commercial and Services
8	Express Ltd
9	TPS Eastern Africa (Serena) Ltd
10	Kenya Airways Ltd
11	Scangroup Ltd
12	Nation Media Group
13	Uchumi Supermarket Ltd
14	Hutchings Biemer Ltd
15	Standard Group Ltd
16	Longhorn Kenya Ltd
17	Atlas Development and Support Services
	Telecommunication and Technology
18	Access Kenya Group Ltd
19	Safaricom Ltd
	Automobiles and Accessories
20	Car and General (K) Ltd
21	Sameer Africa Ltd
22	Marshalls (E.A.) Ltd
	Banking
23	Barclays Bank Ltd
24	CFC Stanbic Holdings Ltd
25	I&M Holdings Ltd
26	Diamond Trust Bank Kenya Ltd
27	Housing Finance Co Ltd
28	Kenya Commercial Bank Ltd
29	National Bank of Kenya Ltd
30	NIC Bank Ltd
31	Standard Chartered Bank Ltd
32	Equity Bank Ltd
33	The Co-operative Bank of Kenya Ltd
	Insurance
34	Jubilee Holdings Ltd
35	British-American Investments Company
36	Pan Africa Insurance Holdings Ltd
37	CIC Insurance Group Ltd
38	Kenya Re-Insurance Corporation Ltd
39	Liberty Kenya Holdings Ltd
	Investment
40	Olympia Capital Holdings ltd
41	Centum Investment Co Ltd
42	Trans-Century Ltd
43	Home Africa Ltd
44	Kurwitu ventures
	Manufacturing and Allied
45	B.O.C Kenya Ltd

46	British American Tobacco Kenya Ltd
47	Carbacid Investments Ltd
48	East African Breweries Ltd E
49	Mumias Sugar Co. Ltd
50	Unga Group Ltd
51	Kenya Orchards Ltd
52	Eveready East Africa Ltd
53	A.Baumann CO Ltd
54	Flame Tree Group Holdings Ltd
	Construction and Allied
55	Athi River Mining
56	Crown Berger Ltd
57	Bamburi Cement Ltd
58	E.A.Cables Ltd
59	E.A.Portland Cement Ltd
	Energy and Petroleum
60	KenolKobil Ltd
61	Total Kenya Ltd
62	KenGen Ltd
63	Kenya Power Co Ltd
64	Umeme Ltd
	Investment Services
65	Nairobi Securities Exchange

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