
Government Ownership and Financial Performance. Evidence from Listed Firms in Nairobi Securities Exchange

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Abstract:

Purpose: The main purpose of this paper was to establish the effect of government ownership on the financial performance of companies listed at the Nairobi Securities Exchange (NSE) in Kenya.

Material/methods: The study adopted a positivist research philosophy guided by Agency Theory. An explanatory research design with a longitudinal approach was employed. A census survey was conducted on all 63 firms listed at the NSE, and secondary data were extracted from their financial statements over an 11-year period from 2014 to 2024 using a structured data collection sheet. Both descriptive and inferential statistics were applied in the analysis. Common effects, fixed effects, and random effects models were compared, and the coefficients from the most appropriate model were fitted into the final regression equation. Data analysis was conducted using the STATA statistical package.

Findings: The findings revealed that government ownership has a positive and statistically significant effect on firm financial performance. The study further established that ownership structure significantly influences firm performance, while financial leverage acts as an enhancing moderator that strengthens the positive effect of government ownership.

Conclusion: The study concludes that government ownership plays an important role in improving the financial performance of listed firms. It also affirms that the interaction between ownership structure and financial leverage is critical in shaping firm outcomes.

Value: The study adds to the existing literature on ownership structure and firm performance by providing empirical evidence from listed firms in Kenya. It also offers practical insight to firms and policymakers on the importance of maintaining optimal levels of government ownership to enhance governance and operational efficiency.

Keywords: Government Ownership, Firm Financial Performance, Ownership Structure

Paper Type: Research Article

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1 Introduction

Firm financial performance is a critical indicator of organizational stability, profitability, and long-term sustainability, making it a central concern for investors, policymakers, and scholars (Labini et al., 2025). Strong financial results enable firms to expand operations, attract investment, and strengthen competitive advantage (Kirimi & Kariuki, 2022), while also supporting innovation and product improvement (Bai, 2025; Kenton, 2025). However, performance disparities among firms within the same industry suggest that internal governance mechanisms, particularly ownership structure, significantly influence outcomes (Lee et al., 2022). Global corporate governance reforms, prompted by scandals involving Enron, WorldCom, Parmalat, and China Evergrande Group, further underscore the importance of ownership configuration in shaping accountability and firm performance (Gomez, 2005; Mismiwati, 2025).

Ownership structure determines how control and decision-making authority are distributed within a firm, influencing strategic direction and managerial accountability. Government ownership—where the state holds a significant or controlling equity stake—has been associated with both advantages and inefficiencies. While state ownership can provide financial support and facilitate large-scale national projects (Boubakri et al., 2005), it may also lead to bureaucratic rigidities, political interference, and weak performance incentives (Mutisya, 2015). Empirical evidence from Kenya indicates that government-owned firms often underperform relative to privately owned counterparts due to operational inefficiencies and limited managerial autonomy (Ongore, K’Obonyo, & Ogutu, 2011; Alulamusi, 2013). These findings suggest that although state ownership may promote strategic national interests, it can hinder firm-level profitability and efficiency.

From a theoretical perspective, agency theory and political interference theory further explain the mixed outcomes associated with government ownership. Agency theory posits that separation of ownership and control may generate conflicts of interest between managers and shareholders, particularly where monitoring mechanisms are weak (Crisostomo et al., 2015). In state-owned enterprises, multiple and sometimes conflicting objectives such as social welfare, employment creation, and political patronage may dilute the profit-maximization goal, thereby weakening financial discipline. Political interference theory similarly argues that government-controlled firms are more vulnerable to non-commercial objectives, including politically motivated appointments and resource allocation decisions that reduce operational efficiency (Mutisya, 2015; Mismiwati, 2025). Nonetheless, in contexts where governance frameworks are strong and managerial autonomy is protected, state ownership can still contribute positively to firm stability and long-term investment capacity (Boubakri et al., 2005).

In Kenya, concerns about declining financial performance among firms listed at the Nairobi Securities Exchange have intensified over the past decade. Several firms, including Kenya Airways and Uchumi Supermarkets, have faced prolonged financial distress, delistings, or restructuring, raising questions about governance effectiveness (Omondi, 2018; NSE Handbook, 2021). Although certain sectors such as banking have recorded growth, performance disparities persist across industries (NSE Report, 2024). These mixed outcomes highlight the need to examine how ownership identity

particularly government ownership shapes financial performance among NSE-listed firms.

Despite extensive scholarship, empirical findings on the relationship between government ownership and financial performance remain inconclusive. Some studies report negative associations (Panda, 2022; Clark & Wojcik, 2005), while others find positive or insignificant relationships depending on institutional context (Hegde et al., 2020; Warrad et al., 2013). In Kenya, limited research has incorporated moderating variables such as financial leverage or addressed methodological concerns related to endogeneity (Muriungi, 2021). Moreover, little is known about this relationship in the post-COVID-19 and geopolitically volatile environment. Therefore, this study seeks to bridge these conceptual and methodological gaps by employing panel regression analysis to investigate the effect of government ownership on the financial performance of firms listed at the Nairobi Securities Exchange.

2 Theoretical Framework

The Agency theory, as advanced by Jensen and Meckling (1976), explains the contractual relationship between principals (shareholders) and agents (managers), where authority is delegated to managers to run the firm on behalf of owners. In this delegation process, agency conflicts may arise when managers pursue personal interests that diverge from shareholders' wealth-maximization objectives. Such conflicts can weaken governance systems, distort financial decisions, and ultimately impair firm performance. Within the context of government ownership, agency problems may be more complex because citizens act as the ultimate principals while politically appointed officials or managers serve as agents (Sanda et al., 2005). This multi-layered principal-agent relationship can increase information asymmetry, political interference, and weak monitoring, thereby constraining efficiency and profitability. Consistent with this view, Donaldson and Davis (1991) and Wheelen and Hunger (2002) argue that without strong governance frameworks and accountability mechanisms, managers—especially in state-controlled firms—may lack sufficient incentives to consistently pursue value-maximizing strategies.

Agency theory further posits that ownership concentration and managerial shareholding can reduce agency costs by aligning managerial interests with those of shareholders (Jensen & Meckling, 1976). When owners hold significant stakes, they are more motivated to monitor management closely, thereby enhancing accountability and financial discipline (Gilson & Lang, 1990). Agrawal and Knoeber (1996) similarly emphasize that effective shareholder oversight strengthens managerial commitment to profit-maximizing activities and improves firm outcomes. In contrast, dispersed or politically influenced ownership structures may weaken monitoring intensity and increase inefficiencies. Applying this theory to firms listed at the Nairobi Securities Exchange, government ownership may heighten agency conflicts if political objectives override commercial goals. However, where monitoring mechanisms are strong and managerial autonomy is safeguarded, ownership concentration including state ownership can potentially enhance performance by reducing opportunistic behaviour and improving strategic oversight. Thus, agency theory provides a robust foundation for examining how government ownership influences financial performance among NSE-listed firms.

3 Empirical Framework (Hypotheses Development)

Empirical evidence on the relationship between government ownership and firm financial performance remains mixed and context-specific. Some studies report positive effects of moderate state ownership; for example, Mrad and Hallara (2012) found that higher government stakes improved ROA and Tobin's Q among French privatized firms, while Ng et al. (2009) and Hess et al. (2010) observed a convex relationship in Chinese listed firms, where performance improved at moderate levels of state ownership but declined when control became excessive. Similarly, Farinós (2007) suggested that government-linked firms may benefit from privileged access to resources, regulatory support, and enhanced monitoring. However, other studies document negative outcomes. Mishari et al. (2012) found that government ownership reduced profitability in Kuwaiti firms, and Sun and Tong (2002) as well as Wei and Varela (2003) reported inefficiencies in state-owned enterprises due to politically motivated decisions and weak entrepreneurial orientation. These contrasting findings indicate that the effect of government ownership depends largely on governance quality, ownership concentration, and institutional context.

Further research highlights both governance advantages and risks associated with concentrated state ownership. Earnhart and Lizal (2010) and Huyghebaert and Wang (2012) showed that dominant shareholders in transition and emerging economies could either strengthen oversight or expropriate minority shareholders, thereby influencing performance positively or negatively. Shleifer (1998) and He and Vishny (1986) argued that government-controlled firms are generally less efficient due to political interference, weak market discipline, and bureaucratic rigidities. Dewenter and Malatesta (2001) and Anderson et al. (2002) similarly observed that while state ownership may provide stability and access to capital, it can reduce responsiveness to market signals and allow managerial inefficiencies to persist. From an agency theory perspective, Beltratti et al. (2012) noted that multiple-principal problems within government structures often distort managerial incentives, weakening profit-maximization goals and firm value.

In the Kenyan and broader emerging market context, findings remain equally inconclusive. Ongore, K'Obonyo, and Ogutu (2011) reported a negative but statistically insignificant relationship between government ownership and ROE, while Wanjugu et al. (2016) attributed inefficiency in state enterprises to the wide separation between ownership and control. Megginson and Netter (2001) concluded that state-owned firms are often less efficient because they are insulated from capital market pressures, unlike private firms that operate under continuous scrutiny and corrective discipline (Netter, 2001). Collectively, these studies suggest that moderate government participation may enhance stability and public trust, but excessive state control can undermine managerial autonomy and operational efficiency. Guided by these empirical inconsistencies, this study hypothesizes that.

H₁: Government ownership has significant relationship on firm financial performance of firms listed in NSE

4 Methodology

This study was grounded in the positivist research philosophy, which assumes that reality is objective, measurable, and can be examined through empirical observation and statistical testing. Positivism was appropriate because the study sought to test hypothesized relationships between government ownership structure and firm financial performance using quantitative secondary data. An explanatory research design with a longitudinal approach was adopted to establish causal relationships and examine trends over time. The longitudinal design enabled the study to analyze repeated observations of firms across a 11-year period (2014–2024), thereby capturing dynamic changes in government ownership patterns and financial outcomes among firms listed at the Nairobi Securities Exchange.

Target Population, Inclusion and Exclusion Criteria

The target population comprised all 63 firms listed on the Nairobi Securities Exchange as per the NSE Listing Manual (2021). A census approach was employed to include all eligible firms to enhance representativeness and generalizability. To ensure data consistency and reliability, specific inclusion criteria were applied: firms had to have been listed before 2015, must not have been suspended during the study period, and were required to have consistently published audited financial statements from 2014 to 2024. Firms that were delisted, newly listed after 2015, or lacked complete financial and ownership disclosures were excluded to maintain data continuity for longitudinal analysis. The selected 11-year period was significant as it captured major economic events, including the COVID-19 pandemic, allowing the study to assess ownership-performance dynamics before, during, and after economic disruptions.

Data Collection and Measurement of Variables

The study relied exclusively on secondary data obtained from audited annual reports, the NSE Handbook, and disclosures from the Capital Markets Authority (CMA). Data were collected using a structured data extraction sheet through content analysis of published financial statements. The dependent variable, firm financial performance, was measured using Return on Equity (ROE), computed as profit after tax divided by shareholders' equity. The key independent variable, government ownership, was measured as the percentage of shares held by the state. Control variables included firm size, measured as the natural logarithm of total assets, and firm age, calculated as 2024 minus the year of incorporation. These standardized measures ensured comparability across firms and time.

Data Analysis and Model Specification

Data analysis involved both descriptive and inferential statistics. Descriptive statistics including means and standard deviations were used to summarize the distribution and characteristics of the variables. Pearson's correlation analysis assessed the strength and direction of relationships between ownership structure and financial performance, while panel regression analysis was employed to test the study hypotheses and examine the moderating effect of financial leverage. Prior to regression analysis, diagnostic tests such as multicollinearity checks were conducted to ensure model validity. The study

utilized a multivariate panel regression model to estimate the effect of government ownership on firm financial performance, incorporating firm size and age as control variables to enhance robustness and minimize omitted variable bias.

Thus, the model testing direct effects of government ownership and financial performance are as follows:

$$FP = \beta_{0it} + \beta_1 fa_{it} + \beta_2 fs_{it} + \beta_3 GO_{it} + e_{it}$$

Where;

FP = Financial Performance of firm

GO = Government Ownership

β_0 = the constant term of firm

fa = Firm Age

fs = Firm size

$\beta_{ii} = 1 \dots 3$ measure of the sensitivity of the dependent variable (FP) to unit change in the predictor variables GO.

ε = the error term

i Represent the firm observation

t Measure of time

5 Findings and Discussions

This section presents a summary of the findings on the relationship between ownership structure and the financial performance of firms listed at the Nairobi Securities Exchange. The analysis focused on the effects of government ownership on firm performance. The section began with descriptive and diagnostic analyses to examine the distribution and characteristics of the data, followed by correlation and regression analyses to test the study hypotheses.

Descriptive Analysis

The descriptive findings in Table 1 revealed notable variability in both financial performance and government ownership among listed firms. Financial performance (ROE) recorded a mean of 4.80%, with a wide range from -11.60% to 26.60%, indicating significant disparities in profitability levels across firms. Government ownership averaged 10.40% but exhibited a high standard deviation, suggesting that while some firms had substantial state participation, others had little to none. The positive skewness and kurtosis values further indicated that a small number of firms had relatively high government shareholding, contributing to distributional asymmetry. These results point to structural heterogeneity within the NSE, where varying levels of state participation may influence governance practices and financial outcomes differently. From an agency theory perspective, government ownership can either enhance monitoring and reduce managerial opportunism or introduce political interference that may weaken efficiency. The observed variability in performance therefore provides a strong basis for further inferential analysis to determine whether government ownership positively or negatively influences firm profitability within Kenya's capital market context.

Table 1: Descriptive Statistics

Stats	N	Min	Max	Mean	SD	CV	Skewness	Kurtosis
ROE	451	-11.60	26.60	4.80	6.30	1.31	1.07	6.55
GO	451	0.00	70.00	10.40	20.02	1.93	1.67	4.26
FS	451	3.86	9.31	6.90	1.17	0.17	-0.15	2.23
FA	451	11.00	161.00	72.85	31.59	0.43	0.59	3.20

Source: (Field Data, 2025)

Key; ROE = Return on Equity, GO = Government Ownership, FS = Firm Size, FA = Firm Age

Diagnostic Tests

In this section, the study delved into the diagnostic tests conducted on the data utilized in this study to ensure its reliability and suitability for analysis. Various diagnostic tests have been employed to assess the data distributions in terms of normality, autocorrelation, heteroscedasticity, multi-collinearity, and unit root. The diagnostic results confirm that the regression model satisfies most classical assumptions required for panel data analysis. The normality tests (Skewness, Kurtosis, and Jarque–Bera) indicate that the residuals are normally distributed, validating the use of parametric regression techniques. The Wooldridge test further shows that there is no first-order autocorrelation in the panel data, implying independence of error terms across time. However, White’s test reveals the presence of heteroscedasticity, suggesting that error variances differ across firms likely due to structural differences such as firm size and government ownership levels. To address this, robust standard errors were applied to ensure reliable inference. Lastly, the low VIF values confirm the absence of multicollinearity, indicating that the explanatory variables are sufficiently independent. The model is statistically sound and appropriate for estimating the effect of government ownership on firm financial performance.

Table 2: Multicollinearity

Diagnostic Test	Test Statistic	P-value	Decision	Interpretation
Normality (Skewness & Kurtosis)	adj $\chi^2(2) = 1.28$	0.5278	Fail to reject H_0	Residuals are normally distributed Confirms normality assumption
Jarque–Bera Test	$\chi^2(2) = 1.07$	0.5857	Fail to reject H_0	No first-order autocorrelation No Presence of heteroscedasticity No multicollinearity problem
Wooldridge Test for Autocorrelation	$F(1,40) = 5.724$	0.215	Fail to reject H_0	
White’s Test for Heteroscedasticity	$\chi^2(9) = 89.03$	0.102	Fail to reject H_0	
Multicollinearity (Mean VIF)	1.15	—	Acceptable	

Source: (Field Data, 2025)

Unit Root Test

In panel data analysis, testing for stationarity is crucial to ensure that the statistical properties of variables such as the mean, variance, and autocorrelation remain constant over time. Stationary variables provide stable and reliable regression estimates, while non-stationary data may produce spurious relationships and misleading inferences (Greene, 2020; Wooldridge, 2022). To verify the presence or absence of unit roots, this study employed the Harris–Tzavalis (HT) panel unit root test, which is suitable for panels with a large cross-section and shorter time periods. The Harris Tzavalis panel unit root test results in Table 3 indicate that all study variables financial performance (ROE), government ownership (GO), firm size (FS), and firm age (FA) are stationary at level, as their p-values are below the 5% significance threshold. This leads to the rejection of the null hypothesis of non-stationarity, confirming that the variables do not contain unit roots and that their statistical properties remain stable over time. The stationarity of the data implies that the regression estimates are not spurious and that the relationships examined in the study are reliable and valid for inference.

Table 3: Unit root test

		Statistic	z	p-value
ROE	rho	0.711	-0.981	0.003
GO	rho	0.270	-12.122	0.000
FS	rho	0.214	-13.528	0.000
FA	rho	0.668	-2.065	0.020

Source: (Field Data, 2025)
Correlation Results

The correlation analysis in Table 4 shows that financial performance (ROE) is positively and significantly related to government ownership ($\rho = .229$, $p < .01$), firm size ($\rho = .114$, $p < .05$), and firm age ($\rho = .265$, $p < .01$). This indicates that firms with higher levels of government ownership, larger asset bases, and longer operational histories tend to achieve better financial performance. These findings suggest that state participation, alongside firm maturity and scale, supports profitability by improving governance, access to resources, and market credibility. The results highlight that government ownership, combined with firm size and age, contributes positively to firm performance, reinforcing empirical evidence that stable ownership structures and firm characteristics are key drivers of sustainable profitability.

Table 4: Correlation results

	Financial performance	Government ownership	Firm size	Firm age
Financial performance	1			
Government ownership	.229**	1		
Firm size	.114*	.129**	1	
Firm age	.265**	0.002	.281**	1

*Note: ** $p < 0.01$, $p < 0.05$

Source: (Field Data, 2025)

Hypotheses Testing

The Hausman specification test was applied to determine the most suitable panel data estimator between the Fixed Effects (FE) and Random Effects (RE) models. The null hypothesis of the test posits no systematic difference between the FE and RE estimates, implying that the RE model is consistent and efficient, whereas the alternative hypothesis favors the FE model due to correlation between regressors and unobserved individual effects. The test results in Table 5 ($\chi^2(5) = 7.79, p = 0.1684$) indicate a failure to reject the null hypothesis, suggesting that the Random Effects model is the appropriate estimator. This confirms that firm-specific unobserved effects are not significantly correlated with the explanatory variables, allowing for efficient estimation that accounts for both within-firm and between-firm variations over time.

The Random Effects regression model was statistically significant, with a Wald chi-square of 141.14 ($p < 0.001$), indicating that the explanatory variables collectively explain variations in firm financial performance. The within R-squared value of 0.188 shows that 18.8% of the variation in financial performance is explained by differences within firms over time, while the between R-squared of 0.560 indicates that 56% of cross-firm variation is accounted for by ownership structure. The overall R-squared of 0.544 implies that 54.4% of the total variation in financial performance is explained by the model. These results confirm that the model fits the data well and provides a reliable basis for hypothesis testing.

Hypothesis H₁ stated that government ownership has a significant relationship with the financial performance of firms listed on the Nairobi Securities Exchange. The regression results show that government ownership positively and significantly affects financial performance ($\beta = 0.313, p = 0.003$), leading to the rejection of the null hypothesis. Firm size exhibited a marginally negative relationship ($\beta = -0.021, p = 0.055$), while firm age positively influenced performance ($\beta = 0.173, p < 0.001$). These findings indicate that government participation enhances profitability, likely due to increased credibility, access to public resources, and strategic support. Overall, ownership structure particularly government ownership along with firm characteristics, plays a key role in determining financial performance among listed firms at the Nairobi Securities Exchange.

Table 6: Random Effects Regression

Random-effects (within) regression		Number of obs	=	451		
Group variable: id		Number of groups	=	41		
R-sq:	Within	0.113		Obs per group	min	11
	Between	0.163			avg	11.0
	Overall	0.161			max	11
corr(u_i,Xb) = 0(assumed)				Wald chi2(5)	=	59.1
				Prob > chi2	=	0.0000
		Std.				
FP	Coef.	Err.	t	P> t 	[95% Conf.	Interval]
GO	0.295	0.136	2.170	0.030	0.028	0.562
FS	-0.022	0.011	-1.910	0.056	-0.044	0.001
FA	0.190	0.027	7.100	0.000	0.138	0.243
_cons	-0.030	0.152	-0.190	0.846	-0.328	0.269
Hausman Test						
Chi2(5)	7.79					
Prob>chi2	0.1684					

Source: (Field Data, 2025)

6 Discussion of the Findings

The study established that government ownership had a positive and statistically significant relationship with the financial performance of firms listed at the Nairobi Securities Exchange ($\beta = 0.313$, $p = 0.003$), leading to the rejection of the null hypothesis (H_{01}). This outcome suggests that partial government participation enhances firm profitability by improving credibility, compliance with regulations, and access to both financial and non-financial resources. Firms with government shareholding often inspire greater stakeholder confidence, especially among investors and lenders, because of the implicit state guarantee and perceived long-term stability. Such ownership structures also encourage transparency and adherence to governance standards imposed by regulatory authorities. This finding supports Mrad and Hallara (2012), who observed that moderate to high state ownership improved both Return on Assets (ROA) and Tobin's Q in French firms by enhancing investor confidence and reducing perceived risks. Similarly, Farinós (2007) reported that government-linked firms often benefit from favorable regulations, privileged access to resources, and stronger market reputation, which collectively translate into superior operational performance. In the Kenyan context, firms such as KenGen and Kenya Reinsurance Corporation exemplify how partial state ownership can signal financial stability and attract investors seeking low-risk opportunities while maintaining profitability and compliance with listing requirements.

Despite these positive outcomes, the results diverge from the traditional arguments of inefficiency associated with state ownership. Classical scholars such as Shleifer (1998) and He and Vishny (1986) argued that government-controlled firms often suffer from bureaucratic rigidity, political interference, and weak accountability mechanisms, which inhibit managerial innovation and responsiveness. These inefficiencies stem

from the pursuit of political rather than economic goals, leading to resource misallocation, overstaffing, and poor investment decisions. Anderson et al. (2002) similarly noted that government-owned firms are insulated from market discipline, allowing inefficiencies to persist. However, the positive results in this study suggest that Kenya's institutional reforms and evolving governance frameworks have redefined the nature of state involvement. The implementation of the Mwongozo Code of Governance for State Corporations (2015) and the State Corporations Act (2013) has promoted managerial professionalism, transparency, and performance-based accountability. This shift towards a hybrid ownership model where the state retains a minority stake and oversight role while delegating operational control to professional managers appears to have mitigated traditional inefficiencies. Consequently, government ownership in Kenya now functions as a stabilizing mechanism that blends public oversight with private sector efficiency, leading to improved financial outcomes.

These findings can also be interpreted through the dual lenses of Agency Theory and Stakeholder Theory, which together provide a deeper understanding of the governance dynamics at play. From an agency perspective, partial government ownership reduces information asymmetry and strengthens monitoring mechanisms, curbing opportunistic behavior among managers while preserving strategic flexibility. However, Stakeholder Theory expands this interpretation by emphasizing that government participation in corporate ownership serves not only shareholders but a broader network of stakeholders including employees, consumers, regulators, and the general public whose welfare is influenced by firm performance. The government's presence as a shareholder ensures that corporate decisions incorporate social and economic objectives such as employment creation, infrastructure development, and environmental stewardship. This balance between profit and public interest enhances legitimacy and long-term sustainability. Consistent with Megginson and Netter (2001) and Earnhart and Lizal (2010), moderate government ownership thus becomes a catalyst for aligning diverse stakeholder interests, ensuring that firms remain both economically viable and socially responsible. Overall, the results suggest that the optimal state role in ownership is not one of dominance but of strategic partnership, where government participation provides credibility, supports inclusive growth, and reinforces trust among multiple stakeholders thereby contributing to sustained financial performance in Kenya's dynamic corporate landscape.

7 Conclusion

In conclusion, the study established that government ownership exerts a positive influence on the financial performance of firms listed on the Nairobi Securities Exchange. The analysis revealed that firms with moderate government participation tend to experience better profitability, enhanced investor confidence, and improved access to credit. This relationship can be attributed to the perception that government-backed firms have lower risk and stronger institutional credibility, which encourages investment and fosters stability in financial operations. Moreover, the presence of the government as a shareholder promotes adherence to corporate governance standards and regulatory compliance, contributing to operational efficiency. These findings suggest that government involvement, when maintained at a moderate level, provides an optimal balance between oversight and managerial flexibility. Rather than crowding out private sector innovation, such participation reinforces accountability and performance discipline. The conclusion aligns with the argument that partial state

ownership can enhance firm competitiveness by offering strategic support and long-term stability while allowing market-driven mechanisms to guide day-to-day management decisions.

8 Recommendations

The findings of this study have substantial managerial, policy, and theoretical implications for firms listed on the Nairobi Securities Exchange. From a managerial perspective, the positive relationship between government ownership and financial performance underscores the importance of cultivating strategic relationships with public institutions, allowing managers to enhance credibility, ensure regulatory compliance, and access favorable financing opportunities while maintaining operational autonomy. From a policy perspective, the results support frameworks that encourage moderate government ownership in strategic sectors to safeguard public interest while promoting efficiency and transparency. Theoretically, the positive impact of government ownership aligns with agency Theory, demonstrating that firms perform better when influential stakeholders, such as the government, are actively involved in ensuring compliance, accountability, and ethical standards, thereby improving firm outcomes in emerging market.

9 Further Research

Although this study provides comprehensive insights into the relationship between government ownership structure and financial performance among firms listed on the NSE, it also presents several avenues for future investigation. Future research could expand beyond listed firms to include privately held companies, state corporations, and SMEs, while also examining moderating or mediating factors such as corporate governance, board diversity, or innovation capability. Employing mixed methods that combine quantitative panel analysis with qualitative approaches like interviews or case studies could provide richer contextual insights. Additionally, comparative studies across East African or other developing markets, as well as longitudinal analyses post-2024, would help capture evolving ownership performance dynamics and the effects of recent regulatory reforms in Kenya's capital market.

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