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Ownership Structure as a Moderator Between Firm Factors and Financial Performance: Evidence from Investment Firms Listed on the Nairobi Securities

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Abstract

This study examined the moderating influence of ownership structure on the relationship between firm factors and the financial performance of investment firms trading at NSE. A positivist philosophy guided the study, emphasizing empirical measurement and statistical analysis. The research utilized a correlational research design, appropriate for analyzing the relationship between multiple firm factors and financial performance using panel data. The study targeted 53 investment firms at the NSE, employing a census survey approach. Secondary data was collected from reports of the NSE, CBK, and KNBS spanning 2014-2023. Panel data analysis was conducted to evaluate the impact of asset allocation, portfolio diversification, corporate governance, and risk management practices on financial performance. Diagnostic tests were performed, including multicollinearity, autocorrelation, heteroscedasticity, normality, and Hausman tests, to ensure the validity of the regression results. The study adopted a multiple regression model to test the moderating effect of firm ownership on the relationship between firm factors and performance. The R-squared value of 0.5279 suggested that ownership structure and firm-specific factors together explained 52.79% of the variation in financial performance. The F-statistic of 196.07 and p-value of 0.000 confirmed that ownership structure moderated the relationship between firm factors and financial performance. The coefficient for firm factors composite was 0.0735604, indicating that, on average, an increase in the composite measure of firm-specific factors (such as asset allocation, portfolio diversification, corporate governance, and risk management) by one unit led to a 0.0736-unit increase in financial performance. This positive coefficient suggested that better firm practices were directly associated with improved financial performance. On the other hand, the coefficient for ownership was -0.9790789, indicating a negative relationship between ownership structure and financial performance when considered independently. This negative coefficient suggested that ownership structure was associated with lower financial performance. Lastly, the coefficient for the interaction term (ownership * firm factors) was 0.0184003, suggesting that ownership structure significantly moderated the relationship between firm-specific factors and financial performance. Based on the study findings, the study recommended firms should therefore adopt advanced tools, provide training for asset management teams, and conduct regular reviews to optimize outcomes. Robust portfolio diversification strategies, which improve performance by spreading risk, should include a broader range of asset classes and regions.

Keywords: *Firm Ownership, Firm Performance, Firm Factors, Investment Firms, Nairobi Securities Exchange*

Introduction

Globally, the financial performance of organizations is influenced by a myriad of factors, including economic conditions, market volatility, and firm-specific strategies (Hull, 2021). Firm factors are internal attributes and practices that significantly influence a firm's financial performance and sustainability (Nderitu & Kariuki, 2019). These factors encompass a wide range of dimensions, including governance structures, managerial competence, strategic decisions, operational strategies, and financial management practices (Adarkwar & Malonaes, 2022). For instance, corporate governance has been widely studied and recognized as a key determinant of financial performance. According to Kiranmai and Mishra (2019), **s**trong governance structures, characterized by board independence, shareholder rights, and transparency, are essential for making informed and efficient decisions within a firm. Research by Kyere and Ausloos (2021) emphasized that firms with robust governance mechanisms tend to demonstrate better financial performance due to the reduced risk of mismanagement and the increased ability to attract investment. Furthermore, Abebe *et al.* (2022**)** argued that effective governance is critical for aligning managerial and shareholder interests, which ultimately contributes to a firm's financial success. Thus, effective corporate governance ensures sound decision-making and fosters investor confidence, which drives financial performance.

In addition**,** Brinson, Hood, and Beebower (2018) demonstrated that firms with diversified asset allocations experience more stable returns and reduced risk exposure, ultimately leading to improved financial outcomes. Hull (2021) further supported this by showing that firms that diversify their investments across various asset classes and geographical regions are less susceptible to market volatility, thus enhancing their risk-return profile. These studies underline the importance of strategic asset allocation as a means to optimize financial performance, particularly in times of market uncertainty. Risk management practices in organizations have also gained increased attention in recent years, especially in light of global financial crises and market disruptions. Abeyratha and Lakshan (2020) explained that effective risk management practices enable firms to identify, assess, and mitigate financial and operational risks, ensuring that they remain financially stable even during adverse conditions. With comprehensive risk management frameworks are better equipped to navigate economic downturns and protect their profitability. Therefore, firms that implement proactive risk management strategies are more resilient to external shocks, such as market crashes or currency fluctuations, leading to improved long-term financial performance.

According to Feng and Wu (2020), portfolio diversification allows organizations to spread their investments across multiple asset classes, industries, and geographical regions, therefore reducing their exposure to market risks and achieving more stable returns. Hitzemann, Prokopczuk, and Wese Simen (2020) found that firms with diversified portfolios typically experience lower volatility and better financial outcomes, especially during times of economic turbulence. This is particularly relevant in emerging markets, where firms face higher levels of political and economic risks. Feng and Wu (2022) further emphasized that diversification not only reduces firm-specific risks but also enables firms to tap into growth opportunities across various sectors, thereby improving their financial performance. Therefore, portfolio diversification is a strategic approach that mitigates risks and enhances a firm's resilience to market disruptions.

In order to hold businesses accountable, financial performance monitoring is crucial, and long-term financial reports are examined using a variety of profit indicators. Financial performance, according to Ng'eno (2018), refers to the monetary outcome of a company's plans implemented during a specific period. Terms like profitability, sales growth, turnover, earnings per share, and dividend growth are frequently used to characterize a company's financial success (Nderitu & Kariuki, 2019). In addition, Bîrcă (2016) proposed that return on assets (ROA), profitability, market share, Return on Equity (ROE), and Return on Investment (ROI) are the primary measures of an organization's financial success.

The financial performance of investment firms has been a topic of considerable research in the global business environment, with various studies examining how stock market-listed firms perform relative to broader economic and market conditions. For instance, a study by Adarkwar & Malonaes (2022) found that globally, investment firms listed on stock exchanges tend to show substantial variance in financial performance depending on their strategic approach to market conditions, asset management, and risk exposure. Peliu (2024) argues that in the USA, firms listed on major exchanges, such as the New York Stock Exchange (NYSE), exhibit robust performance due to strong corporate governance, diversified portfolios, and effective risk management strategies. According to Kulajian (2025), investment firms in the U.S. saw an average return of 8% annually over the past decade, driven by diversification strategies and well-managed risk. Similarly, the UK's Financial Conduct Authority (FCA, 2025) reported that firms listed on the London Stock Exchange (LSE), especially those that diversified across both international and domestic markets, demonstrated a 6-7% higher return compared to firms with a narrower market focus.

The South African Reserve Bank (2021) found that firms with diversified portfolios achieved an average annual return of 9-12%, with larger firms in particular leveraging their scale to achieve more stable returns. In addition, Joseph and Adelegan (2023) reported that Nigerian investment firms with a strong focus on fixed-income securities (such as government bonds) performed relatively well, with an average annual return of 10-12%. They further stated that in contrast, firms focusing on equities saw lower returns due to market volatility, averaging only 5-6%. Investment businesses in Kenya are regulated and licensed by the Capital Markets Authority (CMA). These groups have been enrolled as collective investment schemes (CIS) and are all required to operate within the parameters of the permit issued. According to the CMA (2024), there are 63 registered investment firms at the NSE, comprising 15 investment banks, 10 stockbrokers, and 38 fund managers. The organizations manage their capital through various financial instruments, including stocks, bonds, and real estate. They facilitate investment opportunities, conduct asset management, provide financial advisory services, and promote market liquidity, all while adhering to regulatory standards set by the CMA.

In recent years, the profitability of investment firms in Kenya has experienced considerable volatility, with some firms showing substantial growth, while others have struggled with declining returns. For example, the average return on equity (ROE) of investment firms in Kenya dropped by 3.4% in 2022 compared to the previous year (Kenya Bankers Association, 2022). On the other hand, firms such as Cytonn Asset Managers Limited experienced a significant decline in profitability and assets under management, dropping from Ksh. 14.8

billion in 2020 to Ksh. 8.4 billion in 2021, reflecting ongoing financial struggles (Cytonn Investment, 2021). These patterns underline the volatility and risks inherent in the stock market, raising important questions about the factors influencing the financial performance of investment firms in Kenya, which were examined in this study. This study, therefore, seeks to examine the moderating role of ownership structure in shaping the relationships between corporate governance, asset allocation, portfolio diversification, risk management, and the financial performance of investment firms in Kenya.

Statement of the Problem

Investment firms listed on the Nairobi Securities Exchange (NSE) are pivotal to Kenya's financial sector, tasked with delivering consistent financial performance through strong profitability, growth, and financial health (Ngeno, 2018). These firms are expected to generate stable returns for their shareholders by effectively managing risk, optimizing resource utilization, and maintaining liquidity (Roche, 2021). However, despite these expectations, the financial performance of these firms has been inconsistent, with fluctuations that have raised concerns about the factors influencing their stability and success in a volatile market.

Instances of fluctuating performance among firms illustrate these challenges. For example, Discount Securities Limited collapsed, leading to significant investor losses and prompting intervention from the Capital Markets Authority (CMA) to compensate investors (Kenya Bankers Association, 2022). Similarly, Cytonn Asset Managers Limited saw a dramatic decline in assets under management, dropping from Ksh. 14.8 billion in 2020 to Ksh. 8.4 billion in 2021 (Cytonn Investment, 2021). Faida Investment Bank Limited faced significant liquidity issues, with its share value falling from Ksh. 12.3 in 2020 to Ksh. 7.8 in 2021 (Faida Investment, 2021). In contrast, Sanlam Investments East Africa Limited reported a significant rise in comprehensive income from Ksh. 742 million in 2021 to Ksh. 2.4 billion in 2022 (Sanlam Investment East Africa Limited, 2022). These examples underscore the volatility inherent in the sector, suggesting that external factors, such as ownership structure, might play a moderating role in the financial performance of investment firms.

Existing research has extensively examined the firm-specific factors that contribute to financial performance, such as asset allocation, portfolio diversification, corporate governance, and risk management. However, there is a significant gap in understanding how these factors interact, particularly through the lens of ownership structure as a moderator. Ownership structure, whether local or foreign, can influence how firms make strategic decisions regarding risk management, resource allocation, and governance practices. Yet, this moderating role has been largely overlooked in the current body of literature, particularly in the context of investment firms in emerging markets like Kenya. While studies such as those by Chen and Mahmood (2020) and Oehler et al. (2018) have focused on individual firm factors, they have not examined the role of ownership structure in influencing the

relationships between these factors and financial performance. In Kenya, while Kiragu and Namusonge (2017) and Nderitu and Kariuki (2019) identified key factors like liquidity, firm size, and leverage as drivers of financial performance, they did not consider how ownership structure might influence the interaction between these factors. Thus, the gap lied in understanding how ownership structure as a moderating factor influences the relationship between asset allocation, portfolio diversification, corporate governance, and risk management practices, and their subsequent impact on financial performance. While ownership structure may not directly determine financial performance, it could significantly influence how firms respond to market risks, manage their resources, and implement governance strategies. Through this investigation, the study contributed to both the theoretical understanding of financial performance in emerging markets and the practical strategies for improving the resilience of investment firms in a volatile market environment.

Study Objective

To evaluate the moderating influence of Ownership Structure on the relationship between Firm Factors and the Financial Performance of Investment Firms Trading at NSE.

Hypothesis

H_0: Ownership Structure has no significant moderating effect on the relationship between the Firm Factors and Financial Performance of Investment Firms Trading at NSE.

Theoretical Framework

The study was anchored in Agency Theory, supported by Modern Portfolio Theory (MPT) and Ownership Advantage Theory, which collectively explained how ownership structure moderated the relationship between firm-specific factors (corporate governance, asset allocation, risk management, and portfolio diversification) and financial performance in investment firms. Agency Theory by Jensen & Meckling (1976) addressed the principal-agent problem, where conflicts of interest arise between principals (shareholders) and agents (managers). Ownership structure plays a critical role in moderating the effectiveness of governance mechanisms and decision-making. In firms with concentrated ownership, decision-making may align more closely with the interests of a few controlling shareholders, often at the expense of minority shareholders. This misalignment of incentives can reduce the effectiveness of key strategies such as corporate governance, risk management, and asset allocation, ultimately impacting financial performance. On the contrary, firms with dispersed ownership, particularly those with foreign ownership, tend to implement stronger governance and more effective risk management, leading to improved financial outcomes (Jensen & Meckling, 1976). Thus, ownership structure moderates how well firms can execute strategies that reduce risk and maximize returns.

In addition, Modern Portfolio Theory (MPT) provided a supporting lens, highlighting the importance of diversification in reducing risk while maximizing returns (Markowitz, 1952). However, the implementation of MPT's principles depends on managerial decision-making, which is influenced by ownership structure. Concentrated ownership may hinder the adoption of optimal diversification strategies due to less emphasis on long-term, risk-adjusted returns. In contrast, firms with more dispersed ownership are likely to adopt more robust

diversification strategies aligned with shareholder interests, resulting in better financial performance. Therefore, Agency Theory is useful in explaining how ownership structure moderates the relationship between diversification and financial performance (Markowitz, 1952). Besides, Ownership Advantage Theory further supports the moderating role of ownership structure (Dunning, 1973). This theory emphasizes the importance of ownership-specific advantages, such as access to capital, technology, and managerial expertise. Foreign-owned firms benefit from these advantages, enabling them to implement more effective governance and risk management practices. In contrast, locally owned firms may possess location-specific advantages but face challenges in governance and risk management without external oversight. This theory explained how ownership structure influences strategic decisions, including asset allocation and diversification, ultimately affecting performance (Dunning, 1973). Together, these theories provided a cohesive framework, explaining how ownership structure moderates the influence of firm strategies in enhancing financial performance.

Empirical Literature

Ang *et al.* (2000) investigated how ownership structure, categorized into ownership concentration, ownership balance, and ownership type moderates the relationship between corporate social responsibility (CSR) and corporate financial performance. Using OLS regression along with two-stage least squares (2SLS) and propensity score matching-difference in differences (PSM-DID) to address endogeneity concerns, the study found that ownership concentration weakened the positive link between CSR and financial performance, while ownership balance enhanced it. The study also observed that CSR had a more substantial positive effect on financial performance in non-state-owned enterprises compared to state-owned enterprises, highlighting the influence of ownership structure on firm outcomes.

Javeed and Lafen (2019) focused on the role of CEO influence and ownership structure in moderating the relationship between CSR and corporate performance in the Pakistani manufacturing sector. Drawing on panel data from eight manufacturing sectors between 2008 and 2017, and applying both the Fixed Effects model and Generalized Method of Moments (GMM), their findings confirmed a strong positive relationship between CSR and performance. They further showed that managerial ownership amplified the positive effect of CSR on corporate performance, while ownership concentration also had a favorable moderating effect, suggesting that both dimensions of ownership structure play crucial roles in determining firm outcomes.

Alhassan and Mamuda (2020) analyzed the influence of ownership structure on the financial performance of publicly listed financial firms in Nigeria from 2010 to 2019. The study adopted an ex-post facto design and used descriptive statistics, correlation analysis, and panel regression techniques, specifically Pooled GLS, Fixed Effects, and Random Effects models. Ownership structure was measured through institutional ownership, managerial ownership, and ownership concentration, while financial performance was gauged using book value per share. Their results indicated a significant positive effect of managerial and institutional

ownership on performance, whereas ownership concentration had a negative effect. These findings underscore the need for balanced ownership to enhance firm performance.

Luthfiah and Suherman (2018) examined the role of ownership structure as a moderator between financial performance and firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2012 and 2016. Utilizing panel data analysis, they established that financial performance positively affected firm value and that institutional ownership significantly moderated this relationship. Although the study was conducted outside Kenya, it contributes valuable insights into the influence of ownership dynamics on firm performance in emerging markets.

Bayero (2018) explored the moderating role of ownership structure on the impact of corporate financial structure and macroeconomic conditions on financial performance in Nigerian firms. Employing panel regression methods, the study revealed that ownership structure significantly moderated these relationships, particularly in firms with high institutional ownership. However, the study did not explore variations such as foreign versus local ownership, which limits generalizability to ownership types.

Sutikno (2022) assessed the role of institutional ownership in moderating the relationship between financial performance and financial sustainability in Indonesian companies. Through multiple regression analysis using secondary data, the study found that institutional ownership positively influenced this relationship, thereby promoting growth and long-term viability. However, the focus was limited to sustainability rather than broader firm factors.

Shatnawi *et al.* (2021) studied the moderating role of ownership concentration on the relationship between audit committees and financial performance in Jordanian firms. Using panel data regression techniques, the findings revealed that ownership concentration significantly enhanced the effectiveness of audit committees, leading to improved financial performance. However, this study primarily emphasized audit committee functions and did not account for other firm-specific factors such as asset allocation or risk management.

Overall, these studies collectively demonstrated that ownership structure plays a critical moderating role in shaping the influence of firm-specific factors, such as CSR, governance, and financial structure, on financial performance. However, limited research examined how this relationship unfolds in the Kenyan context, particularly with comprehensive inclusion of firm factors like asset allocation, diversification, governance, and risk management. This study addressed that gap by analyzing how ownership structure moderated the relationship between firm factors and financial performance of investment firms trading on the Nairobi Securities Exchange.

Conceptual Framework

This study was anchored on the premise that firm factors, namely asset allocation, portfolio diversification, corporate governance, and risk management, were key determinants of financial performance among investment firms trading at the Nairobi Securities Exchange (NSE). These factors were conceptualized as independent variables that directly influenced performance metrics such as Return on Assets (ROA) and Return on Equity (ROE). However, the strength and direction of these relationships may vary depending on the ownership structure of the firms, which is introduced as a moderating variable. Ownership structure, classified as either local or foreign, has the potential to enhance or diminish the effectiveness of firm factors due to differences in governance practices, resource access, and strategic priorities. Guided by the Agency Theory and MTP, the conceptual framework posits that optimal financial performance is achieved when firm factors are aligned with a suitable ownership structure, enabling firms to better navigate market volatility and enhance shareholder value.

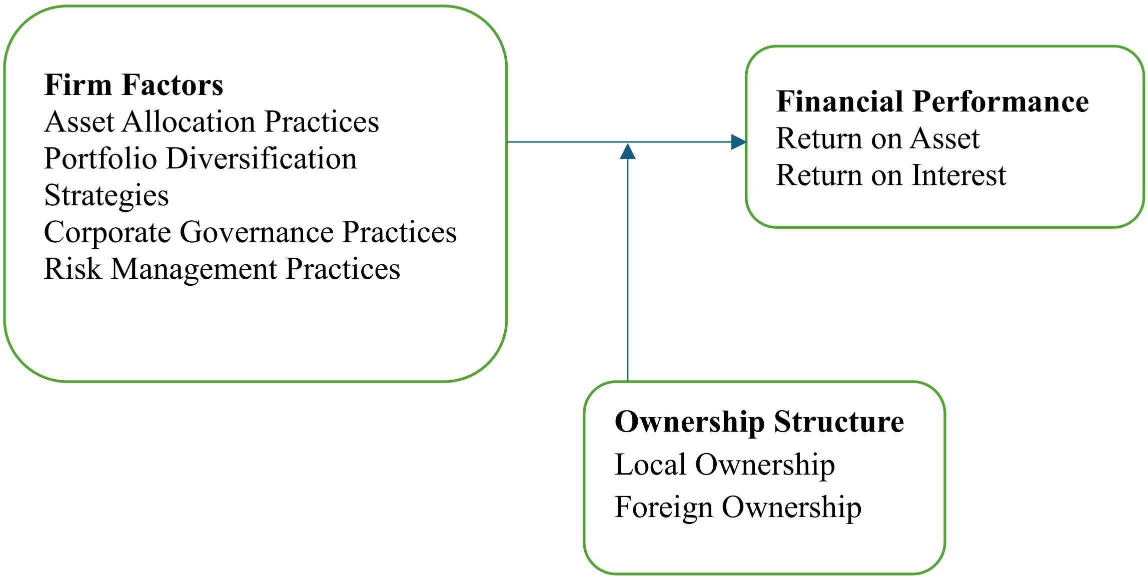

Figure 1: Conceptual Framework

Methodology

This study adopted a positivist research philosophy and employed a correlational research design to examine the moderating influence of ownership structure on the relationship between firm factors and financial performance of investment firms listed at the Nairobi Securities Exchange (NSE). The target population consisted of 53 investment firms with consistent data from 2014 to 2023, and a census approach was used due to the manageable population size. Secondary data was collected from the NSE, Central Bank of Kenya (CBK), and Kenya National Bureau of Statistics (KNBS) reports. The study used panel data regression analysis to estimate the effects of asset allocation, portfolio diversification, corporate governance, and risk management practices on financial performance, with ownership structure as a moderating variable.

Regression models was used to find out the moderating effect of firm ownership between independent variables and performance of investment firms trading at NSE. Before hypothesis testing for the moderating effect was done, all the independent variables were collapsed to obtain one composite. Thereafter, a multiple regression model will be run with the composite of all the independent variables, and interaction term (Interaction of both Composite of Independent variables and firm size) as predictors and financial performance of investment firms as the dependent variable. Thus, the optimal model was;

$Y = \alpha_{it} + \beta_1 X_{it} + \beta_2 M_{it} + \beta_3 X_{it} * M_{it}$……………………………

Where; Y= Financial Performance, X= Composite of Independent variables (Composite firm factors)

M= Ownership Structure

I is a firm, i = 1… 63, t is the time, t = 2014… 2023

X*M= Interaction term (Interaction between independent variables and Ownership Structure (moderator))

The study conducted several diagnostic tests to ensure the reliability of the regression models. The Unit Root Test using the Fisher test confirmed that all variables, including ROA, ROE, asset allocation, portfolio diversification, corporate governance, risk management, and ownership, were stationary, with p-values all below 0.05, indicating no unit roots. Pooled OLS vs. Fixed Effects Regression and Pooled Vs Random Effect Regression tests indicated that fixed effects and random effects models were more appropriate for ROA and ROE, with p-values of 0.000 and 0.0331, respectively. The Hausman Test further confirmed that random effects were preferred over fixed effects for both models (p-values: 0.6318 for ROA, 0.4877 for ROE) (Table 4.11). Additionally, normality, heteroscedasticity, autocorrelation, and multicollinearity tests indicated no significant issues, supporting valid model assumptions. These tests ensure that the data and models were robust for hypothesis testing.

Table 1: Operationalization of Variables and Hypothesis Testing

Variable	Performance measures	Hypothesis testing	Statistical test	Literature
Independent variables				
Asset Allocation Practices	Bonds Money Markets Stocks		Panel data Regression $P<0.05$	Bendrisch &Bergstom (2015) Wahyudi *et al.,* (2020) Gathange (2019)
Portfolio Diversification Strategies	Portfolio Size Loan Portfolio Portfolio Turnover		Panel data Regression $P<0.05$	Oladimeji & Udosen (2019) Bikeri (2022) Ndung'u & Muturi (2019)
Corporate Governance Practices	CEO Duality Leverage Board Composition		Panel data Regression $P<0.05$	Kyere & Austoos (2021) Al-Ahdal *et al.* (2020) Omware *et al.* (2020)
Risk Management Practices	Capital Adequacy Management Credit risk management Liquidity risk mngt		Panel data Regression $P<0.05$	Singh & Hong (2020) Abeyrathma & Lakshan (2020) Ochieng (2019)
Moderating variable				

Firm Ownership	Foreign ownership Local ownership	There is no significant moderating influence of firm ownership on the relationship between firm factors and financial performance	.Panel data Regression P<0.05	Javeed & Lafen (2019) Ang *et al.,* (2000)
Dependent variable				
Financial performance	ROI ROA		Panel data Regression P<0.05	

Moderating effect of Firm Ownership on the relationship between Firm Factors and Financial Performance

Multiple regression analysis was conducted to evaluate the moderating influence of firm ownership on the relationship between firm factors and financial performance. Firm ownership in this case was evaluated as whether the investment firms were locally owned or not. The R-squared value of 0.5279 indicated that approximately 52.79% of the variation in financial performance was explained by the model in Table 2. This value suggested a moderately strong relationship, highlighting the importance of ownership structure and firm factors in explaining financial performance. The remaining variance, 47.21%, was attributed to other unobserved factors that were not captured in this model.

The F-statistic of 196.07 with a p-value of 0.000 indicated that the model was highly significant. The F-statistic tested the joint significance of all independent variables in the model, showing that ownership structure and firm factors together significantly impacted financial performance. With a p-value less than 0.05, the results proved that ownership structure and firm-specific factors had a substantial influence on financial performance.

The constant term was 1.292012, representing the baseline financial performance of firms when all the predictors (ownership and firm factors) were set to zero. The coefficient for firm factors composite was 0.0735604, indicating that, on average, an increase in the composite measure of firm-specific factors (such as asset allocation, portfolio diversification, corporate governance, and risk management) by one unit led to a 0.0736-unit increase in financial performance. This positive coefficient suggested that better firm practices were directly associated with improved financial performance.

On the other hand, the coefficient for ownership was -0.9790789, indicating a negative relationship between ownership and financial performance when considered independently. This negative coefficient suggested that ownership structure, particularly local ownership, was associated with lower financial performance compared to foreign ownership. Lastly, the coefficient for the interaction term (ownership * firm factors) was 0.0184003, suggesting that ownership structure significantly moderated the relationship between firm-specific factors and financial performance.

Table 2: Results of Moderated Regression Analysis for Financial Performance (Composite ROA and ROE)

Model	Financial Performance
Firm Factors composite	0.0735604
Ownership	-0.9790789
ownership* firm factors	0.0184003
_Cons	1.292012
Number of obs	530
F statistic	196.07
Prob > F (p value)	0.000
R-squared	0.5279
T	2103.14298
Degrees of Freedom	529

$$Y = \beta_0 + \beta_1 X + \beta_2 M + \beta_3 X*M + e$$

Where,

Y=Financial performance

β_0= Constant

$\beta_1, \beta_2, \beta_3$- Coefficients

X=All the independent variables (Firm factors

M = ownership structure (local or foreign)

X*M =Interaction of all the independent variables and ownership structure

Therefore,

Financial Performance =1.292+ 0.074 Firm factors-0.979 Ownership structure+0.018 ownership structure*firm factors

Discussion

The analysis examined how ROA and ROE were collectively influenced by firm factors, with ownership structure as the moderating variable. The firm factors composite had a positive coefficient, reinforcing the idea that strong firm factors were crucial for overall financial success. However, the negative effect of ownership structure alone persisted, indicating that ownership structure, negatively influenced composite financial performance. This negative impact aligns with Ownership Structure Theory, which argued that foreign ownership contributes to inefficiencies and reduced financial performance due to potential conflicts between local management and foreign owners (Dunning, 1973). Further, the interaction term indicated a moderate influence of ownership type on the relationship between firm factors and composite financial performance. The F-statistic and an R-squared value confirmed that while firm factors were essential for financial performance, the alignment of ownership structure with the firm's strategic goals was necessary to maximize these benefits. The findings aligns with those of Ang *et al*. (2022) who held that in foreign-owned firms, agency

problems could have arisen as management pursued their interests at the expense of foreign shareholders, leading to suboptimal financial performance. Conversely, locally owned firms face fewer such conflicts, but challenges related to limited resources or market access still influence their performance (Javeed & Lafen, 2019).

The negative impact of foreign ownership on ROA and ROE corroborates findings by Ang et al. (2000), who identified that foreign ownership often introduces misaligned objectives between local managers and overseas stakeholders. Such misalignments can lead to suboptimal decision-making and reduced efficiency. The interaction term's modest positive influence suggests that while foreign ownership can mitigate certain inefficiencies through the introduction of international best practices, this benefit is outweighed by the disadvantages of agency conflicts and cultural disparities.

Javeed and Lafen (2019) provide further evidence supporting these findings, highlighting how managerial ownership enhances firm performance by reducing agency conflicts. Their study emphasizes that when managers hold significant ownership stakes, their interests align more closely with those of shareholders, leading to improved financial outcomes. This perspective underscores the importance of aligning ownership structures with strategic goals to harness the full potential of firm factors.

Alhassan and Mamuda's (2020) findings further elucidate the role of ownership structure in shaping financial outcomes. Their study highlights that institutional ownership positively influences performance through enhanced governance and accountability mechanisms. However, the concentration of ownership, often associated with foreign investment, can exacerbate agency conflicts and reduce managerial discretion. This dynamic is particularly evident in the study's findings on ROE, where the pronounced negative impact of foreign ownership underscores the challenges of aligning stakeholder interests in such firms.

The moderating role of ownership structure on the relationship between firm factors and financial performance also finds support in agency theory (Jensen & Meckling, 1976). This theory emphasizes the ability of firms to adapt to changing environments by reconfiguring their internal and external resources. Locally owned firms, with their deep understanding of the domestic market, are better positioned to develop dynamic capabilities that enhance responsiveness and innovation. Conversely, foreign-owned firms may struggle to adapt to local conditions due to limited contextual knowledge and rigid global strategies (Javeed & Lafen, 2019).

Thus, the study's hypothesis tested whether ownership structure moderated the relationship between firm factors (asset allocation, portfolio diversification, corporate governance, and risk management) and financial performance. The regression analysis revealed that ownership structure, significantly moderated this relationship. Therefore, the hypothesis was rejected, confirming that ownership structure had a significant moderating effect on the relationship between firm-specific factors and financial performance. Therefore, the hypothesis was rejected, confirming that ownership structure had a significant moderating effect on the relationship between firm factors and financial performance.

Conclusion

The study examined how ownership influences the relationship between firm factors and financial performance among investment firms at the Nairobi Securities Exchange (NSE). The results demonstrated that locally owned firms dominated the market. Regression analyses revealed that ownership type significantly influences financial performance, with foreign ownership having a detrimental impact on both Return on Assets (ROA) and Return on Equity (ROE). This influence is aligned with Ownership Structure Theory, which suggests that foreign ownership may introduce inefficiencies due to conflicts between local management and foreign stakeholders. Although firm factors positively influence financial performance, the beneficial effects are moderated by ownership type. For both ROA and ROE, the presence of foreign ownership was linked to reduced performance, highlighting the importance of aligning ownership structure with firm strategies to optimize financial outcomes. These findings underscore the need for firms to address ownership-related challenges to enhance their overall financial success.

Limitation and Future Research

While this study provided valuable findings into the moderating role of ownership structure on the relationship between firm factors and financial performance, several key limitations were identified. First, the ownership structure variable was treated as a binary moderator (foreign vs. local ownership), which simplifies a more complex reality. Future research should however explore a more complex classification of ownership structures, including different levels of foreign and local ownership and their varying impacts on financial performance. In addition, ownership structure might be influenced by firm performance or other unobserved factors, making it difficult to establish causal relationships. Therefore, future studies should address endogeneity using instrumental variable techniques or experimental designs to provide more robust conclusions. The study also failed to consider other unobserved factors, such as market conditions or firm-specific shocks, which could also influence financial performance. Future research should therefore incorporate additional control variables to account for these potential biases.

Contribution of the Study

The study contributed to the understanding of how ownership structure moderated the relationship between firm-specific factors (corporate governance, asset allocation, portfolio diversification, and risk management) and financial performance in investment firms listed on the Nairobi Securities Exchange. By integrating Agency Theory, Modern Portfolio Theory, and Ownership Advantage Theory, the study provided a cohesive framework for analyzing how ownership influences governance practices and strategic decision-making. The research also filled empirical gaps by examining the moderating role of ownership structure in emerging markets, offering practical insights for improving the stability and performance of investment firms in volatile financial environments.

Recommendations

The study findings reveal that ownership structure significantly moderates the relationship between firm factors and financial performance. To address this, firms should evaluate how different ownership structures, whether local or foreign, influence management and performance. Aligning ownership structures with strategic goals and addressing inefficiencies or conflicts arising from foreign ownership can enhance financial performance. By fostering better alignment between ownership and firm strategy and implementing practices to mitigate potential conflicts, firms can influence their overall financial outcomes.

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