

INFLUENCE OF INSTITUTIONAL SHARE RATIO ON FINANCIAL PERFORMANCE OF SUGAR FACTORIES IN WESTERN KENYA**^{1,*}Musabi Antony Barasa and ²Priscilla Ong'ayo**

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Received 12th February 2021; Accepted 17th March 2021; Published online 27th April 2021

Abstract

Existing literature points a conflicting relationship between Institutional Share Ratio and financial performance of sugar factories in western Kenya. More alarming is the extend of weak corporate governance that continues to haunt sugar factories with many experiencing financial scandals that has culminated to their collapse. Though existing studies shallowly focus on the term corporate governance, this study critically investigated institutional shareholding ratio and financial performance of sugar factories in Western Kenya. The study is based on Stewardship theory and adopted descriptive survey research design, targeting 130 officers from sugar factories in Western Kenya. Sample size was determined using Taro Yamane's proportional sampling technique formula. Primary data was collected by means of self-administered questionnaires, then coded, cleaned and analyzed using descriptive and inferential statistics using (SPSS) software. Results were presented using tables for easy readability. Data was organized into graphs and tables for quick and easier reference. Also, inferential statistics, regression and correlation analyses in order to assess the strength of the relationship between the dependent and independent variables. The study findings showed a positive high correlation between institutional share ratio and financial performance ($R= 0.706$ with profitability). It was evident from results that institutional share ratio has positively contributed to financial performance of sugar factories in Western Kenya and there was variation on financial performance due to changes in institutional share ratio. The study recommends that commercial banks should adhere to prudential regulations to ensure financial stability and increased financial performance coupled with increased volume of business. It also recommends sugar factories management should adhere to and implement good corporate governance. Furthermore, Kenya Sugar Board which is the regulator should tighten regulations and monitoring to ensure compliance with statutory regulations so as to protect institutional investors and encourage investments. The study concluded that institutional share ratio influenced financial performance of Sugar factories in Western Kenya.

Keywords: Institutional Share Ratio, Financial Performance of Sugar Factories.

INTRODUCTION

Institutional investors are companies that control huge amounts of money and buy securities and own them for their clients such as mutual funds, pension funds and insurance firms. Fragile financial performance and unstable business environment for sugar factories has led to different studies and reports on ways of improving their performance with focus on corporate governance. In this perspective, though laws have been made, (Tower, 2018) points out that Good corporate governance and financial performance have a positive relationship. The notion of whether institutional share holding ratio influence finance performance positively or negatively is still a matter of debate (Curtis, 2020). Institutional investors scaled back investments in emerging markets and withdrew from investments in britains during 2020, in comparison, a research by State Street corporation (2021) opines that investors have more positive outlook in the year 2021 having reached a risk neutral level across asset classes after starting last year with the highest cash level since 2009 financial crisis. While a survey by Natixis (2021) found that institutional investors put their portfolio on defense in anticipation of rising risks and had greater preference to equity diversification and value promotion than growth which is viewed as unsustainable, performance hard won and fragile.

Globally, in UK and US institutional investors rose to limelight at the start of 20th Century, this was attributed to changes in economic access and how government protects investors. A study by Rutterford and Hannah concludes that policy makers need to balance market competition and regulation to insure a system capable of delivering adequately in future. Thereafter it has grown tremendously and championed as a way of promoting financial health of firms. In Kenya, corruption, financial scandals and collapse of major and big companies has made it possible to re examine the influence of institutional share ratio in organizations (Sentnor, 2017). Capital Market Authority and Private Sector Corporate Governance Trust Kenya has tirelessly advocated for institutional investors as a way of dealing with turmoils within the financial system. In Africa, based on findings from Egypt no effect on firm performance (Wright 2017). In Nigeria corporate governance mechanisms are important determinants of firm performance (Atkins, 2020). Uganda, a study by Lwanga (2014) opined that corporate governance had no significant relationship with the financial performance. Crucially, that corporate governance has been dynamic. Sugar factories in Kenya are worst hit with big companies collapsing totally to oblivion.

Sugar Factories in Western Kenya: The future of sugar factories in Kenya is dim. The sector is hurtling towards uncertain future as the deadline for COMESA safety nets looms. Inadequate sugarcane to mill and obsolete technology have always been the fall guy when it comes to poor

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performance by local factories. It costs \$400 to produce one tone of sugar in Mauritius but it costs to times to produce the same tone in Kenya (Andae, 2018). Low productivity of sugar in the country has been blamed on deteriorating soil fertility, low adoption of high yielding sugar varieties and land subdivision into uneconomic sizes. Kenya has been hit by deficit making the government to allow cheap imports into the country that has further threatened the life of local millers. It dawn that factories are hanging on large stocks that they are unable to dispose due to imports in the year 2017. Recently, Muhoroni Sugar Company was shut down due to debts and unpaid taxes that has led to loss of jobs by majority of workers. The reports that Muhoroni Sugar company is in dire financial difficulties did not come as a surprise as close observers of local sugar sector in Kenya. Commercial banks shut their doors for the miller and it cant access funds prompting it to shut down its plant. The same woes are facing other state owned companies such as Chemilil, Sony, Nzoia and Mumias. The Kenyan government through Treasury scrap duty on sweetener from outside regional market which allowed traders to import 1300, 000 tonnes of sugar which is three times the limit the country is required to bring in a year. This plunged the country into crises as sugar unfit for human consumption was smuggled secretly into the country by corrupt cartels. Data by Sugar directorate millers are holding 20000 tonnes of sugar as they are unable to get market. Sugar prices in Kenya are twice as expensive as the average international price. A kilogram of sugar in Kenya costs sh60 in Europe while in Kenya it is shs 200. Kenya has also not met conditions set by COMESA before safeguards are lifted next year. The country has been seeking extension of deadline due by February, year 2019 with little progress in meeting the conditions. Privatization commission is also on losing as Governors in all counties in Kenya have rejected the plan to privatize five state owned factories by August this year 2018. They want the millers to be handed to devolved units citing woes at Mumias Sugar Company. Most suagr factories are struggling with ageing machines and perennial fight for dwindling raw materials. Production cost for millers in Kenya is also very high compared to other COMESA countries, meaning most sugar factories in Kenya may be edged out of the market if safeguards for local companies are lifted.

The crises of sugar factories in Kenya have gone to the extent of capturing the attention of Presidency. A task force known as Presidential Taskforce on Parastatal reforms was appointed and it is time for its recommendations to be implemented. Tax payers should not continue shouldering the burden of loss making agencies that can thrive if privatized. Sugar sector is one of the most important agricultural sectors in western Kenya. In 1997, it employed 35000 workers as a source of income to over 100,000 small scale farmers and supported over 2 million people. By 2000 the number of people employed had reduced to 10,552. The status and importance of sugar as a source of livelihood and viable economic concern is under threat from changes and factors in sugar industry such as decline in productivity at farm level and factory level coupled with increased inefficiency. Sugar growing areas are poverty ridden and the bad news is that their source of livelihood which is sugar factories is on collapse trend (Ndemo, 2018). It is time to rethink the path of sugar factories in Western Kenya. Experts have recommended change in business models and have also argued that reforms for sugar industry in its current state may be futile. Despite reforms and efforts such as privatization, diversification and bailout by the government to

rescue collapsing millers. Millers in Western Kenya are ailing. Muhoroni sugar has been shut while Mumias Sugar Company has hence closed with Nzoia and Sony Companies staring at similar fate. Dilemma is whether these companies have established Corporate Governance mechanism and whether this has any influence on their financial performance. This study seeks to investigate the influence of Institutional share ratio on financial performance of sugar factories in Western Kenya.

Financial Performance: Financial performance is the overall financial health of firms as indicated by how well a firm uses its assets to generate income. This can be measured by use of profitability index, return on asset, return on equity, ability to utilize debts and comparison industry performance. This study utilized return on asset and return on equity as indicators of financial performance. The study variables are disclosure, board independence, shareholder rights and Legal and Regularity as the factors affecting the financial performance of sugar factories in Western Kenya. Furthermore Mugenda *et al* (2015), notes that one element cant show all aspects of a firms financial performance which necessitates the use of multiple factors.

Statement of the Problem

Sugar factories in Western Kenya have collapsed, while a few are on brink of collapse with many struggling financially. More complicating is the volatility, political tension, rising social unrest, negative rates, higher taxes and other fallout from fiscal and monetary response to covid crisis is viewed as long term risk by institutional investors. Institutional Share Ratio crises resulting from non adherence and breach of corporate governance continue to haunt majority of sugar factories. Efforts to continue tightening regulatory environment from the government including even bailing them out has not bore any fruits and has been inconsequential in improving their financial health (Wafula, 2018). Sugar factories continue to face turbulent business environment (Mutai, 2019). Since 1963, Statistics from Kenya Sugar Board indicates that more than 50% sugar companies have collapsed and recently collapse of Mumias Sugar Company, Muhoroni Sugar Company, Sony Sugar reveals breach of corporate governance principles. The few remaining factories are operating at low capacity (Kenya Sugar Board, 2018). Though institutional share ratio is a weighty issue, it is shocking that though few researches have been done, they have failed to link it to financial performance of sugar factories. Further, conflicting findings have been made by different studies on institutional share ratio with some pointing out that it has no effect on firm's performance while others finding out no existing relationship. Different perspectives and ideas have been fronted on how sugar factories should be managed and governed to avoid their collapse. A study by Wu, Huang and Ni (2019) studied whether institutional shareholders affect the price limits in Taiwan and found that Institutional Share Ratio significantly affects several stock limit ratios. The study recommended another study to longer times period. Whereas, Tracy (2021) found that institutional share owners may pressure management into restructuring the company, diverting certain business segments, selling off assets and even put the firm on sale. With Limited existing empirical evidence, this research examines the influence of institutional share ratio on financial performance of Sugar factories in Western Kenya.

Objective of the Study

General Objective: This study investigates the influence of corporate governance on financial performance of Sugar factories in Western Kenya.

Specific Objectives: To assess the influence of institutional share ratio on financial performance of sugar factories in Western Kenya.

Research Hypotheses

H₀₁: Institutional Share ratio does not significantly influence financial performance of Sugar Factories in Western Kenya.

Justification of the Study

This study was nefit Sugar Industry Sector since it will enable them to know how to govern and manage companies to avoid their collapse and ensure stable business environment. Researchers and scholars will use this study as reference material and it will establish empirical evidence on the relationship between institutional share ratio and financial performance of sugar factories. Investors and Shareholders was aided in making their investment decisions.

Scope of the Study

The study examined Institutional Share Ratio and financial performance of Sugar factories. It was in Western part of Kenya. The Sugar factories studied are Miwani Sugar factory, Muhoroni sugar factor, Nzoia sugar factory, Butali Sugar factories, Busia Sugar Industries and West Kenya Sugar factories. The study was be done this year 2021.

LITERATURE REVIEW

Theoretical Review

Stewardship Theory: Stewardship is a where shareholders wealth is maximized. Stewardship theory states that executives need to protect the interest of owners and make interest on their behalf (Subramanian, 2018). They are expected to shelve their self interests and champion the broader interest of shareholders and even go an extra mile in maximizing profits for the benefit of shareholders. The stewardship perspective suggests that stewards are satisfied and motivated when organization success is attained (Chron, 2021). Flynn (2018) further argues Stewardship Theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust as adapted by (Donaldson & Davis, 1991). Villers (2020) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to maximize firm's financial performance as well as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Sardais (2021) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization. Stewardship model can have linking or resemblance in a country like Japan, where the worker assumes the role of stewards and takes ownership of

their jobs and work at them diligently. Moreover, stewardship theory suggests unifying the role of the Chief Executive officer and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized, indeed, this can minimize the costs aimed at monitoring and controlling behaviours (Klettner, 2021). It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson & Davis, 1997). Stewardship theory was used because it is a shareholder manager relationship and can encourage integration of wider economic and societal concerns including that of institutional shareholders ownership issues in an effort to influence financial performance of sugar factories in Kenya.

Conceptual Framework

This is a diagrammatic representation of the relationship between independent variables and dependent variables. In this study the independent variables are Institutional share ratio, the dependent variable is financial performance of Sugar Factories in Western Part of Kenya. This is illustrated as follows, in Figure 1:

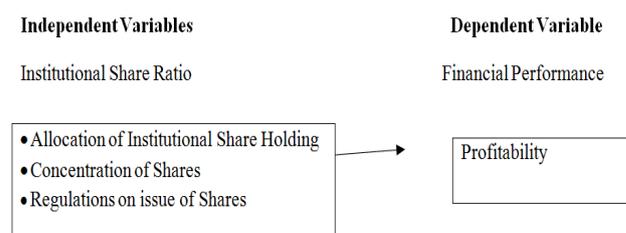


Figure 1. Conceptual Framework

Review of Variables

Institutional Share Ratio: Institutional share ratio refers to the amount of stock owned by individual investors and large-block shareholders. Tingso (2019) undertook a research on corporate governance and firm performance from Vietnam in which ownership concentration had significant relationship with performance of 0.17 at 95% confidence level. In Bahrain there was positive relation between ownership concentration and firm's financial performance (Buffalo Funds, 2020). Mocha (2014) concluded that companies with a concentrated ownership structure devise schemes whose sole purpose is to dilute and appropriate minority shareholders investments as was the case with Cooper Motors Corporation. Because of the absence of good corporate governance, public corporations suffer from poor disclosure, absence of integrity, accountability and transparency. The consequence is that it creates avenues for fraudulent dealings, tax evasion, conflict of interest and corruption. Further, Kahler (2017) state that the most significant feature of corporate governance is to protect the minority shareholders who are not active as compared to the large and active majority shareholders. Vanguard (2020) researched on Corporate Governance and Performance on Italian Companies with a sample of 134 out of 182 listed companies for two years of study thus 2003 and 2007. The conclusion was that Ownership Structure showed ambiguous relationship to corporate governance. La Portal et al. (2002) formulated a model of the effects of legal protection of minority shareholders and of cash-flow ownership by

controlling shareholder on the valuation of firms. The model was tested empirically using sample of 539 large firms from 27 developed economic countries. The results revealed that there was higher valuation of firms in countries with well protection of minority shareholders, and firms with higher cash-flow ownership by controlling shareholders. Dommi (2020) undertook research on stock ownership and corporate performance in Japan. The researcher concluded that stock ownership positively influenced corporate governance and performance. Kim (2019) researched on Impact of Institutional shareholding on performance of microfinance institutions in Kenya. The findings were that institutional shareholding had negative influence on performance of microfinance institutions. The researcher concluded that interest rate had a significant and positive impact on interest income. Gikera, Muringo and Vadgama (2020) used ordinary least square method to ascertain the assessment of the effects of interest rates deregulation in enhancing agricultural productivity in Nigeria. The study found out that interest rate play a significant role in enhancing economic activities and as such, monetary authorities should ensure appropriate determination of interest rate level that will break the double edge effect of interest rate on savers and local investors. Swabe, Barker Kakaba Hildyar and Morris (2020) used error correction model to investigate interest rate determination in Nigeria. The study concluded that as the Nigeria financial sector integrates more with global markets, returns on foreign assets will play a significant role in the determination of domestic interest rates. Kipnetich (2011) using regression model to investigate the relationship between interest rates and ROE with financial performance as the independent variable and interest rate as the dependent variable established that there is a positive relationship between the two variables though the effect of interest rates on profitability is not significant in the all the financial institutions. In his view all the other factors which influence profitability needs to be enhanced to in order to improve the financial performance of financial institutions in Kenya. Ngima (2014) investigated the factors affecting the Performance of Small and Medium Enterprises in the Jua Kali Sector in Nakuru Town, Kenya. The study adopted a survey research design and employed a stratified random simple sampling. Primary data was collected from 262 study respondents using structured questionnaires. The study findings revealed that although the access to finance had the capability to positively influence performance of SMEs they had not been fully utilized to the advantage of the SMEs in the Jua Kali Sector.

Empirical review of literature related to the study

Institutional Share Ratio and financial performance of Sugar Factories: Rodney (2019) undertook research on Institutional share ratio and Performance in Pakistan. Regression analysis was used to analyse data. The result indicated a positive relationship between board size and performance. CEO duality had a negative relationship with firm performance. The study recommended further research in other sectors of the economy and in other countries. Sample and population taken was not specific in this study. The study may not be representative of the entire country and the whole world. Scielo (2018) researched on Institutional Share Ratio and Performance of Manufacturing firms in India. The period of study was 2001-2010 and sampling method was used in choosing sample firms listed on Bombay Stock Exchange. Population of 6000 firms listed on Bombay Stock Exchange was taken and a sample of 1732 firms were considered after

excluding banking, insurance and financial firms. These firms were excluded as they were governed by different bodies and their accounts were differently structured. Data was analysed using multiple regression method. Firm's value and board size which were used as independent variables were found to have a positive significant impact on performance. The researcher recommended further study on this line of research to unearth more information on corporate governance and performance. In Somalia, Sakawa (2017), examined the relationship between Institutional Shareholder ratio and performance of International Non-Governmental Organisations in Somalia the study found that the majority of the organisations which had implemented corporate governance practices had weak or insignificant positive relationship with performance. Kiruri, (2013) sought to investigate the effects of ownership concentration on bank profitability in Kenya. The findings of the study indicated that ownership concentration had negative effects on bank profitability. Further, higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and domestic ownership lead to higher profitability in commercial banks.

Critique of Literature Review

Despite the fact that many studies have been conducted in many countries on corporate governance and performance of organization, this has not been the case in Kenya, additionally many studies have failed to link corporate governance and financial performance of sugar factories. A study by Shem (2019) dwelled on implementation of Corporate Governance in India and found that it has an association with performance firms. While, Lugaliki (2016) focused on Kenyan perspective and the finding was that corporate governance affects profitability. In this regard, however, these findings are just the tip of the iceberg hence we can't assume and generalize them in Kenyan context. This comes against the backdrop of intense pressure for government to come to aid of Sugar factories which are collapsing. Notably, existing studies have become irrelevant due to the fact that most of them were carried out a few years ago and recent trends and dynamics in Sugar industry points to the reality that the sector has experienced rapid changes.

Summary of Reviewed Literature

Literature on influence of institutional share ratio and financial performance of sugar factories in Western Kenya was detailed. It also highlights the theoretical framework that is the pillar and foundation of institutional share ratio and financial performance. Conceptual framework has been drawn to show the relationship between institutional share ratio and financial performance of sugar factories. Empirical review on existing studies has also been evaluated so as to appreciate studies already conducted, its critique has been given and eventually knowledge gaps in research identified at the end of this chapter.

Knowledge Gaps

Studies already conducted on Influence of institutional share ratio and Financial Performance have not been exhaustive but have only escalated debate through their conflicting findings and recommendations for further studies A study by Kibirige (2019) on corporation governance and profitability found that board size and board independence affect profitability. The

study recommended another research be carried on private and public companies on corporate governance and profitability. Further, a study by Betta (2017) Corporate Governance in Pakistan found no relationship between corporate governance and performance but advised that another study be conducted in other countries. Price (2017) did a study on Corporate Governance and firms' performance and noted that there is association between the two variables. While Ssekakubo and Lwanga (2015) found that there was no relationship between corporate governance and financial performance. These studies are wide and do not specifically address sugar factories in Western Kenya. The existing studies have been conducted in developed countries and little empirical evidence exist in developing countries like Kenya and specifically Western Part of Kenya. Hence this study will fill this knowledge gap. Currently, there is no agreement on whether corporate governance and financial performance are related.

RESEARCH METHODOLOGY

This section outlines research design, target population, sampling techniques and sample size, data collection instruments and procedure, pilot testing, data analysis techniques.

Research Design

This research employed descriptive survey design. This is because it gives exhaustive information on population under study. It gathers data on individuals behaviour and perspectives regarding firms being studied (Mbithi 2019). Also, the reasons leading to existing conditions under research are highlighted through this design (Price, 2019). Descriptive Research design will establish the relationship between the independent variables under study and dependent variables, including the moderating effect of the government regulations and policies.

Target Population

This refers to all the elements under study entire group of individuals (Shikuku and Miroga, 2018). The target population was managers of 7 sugar factories in Western Kenya totaling to 130.

Table 1. Target population

Category of employee	No. of targeted respondents
Internal audit managers	13
Risk Managers	13
Compliance Managers	13
ICT managers	13
Loans managers	13
Personal banking managers	13
Finance managers	13
Debt Collection Managers	13
Credit Managers	13
Human Resource Managers	13
Total	130

Sampling Frame

This is listing of all elements of the population (Cooper & Schinder, (2009). Comprehensive list of elements from which sampling was conducted. This research has managers from sugar factories in Western part of Kenya as sampling frame.

Sampling Technique and Sample Size

Sample size: Taro Yamane's proportional sampling technique formula was used to determine sample size. This is because it gives a realistic sample size to enable researcher carry out further analysis and form appropriate opinion.

$$\text{Sample } n = N / (1 + (e)^2)$$

Where n = Sample size, N = population under study, E = margin error (0.05), I = constant

$$n = 130 / (1 + 130 (0.05)^2)$$

$$n = 130 / (1 + 120(0.0025))$$

$$n = 130 / (1 + 0.325); n = 130 / 1.325$$

$$n = 98$$

Table 2. Sample Size

Category of Staff	No. of Senior Management Staff (N)	Sample n= (N/Target Pop.) x Sample size
Internal audit managers	13	10
Risk Managers	13	10
Compliance Managers	13	10
ICT managers	13	9
Loans managers	13	9
Personal banking managers	13	10
Finance managers	13	10
Debt Collection Managers	13	10
Credit Managers	13	10
Human Resource Managers	13	10
Total	130	98

Sampling techniques: This study will utilize stratified simple random sampling technique. This is due to the fact that this technique gives equal chance to all items hence it is not biased.

Research Instruments

The research applied self administered questionnaires. This is because they collect more data compared to other methods and they also save on time taken in data collection. Mukanzi and Mukanzi (2016) opines that questionnaires as an instrument of data collection is the best method since it collects data from the source giving the researcher actual experience in the field.

Data Collection Procedure

Data was collected through use of self administered questionnaires. The questionnaire was administered by the researcher to the selected respondents who are managers of sugar factories in Western part of Kenya.

Pilot Testing of Research Instruments

Dillman (2007) defines pilot test carrying out a small version of the study before the actual study. This is aimed at identification of problems in advance and making appropriate corrections in preparation for the actual study. This study will pilot test a sample of 12 managers before carrying out the actual testing.

Validity Testing: Based on study by Wasike (2017), validity is the degree to which a test measures what it purports. Validity can either be content validity or construct validity (Kothari, 2004). Kivwanyiri and Mbithi (2016) recommends expert in giving insight. Researcher will validate the data collection instrument by seeking expert opinion from managers of sugar factories.

Reliability Testing

Cronbach's alpha coefficient was used to determine reliability of the questionnaires. Internal consistency was used in which closely relates a set of items are taken as a group. Mugenda and Mugenda (2009) is ability of an instrument to give consistent outcome when several trials are carried out. Cronbach (1946) recommends reliability coefficient of more than 0.70

Data Analysis and Presentation

Descriptive and inferential statistics was utilized in this study. The SPSS was used to analyze questionnaires. The inferential statistics comprised of Pearson correlation and multiple regression analysis at 0.05 significance level. The model that was applied is as follows

$$Y = \beta_0 + \beta_1 X_1 + e$$

Where: β_0 = Constant

Y=Financial Performance

X2- institutional share ratio

e = Error term normally distributed about the mean of zero

RESEARCH FINDINGS AND DISCUSSION

Introduction

This section outlines analysis, findings and discussions on the objective of the study. Linear regression results have been detailed. It also hypothesis testing and discussions thereof

Response Rate

From 98 questionnaires send, return was 82 that had successfully been filled, this represented response rate of 83.6%. Greater response rate was attributed to patience on the side of researcher. This result was analyzed to be a representative of the entire population.

Reliability and Validity of Research Instruments

Content validity was used to test validity of instruments. Questions were evaluated to ensure they are clear in terms of words and made sure there is enough content based variables. Reliability test was done using Cronbach alpha which assessed internal consistency. The end result was presented on Table 3 shows Cronbach alpha coefficients values of 0.7 hence the instruments were reliable.

Table 3. Results of Reliability test

Variable	Number of items	Cronbach alpha
Institutional Share Ratio	6	.828
Financial performance	6	.826

Descriptive Analysis of the Variables

This evaluated institutional share ratio and financial performance of Sugar factories in Western Kenya. Five point Likert-type scale from 5=Strongly Agree to 1= Strongly Disagree Descriptive analysis used percentage, frequency, mean and standard deviation. Mean is a measure of central tendency used to describe the most typical value in a set of

values. Standard deviation shows how far the distribution is from the mean.

Institutional Share Ratio: The respondents were asked to indicate the extent of agreement with each of the institutional share ratio statements. The pertinent results are presented in Table 4. Majority of the respondents confirmed that the company has classes of Shareholding of which 56.96 % (45) agreed and further 12.66 % (10) strongly agree. A mean of 3.5823 and standard deviation of 1.04523 indicate that there is great dispersion from agree (Mean=4).

In regard to most shares are being owned by institutions, 36.71% (29) of the respondents were not sure while 16.46% (13) agreed and 17.72% (14) strongly agree. A mean of 3.1772 and standard deviation of 1.14084 indicates that there was dispersion from undecided (mean=3). The results also revealed that 36.71 % (29) of the respondents were undecided that regulations for issuance of shares are applied while 21.52 % (17) agreed and additional 21.52 % (17) strongly agree. With a mean of 3.3797 and standard deviation of 1.15807, there is evident of dispersion from the undecided (mean=3). Nevertheless, 5.06% (4) and 24.05% (19) strongly disagree and disagree respectively that most shares are owned by institutions. Majority of the respondents confirmed that transfer of shares are guided by the regulations of which 20.25% (16) agreed and additional 37.97% (30) strongly agree with a mean of 3.6835 and standard deviation of 1.31602. This implies that there was evident of great dispersion from agree (mean=4). Lastly, more than half of the respondents confirmed that Shareholding has influence on decision making in terms of voting of which 35.44% (28) agreed and 24.05%(19) strongly agreed with a mean of 3.5823 and standard deviation of 1.19408. This indicates that there is disparity from agree (mean=4). Lastly, 48.1 % (38) agreed and 20.25% (16) of the respondents strongly agreed that Credit policies are reviewed regularly. A mean of 3.6709 and standard deviation of 1.07084 indicates that there is dispersion from agree (mean=4). More than half of the respondents confirmed that their organization requires that the debtor signs for the terms and conditions before each issue of credit is allowed of which 44.3%(35) agreed and 8.86%(7) strongly agree with a mean of 3.26581. And mean of 12898. This indicated that there is dispersion from undecided (mean=3). Further, 34.18 % (27) of the respondent agreed and 11.39 % (9) strongly agreed that in their organization discount is accorded to customers who pay before due date with a mean of 3.2532 and standard deviation of 1.09156.

The findings also revealed that more than of half of the respondents confirmed that their organization payments dates and deadlines are clear and known to the debtor as shown by 24.05%(19) who agree and 30.38%(24) strongly agree with a mean of 3.5063 and standard of deviation of 1.27976. This implies that there is great dispersion from agree (Mean=4). However, 3.8% (3) and 26.58% (21) strongly disagree and disagree respectively that their organization payments dates and deadlines are clear and known to the debtor. Less than half of the respondents confirmed that their organization has the credit terms and conditions which are clear and documented of which 11.39%(9) agreed and 13.92%(11) strongly agree with a mean of 3.0127 and standard deviation of 1.08005. Lastly, 26.58% (21) agreed and 2.53% (2) strongly agree that their organization had analysed credit periods as 0-30 days,

Table 4. Descriptive for Institutional Share Ratio

Description	SD	D	U	A	SA	Mean	SDV
The company has classes of Shareholding.	5.06% (4)	13.92% (11)	11.39% (9)	56.96%(45)	12.66% (10)	3.5823	1.0452
Most shares are owned by institutions.	5.06% (4)	24.05% (19)	36.71% (29)	16.46%(13)	17.72% (14)	3.1772	1.1408
Regulations for issuance of shares are applied.	6.33% (5)	13.92% (11)	36.71% (29)	21.52%(17)	21.52% (17)	3.3797	1.1580
Transfer of shares are guided by the regulations	8.86% (7)	10.13% (8)	22.78% (18)	20.25%(16)	37.97% (30)	3.6835	1.3160
Shareholding has influence on decision making in terms of voting	8.86% (7)	7.59% (6)	24.05% (19)	35.44%(28)	24.05% (19)	3.5823	1.1940

Table 5. Descriptive for Credit Terms

	SD	D	NI	A	SA	Mean	SDV
My organization requires that the debtor signs for the terms and conditions before each issue of credit is allowed	8.86% (7)	17.72% (14)	20.25% (16)	44.3% (35)	8.86% (7)	3.2658	1.12898
In my organization discount is accorded to customers who pay before due date.	6.33% (5)	18.99% (15)	29.11% (23)	34.18% (27)	11.39% (9)	3.2532	1.09156
My organization payments dates and deadlines are clear and known to the debtor	3.8% (3)	26.58% (21)	15.19% (12)	24.05% (19)	30.38% (24)	3.5063	1.27976
My organization has the credit terms and conditions which are clear and documented	5.06% (4)	27.85% (22)	41.77% (33)	11.39% (9)	13.92% (11)	3.0127	1.08005
My organization has analyzed credit periods as 0-30 days, 31-60 days , 61-90 days and over 90 days	7.59% (6)	13.92% (11)	49.37% (39)	26.58% (21)	2.53% (2)	3.0253	0.90546

Table 6. Descriptive for Financial performance

	SD	D	NI	A	SA	Mean	SDV
My organization profit have increased for the last five years	3.8% (3)	17.72% (14)	22.78% (18)	21.52% (17)	34.18% (27)	3.6456	1.23036
My organization salary for the employees have improved in the recent years	2.53% (2)	18.99% (15)	20.25% (16)	35.44% (28)	22.78% (18)	3.5696	1.11727
My organization have grown in size in terms of the assets	2.53% (2)	13.92% (11)	17.72% (14)	48.1% (38)	17.72% (14)	3.6456	1.01322
My organization capital base has increased from previous years	3.8% (3)	10.13% (8)	11.39% (9)	59.49% (47)	15.19% (12)	3.7215	0.97319
My organization has increased the number of employees in the recent past.	7.59% (6)	8.86% (7)	7.59% (6)	51.9% (41)	24.05% (19)	3.7595	1.14595
My organization dividend payout has increased for the last five years.	3.8% (3)	22.78% (18)	24.05% (19)	41.77% (33)	7.59% (6)	3.2658	1.02167

31-60 days , 61-90 days and over 90 days with a mean of 3.0253 and standard deviation of 0.90546. This implies that there is great dispersion from undecided (mean=3)

Financial Performance

To measure financial performance of Sugar factories in Western Kenya, a set of six statements were formulated. The respondents were asked to indicate the extent of agreement with each of the financial performance statements. The pertinent results are presented in Table 6. The findings revealed that more than half of the respondents confirmed that their organization profit has increased for the last five years of which 21.52% (17) agreed and additional 34.18% (27) strongly agree. A mean of 3.6456 and standard deviation of 1.23036 implies that there is great dispersion from agree (mean=4). It was also revealed that more than half of the respondents confirmed that their organization salary for the employees has improved in the recent years of which 35.44% (28) agree and additional 22.78% (18) strongly agree. A mean of 3.5696 and standard deviation of 1.11727 implies that there is great dispersion from agree (Mean=4). On organization size in terms of the assets, 48.1% (38) of the respondents agreed and additional 17.72% (14) strongly agree with a mean of 3.6456 and standard deviation of 1.01322. This implies that there was dispersion from agree (mean=4).

The results also revealed that organization capital base has increased from previous years as indicated by 59.49 % (47) of the respondents who agreed and 15.19% (12) who strongly agree. A mean of 3.7215 and standard deviation of 0.97319 implies there is dispersion from the mean. Regarding the increase in the number of employees in the recent past, 51.9% (41) agreed and 24.05 % (19) strongly agree with a mean of 3.7595 and standard deviation of 1.14595. This implies that there is great dispersion from agree. Lastly, less than half of the respondents confirmed that organization dividend pay-out has increased for the last five years of which 41.77% (33) agreed and 7.59% (6) strongly agree with a mean of 3.2658 and standard deviation of 1.02167. This implies that there is great dispersion from the undecided (mean=3).

Inferential Statistics

Institutional Share Ratio on Financial Performance:

Institutional share ratio was operational zed as allocation of institutional shareholding, concentration of shares and regulations on issue of shares while financial performance was measured using profitability, dividend pay-out and asset growth. The findings of this objective answered the second research question which sought the find out the influence of institutional share ratio on financial performance of Sugar factories in Western Kenya.

Table 7. Correlation Results for Institutional Share Ratio and Financial Performance

	Institutional share ratio	Financial Performance
Institutional share ratio	Pearson Correlation	1
	Sig. (2-tailed)	
	N	79
Financial Performance	Pearson Correlation	.706**
	Sig. (2-tailed)	.000
	N	79

** . Correlation is significant at the 0.01 level (2-tailed).

Table 8. Regression Results of Institutional Share Ratio and Financial Performance

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.706 ^a	.499	.492	.62310	

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	29.739	1	29.739	76.597	.000 ^b
	Residual	29.895	77	.388		
	Total	59.634	78			

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.319	.270		4.883	.000
	Institutional Share Ratio	.656	.075	.706	8.752	.000

A Correlation Analysis for Institutional Share Ratio and Financial Performance: The Pearson correlation analysis was used to determine the relationship between institutional share ratio and financial performance. The results are as shown in are Table 7. In determining the effect of institutional share ratio on financial performance of Sugar factories in Western Kenya, the study established a coefficient of correlation (r) as 0.706**. The objective answered what is the effect of Institutional share ratio on financial performance of Sugar factories in Western Kenya as per the second research question of the study. This implies that the financial performance increase with increase in Institutional share ratio and decrease in Institutional share ratio lead to decrease in financial performance. The results indicated that Institutional share ratio has positive strong and significant influence on financial performance of Sugar factories in Western Kenya

Regression Results of Institutional Share Ratio and Financial Performance: Regression analysis was used to tell the amount of variance explained for by one variable in predicting another variable. Regression analysis was conducted to find the proportion in the dependent variable (financial performance) which can be predicted from the independent variable (Institutional share ratio). The results are as shown in Table 8. The results revealed a coefficient of determination (r^2) of 0.499. Meaning Institutional share ratio can explain 49.9% of the variance in financial performance of Sugar factories in Western Kenya. The adjusted r square attempts to produce a more honest value to estimate r square for the population. The F test gave a value of $F(1, 77) = 76.597$, $P < 0.01$, which was large enough to support the goodness of fit of the model in explaining the variation in the dependent variable that is explained by institutional share ratio. It also means institutional share ratio is a useful predictor of financial performance.

The regression equation for Institutional share ratio becomes:
 $Y = 1.319 + 0.656ISR$

From the regression equation it means that when institutional share ratio increase by 0.656 %, financial performance will change by 1% in the same direction. This result is similar to correlation findings where institutional share ratio is positively correlated to financial performance. These findings agree with Wang (2003) who showed a positive relationship exists between institutional ownership and financial performance of firms. Fazlzadeh, Ali and Kazem (2014) discovered that institutional ownership had a positive significant effect on firm financial performance. Henry and Zheng (2019) showed that there was a significant and positive relationship between institutional ownership and firm financial performance. Armin (2015) showed a positive and significant relationship between institutional ownership and financial performance. These findings contradicts with Baborska (2014) who found out that institutional shareholding had negative influence on performance of microfinance institutions. Abdelaziz (2017) showed that there was a significant negative relationship between institutional ownership and firm financial performance.

Correlation between all Independent Variables and Financial Performance: To determine the relationship between corporate governance and financial performance a correlation analysis was conducted. The results of the correlation between corporate governance and financial performance pertinent results are summarized in Table 9.

Table 9. Correlation Matrix

Variables	Mean	Std Dev	DAF	ISR	FDM	FP
DAF	3.2835	0.95144	1			
ISR	3.481	0.94164	.472**	1		
FDM	3.5089	0.70231	.377**	.587**	1	
FP	3.6013	0.87438	.567**	.706**	.651**	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

DAF- disclosure of accounting and financial reporting system, **ISR-** institutional share ratio and **FDM-** financial debtor's management, **FP-** Financial performance

The results indicated that the relationship between disclosure of accounting and financial reporting system and financial performance is positive and significant ($r = .567^{**}$). Similarly, the relationship between institutional share and financial performance is positive and significant ($r = .706^{**}$) and the relationship between Financial debtor's management and financial performance is positive and significant ($r = .651^{**}$). This implies that corporate governance construct have positive and significant influence on financial performance of Sugar factories in Western Kenya.

Multiple Regression for Institutional Share Ratio on Financial Performance: Multiple Linear Regression analysis for corporate governance dimensions on financial performance was done so as to find out the effect of corporate governance dimension jointly on the financial performance of Sugar factories in Western Kenya. This aided in coming up with the coefficients of the study model as well as R square of the study. The results are as shown in Table 10.

Table 10. Regression Analysis of Independent Variables and Financial Performance

R	R ²	Adjusted R ²	Df	F	Sig.
.797 ^a	.635	.620	(3,75)	43.446	.000 ^b

a. Predictors: (Constant), Institutional Share ratio, b. Dependent Variable: Financial performance

In Table 10, the findings further established that the linear relationship between Financial Performance and the three predictor variables; the disclosure of accounting and financial reporting system, institutional share ratio, and Financial debtors management is positive and linear. The coefficient of correlation was 0.797, ($r=0.797$). The coefficient of determination (r^2) was 0.635, and this shows that 63.5% of the variations in the financial performance can be explained by the three predictor variables in the study and the remaining 36.5% of the variations in financial performance is explained by other factors not captured in the model. From the ANOVA results the F test gave a value of $F(3, 75) = 43.446$, $p < .01$, which was large enough to support the goodness of fit of the model in explaining the variation in the dependent variables. It also means corporate governance is a useful predictor of financial performance of Sugar factories in Western Kenya.

Table 11. Coefficients of the Independent Variables and Financial performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.140	.328		.426	.671
ISR	.367	.085	.396	4.325	.000

a. Dependent Variable: Performance

From Table 11, institutional share ratio carried positive and significant predictive power ($P < 0.05$). If Corporate governance is held at zero or it is absent, the financial performance was 0.140, $p > 0.05$. This implies that though performance was positive but it was insignificant.

Table 12. Stepwise Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R ² Change	F Change	df1	Sig. F Change
1	.716 ^a	.489	.482	.63310	.489	77.597	1,87	.000

a. Predictors: (Constant), institutional share ratio

When institutional share ratio and financial debtor's management are controlled, disclosure of accounting and financial reporting system with a beta of 0.238 is at statistically significant level and is a good predictor of financial performance implying that an increase in disclosure of accounting and financial reporting system by one percent will result to significant increase in performance by 0.238. When financial debtors management and disclosure of accounting and financial reporting system are controlled, institutional share ratio with a beta of 0.367 is at statistically insignificant level implying that an increase in Institutional share ratio by one percent will result to significant increase in performance by 0.367. Lastly, when institutional share ratio and disclosure of accounting and financial reporting system are controlled, financial debtor's management with a beta of 0.399 is at statistically significant level implying that an increase in financial debtor's management by one percent will result to significant increase in performance by 0.399. A regression of the three predictor variables against financial performance established the multiple linear regression model as below as indicated in Table.

$$\text{Financial Performance} = 0.140 + 0.367 \text{ ISR}$$

Stepwise Regression

The study also conducted stepwise regression that take each one of Independent variables separately to determine the significance of each variable and also which variable has the highest effect on financial performance as shown in Table 12.

From Table 12 results using R^2 the value increases with addition of each of the independent variables ISR. The F value shows that all of them are significant on every addition at 99% confidence level. This results show that for the significant variables the value of R^2 increase in every step to a value of 0.635. Based on the above values it shows that ISR contributes 49.9% in explaining variance in financial performance,

SUMMARY OF THE FINDINGS

This study examined the influence of institutional share ratio on financial performance of sugar factories in Western Kenya. Self administered questionnaires were used. SPSS was used to analyze data. Multiple linear regression analysis tested all the independent variables.

Institutional Share Ratio on Financial Performance

Another objective sought to determine influence of institutional share ratio on financial performance of Sugar factories in Western Kenya. More than half of the respondents opined that there are classes of Shareholding transfer of shares who have a say on decision making. From the findings, institutional share ratio has strong positive and significant correlation with financial performance of Sugar factories in Western Kenya, Showing that a rise in share ratio leads to increased financial performance.

Implication of the Study

This study emphasizes the use of agency theory in corporate governance. Moreover, it advances the use of stewardship theory. Corporate Governance system is the combination of mechanisms which ensure that the management (the agent) runs the firm for the benefit of one or several stakeholders (principals) such as shareholders, creditors, suppliers, clients, employees and other parties with whom the firm conducts its business. Government intervention through watch dog bodies like Capital Market Authority to enhance compliance to corporate governance requirements.

CONCLUSION

It can also be concluded that there exists a positive and significant relationship between institutional share ratio and financial performance of Sugar factories in Western Kenya. This means that firms with large institutional share ratio achieved high financial performance. The Shareholding has influence on decision making in terms of voting on various investment decisions for the sake of increasing firm values.

Recommendations

First, Sugar factories management should promote adherence to good Corporate Governance and prudent level of risk so as to protect investors. Secondly, have Institutional shareholders to invest long period of time in sugar factories, this will improve financial performance and reduce losses. In addition this increases monitoring, reduced agency costs and improve performance of sugar factories.

Areas for Further Studies

This research studied influence of institutional shareholder ratio on financial performance of sugar factories in Western Kenya. Further research in other areas not covered should be done. Therefore, further studies should be conducted to find out the role of government policies and regulation on institutional share ratio. Another study should also be done using secondary data on Institutional share ratio and financial performance on sugar factories in Kenya.

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