

**RELATIONSHIP BETWEEN MANAGERIAL OWNERSHIP AND
AGENCY COST OF LISTED COMPANIES AT THE NAIROBI
SECURITIES EXCHANGE**

BY

OMBWORI EDWARD GICHANA

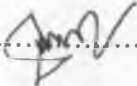
D61/61944/2010

**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE
DEGREE OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

NOVEMBER, 2012

DECLARATION

This research project report is my original work and to the best of my knowledge has not been presented for the award of a degree in any other university.

Signature.....

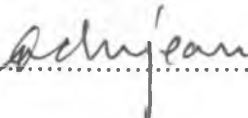
Date: 8/11/2012

OMBWORI EDWARD GICHANA

D61/61944/2010

This research project report has been submitted for examination with our approval as the


University supervisors.

Signature.....

Date: 13/11/2012

MR. DUNCAN ELLY

Department of Finance & Accounting

Signature.....

Date: 13/11/2012

MR. MARTIN ODIPO

Department of Finance & Accounting

DEDICATION

I dedicate this research report to my family and colleagues for being supportive during my studies

ACKNOWLEDGEMENT

This study is as a result of hard work in which I have been accompanied and supported by many people to whom I am happy to express my gratitude. In particular, I would like to express my sincere appreciation to my supervisors Mr. Elly and Mr. Odipo, for their valuable guidance and inspiration throughout the study.

I would also like to acknowledge the assistance provided by the staff at the resource centre of the Nairobi Security Exchange in securing the time-series data on stock prices and market rates over the sample period.

Finally, I would like to thank my family and friends for sharing with me the difficulties I encountered during the process of finalizing this study.

I wish you all peace and God's abundant blessings.

ABSTRACT

The objective of the study was to investigate the relationship between managerial ownership and agency cost of listed companies at the Nairobi Securities Exchange. The following research question guided the study: how does the level of managerial ownership relate to agency costs of listed firms? In answering this question, the study applied historical data for the annual totals for audit costs, directors' remuneration, and the total managerial ownership; all of which were obtained from the Nairobi Securities Exchange and the Capital Markets Authority data banks.

The correlational research design was used in the study. The study covered a target population of all companies quoted at Nairobi Securities Exchange as at 20th July 2012. This study considered a sampling frame of all the listed companies at the stock market. Sampling was conducted in two stages. The first stage involved selection of the sample firms while the second stage involved selection of the sample scope (period). The study used secondary data from Nairobi Security Exchange. Statistical Package for Social Scientist (SPSS) was used to aid in analyzing data. The F-test was used to measure the association between the dependent and independent variables while regression analysis was applied to determine the effect of managerial ownership on the agency costs. A simple regression was used to test the main model and t-test was used as a test of significance. The key findings revealed that there was a positive correlation between level of managerial ownership and agency costs. The main conclusion from our analysis is that managerial ownership does influence firms' agency costs. We find a positive effect of managerial ownership on agency costs, with the strength of the relationship being notably high.

Companies whose managers have high shareholding interests exhibit increased spending on board remuneration and audit

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENTS	vii
LIST OF TABLES	ix
LIST OF ABBREVIATIONS	x
CHAPTER ONE: INTRODUCTION	1
1.1. Background of the Study	1
1.1.1. Agency Cost	2
1.1.2. Managerial Ownership	4
1.1.3. Managerial Ownership and Agency Cost	6
1.1.4. Nairobi Securities Exchange (NSE)	6
1.2. Research Problem	7
1.3. Research Objective	10
1.4. Value of the Study	10
CHAPTER TWO: LITERATURE REVIEW	12
2.1. Introduction	12
2.2. Theoretical Framework	12
2.2.1. Agency Theory	12
2.2.2. Convergence of Interest Model	14
2.2.3. Stakeholders Theory	15
2.3. Measures of the Key Variables	16
2.4. Review of Empirical Studies	16
2.5. Chapter Summary	20

CHAPTER THREE: METHODOLOGY 21

3.1. Introduction 21

3.2. Research Design 21

3.3. Population of the Study 21

3.4. Sample and Sampling Method 22

3.5. Data Collection Method 22

3.6. Data Analysis Techniques 23

CHAPTER FOUR: RESULTS AND FINDINGS 24

4.1. Introduction 24

4.2. Sample Characteristics 24

 4.2.1. Distribution of Companies by the Market Segments 24

 4.2.2. Descriptive Statistics key Variables 25

4.3. Tests of Relationship Between Managerial Ownership and Agency Costs. 26

 4.3.1. Diagnostic Tests 26

 4.3.2. Regression Analysis 27

4.4. Chapter Summary 28

CHAPTER FIVE: SUMMARY AND CONCLUSSION 29

5.1. Introduction 29

5.2. Summary 29

5.3. Conclusions 29

5.4. Limitation of the Study..... 30

5.5. Recommendations 30

5.6. Areas for Further Research 31

REFERENCES 32

APPENDIX I : DATA COLLECTION FORM 37

APPENDIX II : LISTED COMPANIES AT THE NSE 38

APPENDIX III : RAW DATA SHEET 42

LIST OF TABLES

TABLE 4.1: THE SMPLE COMPANIES BY THE LISTING SECTOR AT NSE

TABLE 4.2: DESCRIPTIVE STATISTICS FOR KEY VARIABLES

TABLE 4.3: F- TEST LINEARITY OF RELATIONSHIP OF VARIABLES

LIST OF ABBREVIATIONS

NSE	:	Nairobi Securities Exchange
CDSC	:	Central Depository and Settlement Corporation
CMA	:	Capital Market Authority
SPSS	:	Statistical Package for Social Scientist

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

As observed by Berle and Means (1932) the separation of ownership and management of the firm results into agency relationship. Jensen and Meckling (1976) defined agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some work on their behalf. Under this arrangement the principal delegates some decision making authority to the agent for the purpose of smooth management of the firm.

However, and as postulated by agency theory, separation of ownership and management function lead to principal -agency conflicts as agents may pursue their own interest at the expense of the principals (Jensen and Meckling, 1976). Some of the manager's decision which conflicts the shareholders interest include; direct misuse of funds by managers, consumption of excessive perquisites, shirking, sub optimal investments and entrenching activities (Mustapha and Ahmed, 2011). There are various levels of agency contracts found to exist in any given organizational set up and some of them include: the relationship between shareholders and managers, debt holders and shareholders, Government and shareholders and top management and low level managers.

To solve the principal agent conflicts, shareholders of the firm incur agency or monitoring cost to check on managers actions and influence their decisions. Among the monitoring mechanism usually employed by owners of the company include establishing audit function and incorporation of non executive directors as board members. But Jensen and Meckling (1976) through the convergence of interest model postulated that when management own shares of the firm, they have the incentive to increase the value of the firm rather than shrink it, as they have vested interest in the company. This view was shared by Matnor and Sulong (2007) argument that the incentive to pursue personal benefits increases when managers own a smaller portion of the firm while the incentive to invest in sub-optimal investment and misappropriation of funds declines as managers ownership increases because his/her share of firm profit increases with ownership. Furthermore, as the owners are actively engaged in day to day activities of the company, there will be less information asymmetry, less conflict and less complex organization structure which reduces the need for monitoring and effectively minimizing agency cost (Farrer and Ramsy,1998; Niem,2005; Mustapha and Ahmed, 2011).

1.1.1. Agency Cost

Agency costs emanate from agency relationships that arise because of separation of ownership and management. Agency costs refer to the sum of the costs of designing, implementing, and maintaining the appropriate control system within organizations and the residual loss resulting from the difficulty of solving control problems completely (Jensen and Meckling, 1992). In other words, these are costs incurred by the owners of the firm to monitor the activities of agents who may pursue divergent interest from that of

the principals or owners of the firm. These costs include costs of internal audit, external auditors and non-executive directors (Mustapha and Ahmed, 2011). In essence, these costs are part of the mechanisms employed by the shareholders to protect their investments while at the same time guaranteeing the success and the going concern of the firm.

Ang et al (2000) claims that the magnitude of these costs is limited by how well the owners and delegated third parties, such as banks, monitor the actions of the outside managers. Because banks generally require a firm's managers to report result honestly and to run business efficiently with profit, bank monitoring complements shareholder monitoring of managers, indirectly reducing owner-manager agency costs. That is, by incurring monitoring costs to safeguard their loans, banks lead firms to operate more efficiently by better utilizing assets and moderating perquisites consumption in order to improve the firm's reported financial performance to the bank. Thus, lower priority claimants, such as outside shareholders, should realize a positive externality from bank monitoring, in the form of lower agency costs.

According to the classical separation of ownership and control perspective, a dominant or majority shareholder has both the incentive and ability to monitor management so that the firm is managed in a manner consistent with profit maximization. The incentive to monitor is high because the majority shareholder has a claim on all residual profit and the ability to monitor is high because the dominant shareholder can often control the Board

of directors. In contrast when shareholdings are widely diffused, neither the incentive nor the ability to monitor agents is present and so managers are afforded a greater degree of discretion which allows them to not maximize profits (and shareholder wealth). Thus, concentrated ownership is a powerful constraint on managerial discretion, implying less entrenching activities (Alchian and Demsetz, 1972; Gedajlovic and Shapiro, 1998).

1.1.2. Managerial Ownership

As observed by Jensen and meckling (1976) managerial ownership occurs when top management of the organization is encouraged to own part of the firm by acquiring the shares of the firm which they manage. This is based on the belief that managers who own a portion of the firm cannot make decisions that may hurt the business as their interest will suffer alongside other shareholders.

Ang et al (2000) argues that at one extreme of ownership and management structures are firms whose managers own hundred percent of the firm. These firms, by their definition have no agency costs. At the other extreme are firms whose managers are paid employees with no equity in the firm. In between are firms where the managers own some, but not all, of their firm's equity. According to agency theory, agency costs should be inversely related to the ownership share of the primary owner. For a primary owner who is also the firm's manager, the incentive to consume perquisites declines as his ownership share rises, because his share of the firm's profits rises with ownership while his benefits from perquisite consumption are constant. For a primary owner who employs an outside

manager, the gains from monitoring in the form of reduced agency costs increase with his ownership stake. Here, the primary owner fulfills the monitoring role that large block holders perform at publicly traded corporations. Specifically, ownership motivates managers to use their decision rights efficiently because they bear the rewards and punishments of their actions. Previous research, however, suggests that agency costs need not decrease uniformly with the level of management ownership (Joseph and Richardson, 2002).

Morck, Shleifer, and Vishny (1988), for example, posit that agency costs will first decrease, then increase, and finally decrease again with the level of managerial ownership. Accordingly, they hypothesize that measures of firm valuation will first increase, then decrease, and finally increase again with the proportion of managerial ownership. They suggest that ownership first improves firm performance because of the convergence in interests between managers and owners. That is, providing managers with a claim on the firm aligns their goals with those of owners and motivates them to take actions that are value maximizing. However, this beneficial effect of ownership is soon mitigated by an adverse effect.

Joseph and Richardson (2002) observe that, as managers begin to hold a substantial fraction of the firm's equity, they become entrenched; this entrenchment, in turn, enables them to pursue non-value-maximizing behaviors without being disciplined by the market. Examples of such non-value-maximizing behavior include empire building, expensive

corporate offices, lavish company trips, purchase of high-priced paintings, installation of a fleet of business jets, and so forth. Thus, in this range, firm value decreases with ownership as the adverse effects of entrenchment become increasingly pronounced. This does not imply that convergence effects are absent here—they continue to operate but are dominated by entrenchment effects. Finally, as management ownership increases further, the high level of ownership gives rise to a situation in which convergence effects dominate; consequently, in this region, firm value again increases with ownership.

1.1.3. Managerial Ownership and Agency cost

Jensen and Meckling (1976) observed that managerial ownership has a significant negative relationship with total agency costs as predicted by agency theory and convergence of interest hypothesis. This assertion implies that as the level of managerial ownership increases, the amount of agency costs reduces. In other words agency cost is function of managerial ownership. However this relationship of agency cost and managerial ownership is not linear; at given level of managerial ownership, agency cost first decrease, then increase, and finally decreases again. This behavior is attributable to both entrenchment activities and convergence effect (Morck, Shleifer, and Vishny 1988; Joseph and Richardson 2002).

1.1.4. Nairobi Securities Exchange (NSE)

Nairobi Security Exchange is a market for securities, licensed and regulated by the Capital Markets Authority. It was constituted in 1954 as voluntary association of stock

brokers and registered under the societies Act. It has the mandate of providing a trading platform for listed securities and overseeing its member firms. The Central Depository and Settlement Corporation (CDSC) provide clearing, delivery and settlement services for securities traded at the Nairobi Securities Exchange. It oversees the conduct of the Central Depository Agents comprised of stockbrokers and investment banks which are members of NSE and custodians. Some of the securities traded in NSE include ordinary shares, preference shares and debentures.

The membership of NSE has grown over the years from one brokerage firm at initiation to the current membership of 19 firms and 58 listed companies. NSE is guided by rules and regulations. For instance for a company to be listed at NSE it has to meet the listing requirements which include: minimum capital requirements, prospectus showing accounts for the last five years, disclosure requirement, minimum share issue requirement, minimum number of shareholders and filing accounts every year with Capital Markets Authority (CMA). On 11th September 2006, NSE implemented live trading on the automated trading system as part of its modernization strategy.

1.2. Research Problem

Agency cost is incurred by the shareholders not only to protect their interest but also to promote good corporate governance within the organization. However, these costs if not checked may affect the value of the firm. It is therefore of great concern to the owners of the firm and hence the desire to reduce these costs while safeguarding their investments

from the managers whose interest may be divergent from theirs. A numbers of ways have been suggested by scholars on how best to manage the agency costs. One such mechanism that is the subject of the study is to determine to what extent does managerial ownership affects agency costs. Indeed, some of the prior studies appear to support the assertion that managerial ownership affects agency costs while others disagree. For instance Farrer and Ramsey (1998) observed that agency costs arise as a result of separation of ownership and control. They claimed that these costs would be zero if those who owned the company also managed the company. Mustapha and Ahmed (2011) explained that this can be done by encouraging the managers to own the company's shares, as the interest of the internal and external shareholders are aligned.

However, Schulze, et al (2001) disagreed that agent ownership of the shares of the firm minimizes agency costs. Drawing from theory developed by Becker (1981), Stulz (1988), Thales and Shefrin (1981) and others, they argued that private ownership and family management exposes firms to agency hazard for example; private ownership frees firms from the discipline imposed by the market corporate control and increase the agency threat posed by self control- a problem that arise when owner manager have incentive to take actions that can harm themselves as well as those around them (Jensen, 1993, 1998). Because agency can prevent alignment of ownership interest, then the owner-manager does not minimize the agency costs of ownership within a privately held firm (Schulze, et al, 2001).

The prior studies in other parts of the world namely Europe and Asia have shown that there is relationship between agency cost and managerial ownership. For instance, Mustapha and Ahmed (2011) observed that there was significant effect on managerial ownership on agency cost for companies listed at the Malaysia stock exchange. That is, managerial ownership minimizes agency cost. In contrast, when a manager owns a substantial fraction of the firm shares, which confers on him enough voting power or influence, he may satisfy his non-value-maximizing objectives without endangering his employment and salary. These arguments give rise to the entrenchment hypothesis, according to which excessive insider ownership has a rather negative impact on corporate performance, probably because a level of insider ownership that is too high is likely to entrench them (De Miguel, Pindado and De La Torre,2004).

While a study done in Kenya by Ndeto (2010) showed that there exist relationship between good corporate governance mechanism (audit, management fees and ownership by directors) and agency costs for the firms studied. She further observed that, the presence of active board members with ownership interest in the firm, running daily operations of the firm mitigates agency costs. Thus, institutionalization of good corporate governance helps in mitigating the agency costs and hence increases the firm performance. As observed in studies done in other parts of the world, agency problem remains an issue of concern among the organizations in Kenya. This means that firms in Kenya are equally grappling with agency cost, and most important how best to minimize it. For instance on 16th September, 2011 a Kenya car retailer, CMC Holding was suspended from trading in the Nairobi Securities Exchange because of conflict of interest

among board members. This study therefore, provides an opportunity to investigate to what extent manager's ownership affects the agency cost of companies listed at the Nairobi Securities Exchange given Kenya's uniqueness in terms of laws and regulations. In spite of the existence of such empirical evidence, it is apparent that the analysis of the prior studies shows no consensus as to whether managerial ownership affects agency costs which then leads to the question: To what extent does managerial ownership affects agency cost for companies listed in the Nairobi Security Exchange?

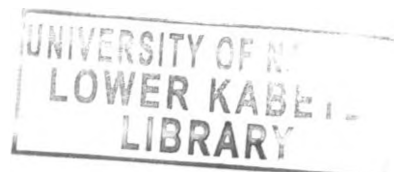
1.3. Research Objective

To examine the relationship between managerial ownership and agency costs of companies listed at the Nairobi Security Exchange.

1.4. Value of the Study

This study intends not only to provide the much needed empirical evidence in this area but also to support or reject prior research findings in other countries relating to the effect of managerial ownership on agency cost in different agency environment. The study will further provide a basis for future research, by examining other forms of relationships like participation of women in the board of directors, the requirement to be member of a professional body as qualification for joining the board and their effect on agency cost. The study will provide the critical information to the regulators and managers for the purpose of instituting reforms aimed at reducing unethical practices within companies

quoted at the Nairobi stock exchange. The findings of this study will enormously contribute towards promoting and strengthening good corporate governance practices within organizations by encouraging top management to acquire ownership of the firm to help in reducing agency costs.



CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter reviews the relevant literature of the study under the following sections: theoretical framework, review of empirical studies, measures of the key variables and chapter summary.

2.2 Theoretical Framework

2.2.1. Agency Theory

Jensen and Meckling (1976) through their seminal paper on agency theory gave an impetus in the discussion of agency relationship and how the actions of the parties in this relationship affect the value of the firm. Agency theory postulates that the firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. This effectively means that the decision making is delegated to the agents while the risk-bearing function is borne by the principals (Fama and Jensen, 1983; Adams 1994). It therefore follows that, agency theory is concerned with resolving two problems that can occur in any agency relationships. The first is the agency problem that arises when: the desires or a goal of the principal and the agent conflict and it is difficult or expensive for the principal to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk of sharing that arises when the principal and the agent have different attitudes towards risk. The problem here is that principal and agent may prefer different actions because of the different risk preferences (Eisenhardt, 1989).

Bohren (1998) as cited by Fontrodona and Sison (2006) claims that agency theory presupposes that individuals are opportunistic, that is, they constantly aim at maximizing their own interest. Thus, there is no guarantee that agents will always act in the best interest of the principals. Rather, there is a constant temptation for agents to maximize their interest, even at the expense of the principals (Fontrodona and Sison, 2006). Indeed this non-alignment of interest between agents and principal is what fuels conflict of interest of the managers on one hand and the principals on the other.

Furthermore, agency theory is based on the premise that agents have more information than the principals and that this information asymmetry adversely affects the principals ability to monitor effectively whether their interest are being properly served by the agents. Eisenhardt (1989) as cited by Fontrodona (2006) observes that under conditions of incomplete information and uncertainty prevalent in business settings two kinds of problems arise: adverse selection and moral hazard. Adverse selection refers to the possibility of agents misrepresenting their ability to do the work agreed; in other words, agents may adopt decisions inconsistent with the contractual goals that embody their principals' preference. Moral hazard, on the hand, refers to the danger of agents not putting forth their best efforts or shirking from their tasks.

Given the divergence of interest between the manager and the shareholders, agency theory seeks to explain the agency relationship while at the same time providing insights

on how to align the principal interests to those of the manager. For instance, the threat of hostile acquisition by outside firms or powerful independent investors may be an incentive for managers to act in the shareholders interest by maintaining a high stock value (Fama, 1980; Williamson, 1970). Oviatt (1988) argues that those who determine executive compensation package believe that stock options provide powerful incentives for managers to take actions that are consonant with shareholders interest. While Kotter (1982) found that the group of executives he studied were more personally satisfied when their organizations enjoyed strong financial success. Such personal values may be consistent with the interest of shareholders and they should reduce the cost of agency when managers can be expected to act on these values without monitoring.

However, Spector and Spital (2011) reckon that any argument that executive bonuses propelled outstanding performance or that the lack of such bonus undermines the alignment of interest between shareholders and executive was simply unsupportable based on the available data. They note that the pro-bonus argument particularly that the executive bonuses are needed to drive higher organization performance have recently been muffled by the near collapse of the global financial industry, an industry that relied heavily on bonuses as evidenced by the fall of the Lehman Brothers Limited in the USA.

2.2.2. Convergence of Interest Model

Jensen and Meckling (1976) through the convergence of interest model-J/M model claimed that when managers own shares of the firm they have the incentive to increase

the value of the firm rather than shrink it, as they have vested interest in the company. This view was shared by Mat Nor and Sulong (2007) argument that the incentive to pursue personal benefits increases when the managers own a smaller portion of the firm's share while the incentive to invest in sub-optimal investment and misappropriation of funds declines as managers ownership increase because his/her share of a firm's profit increases with ownership. Furthermore, as the owners are actively engaged in day to day activities of the company, there will be less information asymmetry, less conflicts and less complex organization structure which reduces the need for monitoring and effectively minimizing agency costs (Niemi, 2005; Mustapha and Ahmed, 2011; Farrer and Ramsay, 1998). Schulze, et al (2001) reckon that managerial ownership not only fails to minimize the agency costs of ownership, but can actually engender agency costs in these firms for reasons which were entirely overlooked in the J/M model. Moreover, manager ownership reduces external governance and exacerbates the self-control problems that arise whenever firms are led by powerful owner –manager.

2.2.3. Stakeholders Theory

Fontrodona and Sison (2006) argued against the common belief that the shareholders are the sole owners of the firm. They claimed that the firm has a number of actors/stakeholders whose interest must be protected. For example managers and employees take risks by committing their labor to the company just as investors take risks by entrusting their capital to the firm. With different actors claiming ownership of the company, there can be no justification that owner managed firms reduce agency costs. Shankman (1999) as cited by Fontrodona and Sison (2006) note that agency

relationships by themselves do not imply that there should only be one principal or that he should own the firm. Rather, there are multiple relationships among the owners of different factors of production. For this reason, stakeholder theory, which takes into account the different actors, offers a more comprehensive view of the firm than shareholder theory.

2.3. Measures of the Key Variables

In this study, the dependent variable has been defined as monitoring costs of companies listed at Nairobi Security Exchange represented by audit fees and costs of non-executive directors. On the other hand the independent variable in this study will be managerial ownership represented by the shares owned by directors of the firm. Pearson product-moment correlation coefficient will measure the association between the independent and dependent variables while regression analysis we measure the effect of managerial ownership on the agency costs.

2.4. Review of Empirical Studies

Mustapha and Ahmed (2011) set out to establish the evidence that supports or rejects prior research findings relating to the effect of managerial ownership on agency costs in different agency settings. The objective of the study was to investigate the relationship between managerial ownership and agency cost in Malaysian organizations. The population of 867 companies listed in Bursa Malaysia for the financial year ended 2006 were considered of which a sample of 235 firms was used. The results of the study

showed that independent variable, managerial ownership appears to have significantly negative relationship with monitoring costs, dependent variable as predicated by agency theory (Mustapha and Ahmed, 2011).

While the results of the study suggests that managerial ownership in Malaysian countries has a significant negative relationship with total monitoring costs as predicted by agency theory and convergence of interest hypothesis, the study findings suffer from certain limitations which may form the basis for future research. First, the study takes into consideration data for the financial year 2006 thus ignoring the likely impact on the study if more years were considered. Second the study investigates one type of ownership structure, which is the managerial ownership. However, future research can also examine other forms of ownership structure which is unique to Malaysian companies, such as family ownership and government-linked companies, in relation to their relationship with agency costs .Third, the study ignores the effect other mechanism of minimizing agency problem other than managerial ownership, such as stock options, executive bonuses, takeovers, monitoring by institutional investors, agent norms and values (Oviatt,1988;Katz&Kahn,1978;Berle&Means,1932; Fama,1980; Donald&Donald,1929).

Schulze, et al (2001) set out to ascertain that owner management does not minimize agency costs of ownership within privately held, family managed firms. To advance their proposition, they set out the objective to establish that a positive relationship existed between agency costs incurred by family firms and performance. In line with the notion

that agency conditions in family –managed firms engender a variety of agency costs, the data indicated a positive relationship existed between performance for non-family pay incentives but not for family pay incentives. The data also showed that strategic planning was positively related to performance and CEO tenure was negatively associated with firm performance, average board tenure and outside directors. Also, transfer intention was found to be positively associated with firm performance. However, the study failed to independently establish the data reliability because all firms in the sample were privately held and the data were confidential and proprietary. Equally important to be noted, was that the empirical study used cross-sectional and survey data gathered for other purposes thus lending credibility to the researcher’s concept and not confirming their validity. The study also failed to identify any statistical differences between the performance of the firms with outside directors and those without.

A study done in Kenya by Ndeto (2010) investigated whether corporate governance lower the level of agency costs and that internal governance and external shareholding influences are substitute agency- mitigating mechanisms in Kenya. The main objective of the study was to evaluate whether corporate governance mechanism reduced the amount of agency related cost from a sample of companies. The result of the study indicated there existed a relationship between good corporate governance mechanism (auditor’s fees, management fees, ownership by directors) and agency cost (measured by the return on assets); even though the study failed to consider the impact of compliance with laws and regulations on agency costs for companies trading in the security exchange. The choice of

return on asset as measure of agency cost was also in appropriate, instead, such cost as non- executive director's allowances, and audit fees should have been considered.

Ang, Cole and Lin (2000) provided an analysis of the relationship between agency costs and various ownership and management structures. The study aimed to establish whether agency costs were significantly higher when an outsider rather than an insider manages the firm, whether agency costs were inversely related to the manager's ownership share and whether agency costs increased with the number of non manager shareholders. By using a multivariate regression framework, the study found out that the result supported the prediction put forward by the theories of Jensen and meckling (1976) and Fama and Jensen (1983) about ownership structure, organizational form, and alignment of managers and shareholders interest. The results of the study showed that: First, agency costs were higher when an outsider managed the firm, second, agency costs varied inversely with manager's ownership share, third, Agency costs increased with the numbers of non-manager shareholders and fourth, to a lesser extent, external monitoring by banks produced a positive externality in the form of lower agency costs.

While the study succeeds by large extent, in showing that agency costs was affected by various ownership and management structure, it however, failed to recognize other factors which affect agency costs. Such factors includes: rules, regulation and laws that compel owner manager to make decisions that further the interests of the firm and not theirs, stock options which provide powerful incentives for managers to take action that

are consonant with shareholder's interests (Oviat 1998), and agent norms and values. For instance Kottler (1987), found out that a group of executives were more personally satisfied when their organizations enjoyed strong financial success. Such personal values may be consistent with the interest of the shareholders and they should reduce the costs of agency when managers can be expected to act on these values without monitoring.

2.5. Chapter Summary

The literature review has shown that there exist adequate theoretical and empirical studies that inform the agency problem; which arise because of information asymmetry and competing interest between the principals and agents. One school of thought suggests that the way of solving agency problem is by encouraging agents (managers) to acquire ownership of the firm in order to align their interest to those of the principals. However, this line of thinking is contested by other scholars who hold the view that the shareholders are not the sole owners of the firm and therefore by encouraging them to own part of the firm does not reduce agency problem/costs. Therefore, the divergent views by different researchers especially from outside Africa in respect to agency costs, creates an opportunity to determine to what extent manager's ownership affects the agency costs of companies listed at Nairobi Security Exchange given Kenya's uniqueness in terms of culture, laws and regulations. Such research will help Kenyan companies to institute appropriate mechanisms to cushion firms from the effect of conflict of interests between managers and shareholders

CHAPTER THREE: METHODOLOGY

3.1. Introduction

This chapter states the methodology that was employed to carry out the study. It deals with research design, target population, sample and sampling method, data collection method and data analysis techniques.

3.2. Research Design

The correlational research design was used in the study. Correlational design was chosen for this study because of the need to discover the relationship between managerial ownership and agency costs. The study used secondary data that was extracted from financial statements of selected firms trading at Nairobi Securities Exchange for the period of three years 2009, 2010, and 2011.

3.3. Population of the Study

The study covered a target population of all companies quoted at Nairobi Securities Exchange as at 20th July 2012. In this study and for purposes of determining the sample size the target population was classified into five main industries namely: Agricultural; Commercial & Services; Financials & Investments; Industrial & Allied and Investments.

3.4. Sample and Sampling Method

This study considered a sampling frame of all the listed companies at the stock market. Sampling was conducted in two stages. The first stage involved selection of the sample firms while the second stage involved selection of the sample scope (period). In the first stage, a census was conducted on all the firms since the data on the study variables was readily available for all the firms hence sampling was not necessary. Secondly, the sample data was purposively derived from the years 2009, 2010, and 2011. Selection of the three-year spread period was purposive with the main intention being to extract the most recent data.

3.5. Data Collection Method

The study used secondary data from Nairobi Security Exchange to analyze the relationship between agency costs and managerial ownership. Secondary data means data that is already available. That is, the data which has already been collected and analyzed by someone else. This method of data collection has been picked because it does not suffer the pitfalls usually associated with the collection of original data (Kothari, 2004). The form to be used in the data collection is attached. The data to be collected included: audit fees; board remuneration which represents dependent variables; end year closing share prices; and number of shares held by the top management representing independent variable.

3.6. Data Analysis Techniques

Statistical Package for Social Scientist (SPSS version 14) was used to aid in analyzing data. The F-test was used to measure the association between the dependent and independent variables while regression analysis was applied to determine the effect of managerial ownership on the agency costs. A simple regression was used to test the main model and t-test was used as a test of significance. The model used for evaluation was similar to the one used by Ndeto (2010) but with some modification as shown in Equation (1) below.

$$(Agency\ Costs)_i = \alpha_i + \beta_i(Managerial\ Ownership) + \varepsilon_i \dots\dots\dots(1)$$

Where:

$(Agency\ Costs)_i$ = Agency costs of the i^{th} firm

α_i = Regression constant

β_i = the regression coefficient whose sign depict the relationship between the managerial ownership and agency costs

ε_i = the error term

CHAPTER FOUR: RESULTS AND FINDINGS

4.1. Introduction

This chapter presents data analysis and interpretation of the research findings. The chapter examines, categorizes, and tabulates the evidence so as to address the study's objective. The study sought to establish the relationship between managerial ownership and agency costs for firms listed at the Nairobi Stock Exchange. The sample comprised of all the firms listed at the NSE as at December 2011. The observations are centred within the three years 2009, 2010, and 2011.

4.2. Sample Characteristics

4.2.1. Distribution of Companies by the Market Segments

The findings presented in Table 4.1 below indicate the distribution of the sample firms by the listing segments at the NSE. The findings indicate that a majority of the sample firms were drawn from the “finance & investments” segment and the “industrial & Allied” segment.

Table 4.1: The Sample Companies by the Listing Sector at NSE

	Number of Companies	% of the total
Agricultural	3	5.8%
Commercial & Services	11	21.2%
Financials & Investments	16	30.8%
Industrial & Allied	17	32.7%
Investments	5	9.6%
Total	52	100.0%

Source: Survey Data

4.2.2. Descriptive Statistics for Key Variables

The findings presented in Table 4.2 indicate the means and standard errors of the means for the main variables of the study namely audit fees, remuneration, managerial ownership, and agency costs. The statistics are the sample averages over the sample period.

Table 4.2: Descriptive Statistics for Key Variables

	Mean Statistics	Std. Error of the Mean
Audit fees	7,750,538.55	522897.17
Remuneration	60,083,365.38	5958526.46
Managerial Ownership	3,022,339.74	332586.75
Agency costs	67,833,903.94	6265793.79

Source: Survey Data

4.3. Tests of Relationship between Managerial Ownership and Agency Costs

4.3.1. Diagnostic Tests

The regression of equation (1) was performed to establish whether or not there existed a link between agency costs and managerial ownership of the listed firms. The model was first subjected to F-Test to establish whether the variables were jointly significant. Later on, the T statistics for the individual parameters' coefficients were examined to determine their significance in the model. Using the agency costs as dependent variables, the F-Test yielded $F_{(1,154)} = 54.037$; (P-value < 0.01). This value of F-statistic is statistically significant at 95% and 99% levels of confidence. This implies that the independent variable (managerial ownership) is linearly related to agency costs. Adjusted R^2 value of 0.855 was obtained implying that 85.5% of variations in the agency costs could be explained by changes in managerial ownership. The findings are summarized in Table 4.3 below.

Table 4.3: F-test for Linearity of Relationship of Variables

	Sum of Squares	d.f	Mean Square	F	P-value
Regression	246579617579184400	1	246579617579184400	54.037	< 0.01
Residual	702731336719125000	154	4563190498176130		
Total	949310954298309000	155			

Predictors: (Constant), Managerial Ownership

Dependent Variable: Agency costs

4.3.2. Regression Analysis

Regression of Equation (1) was later performed to establish the nature of relationship between agency costs and managerial ownership of listed firms. T-test was further used to ascertain the significance of the relationship between the independent variable (managerial ownership) and the dependent variable (Agency costs). In regression analysis, this is done by using T-test to test the null hypotheses that the corresponding regression coefficient is equal to zero (i.e. $\beta_i = 0$). The test yielded that the absolute values of the t-statistics were greater than the critical values at 95% level of confidence hence the null hypothesis was rejected for all managerial ownership. The findings are presented in Table 4.4.

Table 4.4: Test of Relationship between Agency Costs and Managerial Ownership

Equation (1): $(Agency\ Costs)_i = \alpha_i + \beta_i(Managerial\ Ownership) + \varepsilon_i$				
Parameters	Coefficients	t-ratios	P-values	T-Tests on restrictions $\beta_i = 0$
α_i	38814480.83	5.797**	< 0.01	Reject H_0
β_i	9.601641630	7.351**	< 0.01	Reject H_0

* denotes significance at 5% level (P-values < 0.05); Critical values = 1.96 (at 5%)

** denotes significance at 1% level (P-values < 0.01); Critical values = 2.57 (at 1%)

Dependent Variable = Agency Costs;

The findings in Table 4.4 (in addition to the F-Test results) indicate that there exists a significant relationship between agency costs and managerial ownership of listed firms. All the parameters had the expected positive signs. The findings therefore imply that an

increase in level of managerial ownership of the listed firms leads to a proportionate increase in the agency costs.

4.4. Chapter Summary

Managerial ownership was measured as the total number of shares held by senior level managers of the sample firms. Agency costs were measured as the total costs of auditing and remunerating non-executive directors. A simple linear regression model was formulated to establish the relationship between the two variables. The findings from the regression analysis showed a positive correlation between level of managerial ownership and agency costs. The findings concur to previous findings by Schulze, et al (2001) who reckoned that managerial ownership not only fails to minimize the agency costs of ownership, but can actually engender agency costs in these firms for reasons which were entirely overlooked in the J/M model.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1. Introduction

This chapter presents the summary, conclusions and recommendations derived from the findings of the study. The chapter presents a brief summary of the study; conclusions; limitations of the study; and recommendations.

5.2. Summary

The objective of the study was to investigate the relationship between managerial ownership and agency cost of listed companies at the Nairobi Securities Exchange. The following research question guided the study: how does the level of managerial ownership relate to agency costs of listed firms? In answering this question, the study applied historical data for the annual totals for audit costs, directors' remuneration, and the total managerial ownership; all of which were obtained from the Nairobi Securities Exchange and the Capital Markets Authority data banks. The key findings revealed that there positive correlation between level of managerial ownership and agency costs.

5.3. Conclusions

The main conclusion from our analysis is that ownership does influence firms' agency costs. We find a positive effect of managerial ownership on agency costs, with the strength of the relationship being notably high. Companies whose managers have high shareholding interests exhibit increased spending on board remuneration and audit. First,

increased pay for top managers is regarded as an incentive to enhance their performance. Secondly, they subject the firms into frequent internal and external audits as a measure to safeguard other shareholders' interests. Past studies have also argued that managerial ownership leads to an increase in agency costs since it increases managerial perquisite consumption, and therefore, increases investment in the firms for both the internal and external monitoring and management systems.

5.4. Limitations of the Study

The scope of the study was limited to annual observations over the three-year period 2009 to 2011. This was occasioned by lack of documented time series data on the variables for the past years given that this is when the NSE is in the transition to digitizing its records. These observations were relatively few especially considering that finer results could be obtained by using observations that are spread to a longer period of say five years.

5.5. Recommendations

Given that it is now evident that managerial ownership positively affects agency costs of listed firms, the regulators should seek ways in which the listed firms can formulate incentive programs that would entice the managers to improve on their performance whilst putting agency costs on check. Looking forward, by identifying the use of inappropriate estimation techniques as an important reason why there is no consensus in the literature about the shape of the ownership-agency costs relationship, this study

serves as a first attempt towards establishing a more pragmatic empirical model for agency cost modelling and its determinants. However, there is still scope for further methodological improvements on agency cost modelling.

5.6. Areas for Further Research

A promising avenue for research is to consider potential interrelations between the alternative mechanisms of agency cost controls available to firms as well as interactions between managerial ownership and environmental or other internal organizational factors. A fruitful area for future research would be to examine the effect of managerial ownership on firm performance, and stock returns at the NSE. These were beyond the scope of this study and can hence be left to further research.

REFERENCES

- Adams,M.B.(1994). Agency theory and the internal audit. *Managerial Auditing Journal*, 9(8), 8-12.
- Alchian,A.A.,& Demsetz,H.(1972).Production information costs and economic organization *American Economic Review*, 66, 777-795.
- Ang ,S.J.,Cole,R.A.,Lin,J.W.(2000).Agency costs and ownership structure. *The Journal of Finance*, 55(1) , 81-106.
- Berle, A.A. & Means, G. (1932). *The modern corporation and private property*. New York: Macmillan.
- Becker, G.S. (1981). *A treatise on family*. Cambridge: Harvard University press.
- Bohren,O.(1998).The agent's ethics in the principal-agent model. *Journal of Business Ethics*, 17(7), 745-755.
- Daily, C.M.,& Dollinger, M.J. (1992). An empirical examination of ownership structure in family and professionally- managed firms. *Family Business Review*,5(2), 117-136.

Donald, W.J., & Donald, E.K. (1929). Trends in personnel administration.

Harvard Business Review, 7, 143-145.

De Miguel, A., Pindado, J. & De La Torre, C. (2004). Ownership structure and firm value: new Evidence from Spain. *Strategic Management Journal*, 25(12), 1199-1207.

Eienhardt, K.M. (1989). Agency theory: an assessment and review. *Academy of Management Review*, 14(1), 57-74.

Farrer & Ramsay, I.M. (1998). Director share ownership and corporate performance: Evidence from Australia. *Corporate Governance*, 6, 233-248.

Friend, I., & Lang, L.H.P. (1986). An empirical test of the impact of managerial self interest on corporate capital structure. *Journal of Finance*, 41(2), 271-281.

Fontrodona, J., & Sison, A.J.G. (2006). The nature of the firm, agency theory and shareholder theory: a critique from philosophical anthropology. *Journal of Business Ethics*, 66(1), 33-42.

Gedajlovic, E.R., & Shapiro, M.D. (1998). Management and ownership effects: evidence from five Countries. *Strategic Management Journal*, 19(6), 533-553.

Gersick, K.E., Davis, J.A., Hampton, M.M., & Lansberg, I. (1997). *Generation to generation: life Cycles of the family business*. Cambridge, MA. Harvard Business School Press.

Gujarati, D.N. (2003). *Basic Econometrics* (4th ed). Singapore: McGraw Hill.

Jensen M.C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *Journal of Finance*, 48(3), 831-880.

Jensen, M.C. & Meckling, W.H. (1992). Specific and general knowledge, and organization structure. *Journal of Applied Corporate finance*, 8(2), 4-18.

Jensen, M.C & Meckling, W.H. (1976). Theory of the firms: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3, 881-880.

Jensen, M.C. (1998). *Self interest, altruism, incentives and agency*. Foundation of organization strategy. Cambridge: Harvard University press.

Joseph, K. & Richardson, V.J. (2002). Free cash flow, agency costs, and the affordability method of Advertising budgeting. *Journal of Marketing*, 66(1), 94-107.

Kothari, C.R. (2004). *research methodology methods and techniques* (2nd ed.). India: New Age International Ltd., publishers

Listed Companies. Retrieved July 20, 2012, from <http://www.nse.co.ke>.

Matnor, F. & Sulong, Z. (2007). The interactions effect of ownership structure and board governance on dividends: evidence from Malaysian listed firms. *Capital Market Review*, 15, 73-101.

Morck, R., Shleifer, A & Vishny, R.W. (1988). Management ownership and market valuation: An Empirical analysis. *Journal of Finance Economics*, 20(1), 293-315

Mustapha, M. & Ahmed, C.A. (2011). Agency theory and managerial ownership: Evidence from Malaysia. *Managerial Auditing Journal*, 24, 419-436.

Ndeto, L. (2010). Relationship between agency costs and corporate governance mechanisms: evidence from listed companies at the Nairobi stock exchange. A research Project presented at the University of Nairobi .Unpublished.

Niemi, L. (2005). Audit effect and fees under concentrated client ownership: Evidence from four international Audit firms. *The International Journal of Accounting*, 40, 303-323.

Press center. Retrieved October 20, 2011, from <http://www.cma.or.ke>.

Saunders, M., Lewis, P., Thornhill, A. (2009). *Research methods for Business Students* (5th ed.). Edinburgh Gate: Pearson Education Limited.

Schulze, S.W., Lubatkin, H.M., Dino, N.R., Buchholtz, K.A. (2001). Agency relationship in family firms: theory and evidence. *Organization Science*, 12, 99-116.

Stulz, R.M. (1988). On takeover resistance, managerial discretion, and shareholder wealth. *Journal of Financial Economics*, 20, 24-25.

Spector, B., & Spital, C.F. (2011). The ideology of executive bonuses an historical perspective. *Journal of Managerial History*, 17(3), 315-331.

Thaler, R.H., & Shefrin, H.M. (1981). An economic theory of self control. *Journal of Political Economy*, 89, (2), 392-406.

APPENDIX I: DATA COLLECTION FORM

Name of the company-----

Descriptions	years		
	2009	2010	2011
Audit fees(external)			
Board remuneration			
Market per share			
Number of shares issued			
Number of shares held by the management			

APPENDIX II: LISTED COMPANIES AT THE NSE

Agricultural

1. Eaagads ltd
2. Kapchorua ltd
3. Kakuzi
4. Limuru Tea Company ltd
5. Rea Vipingo Plantations ltd
6. Sasin ltd
7. Williamson Tea Kenya ltd

Commercial and Services

8. Express ltd
9. Kenya Airways ltd
10. Nation Media Group
11. Standard Group
12. TPS Eastern Africa (Serena)
13. Scan group ltd
14. Uchumi Supermarket ltd
15. Hutchings Biemer ltd
16. Longhorn Kenya ltd

Construction and Allied

17. Athi River Mining ltd

18. Bamburi Cement ltd
19. Crown Paints Kenya ltd
20. E.A.Cables ltd
21. E.A.Portland Cement ltd

Energy and Petroleum

22. KenGen ltd
23. KenolKobil ltd
24. KP&LC Company ltd
25. Total Kenya ltd

Telecommunication and Technology

26. Access Kenya Group ltd
27. Safaricom ltd

Automobile and Accessories

28. Car and General (k) ltd
29. CMC Holding ltd
30. Sameer Africa ltd
31. Marshalls (E.A) ltd

32. Banking

33. Barclays Bank ltd
34. CFC Stanibic Holding ltd
35. Diamond Trust Bank Kenya ltd

- 36. Housing Finance Co Ltd
- 37. Kenya Commercial Bank Ltd
- 38. National Bank of Kenya Ltd
- 39. Nic Bank Ltd
- 40. Standard Chartered Bank Ltd
- 41. Equity Bank Ltd
- 42. The Co-operative Bank of Kenya Ltd

Insurance

- 43. Jubilee Holding Ltd
- 44. Pan Africa Insurance holding Ltd
- 45. Kenya Re-Insurance Corporation Ltd
- 46. CFC Insurance Holdings
- 47. CIC Insurance Group Ltd
- 48. British-American Investment Company (Kenya) Ltd

Investment

- 49. City Trust Ltd
- 50. Olympia Capital Holding Ltd
- 51. Centum Investment Co Ltd
- 52. Trans-Century Ltd

Manufacturing and Allied

- 53. B.O.C Kenya Ltd

54. British American Tobacco Kenya ltd
55. Carbacid Investment ltd
56. East Africa Breweries ltd
57. Mumias Sugar Co ltd
58. Unga Group ltd
59. Eveready East Africa ltd
60. Kenya Orchards ltd
61. ABaumann Co ltd

APPENDIX III: RAW DATA SHEET

Company	Year	Audit fees	Remuneration	Closing price	Shared Issued	Managerial Ownership	Sector	Agency costs
Kakuzi	2009	4,631,000	890,000	32	19,599,999	1,800,000	Agricultural	5,521,000
Kakuzi	2010	5,263,000	1,371,000	82	19,599,999	1,800,000	Agricultural	6,634,000
Kakuzi	2011	6,215,000	1,379,000	70	19,599,999	1,800,000	Agricultural	7,594,000
Rea Vipingo	2009	5,686,000	43,261,000	11	60,000,000	3,000,000	Agricultural	48,947,000
Rea Vipingo	2010	6,443,000	44,727,000	18	60,000,000	3,000,000	Agricultural	51,170,000
Rea Vipingo	2011	6,313,000	39,829,000	15	60,000,000	3,000,000	Agricultural	46,142,000
Sasini	2009	283,000	10,286,000	6	228,055,500	650,000	Agricultural	10,569,000
Sasini	2010	3,400,000	9,972,000	13	228,055,500	650,000	Agricultural	13,372,000
Sasini	2011	3,755,000	14,201,000	12	228,055,500	650,000	Agricultural	17,956,000
Access Kenya	2009	2,000,000	53,374,000	20	203,581,223	550,000	Commercial & Services	55,374,000
Access Kenya	2010	2,560,000	65,038,000	14	203,581,223	550,000	Commercial & Services	67,598,000
Access Kenya	2011	2,560,000	66,744,000	5	208,084,296	550,000	Commercial & Services	69,304,000
Car & General	2009	3,225,000	22,483,000	42	22,279,616	350,000	Commercial & Services	25,708,000
Car & General	2010	3,638,000	23,218,000	47	22,279,616	350,000	Commercial & Services	26,856,000
Car & General	2011	4,902,000	26,328,000	23	33,419,424	350,000	Commercial & Services	31,230,000
CMC Holdings	2009	5,938,000	45,583,000	10	582,709,440	800,000	Commercial & Services	51,521,000
CMC Holdings	2010	6,092,000	47,693,000	13	582,709,440	800,000	Commercial & Services	53,785,000
CMC Holdings	2011	6,092,000	47,693,000	5	582,709,440	800,000	Commercial & Services	53,785,000
Kenya Airways	2009	10,000,000	85,000,000	20	461,615,484	1,200,000	Commercial & Services	95,000,000

Kenya Airways	2010	11,000,000	73,000,000	60	461,615,484	1,200,000	Commercial & Services	84,000,000
Kenya Airways	2011	11,000,000	78,000,000	32	461,615,484	1,200,000	Commercial & Services	89,000,000
Marshalls EA	2009	1,000,000	3,036,000	24	14,393,106	800,000	Commercial & Services	4,036,000
Marshalls EA	2010	1,000,000	3,036,000	14	14,393,106	800,000	Commercial & Services	4,036,000
Marshalls EA	2011	1,000,000	3,036,000	13	14,393,106	800,000	Commercial & Services	4,036,000
Nation Media	2009	14,400,000	64,300,000	118	142,610,520	1,800,000	Commercial & Services	78,700,000
Nation Media	2010	17,000,000	82,000,000	167	157,118,572	1,800,000	Commercial & Services	99,000,000
Nation Media	2011	19,100,000	89,500,000	140	157,118,572	1,800,000	Commercial & Services	108,600,000
Safaricom	2009	17,000,000	75,000,000	3	40,000,000,000	12,000,000	Commercial & Services	92,000,000
Safaricom	2010	20,850,000	120,000,000	6	40,000,000,000	12,000,000	Commercial & Services	140,850,000
Safaricom	2011	26,220,000	420,628,000	4	40,000,000,000	12,000,000	Commercial & Services	446,848,000
Scangroup	2009	7,539,000	66,215,000	26	220,689,655	1,200,000	Commercial & Services	73,754,000
Scangroup	2010	12,238,000	79,342,000	62	234,570,024	1,200,000	Commercial & Services	91,580,000
Scangroup	2011	16,064,000	86,667,000	42	284,789,128	1,200,000	Commercial & Services	102,731,000
Standard Group	2009	2,436,000	54,810,000	38	73,275,029	720,000	Commercial & Services	57,246,000
Standard Group	2010	2,803,000	56,749,000	46	74,224,526	720,000	Commercial & Services	59,552,000
Standard Group	2011	2,846,000	48,902,000	25	74,224,526	720,000	Commercial & Services	51,748,000
TPS East Africa	2009	9,317,000	52,450,000	45	105,864,742	2,200,000	Commercial & Services	61,767,000
TPS East Africa	2010	12,498,000	60,062,000	69	148,210,640	2,200,000	Commercial & Services	72,560,000
TPS East Africa	2011	12,010,000	71,242,000	55	148,210,640	2,200,000	Commercial & Services	83,252,000
Uchumi	2009	6,978,000	34,000,000	15	180,000,000	3,200,000	Commercial & Services	40,978,000
Uchumi	2010	7,616,000	34,000,000	15	180,000,000	3,200,000	Commercial & Services	41,616,000
Uchumi	2011	8,250,000	34,000,000	11	265,426,614	3,200,000	Commercial & Services	42,250,000
Barclays Bank	2009	17,000,000	75,000,000	45	1,357,884,000	8,500,000	Financials & Investments	92,000,000

Barclays Bank	2010	17,000,000	83,000,000	63	1,357,884,000	8,500,000	Financials & Investments	100,000,000
Barclays Bank	2011	18,000,000	101,000,000	13	5,431,536,000	12,500,000	Financials & Investments	119,000,000
CFC Stanbic	2009	33,595,000	170,076,000	45	273,684,211	4,000,000	Financials & Investments	203,671,000
CFC Stanbic	2010	11,725,000	7,113,000	76	273,684,211	4,000,000	Financials & Investments	18,838,000
CFC Stanbic	2011	12,667,000	8,553,000	40	273,684,211	4,000,000	Financials & Investments	21,220,000
Diamond trust	2009	10,065,000	52,484,000	70	163,037,108	2,500,000	Financials & Investments	62,549,000
Diamond trust	2010	9,998,000	48,000,000	135	163,037,108	2,500,000	Financials & Investments	57,998,000
Diamond trust	2011	11,536,000	46,000,000	91	195,644,530	2,500,000	Financials & Investments	57,536,000
Equity Bank	2009	8,000,000	328,000,000	14	3,702,777,020	14,000,000	Financials & Investments	336,000,000
Equity Bank	2010	11,000,000	447,000,000	27	3,702,777,020	14,000,000	Financials & Investments	458,000,000
Equity Bank	2011	19,000,000	473,000,000	16	3,702,777,020	14,000,000	Financials & Investments	492,000,000
Housing Finance	2009	6,815,000	31,525,000	18	230,000,000	820,000	Financials & Investments	38,340,000
Housing Finance	2010	7,004,000	42,861,000	27	230,000,000	820,000	Financials & Investments	49,865,000
Housing Finance	2011	7,800,000	66,936,000	12	230,425,000	820,000	Financials & Investments	74,736,000
Centum	2009	1,793,000	4,104,000	10	549,951,880	1,400,000	Financials & Investments	5,897,000
Centum	2010	2,020,000	4,430,000	16	549,951,880	1,400,000	Financials & Investments	6,450,000
Centum	2011	2,805,000	8,461,000	14	549,951,880	1,400,000	Financials & Investments	11,266,000
Jubilee	2009	11,073,000	93,069,000	115	45,000,000	440,000	Financials & Investments	104,142,000
Jubilee	2010	13,678,000	136,956,000	184	49,500,000	440,000	Financials & Investments	150,634,000
Jubilee	2011	15,257,000	140,243,000	155	54,450,000	440,000	Financials & Investments	155,500,000
National Bank	2009	7,050,000	49,708,000	39	200,000,000	940,000	Financials & Investments	56,758,000
National Bank	2010	7,403,000	58,769,000	39	280,000,000	940,000	Financials & Investments	66,172,000
National Bank	2011	7,979,000	75,438,000	20	280,000,000	940,000	Financials & Investments	83,417,000
KCB	2009	16,500,000	104,147,000	21	2,217,777,777	7,200,000	Financials & Investments	120,647,000

KCB	2010	16,310,000	100,401,000	22	2,950,259,818	7,200,000	Financials & Investments	116,711,000
KCB	2011	19,000,000	145,592,000	17	2,968,746,156	7,200,000	Financials & Investments	164,592,000
KENYA RE	2009	3,400,000	15,690,000	12	600,000,000	4,400,000	Financials & Investments	19,090,000
KENYA RE	2010	3,900,000	13,906,000	11	600,000,000	4,400,000	Financials & Investments	17,806,000
KENYA RE	2011	5,578,000	13,283,000	7	600,000,000	4,400,000	Financials & Investments	18,861,000
NIC Bank	2009	5,930,000	91,200,000	31	326,361,622	1,150,000	Financials & Investments	97,130,000
NIC Bank	2010	6,313,000	105,853,000	46	358,997,784	1,150,000	Financials & Investments	112,166,000
NIC Bank	2011	6,918,000	117,582,000	24	394,897,562	1,150,000	Financials & Investments	124,500,000
Olympia Capital	2009	6,209,000	4,980,000	7	40,000,000	600,000	Financials & Investments	11,189,000
Olympia Capital	2010	6,209,000	4,980,000	6	40,000,000	600,000	Financials & Investments	11,189,000
Olympia Capital	2011	6,209,000	4,980,000	3	40,000,000	600,000	Financials & Investments	11,189,000
Pan Africa Ins	2009	3,097,000	28,702,000	66	48,000,000	325,000	Financials & Investments	31,799,000
Pan Africa Ins	2010	9,731,000	31,585,000	66	48,000,000	325,000	Financials & Investments	41,316,000
Pan Africa Ins	2011	8,514,000	36,129,000	21	96,000,000	325,000	Financials & Investments	44,643,000
Stanchart Bank	2009	9,800,000	107,130,000	161	271,967,810	3,650,000	Financials & Investments	116,930,000
Stanchart Bank	2010	12,800,000	88,030,000	258	287,077,133	3,650,000	Financials & Investments	100,830,000
Stanchart Bank	2011	12,800,000	123,734,000	160	287,077,133	3,650,000	Financials & Investments	136,534,000
Coop Bank	2009	9,025,000	75,512,000	9	3,492,370,900	8,400,000	Financials & Investments	84,537,000
Coop Bank	2010	9,485,000	89,887,000	19	3,492,370,900	8,400,000	Financials & Investments	99,372,000
Coop Bank	2011	10,250,000	100,472,000	12	3,492,370,900	8,400,000	Financials & Investments	110,722,000
City Trust	2009	449,149	415,000	135	5,728,001	125,000	Financials & Investments	864,149
City Trust	2010	449,149	415,000	112	5,728,001	125,000	Financials & Investments	864,149
City Trust	2011	475,716	575,000	210	5,728,001	125,000	Financials & Investments	1,050,716
ARM	2009	3,200,000	102,037,000	111	99,055,000	875,000	Industrial & Allied	105,237,000

ARM	2010	6,200,000	109,961,000	183	99,055,000	875,000	Industrial & Allied	116,161,000
ARM	2011	8,083,000	111,992,000	158	99,055,000	875,000	Industrial & Allied	120,075,000
BAMBURI Cement	2009	9,000,000	120,000,000	156	362,959,275	6,400,000	Industrial & Allied	129,000,000
BAMBURI Cement	2010	9,000,000	138,000,000	187	362,959,275	6,400,000	Industrial & Allied	147,000,000
BAMBURI Cement	2011	8,000,000	156,000,000	125	366,600,000	6,400,000	Industrial & Allied	164,000,000
BAT	2009	7,819,000	145,424,000	178	100,000,000	1,100,000	Industrial & Allied	153,243,000
BAT	2010	7,424,000	141,194,000	270	100,000,000	1,100,000	Industrial & Allied	148,618,000
BAT	2011	7,802,000	96,504,000	246	100,000,000	1,100,000	Industrial & Allied	104,306,000
Carbacid Investments	2009	1,876,000	8,638,000	103	33,980,265	1,300,000	Industrial & Allied	10,514,000
Carbacid Investments	2010	1,876,000	8,638,000	156	33,980,265	1,300,000	Industrial & Allied	10,514,000
Carbacid Investments	2011	2,019,000	9,582,000	92	33,980,265	1,300,000	Industrial & Allied	11,601,000
Crown Berger	2009	4,671,000	7,110,000	24	23,727,000	650,000	Industrial & Allied	11,781,000
Crown Berger	2010	5,937,000	7,413,000	36	23,727,000	650,000	Industrial & Allied	13,350,000
Crown Berger	2011	6,333,000	6,994,000	21	23,727,000	650,000	Industrial & Allied	13,327,000
EA CABLES	2009	4,900,000	18,638,000	20	202,500,000	5,500,000	Industrial & Allied	23,538,000
EA CABLES	2010	4,407,000	20,140,000	16	202,500,000	5,500,000	Industrial & Allied	24,547,000
EA CABLES	2011	4,070,000	17,190,000	11	253,125,000	5,500,000	Industrial & Allied	21,260,000
PORTLAND CEMENT	2009	2,750,000	21,925,000	70	90,000,000	1,200,000	Industrial & Allied	24,675,000
PORTLAND CEMENT	2010	2,750,000	21,925,000	115	90,000,000	1,200,000	Industrial & Allied	24,675,000
PORTLAND CEMENT	2011	2,750,000	21,925,000	56	90,000,000	1,200,000	Industrial & Allied	24,675,000
EABL	2009	19,699,000	224,359,000	145	790,774,356	3,600,000	Industrial & Allied	244,058,000
EABL	2010	20,054,000	171,567,000	181	790,774,356	3,600,000	Industrial & Allied	191,621,000
EABL	2011	29,160,000	183,326,000	195	790,774,356	3,600,000	Industrial & Allied	212,486,000
EVEREADY EA	2009	650,000	31,995,000	3	210,000,000	6,750,000	Industrial & Allied	32,645,000

EVEREADY EA	2010	715,000	34,612,000	3	210,000,000	6,750,000	Industrial & Allied	35,327,000
EVEREADY EA	2011	715,000	28,235,000	2	210,000,000	6,750,000	Industrial & Allied	28,950,000
KENOL KOBIL	2009	25,399,000	47,727,000	50	1,471,761,200	22,000,000	Industrial & Allied	73,126,000
KENOL KOBIL	2010	25,399,000	67,960,000	10	1,471,761,200	22,000,000	Industrial & Allied	93,359,000
KENOL KOBIL	2011	33,166,000	88,719,000	10	1,471,761,200	22,000,000	Industrial & Allied	121,885,000
BOC Kenya	2009	3,843,000	20,500,000	150	19,525,446	450,000	Industrial & Allied	24,343,000
BOC Kenya	2010	3,843,000	20,500,000	132	19,525,446	450,000	Industrial & Allied	24,343,000
BOC Kenya	2011	3,750,000	29,100,000	100	19,525,446	450,000	Industrial & Allied	32,850,000
Kenya Power	2009	10,120,000	30,995,000	146	79,128,000	642,000	Industrial & Allied	41,115,000
Kenya Power	2010	10,727,000	40,266,000	200	79,128,000	642,000	Industrial & Allied	50,993,000
Kenya Power	2011	11,800,000	44,250,000	22	1,734,637,374	3,442,000	Industrial & Allied	56,050,000
KENGEN	2009	3,520,000	18,479,000	15	2,198,361,456	2,460,000	Industrial & Allied	21,999,000
KENGEN	2010	5,000,000	108,285,000	17	2,198,361,456	2,460,000	Industrial & Allied	113,285,000
KENGEN	2011	4,344,000	119,085,000	14	2,198,361,456	2,460,000	Industrial & Allied	123,429,000
Total	2009	6,500,000	29,715,000	30	173,013,000	850,000	Industrial & Allied	36,215,000
Total	2010	6,695,000	44,985,000	29	173,013,000	850,000	Industrial & Allied	51,680,000
Total	2011	6,896,000	42,758,000	15	175,028,706	850,000	Industrial & Allied	49,654,000
Mumias Sugar	2009	5,207,000	59,987,000	6	1,530,000,000	8,400,000	Industrial & Allied	65,194,000
Mumias Sugar	2010	5,200,000	32,549,000	13	1,530,000,000	8,400,000	Industrial & Allied	37,749,000
Mumias Sugar	2011	6,200,000	61,024,000	7	1,530,000,000	8,400,000	Industrial & Allied	67,224,000
Sameer Africa	2009	4,100,000	19,223,000	5	278,342,393	2,400,000	Industrial & Allied	23,323,000
Sameer Africa	2010	4,305,000	18,579,000	8	278,342,393	2,400,000	Industrial & Allied	22,884,000
Sameer Africa	2011	4,520,000	19,425,000	4	278,342,400	2,400,000	Industrial & Allied	23,945,000
Unga Group	2009	7,656,000	11,656,000	10	75,708,873	450,000	Industrial & Allied	19,312,000

Unga Group	2010	7,870,000	15,194,000	12	75,708,873	450,000	Industrial & Allied	23,064,000
Unga Group	2011	8,374,000	15,634,000	9	75,706,986	450,000	Industrial & Allied	24,008,000
EAGAADS	2009	772,000	240,000	37	8,039,250	124,000	Investments	1,012,000
EAGAADS	2010	752,000	240,000	36	8,039,250	124,000	Investments	992,000
EAGAADS	2011	752,000	360,000	70	8,039,250	124,000	Investments	1,112,000
Express Kenya	2009	1,200,000	14,000,000	8	35,403,790	520,000	Investments	15,200,000
Express Kenya	2010	1,200,000	14,000,000	8	35,403,790	520,000	Investments	15,200,000
Express Kenya	2011	1,200,000	14,000,000	4	35,403,790	520,000	Investments	15,200,000
Kapchorua Tea	2009	789,000	8,200,000	68	3,912,000	118,000	Investments	8,989,000
Kapchorua Tea	2010	792,000	8,200,000	146	3,912,000	118,000	Investments	8,992,000
Kapchorua Tea	2011	804,000	8,200,000	115	3,912,000	118,000	Investments	9,004,000
Williamson Tea	2009	4,892,000	12,092,000	58	8,756,320	242,000	Investments	16,984,000
Williamson Tea	2010	4,892,000	12,092,000	47	8,756,320	242,000	Investments	16,984,000
Williamson Tea	2011	4,892,000	12,092,000	221	8,756,320	242,000	Investments	16,984,000
Limuru Tea	2009	359,000	390,000	305	1,200,000	144,000	Investments	749,000
Limuru Tea	2010	359,000	390,000	300	1,200,000	144,000	Investments	749,000
Limuru Tea	2011	359,000	639,000	335	1,200,000	144,000	Investments	998,000

Source: NSE, CMA Statistical Bulletins & Share Registrars