FOREIGN INVESTMENT PORTFOLIO AND FINANCIAL PERFORMANCE OF MANUFACTURING AND ALLIED COMPANIES LISTED AT NAIROBI SECURITIES EXCHANGE, KENYA

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DECLARATION

Student's Declaration

This project is my original work, and it has never been submitted for an award at another academic institution.

Signature: _____ Date: _____

Mayi Nelson Mandela

D53/PT/CTY/26970/2018

Supervisor's Declaration

This project has been presented for purposes of assessment with my consent as the appointed supervisor

Supervisor

Signature: _____ Date: _____

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DEDICATION

This project is dedicated to my entire family members: the late grandfather Kepher Okoth, my grandmother Margaret and my late parents Mr. and Mrs. Jared Mayi for inspiring me to keep up the course of education.

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ABBREVIATIONS AND ACRONYMS

CAR: Capital Adequacy Ratio

CBFI: Corporate Bonds Held by Foreign Investors

EA: East Africa

EAPCC: East African Portland Cement Company

FDI: Foreign Direct Investment

FE: Foreign Equity

FEC: Foreign Equity Capital

FO: Foreign Ownership

FPI: Foreign Portfolio Investment

GDP: Gross Domestic Product

GLS: Generalized Least Squares

GMM: Generalized Method of Moments

JSE: Johannesburg Securities Exchange

NPLs: Non-Performing Loans

NSE: Nairobi Securities Exchange

ROA: Return on Asset

ROE: Return on equity

UK: United Kingdom

US: United States

WCM: Working Capital Management

OPERATIONAL DEFINITION OF TERMS

Financial Performance: It is a firms' ability to earn returns on assets based on its resources in comparison with an alternative investment. Financial performance in this study was measured using return on assets.

Corporate Bonds Held by Foreign Investors: It is a bond issued in a Kenyan market but they are owned by foreign investors. In this study it was measured using bond amount.

Foreign Equity Capital: This refers to the amount of capital raised among manufacturing firms from foreign investors. They are measured by a proportion of equity capital owned by foreign investors.

Foreign Investment Portfolio: It is an investment made by a company in one nation with business interests in another country, such as through establishment of business activities, the purchase of corporate bonds, or the acquisition of corporate assets in other country, including ownership or control of foreign company. In this study, it was measured using foreign equity capital foreign bonds and foreign ownership.

Foreign Ownership: Refers to ownership of portion of a company's assets by persons who are not citizens of Kenya. In this study foreign ownership is measured by the proportion of ordinary shares held by foreign investors.

Manufacturing and Allied Firms: This refers to any business enterprise that utilizes components, parts or raw materials to make products and finished goods. In this study, these are 9 manufacturing firms listed at Nairobi Securities Exchange.

ABSTRACT

Manufacturing firms play an essential function in economic growth and national economy. The contribution of manufacturing sector to Kenya's economy is at 10 per cent of Gross Domestic Product. Foreign investment portfolio is an essential in ensuring an improvement in the financial performance of manufacturing and allied firms. However, despite the adoption of foreign investment portfolio and expertise, the financial performance of these firms still remains poor. Return on assets among manufacturing and allied companies listed in Nairobi Securities Exchange decreased from 10.56% to 7.56% between the year 2017 and 2018. Therefore, the researcher sought to examine the effect of foreign investment portfolio on financial performance of manufacturing and allied companies listed in NSE. The specific objectives of the study were to establish the effect of foreign equity capital, corporate bonds held by foreign investors and foreign ownership on financial performance of manufacturing and allied companies listed in NSE. The study used stakeholder theory, profit maximization theory, pecking order theory and eclectic paradigm of Dunning theory. The researcher adopted an explanatory research design. Target population was 9 manufacturing and allied companies listed in NSE. Since the study population was small, researcher used a census approach and hence all manufacturing and allied companies listed in NSE were included. The researcher used secondary data obtained from Capital Market Authority and Nairobi Securities Exchange covering the period between 2015 and 2020. The descriptive and inferential statistics were employed to analyse data with assistance of STATA version 14. The study found that foreign equity capital has a positive and insignificant effect on financial performance of listed manufacturing and allied firms in Nairobi Securities Exchange ($\beta1=0.062$, p-value=0.857). Corporate bonds held by foreign investors have significant positive effect on financial performance of listed manufacturing and allied firms in NSE ($\beta2=0.0204$, p-value=0.045). Foreign ownership has a positive and significant effect on the financial performance of listed manufacturing and allied firms in Nairobi Securities Exchange ($\beta3=0.7638$, p-value=0.368). This study therefore recommends that the firms should encourage foreign investors to invest more funds to the companies as well as buy ordinary shares to enable the companies improve their performance and also facilitate their expansion. Furthermore, the firms in Nairobi Securities Exchange should buy corporate bonds since they are less risky when compared to stocks and come with low returns which as a result improves the performance of the companies. In addition, the firms should encourage foreign investors to take ownership of their companies in order to improve the firms' financial performance as well as increase the company's exports. The study recommends that Kenyan government should develop policies to make Kenyan market more attractive to investors. This can also be done by coming up with favourable labour policies to protect both the employees and investors in various projects.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Globally, manufacturing companies play essential function in economic growth and national economy. The manufacturing industry employs a rapidly rising population across the world more so in developing countries (Sovaniski, 2020). It aids in the acquisition of foreign currencies from other countries and leads to diversification of the country's economy and reduction of dependency on a single product (Scott, 2018). Therefore, poor performance of the manufacturing sector leads to a reduction in economic growth as well as an increase in unemployment rate. However, despite their important role in the national economy, the manufacturing firms, all over the world has been experiencing challenges in their financial performance causing closure to some of them (Adamu & Embugus, 2017).

From the year 2010, manufacturing firms have been utilizing foreign investment portfolio to improve their working capital and finance their expansions. Foreign investment portfolio comprises of securities as well as other financial assets owned by investors in different country (Gul, Gul & Rasheed, 2020). It fails to provide actual ownership of company's assets to the investor and is quiet liquid depending on market volatility. Holding and making passive or hands-off investment of assets in the hope of earning profit is what a foreign investment portfolio entails. Alternative foreign financial assets and securities kept passively by foreign investor make up a Foreign Portfolio Investment. It entails a buyer purchasing financial assets in another country (Chaklader & Padmapriya, 2021).

Foreign investment portfolios can offer diversification benefits by allowing investors to allocate their capital across different countries and markets (Omorokunwa, 2018). By investing in foreign assets, investors can reduce their exposure to domestic market risks and potentially benefit from the performance of different economies. Investing in foreign markets can provide access to a broader range of investment opportunities and potentially higher returns compared to domestic investments (French, 2017). This is especially true for emerging markets or sectors that may be experiencing rapid growth. By diversifying across different countries and markets, investors can benefit from economic growth and market performance in those regions (Thomas, 2019).

Between the year 2007 and 2018, manufacturing output in the United States reduced by 10.3 per cent, which was attributed to by inadequacy in working capital (Scott, 2018). In the year 2009, General Motors, an automotive manufacturer, filed for government-assisted bankruptcy after making losses for several years. To salvage its financial situation, the company has adopted foreign investment portfolio. For instance, the company's operations in China entail 2 foreign enterprises and 10 joint-venture partnerships. Gul, Gul and Rasheed (2020) established that foreign investment portfolio had significant and negative impact on cash holdings, but a positive influence on manufacturing firms' financial performance in Pakistan.

In Nigeria, 272 manufacturing firms closed between the year 2015 and 2016 due to high cost of production and increased competition (Raji, 2018). However, as indicated by Adamu and Embugus (2017), most manufacturing firms had adopted foreign investment portfolio through joint ventures (foreign ownership) and equity financing. In addition, Onuoha, Okoro and Okere (2018) found that foreign portfolios in terms of portfolio equity and portfolio bonds have significant effect on manufacturing firms'

financial performance in Nigeria. Flows of foreign portfolio investment are an unavoidable result of investors seeking to diversify their portfolio's risk and increase returns by investing across borders. In Ghana, Iriobe, Obamuyi and Abayomi (2018) indicates that portfolio equity investment in a foreign country significantly forecast the manufacturing and allied firms' financial performance.

Manufacturing firms in Kenya like EAPCC, Mumias Sugar Company and Eveready East Africa have been making losses and others have all been issued profit warnings, denoting that their net earnings would be 25% below the profit obtained in the previous year (Nairobi Securities Exchange, 2020). According to Koskei (2017), foreign investment portfolio in terms of corporate bonds held by foreigners, foreign equity capital and foreign ownership have significant effect on manufacturing and allied firms' financial performance in Kenya. Additionally, Changaya and Fatoki (2020) observed that foreign inflows had significant impact on firms' performance in real estate.

1.1.1 Foreign Investment Portfolio

A foreign investment portfolio refers to a collection of financial assets, such as stocks, bonds, mutual funds, or other investment instruments, that are held by an individual or entity in foreign countries (Arman, 2016). Foreign investment entails money moving from one country to another and foreigners owning a stake or having a say in the company (Colombo, Loncan & Caldeira, 2019). Institutions, corporations, and individuals can all participate in foreign investment, which is considered as a stimulus for economic progress. Foreign portfolio investment or international direct investment are the two most common avenues used by investors interested in foreign investment (Sovaniski, 2020). The purchase of securities and other financial assets by investors from another country is referred to as foreign

investment portfolio. Foreign investments portfolio entails stocks, bonds, foreign ownership (jointure ventures) and foreign equity capital. Foreign capital investment in Kenya began in the early 1970s and has since increased significantly over the years. In 2021, Kenya reduced the blanket minimum foreign investment requirement for international firms seeking to venture into less-capital services sector to $100,000 and to $300,000 for capital-intensive sectors including construction, energy, manufacturing, oil, and gas (Ikiara, 2021).

Foreign equity capital is debt-free capital such as surplus earnings or shares, as well

as capital donated to an organization as a result of one's ownership interest in the company (Oirere, 2020). Firms raise cash because they require resources to expand

and build their businesses, either organically or by acquisition (Omorokunwa, 2018). Entrepreneurs

are more inclined to contemplate a foreign listing when the quantity of money they can expect to raise in the international market is bigger than in their local capital market, given their need for significant financial infusions. In Kenya, the foreign equity capital increased from Kshs. 89.75 billion in 2018 to Kshs. 91.53 billion in 2019 and to Kshs. 101.899 billion in 2020 (Central Bank of Kenya, 2020).

A bond issued by foreign entity in domestic market to raise money in domestic market's currency is referred to as foreign bond (Gordon, 2020). For international firms doing a lot of business in home market, issuing foreign bonds like bulldog bonds, Matilda bonds, and samurai bonds is a common practice (Thomas,

2019). Foreign bonds enable domestic investors to spread their portfolios globally, and because they are locally traded, they are simpler to get. Corporate bonds held by foreigners in Kenya increased from Kshs. 138.828 billion in 2018 to Kshs. 187.213 billion in 2019 and Kshs. 192.788 billion in 2020 (Central Bank of Kenya, 2020).

Acquisition of enterprises in a country by persons who are not citizens of that country or by firms whose headquarters are not in that country is referred to as foreign ownership (Mihai & Mihai, 2013). Foreign ownership occurs when multinational companies with operations in numerous countries start a long-term investment in foreign country, typically via FDI or acquisition (Arman, 2016). In Kenya, foreign ownership of companies increased from 12% in 2018 to 19% in 2019 and 27% in 2020 (Central Bank of Kenya, 2020).

1.1.2 Financial Performance

Financial performance refers to the measurement and evaluation of a company's or individual's financial results and overall profitability (Gordon, 2020). It assesses how well an entity has utilized its resources to generate revenue, manage expenses, and generate profits or returns on investment. In accordance to Sovaniski (2020) financial performance is the firms' performance over a particular time which is influenced by losses or profits. Decision-makers can objectively determine the strategic results of financial organizations by assessing their performance. Financial success can be ascribed to a subjective measure of the firm's effectiveness in generating income through asset utilization. This also applies to evaluating company's overall financial health over a duration of time while comparing it to other participants in the industry (Ochieng, Jagongo & Ndede, 2020).

Financial performance measures the capability to earn revenue from the company's primary way of operation (Mutua & Atheru, 2020). This word is also used as broad indicator of a company's overall financial health over time, and it can be used to compare similar companies in the same industry or to compare industries or sectors in aggregate (Sovaniski, 2020). ROE (Average Equity/Net income), ROA (Total Assets/Net income), and financial leverage indicator or (Total Assets/Equity), are major metrics employed in financial performance appreciation. Profitability in the manufacturing sector can be measured by use of ROA, a ratio of bank's profits to its total assets. The ratio of pre-tax profits to equity instead of total assets is a good measure of performance since higher equity ratio banks should as well have higher ROA (Wanjiku, 2019).

Studies conducted in Kenya on manufacturing and allied firms' financial performance have measured performance in different ways. For instance, Ochieng, Jagongo and Ndede (2020) measured NSE-listed manufacturing and allied companies' financial performance using ROA. Additionally, Mutua and Atheru (2020) measured listed firms under manufacturing and allied sectors' financial performance in terms of ROA, ROE and ROI. The financial performance in this research will be measured using ROA. Figure 1.1 indicates profitability trend of NSE-listed firms measured in terms of ROA for duration between 2015 and 2020.

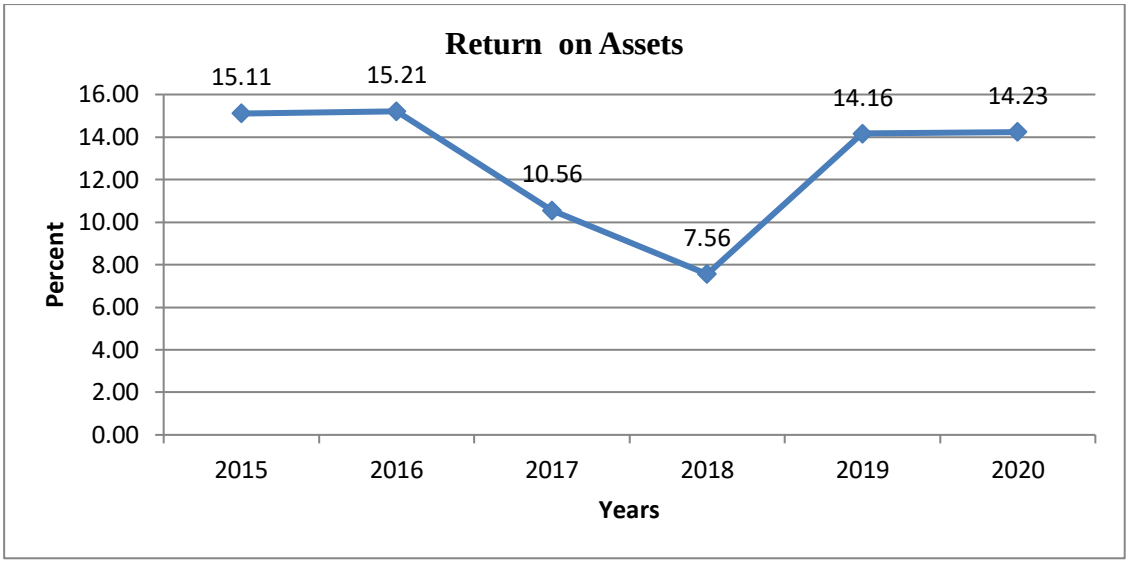


Figure 1.1: Trend Analysis of ROA (2015 to 2020)

Source: Nairobi Securities Exchange (2022)

According to NSE (2022), the average ROA among NSE-listed manufacturing and allied firms in the year 2015 was 15.11 per cent, which increased to 15.21 percent in 2016. Average ROA among NSE-listed manufacturing and allied firms decreased to 10.56 per cent in 2017, and 7.56 per cent in 2018. However, this figure increased to 14.16 per cent in 2019 and 14.23 per cent in 2020.

1.1.3 Manufacturing and Allied Companies Listed in the NSE

After transportation and communications, agribusiness, whole sale and retail commerce, Kenya's manufacturing industry is the fourth largest. The contribution of manufacturing sector to Kenya's economy has been stable at almost 10 percent of GDP, and was almost 8.4 percent in 2017. The Big Four Agenda is a development blueprint that comprises of Food Security; Affordable Housing; Manufacturing and Affordable Healthcare. The Big Four Agenda aiming to expand manufacturing sector's GDP contribution to 15 percent by 2022, has reignited industry's interest. In formal and informal sectors, the economy employs around 2.3 million people

(Kenya Institute for Public Policy Research and Analysis, 2020). Kenya's manufacturing industry, which was initially established under an import substitution policy, is export-oriented, in keeping with country's goal of becoming mid-sized economy by 2030.

Nairobi Securities Exchange regulates the exchange market and there were 58 listed companies as at 31st December 2020 categorized into ten sectors, and manufacturing and allied firms is one of them. There are 13 firms categorized under manufacturing, construction as well as allied sectors quoted at NSE (NSE, 2018). These firms include Carbacid Investments Plc; Unga Group Ltd; E.A Portland Cement Ltd; Bamburi Cement Ltd; B.O.C Kenya Plc; British American Tobacco Kenya Plc; Flame Tree Group Holdings Ltd; East African Breweries Ltd; E.A Cables Ltd; Crown Paints Kenya Plc; Mumias Sugar Co. Ltd and Kenya Orchards Ltd. However, the current list of manufacturing and allied companies listed in NSE as at 31st December 2021 included nine companies B.O.C Kenya Plc, British American Tobacco Kenya Plc, Carbacid Investments Ltd, East African Breweries Ltd, Flame Tree Group Holdings Ltd, Kenya Orchards Ltd, Mumias Sugar Co. Ltd, Unga Group Ltd and Eveready East Africa Ltd (as shown in Appendix II).

1.2 Statement of the Problem

The manufacturing sector plays an essential role in the development of any country's economy. All firms have one common goal and that is to ensure maximum profit. But ensuring adequacy of capital for expansion and meeting financial obligations is very essential as well. To ensure liquidity and at the same time ensure firms' growth through

expansion manufacturing firms have resorted to foreign investment portfolios including foreign equity capital, corporate bonds held by foreign investors and foreign ownership. However, despite the use of foreign investment portfolio to obtain capital, manufacturing firms in Kenya are still performing poorly.

Between the year 2016 and 2020, the manufacturing and allied companies listed in the NSE have been experiencing a fluctuation in performance. In the year 2018, Carbacid Investments limited reported a drop in their profit after tax by 36 per cent to Sh105.3 million and in2020, it made profit warning announcement showing that its profit after tax for the year 2019 was likely to fall by at least 25 per cent (Nairobi Securities Exchange, 2021). BOC Kenya, Carbacid Investment, East Africa Breweries and Kenya Orchards all incurred a drop in profits after tax in 2017. Profit after tax of BOC Kenya decreased by 50.1% from Kshs. 255 million in 2016 to Kshs. 127 million in the year 2017 (Capital Market Authority, 2019). In the year 2020, Unga Group experienced a drop in profit after tax by 44.8% to Kshs 83.5 Million. In British American Tobacco Kenya, the profit after tax reduced by 21.21% from Kshs. 4,234 million in 2016 to Kshs. 3336 million in 2017 (NSE, 2018). In Flame Tree Group Holdings ltd, the profit after tax decreased by 72.58% from Kshs. 144,980 million in 2016 to Kshs. 39,754 million in 2017 (Nairobi Securities Exchange, 2021).

With the changing business environment and increasing competition, manufacturing and allied companies require heavy investment to upgrade their production process and distribution lines. In the last 5 years, Kenya has experienced an increase in foreign investments portfolio. For instance, the foreign equity capital increased by 10.3% from Kshs. 6.27 billion in 2019 to Kshs. 6.99 billion in 2020. In addition, the value of corporate bonds held by foreign investors in manufacturing and allied companies

increased from Kshs. 334.49 billion in 2019 to Kshs. 367.45 billion in 2020. Further, Foreign ownership of manufacturing and allied companies increased from 14.52% in 2019 to 14.86% in 2020.

In Kenya, numerous researches have been performed on foreign investments and firms' financial performance. For example, Kariuki (2018) examined effect of foreign equity capital on bank performance in Kenya; and Oirere (2020) assessed the influence of foreign financial inflows on NSE stock market growth. However, Kariuki (2018) research was conducted in banking sector while Oirere (2020) study was on commercial and financial services firms. In addition, while Oirere (2020) study used stock market development as the dependent variable, Kariuki (2018) study measured financial performance using ROE. The financial performance in this study was measured using ROA. In addition, both Oirere (2020) and Kariuki (2018) used an explanatory research approach, but this study used descriptive research approach. Despite the heavy investments by foreign companies, the performance of manufacturing and allied companies listed in the NSE has been declining. Therefore, this research sought to establish whether foreign investments influence the performance of the manufacturing and allied companies listed in NSE.

1.3 Objectives of the Study

The researcher used the below objectives;

1.3.1 General Objectives

The study's general objective was to determine effect of foreign investment portfolio on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya

1.3.2 Specific Objectives

i. To examine effect of foreign equity capital on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya

ii. To evaluate effect of corporate bonds held by foreign investors on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya

iii. To assess effect of foreign ownership on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya

1.4 Research Hypotheses

This study was guided by below null hypotheses;

H_{01}: Foreign equity capital has no significant effect on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya.

H_{02}: Corporate bonds held by foreign investors has no significant effect on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya.

H_{03}: Foreign ownership has no significant effect on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya.

1.5 Significance of the Study

The study findings may be beneficial to investment managers as well as policy makers in manufacturing industry in understanding the relation between

foreign investment portfolio level and manufacturing allied industry performance. Moreover, the findings may help them to find out the factors which can perhaps improve companies' performance. Additionally, findings may provide information that can be used to develop strategies based on foreign investment portfolio including foreign equity capital, corporate bonds held by foreign investors and foreign ownership to improve financial performance.

The findings may be important to policymakers and the government as they may be able to develop policies that may encourage development in the manufacturing industry by utilizing foreign investment portfolios. Additionally, the study findings may be employed to develop and formulate policies to guide the utilization of foreign equity capital, corporate bonds held by foreign investors and foreign ownership as foreign investment portfolio among firms listed at the NSE.

The study adds more information to the body of knowledge on the effect of foreign investment portfolio on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya. The concept of diversification is a fundamental principle in finance theory, and foreign investment portfolios provide an avenue for achieving diversification benefits. The study of foreign investment portfolios helps refine our understanding of diversification strategies, risk management techniques, and the relationship between risk and return. Researchers and academicians looking for reference materials as well as literature to use in future investigations on the themes under consideration may use the research findings as a guide. Further, the research may form basis for more research on foreign investment portfolio and other listed firms in securities exchange.

1.6 Scope of the Study

Contextually, the scope was foreign investment portfolios in Kenya and their effect on financial performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya. In addition, only firms with foreign investment portfolio were examined since the researcher assessed the influence of foreign investment portfolio on companies listed in NSE. Further, the researcher focused on 9 manufacturing and allied companies listed in NSE, Kenya. The researcher used descriptive research approach that was guided by positivism philosophy. Moreover, the researcher used secondary data which is the yearly data for the duration between 2015 and 2020. During this period of time, the government of Kenya has come up with policies aimed at attracting foreign investors to Kenya. For instance, the Foreign Investment Protection Act 2016 and Export Processing Zones Act (Cap 517 of the laws of Kenya) and the Special Economic Zones Act (16 of 2015) were established to attract and protect foreign investments. Within this period of time Kenya has forged bilateral relationships with Switzerland, Britain, Brazil and Canada among other countries.

1.7 Limitations of the Study

This study used secondary data for manufacturing and allied companies listed in NSE, Kenya. As a result, the researcher anticipated considerable scepticism about the reliability of data sources and financial reporting, which was as a result of creative accounting to conceal poor performance. The researcher addressed these problems by using audited publicly available financial statements obtained from Capital Market Authority, Nairobi Securities Exchange and official firms' websites. In addition, the

researcher was limited to manufacturing and allied companies listed in NSE therefore findings cannot be applied to other companies listed in Nairobi Securities Exchange.

1.8 Organization of the Study

This research project is organized into five chapters. First chapter shows a research overview and contextualize study variables. Moreover, the chapter sets out the research objectives, research problem, significance and limitations of the research. Second chapter in this study gives outline of literature review. In addition, the chapter provides research's theoretical foundations, empirical review, conceptual framework and also research gaps. Third chapter outlines research methodology that the researcher adopted in order to test hypothesis of the research. The chapter contains the philosophy, empirical model, research design, data collection procedure and tools, sampling approach and data analysis and presentation methods. Chapter four covers the study findings as well as the discussions. Chapter five set out the summary of study findings, conclusions, recommendations and suggestions for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers literature review starting with theoretical review and then moves to empirical review where relevant studies on each variable, both locally and globally are reviewed. This section also includes the summary of reviewed literature and conceptual framework.

2.2 Theoretical Review

The stakeholder theory, profit maximization theory, pecking order theory and eclectic paradigm of Dunning theory were used in this study.

2.2.1 Stakeholder Theory

Freeman (1984) proposed stakeholder theory. It recognizes the emergence of a group of stakeholders as main components that require consideration and involvement in an organization. It was suggested that the theoretical perspectives that goes beyond owner, manager and employee needs to be re-engineered to include various groups of stakeholders. Freeman (1984) put forward that stakeholders are individuals or group who can affect or be affected by organizations' objectives. Wicks and Harrison (2017) points out that due attention should be paid to relationships that are influenced by organization's objectives. The management of stakeholders is essentially a sensible concept. Notwithstanding the purpose and objectives of a firm, management of relationships is important for every effective firm. The theory therefore emphasizes that an organization should endeavor to satisfy all its stakeholders (Lange & Bundy, 2018).

The stakeholder theory assumes that an organization can only be considered successful if it delivers value to the majority of its stakeholders. The theory also assumes that

organizations are an integral part of society rather than separate institutions that are separate in nature (Wicks & Harrison, 2017). The theory further assumes that the actions of the management of an organization have the potential to affect wide range of individuals, and that the pursuit of organizational objectives can easily be disrupted by the actions of unexpected groups (Zakhem & Palmer, 2017). The notion has been chastised for thinking that the various stakeholders' interests can be compromised or balanced against each other at best (Wicks & Harrison, 2017). This is due to its focus on negotiation as the primary means of communication for resolving conflicts between stakeholder interests.

The government of Kenya has developed the Foreign Investment Protection Act and Investment Promotion Act aimed at encouraging foreign investment in Kenya in terms of corporate bonds held by foreign investors, foreign ownership and foreign equity capital (UNCTAD, 2019). According to the Foreign Investment Protection Act, Article 3 foreign investors who propose to invest foreign assets in Kenya may apply to the Minister for a certificate that the enterprise
in which the assets are proposed to be invested is an approved enterprise for the purposes of the Act.

The study used the stakeholder theory to show the role of foreign investments portfolio on manufacturing and allied firms' financial performance. Stakeholders in equity financing, foreign ownership and corporate bonds held by foreign investors include foreign investors, local investors, regulatory authorities and the management of the firms. Management of the manufacturing and allied firms ought to ensure all the

stakeholders are satisfied by ensuring that the funds obtained are appropriately utilized so as to ensure an improvement in return on assets and return on investment.

2.2.2 Pecking Order Theory

The above theory was proposed by Majluf and Myers (1984). This theory argues that companies are likely to turndown external funding than internal funding. Many businesses prefer debt to equity when they need external finance, and they only turn to equity when all other avenues have been exhausted. As a result of knowledge asymmetry, most firms do not have an optimal debt-to-equity ratio. The businesses take a standard method to divide their assets, and in order to optimize their value, they go for debt financing (Chaklader & Padmapriya, 2021). This idea goes on to say that many profitable businesses choose to raise money from within rather than from outside sources like equity or debt. Despite the fact that debt is perceived to be cheaper than equity, this is not the case (Bhama, Jain & Yadav, 2016).

The funds that are internally generated are cheaper (most preferred) means of generating capital, debt, and lastly fresh equity is only offered as last resort, according to pecking order theory. However, Chaklader and Padmapriya (2021) demonstrated that to all other options of external finance, relying on internally generated capital in order to fund investment opportunities is preferable because managers have full knowledge of firm's current state as well as future investments which are under consideration. Furthermore, according to Myers and Majluf (1984), if a corporation needs to acquire cash from outside sources owing to lack of internally created funds, debt instead of stock is the ideal alternative because debt is information insensitive.

Pecking order theory is also supported in terms of assumptions about the age and profitability of businesses: they use less debt as time passes and as their life cycle

progresses from youth to maturity, they use less debt (Bhama, Jain & Yadav, 2016). The suggestion of pecking order theory that corporations raise cash externally because of lack of internal funds is questioned. This is because it ignores competing theories and the implications of institutional elements like interest rate levels, borrower-lender relationships, and finally, government involvement, which may influence the firm's choice of financing instruments.

The Capital Markets (Cap. 485A) and Capital Markets (Foreign Investors) Regulations (2002) regulate capital markets and public issuers of securities and govern the manner in which investors may invest in the capital market in Kenya. The act is aimed at protecting the investors as well as ensuring the investments are utilized appropriately. Some investments, in companies in Kenya may trigger review by competition Authority of Kenya under the Competition Act (2010) if the thresholds are met. The authority has to review whether foreign investments including mergers and acquisitions affect employment, efficient provision of goods and services as well as technical efficiency.

In this research, this theory was employed to describe effect of equity capital and foreign ownership as element of foreign investment on performance of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya. The theory argues that equity financing is the least preferred as compared to debt and internal financing. However, it is the most preferred when a company has credit problems and cannot access more loans. In addition, equity financing is considered less risky and allows for long term planning. Moreover, equity investors do not really anticipate a rapid return on investment and instead take long-term approach. As such, a firm can use the funds

in various investments and start earning income. Furthermore, equity financing does not transfer funds from the business.
The company's cash flow is depleted by debt loan repayments, reducing the funds available to finance projects. If a company has credit issues, equity finance may be the only way to fund expansion.

2.2.3 Eclectic Paradigm of Dunning Theory

Dunning (1980) proposed eclectic paradigm of international production which examines two categories of engagement in global relations to determine the nature of a country's involvement (Batschauer, Eliete & Amal, 2020). The first involves economic operations that take place within the country's borders, thereby utilizing national resources to yield goods and services that are intended for a foreign market. The second area of involvement is national economic agents' actions including the use of resources from diverse countries to manufacture goods as well as services for the international market According to Dunning (1980), first engagement is covered by traditional international commerce theory. The second project is in the field of international production and foreign investment. The theory indicates that both are a component of the same procedure. It claims that when it comes to country's participation, one must explain when and why global markets are obtained via foreign investment and also international production instead of domestic exports and production. This method attempts to determine why and when ownership, locational, as well as internalization benefits are made (referred to as OLI (Ownership, Location and Internationalization) advantages) (Arman, 2016).

The core of the electric method is to take all these advantages into account and apply them to international trade as well as manufacturing. Ownership benefits (0) are unique

to a specific business (including marketing, technology and also production skills). Moreover, if this is fully utilized, a company can conquer and also be reimbursed for the increased expenditures of setting up production amenities in another country (Batschauer, Eliete & Amal, 2020). This advantage also allows the company to cover the higher expenditures of developing production plants in other countries. The advantages of location (L) are unique to diverse countries that are likely to catch the attention of foreign investors. Large markets, tax incentives government regulations and country's trade policy, are all encompassed in this category. Finally, internalization allows the company to gain more benefits by leveraging ownership and also locational advantages (I). Internalization is done by businesses since markets for assets and products like technology as well as expertise are imperfect. Internationalization and ownership are unique to single firm, however location benefits are unique to host country in particular and also have significant impact on foreign investment inflows. For foreign investments to take place, the benefits must occur simultaneously (Olarewaju, 2018).

This theory states that if the cost of performing similar tasks in-house or internally is lower, institutions will stay away from open market transactions. One of the criticisms of Eclectic Paradigm of Dunning Theory is that it fails to put into consideration the role of the managers. In addition, it lacks the ability to handle the dynamic evolution of the multinational companies easily (Arman, 2016).

In 2016 the government of Kenya ratified new rules allowing FDI) in establishment of

Special Economic Zones (SEZ) where products are manufactured for export ma rket. The Special Economic Zones Act (16 of 2015) and Export Processing Zones Act

(Cap 517 of Kenyan laws) establish export processing and special economic zones, respectively. Through tax incentives, the Special Economic Zones Act seeks to encourage and facilitate both international and domestic investment in various sectors (Ministry of Industrialization, Trade and Enterprise Development, 2019).

County governments were also free to assign land to any local or foreign investor who wanted to establish a SEZ, according to a Kenya Gazette notice (Kariuki, 2017). The designated sites will also benefit from one-stop regulatory system run by Special Economic Zones Authority (SEZA). Employees will assist international investors in obtaining all necessary paperwork so they may begin operating as soon as possible. According to the 2016 Special Economic Zones Regulations, SEZA is required to maintain open investment environment to support and promote business through the implementation of "easy, flexible, and transparent procedures for investor registration."

This study used the Eclectic Paradigm of Dunning Theory to show the effect of foreign investments in terms of foreign capital and foreign ownership on financial performance of firms. According to Morris and Cyree (2018), the Eclectic Paradigm's ownership advantage component can be relevant to foreign ownership, as it considers the unique assets, capabilities, or competitive advantages that a firm possesses. Foreign ownership may occur through various means, including FDI, acquisitions, strategic partnerships, or portfolio investments. The ownership advantage can drive foreign entities to seek ownership stakes in domestic firms to gain access to valuable assets, technology, or market opportunities.

Foreign equity capital represents the investment made by foreign individuals or entities to acquire equity ownership in a company. The Eclectic Paradigm's ownership

advantage component is directly connected to foreign equity capital. Firms with ownership advantages may attract foreign equity capital as investors seek to participate in the growth and profitability of the firm. The ownership advantage can provide assurance to foreign investors that their capital will be utilized effectively and generate returns.

2.2.4 Profit Maximization Theory

The profit maximization theory can be traced back to Adam's ground breaking study on national wealth in 1930. Individuals in a particular business entity operate in their own self-interests to increase profit maximization in their company, according to Adam. The modern theory of profit maximization is founded on economic viewpoints, in which businesses focus on profit maximizing by comparing marginal revenues and marginal costs (D'Amato, Festa, & Rossi, 2022). Profit maximization as well as competition-based theory are all based on idea that any corporate entity's primary goal is to maximize profits by focusing on the growth of long-term competitive edge that allow it to outperform competitors within the same industry. Strategic positioning of external markets is a crucial aspect that makes it possible for a corporation to obtain enduring competitive edge, according to industrial organization theory (French, 2017). Profitability, according to D'Amato, Festa, and Rossi (2022), is a fundamental predictor of firm's ability to achieve its objectives, precisely through better exploitation of available resources (goods and services) to improve service delivery. Aside from that, he stated that profitability is1a significant indicator of a company's ability to realize competitive advantages (Skouras, Avlonitis & Indounas, 2017).

There assumptions that underpin profit maximization theory. They are (i) he entrepreneur is a sole proprietor of the firm and has knowledge of the quantity of output

that can be sold at every price; (ii) new companies can gain entry only in long run; entry of companies in short run is just impossible; the company maximizes profits over certain time-horizon; (iii) profits are maximized in short run and long run (D'Amato, Festa & Rossi, 2022).

Profit maximisation concept posits that businesses are assured of their maximal profitability. Profits are highly uncertain because they arise from the gap between future revenues and costs (D'Amato, Festa, & Rossi, 2022). The profit maximisation hypothesis assumes that firms have perfect knowledge of not only their own revenues and costs, but also the costs and revenues of other enterprises. However, in fact, businesses lack sufficient and reliable information on the conditions in which they operate (Skouras, Avlonitis & Indounas, 2017).

Government policies as well as national plans play an important role in ensuring maximization of profitability among firms in Kenya. For instance, the launch of 2018 national economic transformative policy known as the Big Four Agenda that covers the enhancing manufacturing, food security and manufacturing, universal health coverage and affordable housing, plays a key role in ensuring profitability of related sectors. However, the Value Added Tax on petroleum products was introduced in the Value Added Tax Bill enacted in 2013 (Mwita, 2021). This together with the monthly reviews by Energy and Petroleum Regulatory Authority has led to a considerable increase in the fuel prices, which in turn negatively affects the profitability of firms.

The main objective of manufacturing and allied companies listed in Nairobi Securities Exchange is to maximize profitability. Therefore, profit maximization theory was used in this study to show how different foreign investment

portfolios can be used to enhance the firms' financial performance. The theory is used to explain the process by which companies establish ideal price levels as well as output to maximize their profits. To attain the profit goal, the company will typically modify relevant aspects such as production costs, sale prices, and output levels.

2.3 Empirical Review

This section covers empirical literature on impact of foreign equity capital, foreign bonds and foreign ownership on companies' financial performance.

2.3.1 Foreign Equity Capital and Financial Performance

In Nigeria, Omorokunwa (2018) examined the link between performance of stock market and foreign equity capital. VECM procedure was employed to assess the nexus between study variables with quarterly data between 1986 and 2016. Granger causality test was as well used to examine cause-effect association between foreign equity capital and development of stock market. Findings indicated significant positive influence between FE capital and stock market. However, the study was conducted in Nigeria, a country with different macroeconomic environment, political environment and business environment from that of Kenya.

French (2017) examined dynamic association between equity returns and foreign portfolio equity flows on JSE. Study's main goal was to figure out how returns on equity market affect equity flows of foreign cross-border portfolio, and how equity returns are affected by those portfolio flows. The study used vector autoregressive models to better comprehend the relationships between market returns and equity flows. The findings revealed that high JSE returns 'attract' foreign stock flows

into South Africa. Nonetheless, besides being limited to firms cited in JSE, the study used equity returns as dependent variable, which differs from financial performance.

In Kenya, Kosimbei and Gachanja (2018) examined dynamic link between FE flows and market returns. The researcher used data from Quarterly statistical bulletins of Capital Markets after the financial crisis of 2007/2008, as well as vector autoregressive models, vector decomposition, causality tests, as well as functions of impulse response (January 2007 to December 2015). The NSE 20 share index, which indicates market returns, as well as net FE flows, inflows and FE outflows, were employed as monetary variables. The FE flows have favourable and considerable impact on stock market returns, according to the findings. However, this study used stock market returns as dependent variable which differs from manufacturing firms' financial performance.

In Kenya, Ochenge, Ngugi and Muriu (2020) explored the dynamic relation between aggregate financial performance capital inflows and stock market aggregate liquidity using several liquidity measures and transactional foreign trading data. Over the period 2011–2018, the researchers used vector autoregression with monthly intervals gross foreign inflows, returns and local liquidity of the stock market. The study discovered one-way causality link between inflows and liquidity, indicating that overseas investors help instead of hindering domestic liquidity. However, the dependent variable in this study was liquidity, whose measures are different from those of financial performance.

Using causal research design, Osoro, Simiyu and Omagwa (2020) assessed the link between flows of foreign capital and capitalization of stock market at NSE, Kenya. The study employed data for duration of 2008 to 2018 during the study. Findings indicated that foreign equity portfolio inflows affected stock market capitalization at NSE

Kenya negatively and insignificantly. Nonetheless, the study used stock market capitalization as the dependent study variable, which is different from financial performance.

2.3.2 Corporate Bonds held by Foreign Investors and Financial Performance

In United States, Thomas (2019) conducted a study with an aim of examining currency-hedged corporate bonds held by foreign investors' performance. All foreign government bonds analysed (with exception of Canadian bonds) were less volatile when hedged than their US-dollar counterparts. Hedging also enhanced the return/risk ratios of the bonds. For a U.S. fixed income investor, hedged corporate bonds held by foreign investors faired better than unhedged foreign bonds as diversity vehicles, while unhedged international diversification gave larger returns. Nonetheless, the research was performed in United States, a developed country with diverse business environment, legal environment and macroeconomic environment from that of Kenya, a developing country.

In the United Kingdom, Gordon (2020) conducted a research with an aim of examining whether foreign bond influences the firms' performance. International bonds, including bulldog bonds, provide investors with access to foreign capital market out of which they can generate funds, according to the report. Moreover, the study revealed that bulldog bonds lower cost of borrowing for investors since they are bought at a lower price. When a company need foreign money or believes it will be able to obtain interest rates that are favourable in international market, it may choose to trade in that market. However, the research was performed in UK, which has diverse business and legal environment from that of Kenya.

In a different study, Chapagain (2009) investigated the firm specific drivers behind the motivation of issuance of international bonds for a sample of Euro market non-financial bond offers of UK domiciled corporations using a sample of domestic corporate bond issuing non-financial UK enterprises. International bond issuing firms, according to the research, are substantially larger in terms of issue size and company size than domestic bond issuing firms. They are fast-growing businesses with larger financial leverage, liquidation values, and reputations than domestic bond issuers. The current market environment appears to be advantageous for UK corporations to reduce their issuance costs by issuing bonds in the international market. However, this study used corporate bonds held by foreign investors as dependent variable which in this study is used as an independent variable.

Meyer, Reinhart and Trebesch (2019) studied external sovereign bonds as an asset class. The study created new database of 220,000 monthly prices of foreign-currency government bonds traded in New York and London, including 91 nations, between 1815 (Waterloo Battle) and 2016. The study found that returns on external government bonds have been high enough to compensate for the risk. The study revealed that real ex-post returns averaged 7 percent yearly in two centuries, consisting default episodes, global crises and major wars. However, besides being limited to UK and US, the study did not show how corporate bonds held by foreign investors influence firms' financial performance.

In Kenya, Kung'u, Nzau, and Onyuma (2019) evaluated the impact of bond issuance on NSE-listed companies' financial performance. The research gathered secondary data from the 6 companies that issued bonds inform of tranches or extra bonds between 2008 and 2017. According to the study, financial performance was established to be

significant when bond proportion and bond yield to maturity were put into consideration. To enhance their returns on shareholder capital, listed corporations must consider bond prices, coupon rates, bond yield to maturity, and bond proportion, according to the report. However, the researcher measured bond issuance in terms of bond prices, coupon rates, bond proportion and bond yield to maturity but this study looks at corporate bonds held by foreign investors in terms of bond amount.

2.3.3 Foreign Ownership and Financial Performance

In Vietnam, Duong, Vu, Vo, Nguyen-Le and Nguyen (2021) examined the link between foreign ownership and publicly traded companies' performance. This study analysed a large panel data that included 288 non-financial cited Vietnamese companies over five-year duration between 2015 and 2019. Findings demonstrated that the larger the FO ratio, the better the performance; nonetheless, the link between FO and business performance was a U-shaped association. Having been done in Vietnam, the study results cannot be applied to Kenyan firms owing to disparity in business environment and also legal framework regulating the operation of firms.

In a different study, Nguyen, Pham, Dao, Nguyen and Tran (2020) assessed the impact of foreign ownership on firms' performance within Vietnam. From 2014 to 2018, secondary data was collected on 427 publicly traded companies across all industries. Tobin's Q, ROA, and ROE were used to assess financial performance. Moreover, the study tested each model by least squares technique of Pool OLS, assessed random effects (REM) and evaluated fixed effects (FEM). Findings showed that foreign ownership ratio and firms' size affects financial performance positively. Nonetheless, the research was performed in Vietnam and therefore results cannot be applied to firms in Kenya.

Among Romanian listed manufacturing companies, Mihai and Mihai (2013) investigated the link between foreign ownership and companies' performance. The research was carried out on companies' listed on Bucharest Securities Exchange, in both regulated and unregulated areas. The final sample comprised 261 companies and secondary data was derived from the companies' websites. The percentage of share held by foreign investors was used to calculate foreign ownership. The study's findings imply that there is insignificant link between economic and foreign ownership. However, the study was conducted in Romanian listed manufacturing companies, which operate under different business environment from those of Kenya. In addition, this study measured performance by employing ROE, but in this study employed ROA to measure performance.

In Indonesia, Arman (2016) assessed the link between FO and listed banking companies' financial performance. Moreover, the study sample comprised of 14 banking issuers with majority of their ownership held by foreign investors. The study used data from two years before and after foreign ownership. The study findings reveal that after foreign ownership of banking businesses listed on Indonesia Securities Exchange, there is a substantial increase in LDR, insignificant improvement in CAR, insignificant fall in ROE, as well as significant decline in NPLs. However, this research was conducted among firms in banking sector, whose operations, resources requirements and products differ from those of manufacturing firms.

In South Africa, Naidu (2020) examined the effect of foreign ownership on firm performance. The panel data utilized in covered seven-year period from 2012 to 2018 for non-financial enterprises listed on JSE. The GMM method was used to solve the problem. The direct effects of foreign ownership are non-linear only when ROE is

utilized, and the results differ among performance measures. The data reveal that foreign ownership has a favourable influence on ROE when it is less than 40.1 percent, but a negative effect when it is more than that. However, besides being limited to South Africa, the study used return on equity to measure financial performance, but this study utilized ROA.

Using correlation research and cross-sectional study designs, Ng'ang'a, Namusonge and Sakwa (2016) assessed whether FO influences NSE listed firms' financial performance. The study's population comprised of 264 executives from each 61 NSE-listed firms. Questionnaires were utilized to obtain qualitative data for analysis, which was then supplemented with secondary quantitative data gleaned from the companies' published final accounts and quarterly market reports. The study discovered an association between foreign ownership and financial performance of Kenyan listed companies on NSE. The stability of share prices, agency costs, performance targets, new technology, monitoring and evaluation, collaborative links and network, foreign funding, and highly skilled professionals were all used to analyse foreign ownership but in this research it was measured using amount of ordinary shares owned by foreigners.

2.4 Summary of Literature Review and Research Gaps

Literature review on foreign investment portfolio and financial performance of firms portray apparent contextual, theoretical, conceptual methodological and scope research gaps to be filled by current study. Table 2.1 shows summary of reviewed empirical literature as well as research gaps.

Table 2.1: Summary of Literature Review and Research Gaps

Authors	Research Title	Results	Research gap	Focus of the study
Colombo, Loncan and Caldeira (2019).	Influence of foreign portfolio capital flows on domestic investment in Brazil	The findings indicated that foreign capita capital inflows had an influence on domestic investment	Besides being limited to Brazil, the study used domestic investment as the dependent variable	The dependent variable was financial performance
Chhimwal, Bapat, and McMillan (2020).	Influence of foreign investment in Indian stock market volatility	The findings indicated that foreign investment influenced stock market volatility significantly	The dependen t variable was stock market volatility The study focused on stock market in India	The dependent variable was financial performance The focus of this study was manufacturin g firms listed at the NSE
Yoonmin and Gab-Je (2020)	Relationship between Foreign Investors and Stock Price of Korean Enterprises	The findings indicated that foreign investors had a significant effect on stock price	The study was limited to Samsung Electronics Dependent variable was stock prices	The focus of this study was manufacturin g firms listed at the NSE
Foreign Equity Capital and Financial Performance				
Omorokunw a (2018)	Foreign equity capital and performance of stock market in Nigeria	Results indicated significant positive influence between FE capital and stock market.	Dependent variable was stock market performance, which differs from financial performance The research was limited to Nigeria	Dependent variable in this study was financial performance measured in terms of ROA This study was conducted among manufacturin g and allied companies listed at NSE
Kosimbei and Gachanja (2018)	link between FE flows and market returns in Kenya	The FE flows have favourable and considerable impact on	Dependent variable in this study was market returns	The dependent variable in this study was

		stock market returns		financial performance
Osoro, Simiyu and Omagwa (2020)	Link between flows of foreign capital and capitalization of stock market at NSE	Equity portfolio inflows influenced stock market capitalization at NSE Kenya negatively and insignificantly	The study used stock market capitalization as the dependent study variable, which is different from financial performance	This study measured financial performance
Corporate Bonds held by Foreign Investors and Financial Performance				
Gordon (2020)	Foreign bond influence on the firms' performance in United Kingdom	Foreign bond have significant influence on financial performance	This study was limited to firms in the United Kingdom, which is a developed country	This study was conducted among manufacturing and allied firms in Kenya
Meyer, Reinhart and Trebesch (2019)	External sovereign bonds as an asset class in New York and London	Returns on external government bonds have been high enough to compensate1for the risk	The study was limited to firms in New York and London due to differences in regulatory framework and business environment The study employed cross-sectional study design	This research was conducted among manufacturing and allied firms in Kenya The study used explanatory research method
Kung'u, Nzau, and Onyuma (2019)	Impact of bond issuance on NSE-listed companies' financial performance	Financial performance was statistically significant when bond proportion and bond yield to maturity were considered	The study made use a descriptive research method	This research adopted an explanatory research method
Foreign Ownership and Financial Performance				
Arman (2016)	Link between FO and listed banking companies' financial performance	Foreign ownership has a significant effect on financial performance of	The research was limited to the banking sector	This research was conducted among manufacturin

		banking businesses listed on Indonesia Securities Exchange		g and allied firms in Kenya
Naidu (2020)	Effect of foreign ownership on firm performance in South Africa	The study found that foreign ownership had significant effec t on financial performance	However, the study measured financial performance using ROE The research was limited to South Africa hence, its findings cannot be applied to firms in Kenya because of variation in regulatory measures	The researcher measured financial performance using ROA This study was conducted among manufacturing and allied firms listed in NSE
Ng'ang'a, Namusonge and Sakwa (2016)	Influence of foreign ownership on financial performance of firms listed at NSE	The study found foreign ownership and financial performance of Kenyan listed companies on NSE	However, the study utilized primary data, collected using questionnaires. Financial performance was measured using ROE	This study used secondary data The study made use ROA as financial performance measure.

Source: Researcher (2022)

2.5 Conceptual framework

This is a representations linked to study objective that directs data gathering and analysis (Babbie, 2017). It is a diagrammatic representation of hypothesized relationships between study variable. Independent variables comprised of foreign equity capital, foreign bonds and foreign ownership. The dependent variable was financial performance of manufacturing and allied companies listed in NSE.

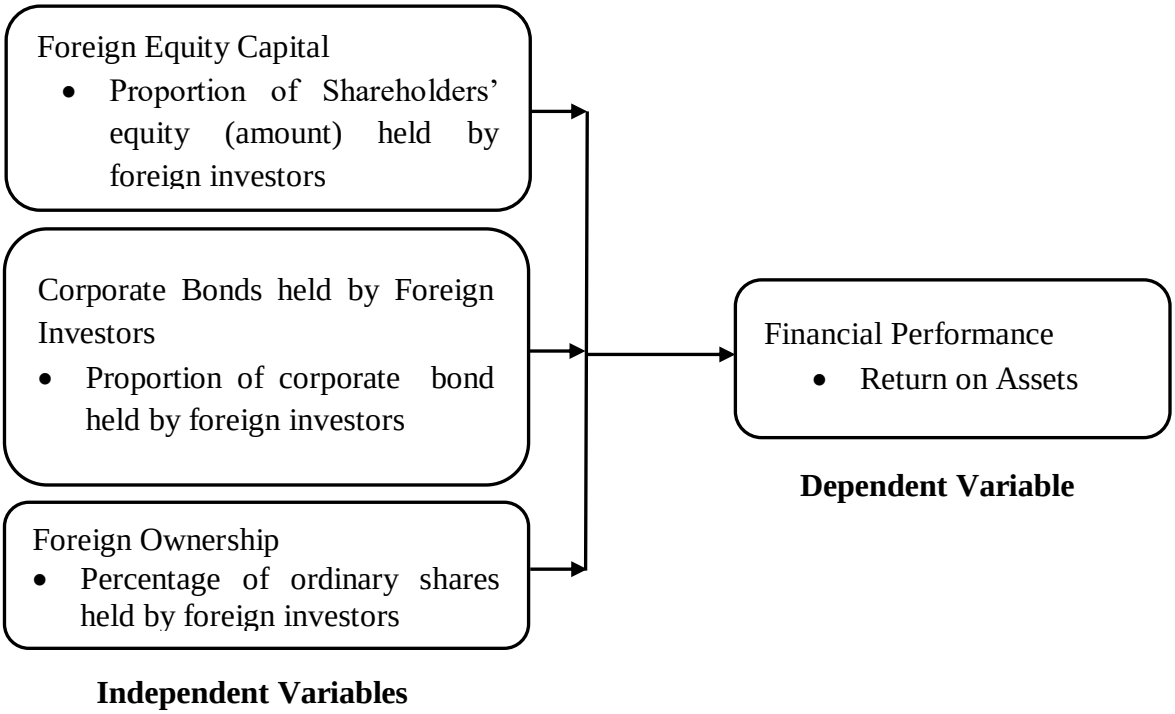


Figure 2.1: Conceptual framework

Source: Researcher (2022)

Foreign equity capital includes both capital provided to an organization due to one's ownership interest in a corporation and debt-free capital including surplus shares and earnings. Businesses obtain capital because they need funds to grow and develop their operations, either organically or through acquisitions (Omorokunwa, 2018). Given their need for sizable financial infusions, entrepreneurs are more likely to consider a foreign listing when the amount of money they can expect to raise in international market is greater than in their local capital market.

A foreign bond refers to a bond issued in domestic market by foreign entity to generate funds in domestic market's currency (Gordon, 2020). Issuing out foreign bonds, including Matilda bonds, bulldog bonds and samurai bonds is a

regular practice for foreign companies doing several business in domestic market (Thomas, 2019). Foreign bonds enable domestic investors to globally diversify portfolios, and they are easier to obtain since they are all traded on local platforms.

Foreign ownership refers to the acquisition of businesses in a nation by individuals or organizations whose corporate headquarters are not located there (Mihai & Mihai, 2013). Foreign ownership arises when multinational corporations with operations in several nations make long-term investments in those nations, generally through FDI or acquisition (Arman, 2016).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section presents research methodology including the steps that will be followed in data collection and analysis. It comprises of research design, study population, data collection techniques, data analysis as well as presentation, measurement and operationalization of study variables and ethical considerations.

3.2 Research Design

The research used explanatory research design. Given that the purpose of this study was to determine the degree of cause-and-effect connections, the explanatory research design, also known as the causal research design, was used. The goal of explanatory research is to discover connections as well as causal links between various variables. An explanatory study may also be conducted to investigate the impact of certain modifications on current norms and various processes (Gilliland, McKemmish & Lau, 2017). The goal of explanatory design is to examine a specific scenario and explain the patterns of connection between variables. Given that the purpose of this study was to assess the effect of foreign investment portfolio on financial performance of manufacturing and allied companies listed in NSE, the explanatory research design was considered appropriate. Studies by Mutua and Atheru (2020) and Wanjiku (2019) conducted among NSE-listed manufacturing and allied firms have used a similar research approach.

3.3 Target Population

Study population was based on NSE-cited manufacturing and allied companies. There are a total of 9 manufacturing and allied companies listed in NSE, Kenya (NSE, 2020). A list of registered firms is provided in Appendix II.

3.4 Sample Technique

A sampling design encompasses sampling size determination and sampling technique (Greenfield & Greener, 2016). The researcher used a census approach and hence included all 9 manufacturing and allied companies listed in NSE. This is based on the premise that census approach is the most appropriate in small populations. Metsamuuronen (2017) argues that census sampling design removes the sampling error and is also attractive for small populations, and provides data on all individual within the population. The term "census" is defined as a method of quantitative research in which the whole population under investigation is counted (Saunders, Lewis & Thornhill, 2016). It is regarded as a complete count of the entire population, with data collected from every unit of the population. The information received from a census is accurate and trustworthy, whereas the findings of a sample may contain mistakes.

3.5 Data Collection Instruments

The study deployed secondary panel data. Information which has already been obtained and is readily accessible and available is referred to as secondary data. These data are affordable and quicker to collect than primary data. Moreover, they may be accessible when primary data is not (Mitchell & Jolley, 2017). Using secondary data is beneficial in that much of preliminary work is carried out. The data may have already been sorted in electronic format, published as well as reviewed with case studies already conducted. Articles that have been published, research initiatives, yearly reports, publications, census, newspapers and magazines are all common sources of secondary data (Mitchell & Jolley, 2017). Secondary source of data was collected from audited balance sheets and profit and loss accounts as contained in annual financial statements maintained at the respective firms; NSE, Regulators and CMA were reviewed by the researcher. Data for

this study was collected between 2015 and 2020 as shown in Appendix I. The research employed a data collection guide to collect the data. Saunders, Lewis and Thornhill (2016) suggest that data extraction refers to a process involving the retrieval of format and also types of data from unstructured data sources.

3.6 Validity and Reliability

3.6.1 Validity

This is the degree to which a tool correctly gauges what it intends to gauge. Face validity refers to a subjective judgment on the functionalization of a construct (Greenfield & Greener, 2016). Face validity therefore is the degree to which a measure seems to be associated to a particular construct (Mitchell & Jolley, 2017). The face validity in this research was enhanced using experts' opinions in the area of finance such as supervisor. Content validity portrays the degree to which items effectively represent or measure the content of the trait or property that the researcher desires to measure (Stokes & Wall, 2017).

3.6.2 Reliability

Reliability is a measure showing whether the technique applied repeatedly to the same population will yield similar result. In this study, the reliability of the data was assessed by use of audited financial statements.

3.7 Data Collection Procedure

Before collecting data, a letter of data collection was obtained from Kenyatta University. A research permit was also obtained from the National Commission for Science, Technology and Innovation (NACOSTI). The researcher then visited the NSE and CMA websites to obtain data on foreign equity capital, foreign bonds and financial

performance. However, data on foreign ownership was obtained from the respective firms directly.

3.8 Analytical Model

This particularly study adopted by the panel data multiple regression model was as indicated below;

$$FP_{it} = \beta_0 + \beta_1 FEC_{1it} + \beta_2 FB_{2it} + \beta_3 FO_{3it} + \varepsilon_{it}$$

…….... (3.1)

Where;

FP_{it} is dependent study variable (Financial Performance (ROA),

B_0 is y intercept (Constant),

β_1- β_3 are Beta coefficients,

FEC is Foreign Equity Capital for firm i at time t

FB is Foreign Bonds for firm i at time t and

FO is Foreign Ownership for firm i at time t,

ε is error term,

3.8 Data Analysis and Presentation

Panel data in this research was generated via secondary data. Panel data refers to a multi-dimensional data involving measurements over time. Collis and Hussey (2014) suggest that panel data encompass observations of several phenomena acquired over various time periods for similar companies or individuals. A 6 years period was covered in this study and examined 9 manufacturing and allied companies listed in NSE. The study deployed inferential and also descriptive statistics in its data analysis. Frequency distributions, percentages, mean, variances, and standard deviations are examples of descriptive statistics (Gilliland, McKemmish & Lau, 2017). Inferential

statistics were performed using regression analysis. Regression models are used to predict the behaviour of one variable from one or more variables (Stokes & Wall, 2017). By use of correlation Coefficient, direction and strength of correlation between dependent variable and each independent study variable was determined. The study used Coefficient of determination (R^2) in order to measure dependent variables' proportion of variance that can be accounted for by independent study variables. P-value was used in testing hypotheses based on significance level of 0.05. For there to be a significant association between the independent variables and dependent variable, the p-value of the beta coefficient was expected to be less than the significance level (0.05). Findings were given in figures and tables including line graphs.

In econometrics, a pre-test situation occurs when the result of a statistical test dictates which estimate should be used for the parameter(s) of interest. Unlike pre-estimation tests, post-estimation commands are commands that apply to the most recently used estimation command, that is, commands that retrieve information from a regression model for further inspection and analysis. The pre-estimation tests included Normality test, Multicollinearity test, heteroscedasticity Test, conintegation tests, stationarity Test and Hausman Specification Test.

3.10 Diagnostic Tests

Linear regression has five key assumptions, which include normal distribution, no multicollinearity, no auto-correlation and homoscedasticity.

3.10.1 Hausman Test

In a regression model, endogenous repressors are found using the Hausman Test (Gilliland, McKemmish & Lau, 2017). OLS estimators may not perform as expected in a regression model when endogenous repressors are present. Because of this, it is assumed that there is no association between the predictor variable and error term. In this research, null hypothesis is that preferred model is random effect, whereas alternative hypothesis isf ixed effect mode.

3.10.2 Multicollinearity Test

When two or more predictor variables in multiple regression model are significantly associated, it is referred to as multicollinearity. This means that one may be linearly predicted from the others with high degree of accuracy. Multicollinearity was tested using VIF. In a simple least squares regression analysis, VIF measures the degree of multicollinearity (Mitchell & Jolley, 2017). It offers an index that gauges how much collinearity raises the variance (the square of the predicted standard deviation) of a regression coefficient. According to the common rule of thumb, VIFs above 4 indicate a need for additional research, while VIFs over 10 indicate multicollinearity that has to be corrected.

3.10.3 Normality Test

Most of the parametric tests require that the assumption of normality be met. Normality means that the distribution of the test is normally distributed (or bell-shaped) with 0 mean, with 1 standard deviation and a symmetric bell shaped curve (Metsamuuronen, 2017). It is virtually impossible to obtain data from an exact normal distribution.

Nonetheless, many naturally1occurring phenomena follow very close approximate normal distribution (Saunders, Lewis & Thornhill, 2016). Shapiro Wilk test was used to determine if variables are normally distributed or not in order to meet the condition of normal distribution. The population's normal distribution is the test's null hypothesis. The null hypothesis is rejected and there is evidence that tested data are not from a population with a normally distributed distribution, or that data are not normal, if p-value is lower than selected alpha level. On the other hand, null hypothesis that the data comes from normally distributed population cannot be ruled out if p-value is higher than selected alpha level.

3.10.4 Heteroscedasticity Test

The presence of heteroscedasticity is a significant issue when applying regression analysis, including the analysis of variance, as it can invalidate statistical tests of significance that simply assume the modeling errors are uncorrelated and uniform—thus, that their variances do not change with the effects being modeled (Mitchell & Jolley, 2017). For instance, the OLS estimator is ineffective because true variance and covariance are underestimated, even if it is still unbiased in the presence of heteroscedasticity (Collis & Hussey, 2014). The Breusch-Pagan test was employed to check for heteroscedasticity. Breusch-Pagan compares alternative that the error variances are a multiplicative function of one or more variables, to the null hypothesis that the y are all equal.

3.10.5 Autocorrelation Test

Breusch-Godfrey LM test for autocorrelation was utilized to test for autocorrelation. A test for autocorrelation in regression model errors is the Breusch-Godfrey serial

correlation LM test (Saunders, Lewis & Thornhill, 2018). A test statistic is obtained from the residuals from the model being investigated in the regression analysis. It is assumed that there is no autocorrelation.

3.10.6 Stationarity Test

To check for data stationarity, the study deployed Im, Pesaran and Shin (IPS) test. The IPS test allows for heterogeneous coefficients. The IPS proposes a test for the presence of unit roots in panels that combines information from the time series dimension with that from the cross section dimension (Saunders, Lewis & Thornhill, 2018). Since the IPS test is a superior test to analyse panel data. Under the null hypothesis, there is a unit root, while under the alternative hypothesis there is partial unit root.

3.11 Operationalization and Measurement of Variables

This study used foreign equity capital, corporate bonds held by foreign investors and foreign ownership as the foreign investment portfolios that represent independent study variables whilst dependent variable was financial performance measured by ROA. The operationalization of variables is given in Table 3.1.

Table 3.1: Operationalization and Measurement of Variables

Type of Variable	Variables	Operationalization	Measurement
Dependent	Financial Performance	Return on Assets	ROA = (Net PAT/ total assets)
Independent Variable	Foreign Equity Capital	Investment by foreigners in the manufacturing and allied firms in NSE in Kenya	Amount of foreign equity capital
	Corporate Bonds held by Foreign Investors	It is the ratio proportion of corporate bonds held by foreign investors to the total bond value issued by the Kenya manufacturing and allied firms listed at NSE, Kenya	Amount of corporate bonds held by foreign investors
	Foreign Ownership	Control of a firm in a country by non-citizens or businesses with no headquarters in that country.	Percentage of ordinary shares owned by foreigners

Source: Researcher (2022)

3.12 Ethical Considerations

Research globally is guided by various rules and ethical principles. Research ethics promote the objectives and aims of a research study. The current study ensured that ethical considerations were followed. All the authors of materials utilized in this study were acknowledged. In conclusion, ethical considerations governing research in Kenya as stipulated by the University commission were followed. Graduate School of Kenyatta University provided research approval and NACOSTI provided the research permit for this research.

CHAPTER FOUR: RESEARCH FINDINDS AND DISCUSSIONS

4.1 Introduction

This chapter covers the presentation and interpretations of the findings as per the study's purpose, which was to examined the effect of foreign investment portfolio on financial performance of listed manufacturing and allied firms in NSE. The study sought to assess the effect of foreign equity capital, foreign bonds and foreign ownership on financial performance of manufacturing and allied companies quoted in NSE. This chapter covers descriptive analysis of the data, followed by trend analysis, testing of regression assumptions, unit root test, Hausman test and regression analysis. Study's ample size was 9 manufacturing and allied companies listed in NSE. The data covered duration between 2015 and 2020.

4.2 Descriptive statistics

The main aim of descriptive statistics is to provide summaries of a population as well as its measures. Moreover, descriptive statistics encompass, frequency distribution, percentage as a proportion of the population, measures of spread and measures of central tendency. Mostly, the measures of spread comprise of minimum values, variance, standard deviation, maximum values, kurtosis and skewness. The measures of central tendency in a data set include mean, median, and mode. In this research, descriptive statistics entailed calculation of standard deviation, mean, maximum and minimum of dependent variable (ROA) and independent variables, foreign equity capital, foreign bonds and foreign ownership. This sub-section comprise presentation of standard deviation(s), minimum(s), mean (s) and maximum values of variables. The results were as presented in Table 4.1.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	48	12.8048	10.95348	-4.05	46.782
FEC	48	6.556146	7.462558	.11	32.623
CFBI	48	327.5749	313.5726	37.116	989.273
FO	48	13.27458	8.68268	3.16	30.97

Source: Research Data (2022)

There were 48 observations from 9 manufacturing and allied companies listed i n NSE (2015 and 2020). The average ROA among 9 manufacturing and allied companies listed in NSE was 12.8048% and standard deviation was 10.95348. The minimum ROA during the duration of the study was -4.05% and maximum was ROA was 46.782%. The average foreign equity capital measured using shareholders' equity was Kshs. 6.556146 billion and standard deviation was Kshs. 7.462558 billion. The minimum shareholders' equity among manufacturing and allied companies listed in NSE, during duration of the study, was Kshs. 0.11 billion and maximum was Kshs. 32.623 billion.

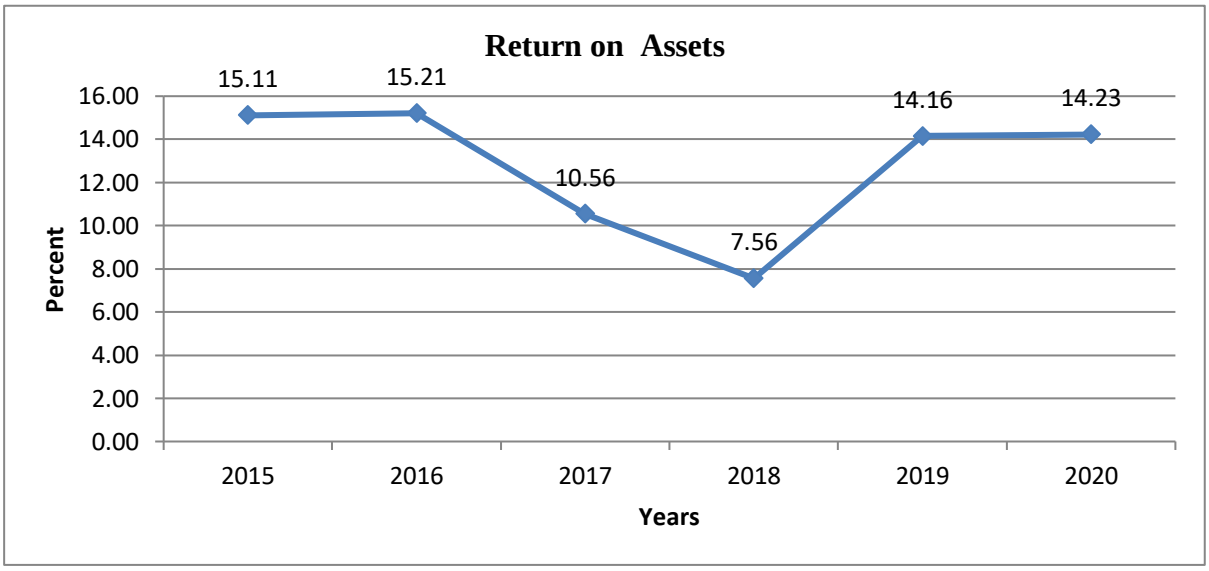
The findings showed that average corporate bonds held by foreign investors measured using bond amount for the duration between 2015 and 2020 in manufacturing and allied companies listed in NSE was Kshs. 327.5749 billion and the standard deviation was Kshs. 313.5726 billion. The minimum bond amount was Kshs. 37.116 billion and the maximum was Kshs. 989.273 billion. The average foreign ownership measured using percentage of ordinary shares held by foreign investors among manufacturing and allied companies listed in NSE was 13.27458% and standard deviation was 8.68268%. The minimum foreign ownership was 3.16% and maximum was 30.97%.

4.3 Trend Analysis

4.3.1 Trend Analysis of Financial Performance

Financial performance was measured using ROA. Figure 4.1 shows trend of ROA for 9 manufacturing and allied companies listed in NSE from 2015 and 2020.

Figure 4. 1: Trend Analysis of ROA (2015-2020)



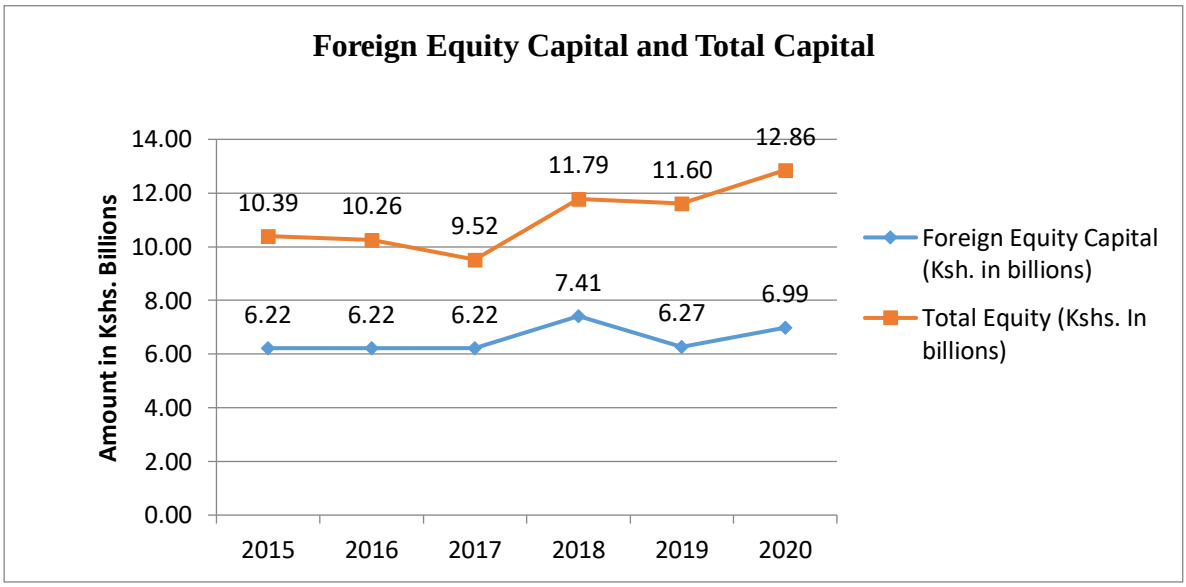
Source: Nairobi Securities Exchange (2022)

From the study findings in Figure 4.1, percentage of ROA has been changing during research period. The high percentage of ROA was 15.21% in 2016, followed by 15.11% in 2015 and 14.23% in 2020. The lowest percentage of ROA was 7.56% in 2018 followed by 10.56% in 2017. The decline in the return on assets between 2016 and 2018 and be explained by decline in investments during before and during the electioneering period. After the election period, the ROA increased again. The findings conform to Ochieng, Jagongo and Ndede (2020) observation that the return on assets in manufacturing and allied companies listed in NSE has been fluctuating for the duration between 2015 and 2019.

4.3.2 Trend Analysis for Foreign Equity Capital

Foreign equity capital was measured by employing amount of foreign shareholders' equity. Trend analysis of foreign equity capital for 9 manufacturing and allied companies listed in NSE for the duration between 2015 and 2020 is presented in Figure 4.2.

Figure 4. 2: Trend Analysis of Foreign and Total Equity Capital (2015-2020)



Source: Nairobi Securities Exchange (2022)

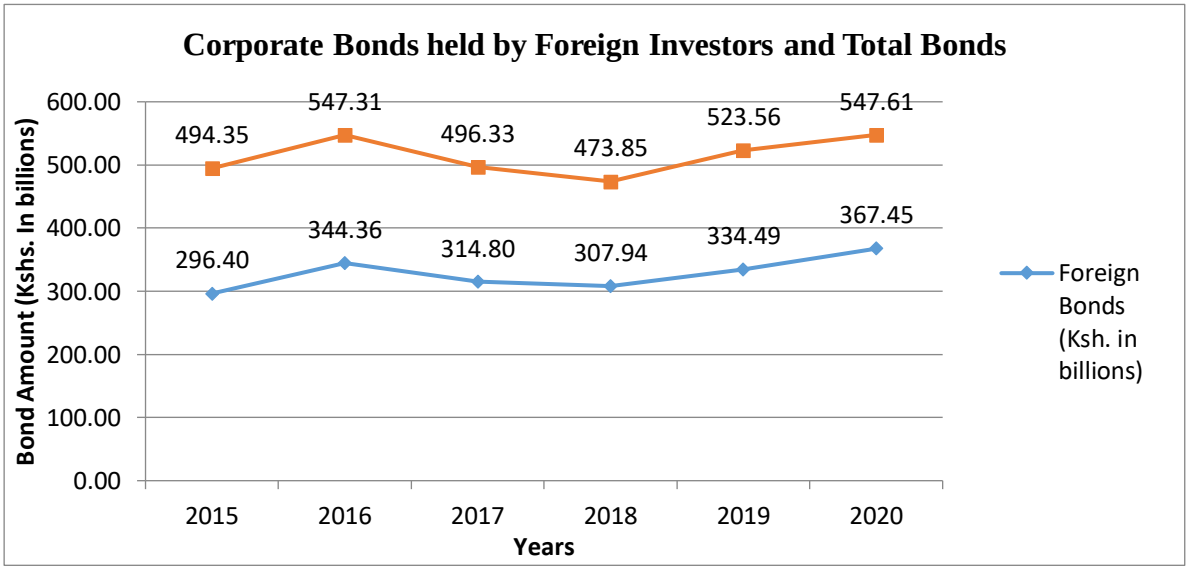
From the results, trend analysis of foreign equity capital for 9 manufacturing and allied companies listed in NSE for the duration between 2015 and 2020 indicates that total equity capital was Kshs. 10.39 billion in 2015, which decreased to Kshs.10.26 billion in 2016, decreased again to Kshs.9.52 billion, before increasing to Kshs.11.79 billion. However, it decreased to Kshs. 11.60 billion in 2019 before increasing to Kshs.12.86 billion in 2020. The trend analysis of foreign equity capital for 9 manufacturing and allied companies listed in NSE for the duration between 2015 and 2020 indicates that foreign equity capital was Kshs. 6.22 billion in 2015. This figure remained constant for the next two years before increasing to Kshs. 7.41

billion in 2018. Nonetheless, the figure decreased to Kshs. 6.27 billion in 2019 before increasing to Kshs. 6.99 billion in 2020. The foreign equity capital increased to 7.41 in 2018 because people like to invest when the market is low. This can also be explained by the end of elections leading to an increasing in foreign equity capital investments. These findings agree with Osoro, Simiyu and Omagwa (2020) observation that foreign equity capital increased between the year 2017 and 2018.

4.3.3 Trend Analysis of Corporate Bonds held by Foreign Investors

Corporate bonds held by foreign investors were measured using bond amount. Figure 4.3 shows Trend Analysis of corporate bonds held by foreign investors for 9 manufacturing and allied companies listed in NSE for the duration between 2015 and 2020.

Figure 4. 3: Trend Analysis of Foreign and Total Bonds (2015-2020)



Source: Nairobi Securities Exchange (2022)

The trend analysis of corporate bonds held by foreign investors for 9 manufacturing and allied companies listed in NSE for the duration between 2015 and 2020 increased from Kshs. 296.40 billion in 2015 to Kshs. 344.36 billion in 2016.

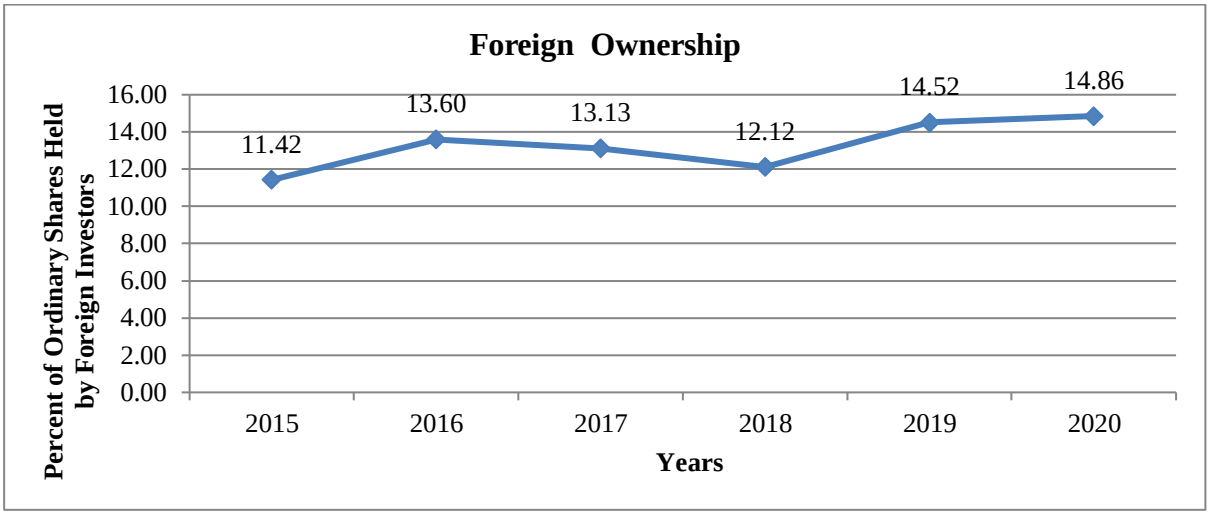
The figure nevertheless reduced steadily to Kshs. 314.80 billion in 2017 and further decreased to Kshs. 307.94 billion in 2018. This figure increased steadily to Kshs. 334.49 billion in 2019 and later increased to Kshs. 367.45 billion in 2020. There was a decrease in foreign bond for the period between the year 2016 and 2018.

The trend analysis of total bonds for 9 manufacturing and allied companies listed in NSE for the period between 2015 and 2020 increased from Kshs. 494.35 billion in 2015 to Kshs. 547.31 billion in 2016, before decreasing to Kshs. 496.33 billion in 2017. In 2018, the total amount of bonds further decreased to Kshs. 473.85 billion and increased to Kshs. 523.56 billion in 2019 and Kshs. 547.61 billion in 2020. This decrease could be explained by lack of trust in the business environment during the elections period. The findings conform to Kung'u, Nzau, and Onyuma (2019) who observed during the elections period in Kenya there was a decrease in total bonds.

4.3.4 Trend Analysis of Foreign Ownership

The foreign ownership was measured using percentage of ordinary shares held by foreign investors. Figure 4.4 shows trend analysis of foreign ownership for 9 manufacturing and allied companies listed in NSE for duration between 2015 and 2020.

Figure 4. 4: Trend Analysis of Foreign Ownership (2015-2020)



Source: Nairobi Securities Exchange (2022)

The foreign ownership for 9 manufacturing and allied companies listed in NSE for the duration between 2015 and 2020 increased from Kshs. 11.42 billion in 2015 to Kshs. 13.60 billion in 2016. However, the figure decreased to Kshs. 13.13 billion in 2017 and further decreased to Kshs. 12.12 billion in 2018. The figure increased steadily to Kshs. 14.52 billion in 2019 and further increased to Kshs. 14.86 billion in 2020. Between the year 2016 and 2018, there was a decrease in foreign ownership of firms because investors tend to reduce their investments to Kenya during the elections, but re-invest after the elections. The findings agree with Oirere (2020) who highlighted a decrease in foreign ownership of firms during elections.

4.4 Diagnostic Tests

The OLS technique is the most common linear models' estimation technique. Regression analysis can be employed to analyse the effect of multiple or numerous predictors on dependent variable, at the same time. Nevertheless, in case a data set fails to satisfy the assumptions of OLS, the findings of regression analysis carried could be biased or wrong. The satisfaction of OLS method assumptions

leads to unbiased estimates and therefore the findings are fairly and comparatively close to the truth. The researcher utilized diagnostic tests to measure assumptions of OLS method. Diagnostic tests focused on autocorrelation test, normality test, heteroscedasticity test, linear test, multicollinearity test, Hausman test and unit root tests.

4.4.1 Hausman Test

Hausman Test was utilized to detect existence of endogenous repressors in a specific regression model (Bryman & Cramer, 2012). The presence of endogenous repressor results to failure of OLS estimator. Therefore, it is assumed that there is absence of correlation between predator variables and error terms. The null hypothesis in this research was that random influence was the preferred model whereas fixed influence model was alternative hypothesis. The Hausman Test was carried out and results were as given in Table 4.2.

Table 4. 2: Hausman Test

	Coefficients			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
FEC	.1320145	.0621169	.0698976	.212141
CFBI	.0259938	.0203874	.0056064	.0110054
FO	.7026362	.7637679	-.0611316	.1654766

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 0.74
Prob>chi2 = 0.8637

Source: Research Data (2022)

Hausman specification test p-value (0.8637) was below alpha value of 0.05 (at 95 per cent confidence interval). This means that null hypothesis failed to be rejected implying that the study need to use random effects model.

4.4.2 Multicollinearity Test

The variance inflation factor (VIF) quantifies severity of multicollinearity in OLS regression analysis. It gives an index that measures how much variance (square of estimate's standard deviation) of estimated regression coefficient is increased as a result of collinearity. A variable whose VIF value is more than 10 may merit further investigation. Data on independent variables (corporate bonds held by foreign investors, foreign equity capital, and foreign ownership) was subjected to multicollinearity. Multicollinearity Test and results were presented in Table 4.3.

Table 4. 3: Collinearity Statistics

Variable	VIF	1/VIF
FEC	2.78	0.359495
CFBI	2.59	0.386440
FO	1.12	0.891339
Mean VIF	2.16	

Source: Research Data (2022)

From the study findings, VIFs for variables, foreign equity capital (2.78), foreign bonds (2.59) and foreign ownership (1.12) were below 10. This means that there was no severe multicollinearity. This means that findings of multiple regression equation are not misleading, because independent variables in multiple regression equation are not highly correlated among themselves.

4.4.3 Test for Normality

Shapiro–Wilk test is a test of normality. The null-hypothesis of this test is that population is normally distributed. Normal distribution on data including ROA, foreign equity capital (in billions), foreign bonds (in billions), foreign ownership (percent of ordinary shares held by foreign investors) was measured. Therefore, if p-value is below the selected alpha level (0.05), then null hypothesis is rejected and there is evidence that data tested are not from normally distributed population; data are not normal. Contrary, if p-value is more than selected alpha level, then null hypothesis that data was collected from normally distributed population cannot be rejected. The Shapiro–Wilk test was conducted and results were as presented in Table 4.4.

Table 4. 4: Shapiro-Wilk Test

	Statistic	df	p-value
Return on Assets	.961	48	.111
Foreign Equity Capital (in billions)	.917	48	.732
Corporate Bonds held by foreign investors (in billions)	.936	48	.123
Foreign Ownership (Percent of Ordinary Shares Held by Foreign Investors)	.945	48	.578

Source: Research Data (2022)

From the results, ROA (p-value=0.111), foreign equity capital (p-value=0.732), corporate bonds held by foreign investors (p-value=0.123), and foreign ownership (p-value=0.578) were normally distributed. This means that all independent and dependent variable were normally distributed.

4.4.4 Heteroscedasticity Test

Cook- Weisberg test was deployed to test heteroscedasticity. Heteroscedasticity refers to the population that has diverse variabilities (dependent and independent variables). Homoscedasticity takes place because of variation in the size of error terms across values of independent variables. When there is an increase in heteroscedasticity, then degrees of assumption that violates the effect of homoscedasticity. The null hypothesis is that there is constant variance while alternative hypothesis is that there is heteroskedasticity. The effect of violating assumption of homoscedasticity is a matter of degree, increasin as heteroscedasticity increases. Data on all the variables including foreign equity capital (in billions), foreign bonds (in billions), foreign ownership (per cent of ordinary shares held by foreign investors) was subjected to heteroscedasticity with ROA being used as dependent variable. The

Breusch-Pagan Test for Heteroskedasticity was carried out and results were as given in Table 4.5.

Table 4. 5: Breusch-Pagan Test for Heteroskedasticity

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of ROA

         chi2(1)      =    13.18
         Prob > chi2  =   0.0003
```

Source: Research Data (2022)

As indicated in Table 4.5, it was found that p- value of 0.0003 was more than the significance level (0.05) meaning that there was constant variance in dataset. This means that there was homoscedasticity in data set.

4.4.5 Autocorrelation Test

Lagrangian multiplier (LM) test assists decide between random effects regression and simple OLS regression. The null hypothesis in LM test is that variances across entities are zero. This means no significant variation across units (i.e. no panel effect). Data on variables (foreign equity capital, foreign bonds and foreign ownership) was tested for autocorrelation. The findings were as presented in Table 4.5.

Table 4. 6: Breusch-Godfrey LM Test

Breusch and Pagan Lagrangian multiplier test for random effects

ROA[Company,t] = Xb + u[Company] + e[Company,t]

Estimated results:

	Var	sd = sqrt(Var)
ROA	119.9787	10.95348
e	24.44421	4.944109
u	74.29964	8.619724

Test: Var(u) = 0

chibar2(01) = 42.86

Prob > chibar2 = 0.0000

Source: Research Data (2022)

As presented in Table 4.6, p-value (0.000) is less than significance level (0.05), we can conclude that variances across entities are not zero, which means that there is significant difference across units (there is panel effect).

4.4.6 Unit Root Test

Im, Pesarian and Shin denoted IPS suggests a test for the presence of unit roots in panels that integrates information from time series dimension with that from cross section dimension. Because IPS test is a superior test to analyze panel data, it was used in this research. Under null hypothesis, there exists a unit root, whereas under alternative hypothesis there is partial unit root or some panels are stationary. The unit root test was conducted and results were as presented in Table 4.7.

Table 4. 7: IPS Unit-Root Test

Variable	t-statistic	p-value	Fixed-N exact critical values		
			1%	5%	10%
Foreign Equity Capital	-1.9228	0.2580 `	-2.320	-2.060	-1.930
Corporate Bonds held by foreign investors	-2.3911	0.0527	-2.320	-2.060	-1.930
Foreign Ownership	-2.0265	0.1333	-2.320	-2.060	-1.930
ROA	-1.9947	0.0997	-2.320	-2.060	-1.930

Source: Research Data (2022)

The null hypothesis revealed that foreign equity capital, measured by employing shareholders' equity, in all panels (9 manufacturing and allied companies listed in NSE) contains unit roots and alternative hypothesis was that some panels are stationary. Because p-value (0.2580) was above significance level (0.05), we can accept null hypothesis. This means that foreign equity capital, measured using shareholders' equity, has no partial unit root (some panels are not stationary).

In regard to foreign bonds, null hypothesis is that foreign bonds, measured using bond amount, in all panels (9 manufacturing and allied companies listed in NSE) contains unit roots and alternative hypothesis was that some panels are stationary. Because p-value (0.0527)) was above significance level (0.05), we can accept null hypothesis and therefore foreign bonds, measured using bond amount has no partial unit root (some panels are not stationary).

In relation to foreign ownership, null hypothesis is that foreign ownership, measured using percentage of ordinary shares held by foreign investors in all panels (9 manufacturing and allied companies listed in NSE) contains unit root. Because p-value (0.1333) was above the significance level (0.05), we can accept null

hypothesis and therefore foreign ownership, measured using percentage of ordinary shares held by foreign investors has no partial unit root (some panels are not stationary).

In respect to dependent variable, financial performance measured using ROA, null hypothesis is that ROA in all panels (9 manufacturing and allied companies listed in NSE) contains unit root. Because p-value (0.0997) was above the significance level (0.05), we can accept null hypothesis and therefore ROA has no partial unit root (some panels are not stationary).

4.5 Panel Data Regression Analysis

Panel data regression analysis was utilized to measure the weight of the relationship between independent and dependent variable. Basic model was:

The regression model is as shown below;

$$FP_{it} = \beta_0 + \beta_1 FEC_{1it} + \beta_2 FB_{2it} + \beta_3 FO_{3it} + \varepsilon_{it} \text{.................................} \quad (4.1)$$

Where;

FP_{it} is dependent variable (Financial Performance (ROA)

B_0 is y intercept (Constant)

β_1- β_3 are coefficients of determination

FEC is Foreign Equity Capital

FB is Foreign Bonds and

FO is Foreign Ownership

ε is error term,

t subscript denotes time,

i subscript represents number of manufacturing and allied companies listed in Nairobi Securities Exchange, Kenya

Panel regression analysis was conducted and the results were as presented in Table 4.8.

Table 4.8: Regression Results

```
Random-effects GLS regression                   Number of obs      =        48
Group variable: Company                         Number of groups   =         8

R-sq:  within  = 0.3576                         Obs per group: min =         6
       between = 0.5209                                        avg =       6.0
       overall = 0.4766                                        max =         6

                                                Wald chi2(3)       =     26.54
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
```

ROA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
FEC	.0621169	.3452707	0.18	0.857	-.6146012	.7388349
CFBI	.0203874	.010186	2.00	0.045	.0004232	.0403515
FO	.7637679	.2016743	3.79	0.000	.3684935	1.159042
_cons	-4.419536	4.532442	-0.98	0.330	-13.30296	4.463887
sigma_u	8.6197239					
sigma_e	4.9441086					
rho	.75244828	(fraction of variance due to u_i)				

Source: Research Data (2022)

The panel regression model was as follows;

$$FP_{it} = -4.4195536 \; + \; 0.0621169FEC_{1it} \; + 0.0203874\, FB_{2it} \; + \; 0.7637679FO_{3it}$$

In the findings, R-squared indicates variation in dependent variable that can be accounted for by independent variables. According to the study findings, r-squared for the association between foreign investment portfolio and financial performance (ROA) of manufacturing and allied companies listed in NSE was 0.4766. This means that independent variables (foreign equity capital, foreign bonds and foreign

ownership) explain 47.66% of dependent variable (financial performance). In this study, p-value for F-test was 0.000, which is below significance level (0.05). This means that the model is a good fit for the data.

Interpretation of coefficients entails within-entity and between-entity effects. In research data represents average effect of X over Y when X varies across time and between companies by one unit. Furthermore, two-tail p-values test hypothesis that each coefficient differs from 0. To reject this, p-value has to be less than 0.05, if this is the case, then variable has significant effect on dependent variable (Y).

The foreign equity capital measured using shareholders' equity has positive and insignificant effect on financial performance (ROA) of manufacturing and allied companies listed in NSE as indicated by beta coefficient of 0.0621169. This implies that unit enhancement in shareholders' equity across time and manufacturing and allied companies listed in NSE would lead to 0.0621169 improvement in financial performance (ROA) of manufacturing and allied companies listed in NSE. The relationship was insignificant as p-value (0.857) was less than significance level (0.05). The results are contrary to Omorokunwa (2018) argument that is a significant effect between FE capital and stock market in Nigeria. Additionally, these results conform to Osoro, Simiyu and Omagwa (2020) arguments that foreign equity portfolio inflows affected stock market capitalization at NSE Kenya insignificantly.

The findings established that foreign bonds, measured using bond amount, has significant positive effect on financial performance (ROA) of manufacturing positive and allied companies positive listed in positive NSE as indicated by beta coefficient positive of 0.0203874. This means that unit enhancement in bond amount across time and manufacturing positive and allied companies positive listed in positive NSE

would positive lead to 0.0203874 enhancement in financial positive performance (ROA) of manufacturing and positive allied companies listed in positive NSE. Moreover, the relationship was significant because p-value (0.045) was below significance positive level (0.05). Results conform to with Kung'u, Nzau, and positive Onyuma (2019) discoveries that financial positive performance of positive NSE-listed companies positive in Kenya positive was found positive to be positive statistically significant positive when bond positive proportion and bond positive yield to positive maturity were taken into consideration.

The results concur with Gordon (2020) discoveries that foreign positive bonds l ower positive the cost positive of borrowing positive for investors as they positive are purchased positive at lower price thus influencing UK firms' performance positive positively.

The study revealed that foreign ownership, measured using percentage of positive ordinary shares held foreign investors, has significant positive effect on financial performance (ROA) of manufacturing and allied companies listed in NSE as indicated by regression coefficient of 0.7637679. This implies that unit enhancement in percentage of shares held by foreign investors across time and manufacturing and allied companies listed in NSE would lead to 0.7637679 enhancement in financial performance. The relationship was significant as p-value (0.000) was below significance level (0.05). These results concur with Nguyen, Pham, Dao, Nguyen and Tran (2020) discoveries that foreign ownership ratio and firms' size effects financial performance positively in Vietnam. Further, the results concur with Ng'ang'a,

Namusonge and Sakwa (2016) discoveries that there is an association between foreign ownership and financial performance of Kenyan listed companies on NSE.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This covers the summary of the findings, conclusion drawn from findings and recommendations. The conclusions and recommendations drawn were focused on addressing the study's purpose which was to assess the effect of foreign investment portfolio on financial performance of listed manufacturing and allied firms in NSE.

5.2 Summary of the Findings

This section summarizes findings on the influence of foreign equity capital, corporate bonds held by foreign investors and foreign ownership on financial performance of manufacturing and allied companies listed in NSE.

5.2.1 Foreign Equity Capital and Financial Performance

The study established that foreign equity capital measured using shareholders' equity has positive and insignificant effect on financial performance (ROA) of manufacturing and allied companies listed in NSE. Foreign equity capital is debt-free capital including surplus earnings or shares, and capital donated to an organization due to one's ownership interest in the company. Firms raise cash since they need resources to build and expand their businesses, either by acquisition or organically. Entrepreneurs are more inclined to contemplate foreign listing when amount of money they can anticipate to raise in international market is above in their local capital market, given their need for significant financial infusions.

Foreign equity capital is an essential way for businesses to get capital to fund their operations. With foreign equity capital, there is no loan repayment. The business does not have to make monthly loan payment which can be essential if the business does not initially make profit. This as a result gives the firm the freedom to channel more1money enable expansion of business. Additionally, the lender has full control of the business.

5.2.2 Corporate Bonds held by Foreign Investors and Financial Performance

The study indicated that corporate bonds held by foreign investors, measured using bond amount have significant positive significant effect on financial performance (ROA) of manufacturing and allied companies listed in NSE. Corporate bonds held by foreign investors are bonds issued by native entities to foreign investors to raise funds in the domestic market's currency. Issuing out corporate bonds to foreign investors bonds is a regular practice for companies doing numerous businesses in domestic market. Corporate bonds are easier to obtain because they are all traded on local platforms. The corporate bonds are less risky when compared to stocks and come with low returns.

Corporate bonds enables the company to preserve capital while as well investing. The corporate bonds lower the cost of borrowing for investors because they are purchased at a lower price hence influencing the firms' performance positively. Domestic investors can diversify internationally by owning corporate bonds, and since they are traded on local exchanges are easier to acquire. Corporate bonds may help reduce exposure to economic or political instability in a specific country and can improve a portfolio's risk profile.

5.2.3 Foreign Ownership and Financial Performance

The foreign ownership, measured in terms of percentage of ordinary shares held by foreign investors, has a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE. Acquisition of enterprises in a country by persons who are not citizens of that country or by firms whose headquarters are not in that country is known as foreign ownership. Foreign ownership occurs when multinational companies with operations in numerous countries create long-term investments in foreign country, typically via FDI or acquisition. The transfer of technology and organisational knowledge that is associated with foreign ownership can lead to higher productivity, and the company in the host country can learn from multinational corporations. Foreign ownership increases employment and wages as companies have more capital to expand. Moreover, this may be because the improvements of financial conditions help firms increase sales and market shares relative to their rivals. Foreign ownership lowers prices and improves the quality of products. That is a result of higher productivity, which is beneficial for shareholders and the company's competitiveness for exports.

5.3 Conclusion

The study concludes that foreign equity capital measured in terms of shareholders' equity has a positive and insignificant effect on financial performance (return on assets) of manufacturing and allied companies listed in NSE. This implies that an improvement in foreign equity capital would lead to an increase in the financial performance of manufacturing and allied companies listed in NSE.

The study revealed that foreign bonds measured in terms of bond amount h ave a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE. This implies that an increase in bond amount would lead to an increase in financial performance of manufacturing and allied companies listed in NSE.

The study further concludes that foreign ownership, measured in terms of percentage of ordinary shares held by foreign investors, has a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE. This implies that an increase in percentage of ordinary shares held by foreign investors as a measure of foreign ownership would lead to an improvement in the financial performance of manufacturing and allied companies listed in NSE.

5.4 Recommendations

5.4.1 Policy Implications

The study found that foreign investment portfolio in terms of foreign equity capital, corporate bonds held by foreign investors and foreign ownership of firms significantly influence financial performance. The study recommends that the government of Kenya should come up with new policies and improve current polices to make the Kenyan business market more favourable to foreign investors. For instance, the government should work at improving the infrastructure as well as reduce the cost of electricity so as to make the Kenyan market more attractive to investors. This can also be done by coming up with favourable labour policies to protect both the employees and investors in various projects.

5.4.2 Recommendations for Practice

The study found that foreign equity capital measured in terms of shareholders' equity has a positive effect on the financial performance of manufacturing and allied companies listed in NSE. The study recommends that the management of manufacturing and allied companies listed in NSE should encourage foreign investors to donate more funds to the companies as well as buy shares to enable the companies improve their performance and also facilitate their expansion.

The study found that foreign bonds have a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE

This study therefore recommends that the management of manufacturing and allied companies listed in NSE should buy foreign bonds since they are less risky when compared to stocks and come with low returns which as a result improves the performance of the companies. Moreover, foreign bonds help the company to preserve capital while also investing.

The study found that foreign ownership, measured in terms of percentage of ordinary shares held by foreign investors, has a positive and significant effect on the financial performance (return on assets) of manufacturing and allied companies listed in NSE. This study therefore recommends that the manufacturing and allied companies listed in NSE should encourage foreign investors to take ownership of their companies in order to improve the firms' financial performance as well as increase the companies' exports. Moreover, foreign acquisition will help improve output, employment opportunities and wages for the listed manufacturing and allied firms.

5.5 Areas for Further Research

This study was limited to manufacturing and allied companies listed in NSE and hence its findings cannot be generalized to other categories of companies listed in the NSE. As such, further studies need to be conducted to examine how foreign investment portfolioinfluences the financial performance of other categories of listed firms inNSE.This study found that foreign investment portfolio explains 47.66% of financial performance of manufacturing and allied companies listed in NSE. Further, this research measured financial performance in terms of return on assets. The study suggests

studies to look at how foreign investment portfolio affect financial performance measured in terms of return on investment and return on equity. The study suggests studies on other factors that affect the financial performance of manufacturing and allied companies listed in NSE.

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APPENDICES

Appendix I: Data Collection Guide

		Return on Assets		Foreign Equity Capital	Total Equity	Corporate Bonds	Percentage of Corporate Bonds held by Foreign Investors	Foreign Ownership
Year	Company	Net profit after tax	Total assets	Foreign Shareholders' Equity Capital	Amount	Bond Amount	Bond amount	Percent of Ordinary Shares Held by Foreign Investors

Appendix II: List of Listed Manufacturing and Allied Companies in Nairobi Securities Exchange

1. B.O.C Kenya Plc
2. British American Tobacco Kenya Plc
3. Carbacid Investments Ltd
4. East African Breweries Ltd
5. Flame Tree Group Holdings Ltd
6. Kenya Orchards Ltd
7. Mumias Sugar Co. Ltd
8. Unga Group Ltd
9. Eveready East Africa Ltd

Source: NSE 2022

Appendix III: Research Authorization from Kenyatta University

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 17th March, 2022

TO: Mayi Nelson Mandela
C/o Accounting and Finance Dept.

REF: D53/CTY/PT/26970/2018

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 2nd March, 2022 approved your Research Project Proposal for the M.B.A Degree Entitled, **"Foreign Investment Portfolio and Financial Performance of Manufacturing and Allied Companies Listed on Nairobi Securities Exchange, Kenya".**

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

ANNBELL MWANIKI
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Charity Njoka
   C/o Department of Accounting and Finance
   Kenyatta University

AM/lnn

Appendix IV: NACOSTI Research License

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **274610**

Date of Issue: **29/March/2022**

RESEARCH LICENSE

This is to Certify that Mr.. Nelson Mandela Mavi of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: FOREIGN INVESTMENT PORTFOLIO AND FINANCIAL PERFORMANCE OF MANUFACTURING AND ALLIED COMPANIES LISTED ON NAIROBI SECURITIES EXCHANGE, KENYA for the period ending : 29/March/2023.

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