African Journal Of Business And Management
Special Issue: Volume 8, Issue 2, July 2023 http://aibumaorg.uonbi.ac.ke/content/journal
Pgs 17 - 30

University of Nairobi
School of Business

AFRICAN JOURNAL OF BUSINESS AND MANAGEMENT

(AJBUMA)

ISSN 2079-410X

GOVERNMENT OWNERSHIP AND FINANCIAL PERFORMANCE OF STATE ENTERPRISES: KENYAN PERSPECTIVE

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Date Received	Date Accepted
18/04/2023	18/06/2023

Abstract

The primary aim of this study was to investigate the relationship between government ownership and the financial performance of state enterprises in Kenya. To achieve this objective, a positivist philosophy was adopted, and a longitudinal research design was employed. The study population consisted of 62 state enterprises, and secondary data was utilized for analysis. Both descriptive and inferential statistics were employed, with regression analysis being the primary method for testing the hypotheses and other relevant statistical tests. The hypothesis under consideration stated that there is no significant influence of government ownership on the financial performance of state enterprises in Kenya. However, the study findings revealed a positive and statistically significant influence of government ownership on financial performance. These findings are expected to provide valuable insights for managerial practitioners in state enterprises, enabling them to understand the integration of various financial performance factors amidst a challenging economic environment and to effectively manage the core processes of their firms to promote investor confidence in the country.

Key words: *Government ownership, financial performance, state enterprises in Kenya*.

Introduction

The impact of government ownership on the financial performance of state enterprises is a significant topic in the field of finance literature, especially in regions where governments play a prominent role in ensuring the satisfactory performance of key organizations for the benefit of their citizens (Kandil & Markovoski, 2018). Government ownership refers to the ownership structure where the government or state holds a majority stake, complete stake, or significant minority stake in the shares, property, and assets of an enterprise (Omoro, Aduda, & Okiro, 2015). Borisova, Brockman, Salas, and Zagorchev (2012) further define government ownership as the residual stake held by the state or any government body in an enterprise, often indicated by 100% shareholding by the state (Hu et al., 2004) and the exercise of ultimate control (EU, 2016). Government ownership has been recognized as a means for governments to address market failures (Briggs, 1961) and regulate natural monopolies, provide public goods, implement regional policies, and address employment or social issues (Grout & Stevens, 2003). Governments may invest in private companies for political, economic, and social reasons (Capobianco & Christiansen, 2011). Boubakri and Cosset (2005) argue that government-owned businesses have an advantage as the government can provide funding for investments to achieve socio-political goals and stimulate economic and financial development, particularly in nations with underdeveloped economic institutions pursuing government-financed socially beneficial projects. However, they emphasize the importance of establishing a balance between ownership, mandate, and enhancing competitiveness through a clear legal and regulatory framework supported by a robust coordination structure for oversight (Kim & Ali, 2017).

Government-owned firms can be directly managed by the government through budgetary control or defined as public corporations with separate corporate finances from the government budget. However, these government-owned firms are generally considered less efficient than their private counterparts. This is attributed to their clustering in markets with monopolistic or severely imperfect industrial structures, where political considerations often take precedence over pure profit or firm value maximization. Additionally, the absence of freely tradable shares in the stock market limits the availability of crucial performance information, providing management with more discretion (Kay & Silberston, 1984). Furthermore, government-owned firms are associated with a 'soft budget constraint' (Kornai, 1980; Megginson, Ullah, & Wei, 2014). The principal-agent problem in government-owned firms becomes more complex, involving the public, government, and management (Estrin & Perotin, 1991), resulting in less innovation compared to private firms. Achieving a balance between the state's ownership mandate (appointing boards and exercising oversight) and enhancing the competitiveness of state enterprises is crucial (Shleifer, 1998).

However, there is no consensus or precise definition of firm types based on government ownership or the specific extent of ownership. Definitions vary among researchers. For instance, Hu et al. (2004) define state enterprises as firms with 100% state ownership, while EU (2016) characterizes state enterprises as those in which the state exercises ultimate control. Various authors operationalize government ownership differently. Borisova, Brockman, Salas, and Zagorchev (2012) operationalize it to include state presence in terms of the

percentage of directors appointed by the government and the percentage of government equity shareholding, while Boubakri, Cosset, and Saffar (2013) measure government ownership based on the percentage of shares held by foreign and domestic governments. Financial performance refers to how effectively a firm utilizes its limited resources to generate maximum revenues. Key indicators used to assess a company's profitability include Return on Assets (ROA) and Return on Equity (ROE) (Nwaolisan and Chijindu, 2016). The ability of a firm to achieve continuous growth in operations and sustain that growth level demonstrates its financial performance. Furthermore, it reveals the extent to which the firm has realized its mission, vision, and core values. These non-financial capabilities are expressed in financial terms, which are easily understood by stakeholders (Swain & Patnaik, 2013). This significantly influences investors' decisions regarding where to invest their funds in order to maximize returns (Swain & Patnaik, 2013). In this study, financial performance is conceptualized as ROA and ROE, as these ratios eliminate size effects and provide an objective perspective of the firm (Richard et al., 2009).

The study focuses on state enterprises in Kenya. Despite a wave of privatization over the past three decades, state enterprises (SEs) continue to play a crucial role in the economic growth of both industrialized and emerging nations (World Bank, 2014a). The government serves as a regulator, enforcer of laws and regulations, and asset owner of SEs, which at times impairs their competitiveness and efficiency, despite their socioeconomic importance (Sturesson, McIntyre, and Jones, 2015). Overlapping management and ownership roles of the government, along with vague and indeterminate mandates, have significantly hindered the effectiveness of SEs. These underperforming SEs not only crowd out the private sector and impede domestic financial markets but also deplete the limited resources required to deliver basic services (World Bank, 2014).

Problem of Research

The relationship between government ownership and financial performance is a topic of extensive research in finance literature, yet it remains unresolved (Razak, Ahmad & Joher, 2011; Le & Chizema, 2011; Buck, 2011). Previous studies indicate a connection between government ownership and financial performance, arguing that state enterprises (SEs), particularly those in the commercial sector, play a significant role in formulating financial policies to maximize their performance, including improving capital structure and internal controls (Mueni & Muturi, 2015). However, empirical studies present conflicting results regarding the nature of this relationship. According to agency theory proposed by Jensen and Meckling (1976), agency problems can lead to financial constraints, increasing debt and equity sensitivity, and consequently reducing financial performance. Conversely, trade-off theory, suggested by Myers (1984) and Jensen (1986), proposes a positive relationship between capital structure and financial performance of firms.

State enterprises are often perceived to underperform in comparison to non-state corporations, potentially because governments prioritize social and political objectives over profit maximization. Nonetheless, the performance of SEs remains crucial for the country's economic development (Ongeti, 2014). In Kenya, state enterprises experienced a significant decline of 50% in net profits during the 2018/19 fiscal year, indicating ongoing challenges with their financial performance (PSPMU 2020/2021). Profitability ratios such as

Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin (NPM) have exhibited a general deterioration in SEs' performance (Munyao, 2019). Approximately one-third of commercial SEs have incurred losses over the past three years (Fiebelkorn et al., 2021). Notably, since the 2015/16 fiscal year, no government-owned sugar company has ended the year with a positive balance.

Given the challenges faced by state enterprises, this study aims to contribute to the ongoing debate by addressing the question: What is the relationship between government ownership and the financial performance of state enterprises in Kenya?

Literature Review and Research Focus

The study is grounded in Agency theory, initially proposed by Jensen and Meckling (1976). According to this theory, an agency relationship arises when an entity (the principal) engages another (the agent) to perform services on their behalf, granting the agent decision-making authority. The theory assumes a separation between corporate ownership and control, which is known to potentially impact a firm's financial performance. Sulong and Mat (2010) and Fleming (2005) suggest that when managers hold a smaller portion of a firm's shares, their incentive to pursue personal benefits increases. Conversely, as managers' share of ownership increases, their incentive to invest in sub-optimal ventures and misappropriate assets declines, since their share of the firm's profits grows with ownership, while benefits from perquisite consumption remain constant. Jensen and Meckling (1976) and Niemi (2005) highlight that when managers own shares in the firm, they are motivated to enhance its value rather than diminish it, as they have a vested interest in its success. Moreover, since owners are actively involved in the company's day-to-day activities, there is reduced information asymmetry, fewer conflicts, and a less hierarchical organizational structure. This simplified organizational structure diminishes the need for assurance, monitoring, and subsequent agency costs. The adoption of agency theory in this study is justified by Eisenhardt's (1989) assertion that agency theory is concerned with analyzing and resolving problems arising in the relationship between owners and their professional agents. The study recognizes the relevance of agency theory in examining the relationship between government ownership and financial performance. In the context of state enterprises, identifying the principal becomes challenging, as the government acts on behalf of its citizens, who are the ultimate principals lacking knowledge and authority over the enterprise's operations.

Several studies have investigated the relationship between government ownership and financial performance. For example, Razak, Ahmad, and Joher (2011) examined the performance of Malaysian listed companies, both government-linked and non-government-linked, over an 11-year period. Their study included measures such as Tobin's Q, indicating market performance, and ROA, reflecting accounting performance. The findings revealed that non-government-linked companies outperformed government-linked companies in terms of both Tobin's Q and ROA. This difference was attributed to better corporate governance and specific firm characteristics in non-government-linked corporations. However, this study did not explore the impact of internal controls on the relationship between government ownership and financial performance in state-linked companies, which is the focus of the current study. In another study, Tran, Nonneman, and Jorissen (2014) investigated the influence of government ownership on firm performance

using panel data from Vietnamese firms between 2004 and 2012. They found a negative effect of state ownership on firm profitability and labor productivity. Additionally, the study revealed that firm size played a moderating role in the relationship between state shareholding and firm performance, with higher state ownership enhancing profitability and labor productivity in larger firms. While firm size served as the moderating variable in that study, the current study employs capital structure as the moderating variable.

Le and Chizema (2011) conducted a similar study, exploring the impact of state ownership on firm performance using accounting-based and market-based measures. Their findings indicated a positive association between state ownership and firm performance. However, this study did not account for the role of internal controls or capital structure, which the present study addresses. Alfaraih, Alanezi, and Almujamed (2012) investigated the influence of government ownership and institutional investors on firm performance in Kuwait Stock Exchange-listed firms. They employed Tobin's Q and ROA as performance measures and found a negative and insignificant effect of government ownership on overall performance. However, institutional investors were found to have a positive influence on performance. Another study by Najid and Rahman (2011) examined government ownership and the performance of Malaysian government-linked companies during times of trouble and financial crisis. Their regression analysis demonstrated a positive and significant relationship between government involvement in government-linked corporations and their performance. The study argued that such involvement brings stability and quality to the economy. Borisova, Brockman, Salas, and Zagorchev (2012) explored the relationship between government ownership and corporate governance using a sample of firms from the European Union. Their study revealed that the influence of government ownership on government quality varies across countries, with civil law countries performing poorer compared to common law countries.

A study conducted by Yu (2013) examined the influence of state ownership on firm performance using panel data regression techniques and a sample of 10,639 firm-year observations from non-financial Chinese listed firms. The findings indicated a positive relationship between state ownership and firm performance. The study argued that certain structural reforms played a positive role in shaping how state ownership influenced firm profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE). Moreover, the study revealed that a higher level of state ownership was advantageous compared to a dispersed ownership structure due to the benefits of government support and political connections. While the study utilized a market-based measure (Tobin's Q), the current study will focus exclusively on accounting-based measures. Le and Buck (2011) examined the influence of state ownership on listed firm performance using panel data analysis of over 1,000 Chinese listed firms. Their study revealed a positive association between state ownership and firm performance. Additionally, they found a positive and significant relationship between state ownership and firm efficiency using data envelopment analysis (DEA). It is worth noting that this study focused on Chinese firms and measured efficiency using DEA, whereas the present study primarily focuses on the Kenyan context and employs regression analysis to test hypotheses. Consequently, a proposition emerges that government ownership has an effect on accounting-based measures of performance,

which the study seeks to empirically establish. Huang and Xiao (2012), on the other hand, argue for a net negative effect of government ownership on firm profitability and productivity. However, the study does not provide insight into how other factors, such as capital structure, can influence this relationship.

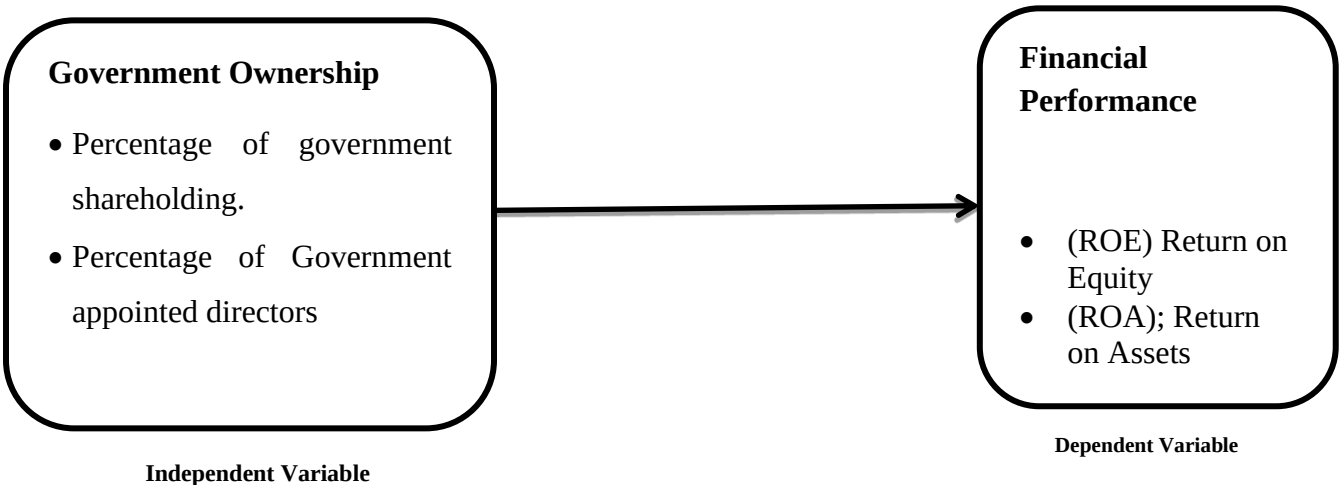
Chen, Chen, and Wei (2017) explored whether state ownership significantly influenced the performance of publicly traded Chinese airlines between 1994 and 2011. Through panel regression tests, the study consistently demonstrated a U-shaped relationship between state ownership and firm performance in the airline industry. Both market and operating performance measures exhibited this convex relationship. Consequently, Chinese airlines with a combination of private and public ownership performed worse than their counterparts, with major conflicts of interest between managers and dispersed owners, as well as government shareholders exerting influence. Given the Chinese government's intention to privatize state enterprises (SEs) and the demonstrated U-shaped relationship, the study suggests that expediting the privatization process for all state-owned airlines could be an optimal course of action to improve industry performance. Khan (2012) examined the relationship between capital structure decisions and performance using pooled data and the OLS regression method, focusing on engineering firms in the Pakistani market. The study revealed a significant negative link between short-term financial leverage and company performance, as measured by ROA. Chinaemerem and Anthony (2012), using panel data and OLS regression, investigated how capital structure influenced the financial performance of non-financial firms owned by Nigerians listed on the Nigerian Stock Exchange. Their findings showed that the Debt Ratio, representing a company's capital structure, had a negative impact on financial metrics such as ROA and ROE. Notably, the study did not quantify the concept of government ownership and primarily focused on listed non-financial enterprises.

Huang, Kabir, and Zhang (2016) employed regression analysis to examine the relationship between capital structure and the concentration of government ownership in Chinese enterprises. Their study found no impact on a firm's capital structure at lower levels of government ownership, but concentrated non-government ownership increased leverage. In their empirical study on the effect of ownership structure on airlines' financial performance, Suhardjanto and Ajibroto (2017) investigated the relationship between independent variables including foreign ownership, government ownership, institutional ownership, and the control variable of firm size, with the dependent variable being return on equity (ROE). The results of their research demonstrated that foreign and government ownership had a positive effect on the financial performance of airlines. However, institutional ownership and firm size did not show a positive effect on financial performance, specifically in terms of return on equity. In addition, Heracleous (2001) examined the ownership debate concerning the performance of state-owned enterprises (SOEs). The central question addressed in the paper was whether superior performance could be achieved under state ownership. While the traditional belief, supported by empirical evidence, suggests that private ownership is generally associated with superior performance, the experience of Singapore serves as a clear counterexample to this notion.

A conceptual model has been constructed to illustrate the presumed relationships between key variables in this study. The development of this conceptual framework draws upon the

extensive literature review conducted (Ravitch & Riggan, 2012). The conceptual framework serves as a hypothetical model that identifies the concepts or variables examined in the study and elucidates their relationships. In the context of this study, the conceptual framework aims to comprehend the relationship between government ownership and financial performance constructs. The interrelationships among the variables are visually depicted in Figure 1.

Figure 1: Conceptual Model



Independent variable Dependent variable

Methodology of Research

General Background of Research Methodology

This study employed a positivist philosophy and adopted a descriptive longitudinal design to investigate the research objectives. The target population of this study comprised state enterprises in Kenya. Secondary data was utilized as the primary source of information. To ensure the data's suitability for analysis, data diagnostics were conducted, verifying that the data met the necessary criteria for subsequent tests.

In order to test the hypothesis, simple linear regression analysis was employed in this study. The general model utilized to predict financial performance was represented as follows:

$$Y = \alpha + \beta 1X1 + \varepsilon 1$$

In this mol, Y represents the financial performance, which is assumed to be a linear function of X1, denoting government ownership. The coefficient α represents the intercept, β1 represents the regression coefficient, and ε1 represents the error term accounting for unexplained variations in financial performance. Through this regression analysis, the study aimed to examine the relationship between government ownership (X1) and financial performance (Y).

Sample of Research

A pilot study was conducted to provide initial insights and shape the main research on the relationship between government ownership and financial performance of state enterprises in Kenya. The pilot study aimed to test the research methodology, data collection instruments, and procedures in a smaller-scale setting, allowing for refinements and improvements to be made before undertaking the full-scale research. To begin the pilot study, a sample of state enterprises was selected, representing a diverse range of industries and ownership structures. Data from secondary sources, such as financial reports and corporate documents, was collected for the selected enterprises (eight State Enterprises were used). During the pilot study, data diagnostics were performed to assess the quality and reliability of the collected data. Descriptive statistics and preliminary analyses were conducted to gain initial insights into the variables of interest and identify any potential challenges or limitations. The pilot study involved running the simple linear regression analysis using the general model: $Y = \alpha + \beta 1X1 + \varepsilon 1$, where Y represented financial performance and X1 represented government ownership. The regression analysis aimed to explore the relationship between these variables and determine the initial direction and magnitude of their association.

The analysis of the pilot study revealed a statistically significant positive relationship between government ownership and financial performance. The coefficient $\beta 1$ was found to be 0.56 ($p < 0.05$), indicating that for every unit increase in government ownership, financial performance increased by 0.56 units. Based on the findings of the pilot study, several adjustments were made to the main research. The sample size was expanded to include a larger number of state enterprises to enhance the representativeness and generalizability of the results. Additionally, the data collection process was refined, incorporating feedback from the pilot study to ensure the accuracy and completeness of the collected information. Furthermore, the pilot study highlighted the need for additional control variables, such as firm size and industry characteristics, to account for potential confounding factors. This insight led to the refinement of the research design, incorporating these control variables into the main study to obtain a more comprehensive understanding of the relationship between government ownership and financial performance.

Instrument and Procedures

The research relied on secondary data obtained from financial reports, corporate documents, and other relevant sources. These data sources provided information on variables such as government ownership and financial performance. The research procedures entailed identifying state enterprises, followed by data collection and cleaning; a comprehensive list of state enterprises in Kenya was compiled to define the target population for data collection. Data retrieval was then undertaken where financial reports and corporate documents of the selected state enterprises were collected from reputable sources, ensuring data reliability and accuracy. The collected data underwent a thorough cleaning process to remove any inconsistencies, errors, or missing values. This step aimed to enhance the quality and reliability of the dataset. Where necessary, certain variables were transformed to ensure adherence to assumptions of regression analysis, such as normality and linearity.

Data Analysis

Diagnostic tests were conducted to assess the assumptions of the simple linear regression model by conducting linearity and normality tests. The research employed a simple linear regression model, represented by the equation $Y = \alpha + \beta 1X1 + \varepsilon 1$, where Y represented financial performance and X1 represented government ownership. The regression model was estimated using appropriate statistical software, considering the dependent and independent variables. The statistical significance of the relationship between government ownership and financial performance was evaluated by conducting hypothesis tests, primarily focusing on the coefficient β1. The estimated coefficients, their statistical significance, and the direction of the relationship were interpreted to draw conclusions regarding the research objective.

A simple regression analysis was utilized where government ownership was regressed against financial performance indicators. This process aimed at testing the first objective of the study which was to determine the relationship between government ownership as the predictor variable and financial performance aspects that is; return on equity and return on assets through formulation of the sub hypotheses.

H_{01a}: *There is no significant effect of Government Ownership on Return on Equity*

H_{01b}: *There is no significant effect of Government ownership on Return on Assets*

Table 1 (a), (b) and (c), summarizes the results on the effect of Government Ownership on Return on Equity

Results of Research

Table 1: Results of Regression on ROE

Variable	Unstandardised Coefficients	t- value	Sig.	VIF
Constant	6.292	4.437	.000	
Government Ownership	9.33	7.503	.000	1.0565
Adjusted R^2	.125			
F. Statistic	56.299			
Sig F. Statistic.	0.000			

Table 1(a): Model Goodness of Fit on the Relationship between Government Ownership and Return on Equity

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.354[a]	.125	.123	1.73186	.125	56.299	1	538	.000
a. Predictors: (Constant), Government Ownership									

According to the model summary, the linear relationship between government ownership and Return on Equity (ROE) revealed a coefficient of determination (R^2) of 0.125. This indicates that government ownership influences ROE by 12.5%. However, it is important to note that the model accounts for only 12.5% of the variation in ROE, suggesting that additional factors should be considered to improve the predictive ability of the model and explain the remaining 87.5% of the variation.

Table 1(b): Model Overall Significance on the Relationship between government ownership and Return on Equity

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	168.858	1	168.858	56.299	.000[b]
	Residual	1181.738	538	2.999		
	Total	1350.596	539			
a. Dependent Variable: Return on Equity						
b. Predictors: (Constant), Government Ownership						

The analysis of variance (ANOVA) of the regression model results in Table 1(b) demonstrated that the residual had a mean square of 2.999, while the regression sum of squares was 168.858 and 1,181.738, respectively. The F-statistic from the ANOVA regression findings was 56.299, with a p-value of 0.000. A p-value below 0.005 indicates a high level of significance, indicating that the model is highly reliable in making predictions.

Table 1(c): Regression Coefficients on the Relationship between government ownership and Return on Equity

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.292	1.418		4.437	.000
	Government ownership	9.333	1.244	.354	7.503	.000
a. Dependent Variable: Return on Equity						

Table 1.1(c) presents the results of the coefficients for the independent variables, which measure the strength of the

association with the dependent variable. The model yielded a constant value of 6.292, a t-value of 4.437, and a p-value of 0.000 (<0.05). Notably, a significant positive coefficient of 9.333 was found for government ownership, accompanied by a t-value of 7.503 and a p-value of 0.005 (<0.05).

Based on the findings in Tables 1.1(d), 1.1(e), and 1.1(f), the analysis revealed a moderate association (R = 0.354) between government ownership and Return on Equity. The coefficient of determination (R^2 = 0.125) indicates that government ownership explains 12.5% of the variation in ROE. The F-statistic was 56.299, with a significance level of $p < 0.05$, demonstrating overall model significance. Additionally, the t-value in the coefficient table (=9.333, t=7.503, p<0.05) further supports the significant relationship. These findings highlight the crucial role of government ownership in determining Return on Equity for state-owned enterprises, refuting the notion that government ownership has no impact on ROE.

The study also determined the influence of government ownership on Return on Assets through a sub hypothesis (H_{1b})

H_{01b}: *There is no significant effect of Government Ownership on Return on Assets.* Results are presented in Table 1 (d)

Table 2: Results of Regression on ROA

Variable	Unstandardised Coefficients	t- value	Sig.	VIF
Constant	1.784	2.406	<0.005	
Government Ownership	.394	2.224	<0.005	1.0565
Adjusted R^2	.105			
F. Statistic	4.945			
Sig F. Statistic.	0.000			

Table 2 (a): Regression Results from the Test of the Effect of Government Ownership and Return on Assets

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.3254	.105	.084	.42150
a. Predictors: (Constant), Government ownership				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.879	1	.879	4.945	.032[b]

	Residual	7.462	538	.178		
	Total	8.341	539			
a. Dependent Variable: Return on Assets						
b. Predictors: (Constant), government ownership						
Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.784	.741		2.406	.021
	Government ownership	.394	.177	.325	2.224	.032
a. Dependent Variable: Return on Assets						

Furthermore, the analysis revealed a weak but significant association (R = 0.325) between government ownership and Return on Assets. The Coefficient of Determination (R^2 = 0.105) suggests that government ownership explains 10.5% of the variation in Return on Assets. The overall model is significant (F=4.945, $p<0.05$). The standardized beta coefficient (Beta = 0.325, t = 2.224, $p<0.05$) indicates that a unit increase in government ownership leads to a 0.325 increase in return on assets. This demonstrates that government ownership significantly contributes to Return on Assets, rejecting the hypothesis that government ownership has no significant influence on Return on Assets.

Discussions

The research's conclusions shed important light on the connection between state ownership and state-owned firms' financial performance. The analysis disproved the claim that government ownership has no effect on financial performance by showing that government ownership significantly affects both Return on Equity (ROE) and Return on Assets (ROA). According to the coefficient of determination (R^2) for ROE, 12.5% of the fluctuation in ROE can be attributed to government ownership. This suggests that the profitability of state-owned firms is significantly influenced by government ownership. Higher levels of government ownership may be linked to better ROE, according to the positive coefficient of government ownership. This conclusion emphasizes the value of political connections and government assistance, both of which can be advantageous and improve financial success. A substantial correlation between government ownership and ROA was also shown by the analysis. According to the coefficient of determination (R^2), 10.5% of the fluctuation in ROA can be attributed to government ownership. This suggests that public ownership enhances the effectiveness and productivity of state-owned businesses. This relationship is further supported by the positive and substantial coefficient of government ownership, which shows that government ownership has a favorable impact on ROA. The policymakers, managers, and stakeholders in state-owned businesses should take these findings seriously. They contend that when assessing

financial performance, government ownership should not be disregarded. Instead, it need to be seen as a crucial element in determining the performance and profitability of state-owned businesses. The findings highlight the necessity for efficient governance measures, such as good corporate governance standards and internal controls, to guarantee that government-owned businesses run effectively and deliver the best possible financial results.

Conclusions and Recommendations

The study aimed to examine the impact of government ownership on financial performance, specifically measured by Return on Equity (ROE) and Return on Assets (ROA). The findings revealed a significant positive relationship between government ownership and both ROE and ROA. Consequently, the hypothesis suggesting no significant influence of government ownership on financial performance was rejected. These results highlight the crucial role of government ownership in determining the financial performance of state enterprises in Kenya. This study makes notable contributions to the existing body of knowledge in several ways. Firstly, it expands the empirical literature on the relationship between government ownership and financial performance within the context of emerging markets, specifically focusing on state enterprises. The documented effects of government ownership on financial performance provide valuable insights for investors and corporate managers of state enterprises when evaluating the factors that contribute to optimal financial performance. Additionally, this research sheds light on the evolving dynamics of financial performance in the presence of government ownership. By uncovering the positive relationship between government ownership and financial performance, this study enhances our understanding of how government involvement can influence the financial outcomes of state enterprises. Furthermore, these findings have practical implications for policymakers and stakeholders involved in state enterprises.

Recognizing the significant impact of government ownership on financial performance allows policymakers to develop effective strategies and governance mechanisms to ensure the success and profitability of state enterprises. Overall, this study contributes to the existing literature by deepening our understanding of the relationship between government ownership and financial performance in state enterprises. The findings provide valuable insights for theory development and offer practical guidance for investors and policymakers operating in similar contexts.

Acknowledgements

I am deeply grateful to my esteemed advisors, for their unwavering support and guidance throughout this research journey. I acknowledge the contributions of Kenya Government Treasury, investments department, the Privatization Authority and Various State Enterprises senior management. I extend my gratitude to the University of Nairobi for providing the necessary resources and platform for this collaborative endeavor. It has been an honor to undertake this research jointly with Dr. Kennedy Okiro and Dr. Winnie Nyamute.

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