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RESEARCH ARTICLE

OWNERSHIP STRUCTURE AND NON-PERFORMING LOANS; THE EFFECT OF GOVERNMENT OWNERSHIP OF COMMERCIAL BANKS IN NAIROBI CITY, KENYA

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ABSTRACT

Firms are seeking to be competitive world over because of the changing business environment. Banks too are seeking for means to gain competitive advantage over each other. One key parameter of achieving or attaining competitive advantage is to have sound and efficient performance. To achieve this bank need to check and compare the amount of nonperforming loans in their portfolios. The purpose of this study was to determine the effect of ownership structure on non-performing loans of commercial banks in Kenya. The study's specific objective was to establish the effect of government ownership structure on non-performing loans of commercial banks in Nairobi city. This study was guided by stakeholder theory. Cross-sectional research design was adopted by the study. The target population for this study comprised the employees of 39 commercial banks in Nairobi city, Kenya: The respondents were 117 employees who include 39 branch managers, 39 operation managers and 39 credit officers. The study adopted census survey because the numbers of respondents are few, therefore all the 117 respondents were included in the study. Questionnaire was used for collecting data. For validation of the research instruments, the researcher consulted the supervisors and other experts in this field. The study used the cronbach alpha coefficient to determine the reliability of data collection instrument. Data was analysed using both descriptive and inferential statistics. Descriptive analysis included mean, standard deviation, percentages and frequencies while inferential statistics was multiple regression and Pearson moment of correlation. The study findings indicated that, government ownership structure (β = 0.263; p<0.05), affects non-performing loans of commercial banks. The study recommends that government should consider infusing private sector-like management systems and progress the divestiture program to attract more private individuals and institutions to co-own the state corporations. In addition, policy makers should create a conducive environment which attracts foreign investors as it noted that foreign investors can possess firm-specific advantages.

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INTRODUCTION

Commercial banks play very important role in the economic development of nations as they largely wield control over the supply of money in circulation and are the main stimuli of economic progress (Malakolunthu and Rengasamy, 2012). Commercial banks all over the world act as the life blood of modern trade and economic development and through being a major source of finance to the economy (Ongore and Kusa, 2013). Commercial Banks are the channels used to transmit effective monetary policy of the central bank of the economy thus it is considered that they also share the responsibility of stabilizing economy of their country (Siddiqui and Shoaib, 2011). Commercial banking plays a major role in saving, mobilizing and allocating the various institutions' financial resources. Business banks can mobilize and allocate the funds to productive investment through that role. Commercial banks provide loans and advances to different individuals, corporations and government agencies to allow them to invest and undertake various development activities in order to contribute to their overall growth (Hsu, Venezia and Schrader, 2015). Despite, the crucial role played by the commercial banks in economic development, they face serious challenges of non-performing loans in their operation. Kohler (2012) defines non-performing loans (NPLs) as undesirable outputs or costs to the bank, which decrease the bank's performance, expected revenues and profitability (Altunbas *et al.,* 2011). The emergence and accumulation of nonperforming loans (NPLs) can become a systemic problem by affecting a considerable part of the financial system, threatening its stability and/or impairing its core financial intermediation function. A significant increase in NPLs throughout the system can have a negative impact on the resilience of the banking sector to shocks, thus increasing systemic risk (Ombaba, 2013). NPLs may be associated with higher funding costs and a lower supply of credit to the real economy. This may result from negative market sentiment towards banks with high levels

of NPLs, thereby decreasing banks' ability to access liquidity and capital markets (potentially leading to credit supply constraints (Khemraj and Sukrishnalall, 2010). According to Ikram, Su, Ijaz and Fiaz, (2016) a loan is classified as non-performing if interest or principal payment s are past due date by 90 days, or interest payments equal to 90 days have been capitalized, delayed by agreement or refinanced however there are other good reasons such as the borrower filing for bankruptcy hence there is doubt that payments will be made in full. If a loan is classified as nonperforming it is removed either when it is written off or the interest or principal payment has been made. Bhattacharya and Sen (2010 stated that bad loans may considerably rise due to abrupt changes in interest rates. Makri, Tsagkanos and Bellas, (2014) indicated that high interest rates increase Non-Performing loans. Salas and Saurian (2012) stated that the major risks include credit risk, liquidity risk, politically connected risks, market risks, foreign exchange risks and interest rate risk. Credit risk has emerged as a new challenge to financial institutions given that market risk can be managed through hedging activities (Karumba and Wafula, 2012). Commercial banks operate according to their ownership structures (Akhtar, 2010). Jiang (2015) argue that a typical feature of ownership structure in modern corporate governance is the separation of company ownership and management. In order to better the development of firms, business owners take the companies operating rights to professional managers to manage and only retain the power of the residual value of the company to obtain rights. There are various ownership structures which include state ownership, foreign ownership, institutional ownership and local ownership structures (Qui, 2012). Government or State ownership refers to the banks percentage of stock owned by the government, state ownership is expected to influence banks non-performing loans through political appointment of the managers who may not be very effective and may be interested with perusing political agendas (Ongore, K'Obonyo and Ogutu, 2011). Mutisya (2015) observes that state ownership is inefficient and bureaucratic and that the ownership rights of government firms do not have clear incentives to improve firm performance. Boubakri et al. (2005) argued that government owned firms are advantaged as the government can allocate capital to them for investments to trigger economic and financial development, especially, for countries that have underdeveloped economic institutions and are undertaking government finance projects with social benefits.

In today's capital markets, over 70% of the top 500 U.S organizations are held by institutional investors. Local ownership has declined substantially but still make up almost a substantial investor base in the U.S. capital markets. Government ownership of public corporations in the U.S. has been significantly less. Despite having wholly-government owned corporations in the U.S., mixed enterprises, with both local and government ownership, are generally viewed skeptically and suspiciously by the American people. The government bailout of banks and corporations post-recession was subject to significant criticism and corporate actors were eager to have the state sell their ownership stakes (Ronald, Gilson and Jeffrey, 2013). United States'non-performing loans ratio stood at 1.6 % in Mar 2019, compared with the ratio of 1.6 % in September 2018. United Statesnon-performing loans ratio reached an all-time high of 7.5 % in Mar 2010 and a record low of 1.4 % in Jun 2006 (World Bank, 2019). In the United States of America, the percent non-performing reflects the health of the banking system. A higher percent of such loans shows that banks have difficulty collecting interest and principal on their credits that may lead to less profit for the banks and, possibly bank closures. Ezazi, Sadeghisharif, Alipour and Amjadi, (2011) stated that the rise of nonperforming loans could be linked to foreign entry of banks that has affected the domestic banking markets (Claessens and Huizinga, 2008). Qui (2012) argue that firms' ownership is organized in order to maximize firm value and suggested that firms' ownership and capital structure decisions reflect attempts to mitigate agency problems between various stakeholders to avoid potential conflicts of interest between a controlling shareholder and minority investors. It is also stipulated that foreign owned banks are more profitable than the domestic owned banks (Saleem and Saeed, 2011). In Philippines's ownership structures indicate that a large shareholder controlling corporate groups is the government. This emerged from development policies of the government and historical circumstances that enabled certain entrepreneur groups to accumulate capital (Juma, 2010). The Saldana (2015) study investigated the importance of firm's ownership structures and the characteristics of this control structure and concluded that the most organizations are owned by the governments as indicated by the governments past industrial and infrastructure development policies and the recent emergence of new industry leaders. According to the World Bank (2019) Philippines's non-performing loans ratio stood at 2.1 % in Mar 2019, compared with the ratio of 1.8 % in December 2018. Loan performance in the Philippines is closely linked to the economic cycle, thereby increasing the severity of the recession for a number of countries in NPLs (Khemraj, 2005). For example, real GDP shrank by 18 %, but NPLs more than tripled over the same period. Juma, (2010) in his study on the relationship between ownership structure and non-performing loans concluded that there is a strong relationship between ownership structure and non-performing loans.

According to the World Bank (2019) non-performing Loans Ratio in Greece stood at 24.26 % in Mar 2019, 45 % in 2018. Pandey, (2010) concluded that ownership structure has a strong impact on firm's performance is it influences the allocation of resources and control of the firm. Clarkson, Overell and Chapple (2011) stated many foreign scholars have verified that ownership structures have significant effects on market value and financial performance of Banks, on the other hand, it is stated that nonperforming loans are adversely affected by the ownership structure. Non - performing loans have been widely used by lending institutions as a measure of asset quality and are often associated with failures and financial crises in both developed and developing countries (Guy, 2011). In Africa, Vishny and Shleifer (2016) present evidence that, ownership structure is greatly dispersed whereas the ownership structure in developing countries is highly concentrated. They noted that highly concentrated ownership structures are a result of weak legal systems in developing countries which exposes minority investors' interests. Evidence has shown that ownership structure affect non-performing loans, however studies have largely ignored the analysing the role of ownership structure on non-performing loans. NPLs drivers across banks are attributable to various factors. According to Detragiache and Gupta (2016), larger banks with cross boarder banking operations could manage systemic crisis better than smaller banks due to easier source of capital in the international financial markets with less severe informational barriers in these markets. Martinez-Miera and

Repullo (2010) attributed varying drivers of NPLs across different sizes of banks with different ownership structures; geographic operational coverage (regional versus national); access to external finance; capital market discipline exposure; and differential regulatory treatment. Since NPLs vary across bank categories, it therefore suggests that drivers of NPL could as well vary across bank type. In Tanzania various groups such as government, financial institutions, banks and other companies form the owners of companies and each one of the different combinations of ownership is more efficient in improving company performance. Shareholding structure of the Company is the foundation of corporate governance, which will affect efficiency (Tatiana and Stela, 2013). Banks with many shareholders or block owners are more competent and well positioned to monitor and control the management of the bank which enhances efficiency thereby enhancing performance. Larger banks have a higher spread of interest rates as compared to smaller ones.

From Kenyan perspective, scholars have raised issues on ownership structures, according to Uzel et al. (2015) argue that the separation of ownership and control of modern companies naturally reduces management incentives to maximize firms' efficiency since the nature of relationship between ownership structure and firm performance is laid on the firms shareholders. The banking industry in Kenya has 43 commercial banks registered and licensed to provide banking and financial services to customers across the region of Kenya and East Africa (CBK, 2015). Commercial banks in Kenya have suffered significant loan repayment default problems resulting into decreased employment levels and liquidity problems. Interest rate changes have also contributed to non-performing loans. Non-performing loans are associated with bank failures because borrowers do not pay their loans in time which leads to financial crises for commercial banks in Kenya. Because of the nature of their business, commercial banks are exposed to borrowers' default risks and this risk is referred to as credit risk. If the non-performing loans are kept in place and continuously stored in the resource sector, this hinders economic growth and hinders economic efficiency (CBK, 2012).

In 2016/2017, the banking sector faced many challenges with the non-performing loans that resulted in the closure of certain banks in Kenya, such as Imperial Bank, Dubai Bank, Kenya National Bank and Chase Banks, the last to be placed under receivership. The problem with the banks mentioned above is due to the lack of risk management and control measures on the assets of the bank and the savings of the depositor which later leads to huge non-performing facilities and leads to bank closure in the long run. Through this most banks have now realized that it is becoming a tedious and expensive exercise to recover outstanding loans. Most of the default stemmed from poor management procedures, loan diversion and unwillingness to repay loans among others, which is why lenders must provide different institutional methods to reduce the risk of defaulting loans (CBK, 2016).

Statement of the Problem: Commercial banks' sustainability and growth is undoubtedly relevant to industrial development, this is because the banking sector is one of the very few sectors that contribute in various dimensions to economic growth (Kariuki, 2016). Banks provide access to credit facilities in the form of loans as an anchor of growth for other sectors of the economy. Furthermore, banks contribution to any country's growth is enormous in that they are the main intermediaries between depositors and those in need of funds for their viable projects (creditors) thereby ensuring that the money available in the economy is always used well. Commercial banks in Kenya recorded Sh 63 billion in non-performing loans in the 2017/2018 financial year owing to poor performance by manufacturers and traders during the 2017 general election (CBK, 2018). The value of bad loans was more than 80 per cent of the profit before tax made cumulatively by commercial banks, with the ratio of non-performing loans doubling from six per cent in 2015 to 12 per cent in 2018. Central Bank of Kenya (CBK) data indicates non-performing loans went up from Sh234.6 billion in June 2017 to Sh298.4 billion recorded as at June 2018 with the manufacturing, trade and real estate sectors leading in the losses. During the period under review, eight out of the 11 economic sectors registered increased non-performing loans (NPLs) (CBK, 2018). A high level of non-performing loans leads to further borrowing by the bank in order to meet its depositors demands this eventually affects the capital of the bank which leads to a high debt equity ratio and therefore the bank is unable to maintain an optimal capital structure (Anees, 2012). Non-performing loans tend to decrease the liquidity position of banks since payment problems occur (Kozaric and Zunic, 2015). Bad loans tend to not only limit the financial growth of banks as a result of the lower liquidity but also reduce the ability of the bank to make credit facilities available to individuals. Due to these bad loans banks will experience a drop in their revenues and this translates to reduced financial performance (Tengey, 2014). In addition, limited attention has been accorded NPLs in empirical studies of ownership in the literature therefore leaving a gap which this study seeks to fill by assessing the effect of government ownership structure on the non-performing loans of commercial banks in Kenya.

Objective of the Study: To determine the effect of government/ state ownership structure on the non-performing loans of commercial banks in Nairobi City.

Hypotheses of the Study

H_{01}: Government ownership structure has no significant effect on the non-performing loans of commercial banks in Nairobi City.

Literature Review

Theoretical Review: This study was guided by four theories which are; institutional theory, stakeholder theory, stewardship theory and liquidity preference theory. The theories expound on ownership structure and non-performing loans among different commercials banks.

Stakeholder Theory: The theory was developed by Edward Freeman in 1983. Stakeholders' theory challenges the primacy assumption of shareholder interests and advocates that a company should be managed in the interests of all its stakeholder (Freeman, 1994).The theory is based on the assumption that values are necessarily and explicitly a part of doing business and that managers need to articulate the shared sense of value they create to bring its key stakeholders together. When stakeholders get what they want from a firm, they return to the firm for more (Freeman, 1984; Freaman and McVea, 2001). Ulrich *et al.* (2008) argues that stakeholders can be instrumental to corporate success and therefore,

corporate leaders have to consider the claims of stakeholders when making decisions and conduct business responsibly towards the interests of all stakeholders. The stakeholder theory argues that managers should make decisions so as to take account of the interests of all stakeholders in a firm including not only financial claimants, but also employees, customers, communities and governmental officials (Manville and Ober, 2003; White, 2009). Freeman (1994) argues that advocates of stakeholder theory refuse to specify how to make the necessary trade-offs among these competing interests, they leave managers with a theory that makes it impossible for them to make purposeful decisions. According to Kaptein and Van Tulder (2003) with no way of keeping a balanced score, stakeholder theory makes managers unaccountable for their actions making them adopts a reactive approach which does not integrate stakeholders into corporate decision making processes. This results into a misalignment of organizational goals and stakeholder demands (Mackenzie, 2007). Turnbull (2002) and Watkins (2003) attribute scandals such as those of Enron and WorldCom to the failure of the managers to consider stakeholder concerns in decision making.

Following these scandals, Adams (2002) observes that some governments set up new regulations to align the interests of stakeholders with corporate conduct giving example of the Sarbanes-Oxley Act (SOX) which was passed as a result of the collapse of Enron and WorldCom. Cornett(2007) advocates that a proactive approach should be used by corporations to integrate stakeholders' concerns into their decision-making processes and to the necessary governance structures and recommends that the stewardship theory remains the theoretical foundation for much regulation and legislation. Rothman and Friedman (2001) argues that involving participation of stakeholders in corporate decision-making can enhance efficiency and reduce conflicts. Wheelen and Hunger, (2002) argues that the choice of value maximization as the corporate scorecard must be complemented by a corporate vision, strategy and tactics that unite participants in the organization in its struggle for dominance in a competitive arena.

Freeman (1994) concludes that a firm cannot maximize market value if it ignores the interest of its stakeholders in the long-term. Clarke (2004) over time, a firm's board of directors and its CEO, acting as stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests as they tend to view a firm as an extension of themselves. Mallin,(2004) argues that compared to agency theory, enlightened stakeholders theory which utilizes much of the structure of shareholders theory advocates that, a firm's top management cares more about the firm's long term success and accepts maximization of the long run value of the firm as the criterion for making the requisite trade-offs among its stakeholders. Freeman (1994) concludes that a firm cannot maximize market value if it ignores the interest of its stakeholders in the long-term. Stakeholders' theory is therefore adopted in this study to help us analyse and understand how state ownership structures adopts a proactive approach to integrate all stakeholders' concerns into their decision-making processes and to lay the necessary governance structures to ensures its effectiveness hence reduction in non-performing loans. Despite the importance of stakeholder theory, it has been criticized for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. Blattberg, (2010) argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests. According to Mansell (2013), by applying the political concept of a 'social contract' to the corporation, stakeholder theory undermines the principles on which a market economy is based.

Empirical Review: This section presents the review of literature conducted in the past on as per the objectives of the study.

Government Ownership Structure and Non-Performing Loans: Xu Haiyi (2013) examined the impact of government ownership on performance: Evidence from major Chinese banks. The study was an empirical revise conducted during the period between 2000 and 2011 and regression analysis was conducted for the purpose of examining how the government ownership change would impact the bank performance. The results showed that decreased government ownership can improve major Chinese banks' performance. This study however left gaps since it adopted and empirical review but the current study will adopt quantitative research technique. Fernández, Fonseca and González (2017) studied the effect of government ownership on bank profitability and risk in Spain. The results of our study suggest that enhanced government ownership leads to an increase in risk. This is particularly marked amongst those savings banks that most increased the weight of local and regional governments on their governance bodies. However, no variation in savings bank performance has occurred. The net result, therefore, is an increase in performance-adjusted risk. This study looked at the relationship between ownership structures and profitability of banks .However the current study looked at the relationship between ownership structure and non-performing loans.

Uwalomwa and Olamide (2012) studied the relationship between government ownership structures with the performance of the 31 companies operating in Nigeria's financial sector in the period 2006-2010. The study used regression models with dependent variable as the rate of return on total assets, the independent variables are the rate of government ownership of shareholders. The study findings indicated that the government shareholders will work better. However the study left gaps since it was with regard to performance of commercial banks in Nigeria but the current study seeks to find out the effects of government ownership structure on nonperforming loans. Sabai, Wepukhulu and Chege, (2018) sought to establish the effect of ownership structure on the financial performance of listed commercial banks in Kenya. The researchers adopted a descriptive survey design. The target population comprised of all the eleven commercial banks listed at the Nairobi Securities Exchange and, since the target population was small, the researcher conducted a census study. Correlation and regression analysis were used to test the relationship between ownership structure with the financial performance indicators ROE NIM and ROA. The study found a negative and significant relationship between government ownership and the financial performance of the listed commercial banks. This study by Sabai et al (2018) was looking at ownership structure and financial performance, but the current study will involve non-performing loans of the commercial banks in Kenya. Khoya (2010) has examined the effect of government ownership on the financial performance of partially privatized firms listed at the Nairobi Securities Exchange. The study included a sample of 16 firms with government shareholding. Of these, 7% were

controlled by the government. The rest were considered as government investments. Secondary data was collected from the annual financial exchange for three years 2008 to 2010. Using non-parametric tests, the study found that there were no statistically significant differences between those which were controlled by the government and those that were not with respect to all the variables. The study concluded that financial performance of firms listed on the NSE is not affected by government shareholding or control since the financial performance of partially privatized but listed firms are indifferent to the government control. This study was also limited to financial performance of commercial banks, but the current study deal with nonperforming loans of commercial Banks.

Conceptual Framework: Conceptual Framework is a hypothesized model identifying the model under study and the relationship between the dependent and independent variables (Mugenda and Mugenda, 2003). The goal of a conceptual framework is to categorize and describe concepts relevant to the study and map relationships among them (Tromp, 2012). According to the study the independent variable is ownership structure indicated by Government ownedwhile the dependent variable is nonperforming loans of commercial banks indicated by non-repayment of interest on loan, non-repayment of loan principle and delinquency in loans due. It is hypothesized that the independent variables influence the dependent variable as illustrated in Figure 2.1.

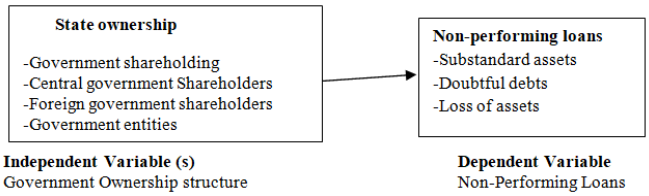

Figure 2.1. Conceptual Framework

RESEARCH METHODOLOGY

Research Design: Cooper and Schindler (2011) describe research design as a statement of essential element of a study and constitute the blue-print for the collection, measurement and analysis of data. It is a logical and systematic plan prepared for directing a research study. The study adopted a cross-sectional survey design for obtaining data. Cross sectional studies data are usually collected at once perhaps over a period of days, weeks or months in order to answer research questions (Namusonge, 2010). Across sectional study design is concerned primarily in establishing whether there is a relationship among the variables by comparing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes. The design was chosen since it was deemed to be the most effective to significantly contribute of to the depth and specificity of the study (Mbuvi, 2016).

Target Population: Target population is a group of people from the general population who share a common characteristic, such as age and gender. Target population deriving from the population which information is desired for the study (Mugenda and Mugenda, 2009). The target population for this study comprised the 39 commercial banks is categorized as Tier 1, Tier 2 and Tier 3 banks as shown in appendix vi: Accessible population consists of all the individuals who realistically could be included in the sample (Salkind, 2010). Accessible population for this study will be 117 respondents who include branch managers, operation managers and credit officers from the bank's headquarters. This is indicated in table 3.1

Sampling Frame: Sampling frame is a list of all population units from which the sample is selected (Schindler, 2013). In our study, the sampling frame was composed 39 commercial banks in Kenya as indicated in Appendices IV.

Sample Size and Sampling Techniques: This study used census survey method. A census is a survey conducted on the full set of observation objects belonging to a given population or universe. The researcher interviewed all the 117 respondents who include 39 branch managers 39 operations mangers and 39 credit officers from the selected commercial Banks. The census approach is justified since the data gathered using census contributes towards gathering of unbiased data representing all individuals' opinions in the study population on a study problem (Musau, 2015).

Research Instruments: The study used questionnaires in order to collect data. Questionnaires give respondent adequate time to give well thought out answers. Bias from the respondents and researcher is also eliminated (Orodho, 2009). The method is suitable when the information needed can be easily described in writing and there is limited time. Primary data was collected by use of self-administered semi structured questionnaires.

Pre-testing of Research Instruments: A pilot test was done before embarking on actual data collection activity. Kombo and Tromp (2009) describe a pilot test as a replica and rehearsal of the main survey. Dawson (2002) states that pilot testing assists researchers to see if the questionnaire will obtain the required results. Polit and Beck (2003) describes a pilot study as a small scale version or trial run done in preparation for a major study. Cooper and Schilder (2011) agree that the respondents used in pilot test should constitute 10 percent of the sample used in data collection. The proportionate sample size of 117 respondents was used for the study. Therefore 12 questionnaires were administered in pilot testing to test the degree of accuracy of the instrument used. The pilot study was done in commercial banks in Eldoret Town.

Reliability of the Research Instruments: Reliability test was conducted as a test of whether data collecting instrument yield the same result on repeated trials. A statistical coefficient - Cronbach's alpha (α) was used as a measure of internal reliability (Cronbach, 1971). Cronbach's alpha reliability coefficient ranges between 0 and 1. The recommended value of 0.7 was used as a cut-off of reliability (Sekaran, 2009).

Validity of the Research Instruments: Validity is the degree at which data collecting instrument measures what it is supposed to measure (Cooper &Schilder, 2011). Zikmund*et al.,* (2010) describes validity as the accuracy of data collecting instruments. It helps in determining whether the respondents understand the direction and instruction on questionnaires (Cooper &Schilder, 2011). The study used content validity to test the accuracy of data collecting instruments. A judgment procedure of assessing whether a tool is likely to provide contents valid data is to request opinion of expert in a

particular field to review it and give suggestions on content improvement (Mugenda, 2008).

Data Processing and Analysis: For statistical analysis, quantitative data from the questionnaire was coded and entered in the computer. The Social Sciences Statistical Package (SPSS version 23) was used for analysis. Both descriptive and inferential statistics was used for data analysis. Descriptive statistics include, mean, frequency, percentages, variance and standard deviation. These tools were used to describe and determine the respondent's degree of agreement or disagreement with various statements under each variable (Mugenda, 2011). Inferential statistics included Pearson Product Moment Correlation and multiple regression model. Pearson moment correlation was used to determine the linear relationship between the ownership structure and non-performing loans of commercial bank. Regression model was used to assess the association between ownership structure and non-performing loans among commercial banks. Regression Analysis is a statistical modeling technique used to identify meaningful, stable relationships among sets of data. The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist. Regression measures the causal relationship between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable.

The regression model was as follows:

Y=β□+β□X□+ε ……..……... Equation 3.1

Where:
Y represents Non performing loans
$\boldsymbol{\beta_{01}}$,are regression coefficients to be estimated
$\mathbf{X_1}$ represents government ownership structure
ε represents the Error term

Research Findings and Discussion

Response Rate: The study selected 117 respondents in data collection with regard to the effect of ownership structure on non-performing loans of commercial banks in Nairobi City, Kenya. Therefore, the researcher administered 117 questionnaires. From the administered questionnaires, 105 respondents filled-in and returned the questionnaires. This gave a response rate of 89.7%. The unreturned questionnaires were 12 representing 10.3% of the administered questionnaires. This response rate is considered satisfactory to make conclusions for the study. According to Babbie (2002) any response of 50 percent and above is adequate for analysis, 60 percent is good, and above 70 percent is rated as very good. The response rate of 89.7 percent is therefore very good. This response rate was made a reality through making personal calls and visits to remind the respondents to fill-in and return the questionnaires. Besides, the use of research assistants who dropped and later picked the filled - in questionnaires enhanced the rate.

Reliability Test Results: This study assessed the internal consistency of the research questionnaires. Cooper and Schilder (2011) agree that the respondents used in pilot test should constitute 10 percent of the sample used in data collection.

Table 3.1. Accessible Population

Respondents	Target population
Branch Managers	39
Operations Managers	39
Credit officers	39
Total	117

Table 4.1. Response Rate

Responses	No	Percentages
Administered questionnaires	117	100
Unreturned	12	10.3
Usable questionnaires	105	89.7

Table 4.2. Reliability Test Results

Variable	Cronbach's Alpha	Test Items
Government Ownership	.707	5

Table 4.3. Gender Composition of the Respondents

Gender of Respondent	Frequency	Percentage (%)
Male	58	55.2
Female	47	44.8
Total	105	100.0

Table 4.4 Age of the Respondents

Age of the Respondents	Frequency	Percent
20-25 Years	6	5.7
26- 30 Years	20	17.1
31 – 35 Years	29	27.6
36 – 40 Year	20	17.1
41-45 years	17	16.2
Above 45 years	13	12.4
Total	105	100.0

Table 4.5 Level of Education of Respondents

Level of Education	Frequency	Percentage %
Certificate	1	1
Diploma holder	19	18.1
Bachelors' degree	71	67.6
Master's degree	4	3.8
Others	10	9.5
Total	105	100.0

Table 4.6 Respondents Years of experience

No. of Years	Frequency	Percentage %
Below 5 Years	27	25.7
6 – 10 Years	49	46.6
11 – 15 Years	20	19.0
16 – 20 Years	3	2.9
Over 20 Years	6	5.7
Total	105	100

Therefore 12 questionnaires were administered in pilot testing to test the degree of accuracy of the instrument used. The pilot study was done in commercial banks in Eldoret Town. The results of analysis are shown in Table 4.2. The study also showed that government ownership had a Cronbach's alpha coefficient (0.707), with 5 test items. This implies that the research questionnaire met the threshold since all the variables constructs had Cronbach's alpha coefficients greater than 0.7. This was according to Zikmund, Babin, Carr and Griffin (2010), who stated that a cronbach's alpha of 0.7 as a minimum level is acceptable.

Demographic Characteristics of the Respondents: This section looks at the findings on the general socio-demographic characteristics of the respondents of the study.

Table 4.7 State Ownership Structure and Non-Performing Loans

State Ownership		SA	A	U	D	SD	M	Std
• Government shareholding could lead to banks loss of assets.	F	40	39	5	8	13	3.81	1.35
	%	38.1	37.1	4.8	7.6	12.4		
• The number of shares owned by the central government plays pivotal role in the bank's assets	F	39	42	8	16	0	3.99	1.03
	%	37.1	40.0	7.6	15.2	0.0		
• Foreign government shareholders enhances loan performance of the Banks	F	51	31	17	3	3	4.18	.998
	%	48.6	29.5	16.2	2.9	2.9		
• State bank ownership gives a positive public image and confidence to investors	F	51	33	6	12	3	4.11	1.12
	%	48.6	31.4	5.7	11.4	2.9		
• State ownership enables the bank to get government loans and subsidies	F	40	39	5	8	13	3.78	.978
	%	38.1	37. 1	4.8	7.6	12.4		

Table 4.8. Non-Performing Loans

Non-Performing Loans		SA	A	U	D	SD	M	Std
*i.*Banks have significant doubtful debts occasioned by the ownership structures	F	40	39	5	8	13	3.91	1.35
	%	38.1	37.1	4.8	7.6	12.4		
ii.Ownership structure enhance the reduction of substandard assets of commercial banks	F	46	36	10	11	2	3.83	1.06
	%	43.8	34.3	9.5	10.5	1.9		
ii.Banks lose its assets through ownership structures	F	61	28	11	4	1	4.37	.891
	%	58.1	26.7	10.5	3.8	1.0		
v.Banks keep on selling its shares in order to enhance non-performing loans.	F	51	31	17	3	3	4.18	.998
	%	48.6	29.5	16.2	2.9	2.9		

Table 4.9 Correlation Analysis

		State Ownership	Non-performing loans
State Ownership	Pearson Correlation	1	
Nonperforming loans	Pearson Correlation	.915**	1
	Sig. (2-tailed)	.000	

Table 4.10. Multiple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.786[a]	.618	.614	.47536

a.Predictors: (Constant), government Ownership
b.Dependent Variable: Non performing loans

Table 4.11 ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.302	4	11.576	321.519	.000[b]
	Residual	3.600	100	.036		
	Total	49.902	104			

a. Dependent Variable: non performing loans
b. Predictors: (Constant), Local ownership, Institutional Ownership, Foreign Ownership, State Ownership

Table 4.12 Individual Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.224	.119		1.875	.064
Government Ownership structure	.263	.051	.314	5.130	.000

a. Dependent Variable: nonperforming loans
Thus the regression equation becomes;

The socio demographic characteristics were: gender, age, educational background and years of experience in commercial banks in Nairobi city. These are discussed in the following subsequent themes:

Distribution of Respondents by Gender: The researcher asked the respondents to indicate their gender on the questionnaire and the results are as presented in Table 4.3. Table 4.3 indicates that out of a total of 105 respondents 58(55.2%) of the respondents who participated in the study were male while 47(44.8%) were female. Gender was an important variable in this study to investigate the representation of male and female respondents in the study. The results indicate that there are more male than female employees working in the banks. However, the gap between male and female isn't so wide and thus the banks considers both female and male employees alike, thus giving them equal job opportunities.

Distribution of Respondents by Age: The respondents were asked to indicate their age bracket on the questionnaire to assess if the respondents were from diverse age groups and the results are as presented in Table 4.4. As indicated in Table 4.4, 6(5.7%) were aged between 20-25 years, 20(17.1%) were aged between 26 to 30 years, 29(27.6%) were aged between 31 to 5 years, 20(17.1%) were aged 36 to 40 years, 17(16.2%) were aged between 41-45 years and 13(12.4%) were above 45 years of age. This indicates that the respondents were composed of individuals from diverse age groups and have several years of experience and skills that are necessary to understand the

effect of ownership structure on non-performing loans of commercial banks.

Distribution of Respondents by Highest Education Level: Respondents were asked to indicate their highest education level. This item was to assess their level of skills and to establish whether they were in a position to answer the questionnaire accurately and the results were as indicated in Table 4.5. As Indicated in Table 4.5, out of the 105 respondents, majority 71(67.6%) had bachelor's degree, 19 (18.1%) were diploma holders, 10(9.5%) represented others who could be Ph.D or CPA holders, 4(3.8%) had a master's degree while only 1(1.0%) of the respondents were certificate holders. These findings indicate that the respondents were in a position to accurately answer the questionnaire. In addition, the findings also indicate that commercial bank employees are equipped with the necessary knowledge and skills to ensure effectiveness of commercial banks to achieve its mandate.

Distribution of Respondents by Years of Experience: Respondents were asked to indicate the number of years of experience they have had in the bank to assess their familiarity in the field and hence assure validity of their responses, the results are as indicated in Table 4.6. Table 4.6 shows the number of years respondents had served in commercial banks. Out of the 105 respondents, 27(25.7%) had served for less than 5 years, while the majority 49(46.6%) had served for 6-10 years, 20(19.0%) had served for 11-15 years and 3(2.9%) had served for between 16-20 years while 6(5.7%) had served for more than 20 years. The findings of this study indicate that the respondents had adequate experience to respond to the questions and are informed of the Bank ownership structures. This concurs with the study by Lussier (2008) who summarized that the individuals with higher experiences have greater chances of responding to the questionnaire statements compared to people with less experience.

Descriptive Statistics: The descriptive statistics of the variables were analyzed using frequencies, percentages and mean. In the analysis mean range of 1 to1.4 represents strongly disagree, while for disagree the mean ranged from 1.5 to 2.4, and for neutral the mean ranged from 2.5 to 3.4, for agree the mean ranged from 3.5 to 4.4 and lastly, for strongly agree the mean ranged from 4.5 to 5.0, while for standard deviation of greater than 0.5 was evaluated to indicate homogeneity and a standard deviation less than 0.5 indicates heterogeneity of data

Government Ownership Structure and Non-Performing Loans: This study sought to establish the effect of state ownership structure on the non-performing loans of commercial banks in Nairobi City. To achieve this objective mean, frequencies and percentages were used to interpret the data. This is presented in Table 4.7. From the descriptive statistics Table 4.7, most of the respondents 75.2% agreed that thegovernment shareholding could lead to banks loss of assets while 20% disagreed and was supported by a mean of 3.81. The respondents also agreed at 77.1% that the number of shares owned by the central government plays pivotal role in the bank's assets, while 15.2% disagreed; this had a mean of 3.99 on their responses. In addition, 78.1% of the respondents were in agreement with a mean of 4.18 that foreign government shareholders enhance loan performance of the Banks, out of this 5.8% disagreed. Further, 80% of the respondents were in agreement with a mean of 4.11 that state bank ownership gives a positive public image and confidence to investors, out of this 14.3 % disagreed. Lastly, 75.2% of the respondents were in agreement with a mean of 3.78 that state ownership enables the bank to get government loans and subsidies, out of this 20% disagreed. This implied that the respondents are in agreement that state ownership structure plays a key role in increasing non-performing loans of commercial banks in Nairobi City since their responses were between mean scores of 3.90 and 4.8 on the continuous Likert scale. These findings are similar to that of Fernández, Fonseca and González (2017) who studied the studied the effect of government ownership on bank profitability and risk in Spain.

Non-Performing Loans: This study sought to establish the effect of ownership structure on non-performing loans in commercial banks in Kenya. To achieve this objective mean frequencies and percentages were used to interpret the data. This is presented in Table 4.8. On non-performing loans, the study findings indicated that majority of the respondents 75.2% agreed that banks have significant doubtful debts occasioned by the ownership structures while 20.7% disagreed, this had a mean of 3.91. Further 78.1% agreed that ownership structure has led to the reduction of substandard assets of commercial banks while 12.4% disagreed. This was supported by a mean of 3.83. Further, 84.8% of the respondent agreed that banks lose its assets enhanced by the ownership structureswhile 4.8% disagreed; this had a mean of 4.37. Lastly, 78.1% of the respondent agreed that banks keep on selling its shares in order to address non-performing loans while 5.8% disagreed, this had a mean of 4.18. This finding is consistent to other findings such as by Altunbas, Manganelli and David, 2011) who stated that the emergence and accumulation of nonperforming loans (NPLs) can become a systemic problem by affecting a considerable part of the financial system, threatening its stability and/or impairing its core financial intermediation function. In addition Qui (2012) argue that firms' ownership is organized in order to maximize firm value and suggested that firms' ownership and capital structure decisions reflect attempts to mitigate agency problems between various stakeholders to avoid potential conflicts of interest between a controlling shareholder and minority investors.

Inferential Analysis: This section outlines the relationship between the various independent variables on the dependent variable. It discusses the various Pearson product moment correlations and multiple regression analysis. The measures were constructed using added scales that were from the independent and dependent variables. The decision rule for correlation was in accordance to Saunders (2003) who postulated that that r=1 shows a Perfect linear correlation, $0.9 < r < 1$ indicates Positive strong correlation, $0.7 < r < 0.9$ Positive high correlation $0.5 < r < 0.7$ Positive moderate correlation, $0 < r < 0.5$ Weak correlation r=0 No, relationship and $-1 < r = < 0$ Negative relationship. From the study the results indicate that all the study variables had positive high correlation with non-performing loans, this was indicated by government ownership structure r=0.915 and $p < 0 .01$, This implies that when government ownership has a positive relationship with non-performing loans in commercial banks are also positive hence, they lead to enhancement of nonperforming loans. From the study it will be noted, the above table was at 99% level of confidence (significant at the 0.01 level (2-tailed), since a unit change in government ownership leads to 0.915 unit change in nonperforming loans of commercial banks in Nairobi City. This could be due to the

fact that state owned banks there is a large shareholder controlling corporate groups in the state resulting in the asymmetric of information

Multiple Regression Analysis: The study sought to establish a combined effect of local ownership, institutional ownership, foreign ownership, state ownership on non-performing loans of commercial banks in Nairobi City, Kenya. The results of multiple regression analysis shown in Table 4.10. From Table 4.15, R-Squared is used to evaluate the goodness of fit of a model. In regression, the R square coefficient of determination is a statistical measure of how well the regression line approximates the real data. It measures the proportion of the variation in dependent variable in this case non performing loans of commercial banks, explained by independent variables. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance while the standard error of the estimate is a measure of the accuracy of predictions. From the results on model summary R= 0.786, R- square = 0.618, adjusted R- square= 0.614, and the SE= 0.47536. The coefficient of determination also called the R square is 0.618. This implies that the effect of the predictor variables (Government Ownership) explains 61.8% of the variations non performing loans of commercial banks in Nairobi City. This implies that a 1 unit change in the predictor variables (Government Ownership) has a strong and a positive effect on non-performing loans of commercial banks in Nairobi City.
This study therefore assumes that the difference of 38.2% of the variations is as a result of other factors not included in this study. The standard error(S) of the regression provides the absolute measure of the typical distance that the data points fall from the regression line. S is in the units of the dependent variable. The standard error is an important indicator of how precise an estimate of the population parameter., As presented in table 4.15 (S=.47536) which is 4.8%. This indicates that the regression model is precise using the units of the dependent variable.

Assessing the Fit of the Multiple Regression Model: Multiple regression analysis was conducted to test the influence among predictor variables on non performing loans of commercial banks in Nairobi City. All the four null hypotheses were tested using F statistic. The test results are shown in Table 4.11. The findings showed that there was a statistically significant relationship between the independent variables and the dependent variable ($F= 321.52$; $p<0.05$). This therefore indicates that the multiple regression model was a good fit for the data. It also indicates that Local ownership, institutional ownership, foreign ownership, state ownership all influence non performing loans of commercial banks in Nairobi City. The study employed multiple regression analysis to test the hypotheses. Multiple regression analysis was conducted to test the effect of the study variables Government ownership on non performing loans of commercial banks in Nairobi City. This was done with a significance level of 0.05, such that when the significance value is less than the 0.05 the null hypothesis is rejected and when it is above 0.05 it is accepted. These results were presented in Table 4.12

$Y= 0.224+ 0.263 X_1 +$ .....Equation 4.1

From the study, Hypothesis one stated that;

H_{01}:Government Ownership Structure has no Significant Effect on the Non-Performing Loans of Commercial Banks in Nairobi City: The study findings indicated that government ownership structure was positive and significant effect on nonperforming loans of commercial banks in Nairobi City with ($\beta = 0.263$; $p< 0.05$). Therefore the null hypothesis was rejected. This implies that state ownership structures enhance nonperforming loans of commercial banks in Nairobi City. This is because state owned banks have a large shareholder controlling corporate groups in the state resulting in the asymmetric of information. In addition, it is confirmed that for each unit increase in state ownership structure there is 0.263 unit increase in nonperforming loans of commercial banks in Nairobi City This study concurs with the study by Fernández, Fonseca and González (2017) who studied the effect of government ownership on non-performing loans and risk in Spain and found that enhanced government ownership leads to an increase in non-performing loans. However Sabai, Wepukhulu and Chege, (2018) in their study on the effect of ownership structure on the non-performing loans of listed commercial banks in Kenya found a negative relationship between government ownership and the non-performing loans of the listed commercial banks.

Summary, Conclusions and Recommendation

Summary of Finding: The findings of the study were summarized as shown below:
The objective of the study sought to establish the effect of state ownership structure on the non-performing loans of commercial banks in Nairobi City. The study findings indicated the respondents agreed that state ownership structure affects non-performing loans of commercial banks in Nairobi City. This study also indicated that state ownership structure positively and significantly affect non-performing loans of commercial banks in Nairobi City.

Conclusion

From the findings, it was concluded that government ownership structure enhancen on-performing loans of commercial banks, therefore government shareholding could lead to banks loss of assets.

Recommendation

Based on the results, findings and conclusions the following recommendations have been made:

Recommendation for Policy and Practice:

The government should initiate measures that will control the bank ownership structure which would be more appropriate in order to reduce the level of non-performing loans. In addition, the ownership structure in Kenya should be restructured to control the effect that it has on nonperforming loans further to pass more control and decision making to investors. The study therefore recommends that the government and policy makers should ensure that strategies adopted are directed at ensuring that firms' growth and that ownership does not grow among few owners but rather spread out to many as a way of attracting more skills and competencies among the shareholders that can be tapped to improve firm performance.

Recommendations on Theories: The study showed that state ownership structure is a critical factor for non-performing

loans of commercial banks in Nairobi City. The study found that stakeholders' theory help us analyze and understand how state ownership structures adopts a proactive approach to integrate all stakeholders' concerns into their decision-making processes and to lay the necessary governance structures to ensures its effectiveness hence reduction in non-performing loans.

Suggestions for Further Research: From the regression output, it was revealed that the study variables explain 61.8% of the variations in nonperforming loans of commercial banks. This study therefore assumes that the difference of 38.2.2% of the variations is as a result of other factors not included in this study. Further research is therefore advocated for to focus on other factors that affect non-performing loans. These factors include government policies, bank locations and the country's economic stability.

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