

The Effect of Breadth of Ownership on Stock Performance for Firms Listed at the Nairobi Securities Exchange, Kenya

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Abstract The study sought to determine the effect of breadth of ownership on stock performance of firms listed at the Nairobi Securities Exchange (NSE), Kenya. In this research, descriptive research design was used and the population of the study was 63 firms that were listed as at 31st December 2019. However, only listed firms that had consistently traded during the period of study were considered. As such, only 47 companies qualified to be in the study. Yearly data for five years (December 2015 to December 2019) was collected and analyzed. Results showed that the adjusted R-Square was 0.197 which indicated that 19.7% of variance in stock performance of firms that are quoted at the NSE are explained by breadth of ownership and the control variables (size and dividend). The F – statistic was 0.006 (<5%) which implied that breadth of ownership, firm size and dividend policy collectively significantly influence stock performance for companies that are listed at the NSE. Results from the regression analysis showed that breadth of ownership (P-value=0.048) and firm size which was a control variable had a significant relationship with performance of stock at 5% significance level (p-value = 0.001) Dividend policy (control variable) had a positive but insignificant relationship with stock performance at 5% significance level. A negative association between size of company (control variable) and stock performance of listed firms at the NSE was evidenced. The study recommends that firms with a higher number of shareholders continue increasing their shareholders as it has been established that firms with many shareholders have higher stock performance. Further, the study recommends the listed firms should take into consideration the company size as it negatively affects performance. The study recommends that listed firms should increase their dividend payout since dividends are used as benchmarks for the degree of expected future growth. The study suggests that further research should be done in stock markets across the East African region to enable comparison of results and generalization of the findings.

Keywords: breadth of ownership, dividend policy, size of the firm, stock performance

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1. Introduction

Breadth of ownership refers to the percentage of market shareholders who own a specific stock [1]. Breadth of ownership is of importance because it has a direct influence on a corporation's economic operations and commercial relationships. Individual investors participate in corporate governance processes by exercising their voting privileges on the organization's main decisions in the context of a legitimate concern for all partners. Shareholders play a critical role in a company's finance as a larger pool of investors can aid in raising sufficient funds to allow a business to make more profitable, high-return investments.

Generally, firms with the highest shareholders numbers are expected to report a higher stock performance. This

may be attributed to the decrease in the least transaction unit which raises a firms' investors' base, and this positively the stock performance. Studies have supported a positive relationship between breadth of ownership and returns. This was evidenced at the Chinese Stock Market [2]. At the same time, a wider breadth of ownership may negatively influence the stock performance of a company. Numerous studies have evidenced an inverse relationship between breadth of ownership and studies as reviewed below.

A study using data from Portuguese mutual funds to investigate the ownership of breadth and returns on stocks found that stocks with the leading negative fluctuations in breadth underperform stocks with the leading positive deviations in scope in one month and one quarter horizons, but when looking at longer horizons the findings are mixed, using mutual fund holdings data. The study discovered that short-sale constraints have an influence on

returns of stocks. As a result, when short-sale restrictions are in place, stock values are elevated as opposed to fundamentals [3]. The findings are similar with the model used in another study as in [4]. The findings also showed that they remain true during times of financial crisis.

A study at the Shanghai Stock Exchange investigated the investor base measurement in relation to stock [5]. The findings depicted that an increase in ownership breadth predicted low returns based on data from a section of all investors at the Shanghai Stock Exchange in China, where short-selling is prohibited. This outcome is driven by small retail investors. Increases in retail ownership width tend to be linked to overpricing. The connection between investors' base and returns on stocks is also dependent on the subgroup over which the investors' base is calculated, according to the findings.

Another study was conducted to determine the cross-sectional breadth–return relationship [6], with the assumption that shareholders who are influenced by market sentiment have a skewed confidence in the aggregate. The sample of the study covered a period from 1980 to 2007 from first quarter to last quarter for the respective years. Wharton Research data were the provider of the mutual fund data for this study. They projected that reliant on the comparative strength of two opposing powers, disagreement and emotion, the breadth–return correlation may be positive or negative. They claimed that when investor attitude variance is strong, the correlation between ownership breadth and future return is negative, but becomes positive when the impact is minimal.

A study at the Kenya's National Stock Exchange (NSE) [7] investigated into the association between stock prices and the investors' base. The findings showed a nonlinear negative connection between stock prices and the shareholders numbers. Keeping all other variables unchanged, companies with the most shareholders appear to post the lower most prices for stock prices. This shows that the number of shareholders a company has at any particular time does not determine the stock prices of different firms.

The context of this study is Nairobi Securities Exchange (NSE), Kenya. In the Kenyan financial market, there are some differences in the relationship between ownership diversity and stock results. In 2019, Kakuzi Plc, for example, had a much smaller number of shareholders (1,321) but still managed to declare a higher final d stock performance with a Tobin's q ratio of 1.05 [8]. Sasini Limited, which has a larger number of shareholders than Kakuzi Plc with 6,826 shareholders, announced a lower stock performance with a Tobin's q ratio of 0.03 [9]. As can be seen from the examples above, having a larger number of shareholders in a corporation does not always mean better results. Equity Bank, on the other hand, with a larger shareholder base of 27,362, posted a higher stock

performance with a Tobin's q ratio of 0.47 [10]. Car and General (K) Limited, which has fewer shareholders than Equity Bank (1,123 shareholders), announced a low stock performance with a Tobin's q ratio of 0.12 [11]. This demonstrates that there is inconsistency in the relationship between a company's number of shareholders and its stock results. This study seeks to fill this gap by determining the effect of breadth of ownership on stock performance for firms listed at the Nairobi Securities Exchange

2. Research Methodology

The population of the study was 63 listed firms at the NSE as at December 2019. This is a census study hence all the 63 firms were included. However, only listed firms that have been consistently trading during the period of study were considered. Firms that did not remain listed over this period, either due to deregistration or new listing was excluded from the study. As such, 47 firms qualified to be in the study.

Multivariate regression analysis was used in this study to assess the association between the dependent and independent variables in inferential statistics. The following regression model was used in the research:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby;

Y –Stock performance

X₁–Breadth of ownership

X₂–Size of the firm

X₃–Dividend Policy

α– is the constant (intercept), and

β₁.....β₃ the coefficients giving the direction and strength of the association between the independent and dependent variables

ε– Is the error term at 5% significance level.

3. Data Analysis, Findings and Discussion

To determine the influence of breadth of ownership on performance of a stock for corporations listed at the NSE, Kenya, a multiple regression analysis was conducted. The results are as follows:

3.1. Coefficient of Determination (R²)

To assess the research model, the independent and dependent variables were subjected to linear regression analysis in order to determine the suitability of the model and forecast causal connection between the independent variables and the dependent variable. The same is presented in Table 1.

Table 1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.499a	.249	.197	1.828205866	2.175

a. Predictors: (Constant), Dividend Policy, Size, Breadth of Ownership

b. Dependent Variable: Stock Performance.

Table 1 above shows that R value is 0.499 which shows that there is a positive linear association between the breadth of ownership and stock performance. The adjusted R-Square of 0.197 showed that 19.7% of variance in stock performance of listed corporations at the NSE are described by breadth of ownership and the control variables (size and dividend).

3.2. Analysis of Variance (ANOVA)

The F ratio indicates that the model was significant ($p < 0.05$) under the analysis of variance. The analysis is presented in Table 2 below

Table 2. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	47.763	3	15.921	4.763	.006b
Residual	143.720	43	3.342		
Total	191.483	46			

a. Dependent Variable: Stock Performance

b. Predictors: (Constant), Dividend Policy, Size, Breadth of Ownership

The researcher considered the model to be substantially adequate to describe the relationship since the measured Significance F of significance probability of 0.006 is less than 0.05. The implication is that breadth of ownership significantly influence stock performance of listed firms at the NSE.

3.3. Regression Coefficients

The Table 3 below shows beta coefficients of the independent variables.

The Breadth of ownership had a significant relationship with stock performance at 5% significance level since the p value $0.048 < 0.05$. Firm size (control variable) had a relationship which is significant with performance of a stock as the p value $0.001 < 0.05$. Dividend policy (control variable) had an insignificant relationship with stock performance at 5% significance since level the p value $0.169 > 0.05$.

The regression model is as follows:

$$Y = 12.148 + 0.596X_1 - 0.515X_2 + 0.055X_3$$

The regression coefficient (X_1) implies that there is a positive association between breadth of ownership and performance of a stock. X_2 depicts that there is a positive correlation between dividend policy (control variable) and performance of a stock. However, there is a negative connection between firm size (control variable) and performance of a stock for quoted firms at the NSE.

3.4. Discussion of Findings

Correlation analysis shows positive correlation between ownership breadth, dividend policy and stock performance.

Increase in ownership breadth leads to an increase in stock performance. These findings were consistent to the findings of previous studies [12] where a positive correlation between ownership breadth and stock returns was found. However, the findings were inconsistent with other studies [7] and [5] where a negative correlation between the changes in total breadth of ownership and potential returns was obtained.

In terms of firm size (control variable), the relationship was negative indicating that an increase in firm size leads to a decrease in stock performance for the quoted firms at the NSE. This is in contrast to other findings [13] where the size of the company had a positive and meaningful association with stock returns. The study results are however consistent with the outcomes of other studies [14] where a negative correlation between corporation size and returns on stock. Also evidence has been established of a lack of impact of firm size on returns [15].

There was a positive connection between dividend policy (control variable) and stock performance. Increase in dividend policy leads to a rise in stock performance of the quoted firms at NSE. Similar findings have been depicted at the NSE, Kenya where a positive association between prices of a stock and dividends issued for listed-companies was evidenced [16].

Analysis of Variance (ANOVA) showed that breadth of ownership, size and dividend policy reliably predict performance of a stock of quoted businesses at the NSE. The coefficient of determination (R^2) showed that, 19.7% of variance in stock performance of quoted firms at the NSE are described by breadth of ownership, size and dividend since the adjusted r-square is 0.197. This suggests that other variables exempted in the model justify for the 80.3% of the variations in stock performance for firms quoted at the NSE. The results from correlation analysis were in line with that of regression analysis.

4. Conclusion of the Study

The research sought to test the influence of breadth of ownership the performance of a stock for firms listed at the NSE. The research concludes that breadth of ownership significantly and positively influences stock performance for listed firms at the NSE. This has led to the assumption that breadth of ownership positively influences the performance of a stock, thus a direct connection existed between breadth of ownership and performance of a stock for organizations listed at the NSE. Subsequently, the increase in the shareholders' number increases the performance of a stock of the quoted firms at the NSE. This implies that companies with many number shareholders were found to perform better than companies with a few number of shareholders.

Table 3. Coefficients of the Model

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta				Tolerance	VIF
(Constant)	12.148	3.129			3.882	.000		
1 Breadth of Ownership	.596	.293	.292		2.036	.048	.849	1.178
Size of the firm	-.515	.144	-.508		-3.569	.001	.861	1.162
Dividend Policy	.055	.039	.187		1.398	.169	.976	1.024

a. Dependent Variable: Stock Performance.

The findings also revealed that firm size has significantly and negatively influences stock performance for listed firms at NSE. This leads to the conclusion that size of the firm negatively affects stock performance hence there is an inverse association between corporate size and the performance of a stock for listed organizations at the NSE. This implies that smaller firms were found to perform better than bigger firms. This may be attributed by organizational rigidity which leads to many unnecessary bureaucratic hindrances, and can result in the loss of profitable opportunities that require immediate attention.

Further, the study revealed a positive but insignificant relationship between dividend policy and stock performance. This leads to the conclusion that an increase in dividend payout positively affects stock performance. As such, a direct link existed between dividend payout and the performance of a stock for organizations quoted at the NSE. Firms which pay dividends on a regular basis cause their stock market prices to rise.

5. Recommendations of the Study

The research recommends that firms with fewer number of shareholders' endeavor to increase their shareholders as it has been established that firms with many shareholders have higher stock performance. Further, the study recommends the listed firms should take into consideration the company size. Smaller companies have been found to have a better stock performance than larger companies. Larger firms need to do away with organizational rigidity which leads to many unnecessary bureaucratic hindrances, which can result in the loss of profitable opportunities that require immediate attention.

The research commends that listed firms should increase their dividend payout since dividends are used as benchmarks for the degree of expected future growth. Dividends are essential to shareholders because they offer information about the company's future prospects. The study found out that dividend policy increases the stock performance of listed firms. Dividend remit.

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