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Effect of Foreign Ownership on the Relationship Between Capital Structure and Listed Manufacturing and Allied Firms in Kenya

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Abstract: Financing decisions are closely linked to investment decisions, as firms require resources to finance the activities that result from investments. Finding a balance between the elements of capital structure is crucial for optimizing the financial value of performance while ensuring long-term sustainability within a dynamic business ecosystem. The NSE, the main stock exchange in Kenya, continues to evolve, reflecting its integration into the broader regional financial systems. After a retrospective review of theories that provide substantial insights into the complex dynamics of capital structure decisions, this study aims to examine the effect of foreign ownership on the relationship between capital structure and financial performance of listed manufacturing and related firms in Kenya.

Keywords: foreign ownership; capital structure; financial performance; manufacturing and allied firms

1. Introduction

1.1. Background of the Study

Various theories have emerged to elucidate firms' choices concerning optimal fuse of equity and debt, including market timing theory, the pecking order and target adjustment theories (Al-Najjar & Taylor, 2018). Such are theories that offer

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substantial insights towards complex dynamics of capital structure decisions, providing work frame for firms in order to understand how they navigate trade-offs over debt and equity to maximize value and mitigate risk in an ever-evolving market landscape. Establishing correct and favorable capital structure is a pertinent issue for any company, impacting shareholder returns significantly. A well-suited capital structure enhances market value, thereby elevating overall company worth. Loans and bonds as forms of debt capital, and equity capital, encompassing preferred and common stocks along with retained earnings, are integral components. Assessing the relevant equity ratios provides insights into an entity's borrowing practices and its viability (Adeyemi & Oboh, 2020). An optimal capital structure enables efficient utilization of available funds, ensuring the fulfillment of financial requirements while minimizing the cost of capital. Striking the right balance prevents both over-capitalization and under-capitalization, safeguarding the enterprise's financial health. This approach fosters prudent financial management, bolstering the company's ability to seize growth opportunities and navigate market challenges effectively. Thus, a crafted capital structure is fundamental on steering growth that is sustaining and maximizing shareholder value in the current ever changing business landscape.

Financing decisions are closely linked to investment decisions, as firms require resources to fund activities stemming from investments. Capital structure delineates the financing sources utilized by a firm, encompassing debt, equity, hybrid securities, future growth and operations. A firm's value, including shareholder wealth, significantly is influenced by its respective capital sources. For instance, while long-term loans may offer lower costs, excessive debt usage elevates financial risk. Borrowing not only increases default risk but also raises the likelihood of bankruptcy and financial distress. Although lower capital costs are desirable, increased leverage heightens financial risk and the potential for adverse outcomes. Consequently, firms often weigh risk-return trade-offs in capital structure decisions (Iraya & Musyoki, 2018). Striking a balance between capital structure elements is crucial for optimizing financial worth of performance while ensuring long-term sustainability within a dynamic business ecosystem. By carefully managing capital structure, firms can mitigate risks, enhance resilience, and create value for shareholders, positioning themselves for success amidst market uncertainties.

UK, German, and French firms tailor their debt ratios to sector norms, adjusting within defined parameters. Agency and bankruptcy costs are key factors influencing leverage decisions (Antoniou & Stewart, 2018). These considerations underscore the significant impact of external factors on firms' financing choices, highlighting the importance of strategic financial management. By aligning debt levels with industry standards and accounting for associated costs, companies can mitigate varying risks to enhance financial performance by assuring optimal capital structure. This approach ensures prudent decision-making and fosters resilience in the face of market uncertainties. Moreover, understanding the interplay between leverage determinants and financing decisions enables firms to navigate complexities effectively, positioning themselves for long-term success and sustainable growth. Therefore, UK, German, and French firms must carefully evaluate their capital structure dynamics, taking into account both internal and external factors in achieving optimal financial outcomes while in turn maximize shareholders' wealth.

Capital structure implies to the ways through which firms and business entities fund their operations. Failure by an entity to fund and meet its financial obligations marks its death bed. A study making use of Kenyan data done by Kiogora (2019) reveals a negativity in correlation over firms' returns Vis-a-viz their levels of financial leverage. Current data indicates the issuance of 68 T-bonds by the Kenyan government, along with ten corporate bonds issued by seven firms, and the listing of stocks of 60 firms stocks in Kenya's N.S.E as of December 2012. Furthermore, these listed entities collectively did float over 5.1 billion worth of shares valued at Kshs. 868 billion, while an estimation value of bonds was Kshs. 92.48 billion towards end of 2012.

While leverage tended to rise among Kenyan companies, the prevalence of debt financing through bonds was low. This highlights the heavy reliance on banks and other costly forms of debt financing, adversely affecting firm profitability. Consequently, a presumed negative correlation exists between debt utilization and profitability among these entities. This observation underscores the importance of evaluating financing strategies carefully to mitigate adverse effects on financial performance and ensure sustainable business growth (Krieler, 2020).

The planned research in Kenya is motivated by the country's standing in global financial markets, with the World Economic Forum ranking its markets as the second deepest after South Africa (Krieler, 2020). Deep markets typically imply lower costs of debt financing, which ideally shouldn't adversely impact an entity's financial performance. However, evidence suggests a critical inquiry into whether debt financing correlates with the subpar performance of Kenyan firms.

This research addressed this fundamental question by investigating the domain relation between profitability of entities over capital structure among those which are listed and quoted on the Nairobi's Securities market in the manufacturing and Allied Sector. Performance as such, was assessed through scales of profitability and value of a firm, including Tobin's Q, utilizing panel empirical strategies (Changaya & Fatoki, 2020). The results were analyzed using both random and fixed effects specifications, providing comprehensive insights into the dynamics at play within Kenya's financial landscape. By shedding light on these relationships, this specific study is aimed at informing strategic kind of decision-making methods thus make contribution to enhancing financial performance and market efficiency in Kenya's corporate sector.

Kenya's economic growth and overall competitiveness are linked to the performance of its manufacturing and allied sector, which ranks third in terms of GDP contribution. However, like many other sectors, this domain has faced challenges stemming from various financial conditions, resulting in fluctuating performance and growth rates. For instance, during the years 2008-2010, the niche industry contended with its lower GDP contribution rates of growth, at 1.7% while consecutively an improvement of 2.6% respectively (Kenton, 2024). Subsequent years showed signs of recovery, with the 2010 financial year. Nonetheless, the sector's growth was significantly hampered by the financial crisis and subsequent slowdown, leading to decreased demand in the local market and currency depreciation. This highlights the vulnerability of the manufacturing and allied sector to external economic shocks and indicates the importance of implementing robust strategies to bolster resilience and sustain growth in the face of adversity (Lagat, 2020).

Within Kenya's economic landscape, the manufacturing industry holds a significant position, ranking as the fourth largest in terms of the volumes of contribution towards the country's (GDP). Following agricultural sector, transportation and communications, retail trade and wholesale trade, the manufacturing makes a contribution of 18 per cent to the country's GDP, playing pivotal role in both domestic and regional trade dynamics. Notably, it actively engages in exports to the larger Central and East Africa region, further solidifying its importance in the broader economic framework (Mule & Mukras, 2018).

Employment-wise, the sector serves as a major source of livelihood, directly and indirectly supporting approximately 2.3M individuals across the non-formal and formal sectors. While at conception was grouped in import substitution policy, the sector has evolved into a fully-fledged export-oriented entity. It encompasses twelve distinct sub-categories, depicted by the nature of products manufactured and the types of raw materials imported by firms (Maina & Omwenga, 2019) expansion. However, addressing the prevailing challenges is essential to fully unlock the sector's capacity for sustained growth and competitiveness on both local and regional scales.

Initially identified as Nairobi Stock Exchange, the Nairobi Securities Exchange (NSE) stands as Kenya's primary securities exchange market. Established in 1954 during Kenya's colonial period, it operated as an overseas stock exchange under the auspices of the London Stock Exchange (Nairobi Securities Exchange, 2020). Today, the NSE operates within the framework of the African Securities Exchanges Association, reflecting its integration into broader regional financial systems. The securities exchange market is key to this study as apart from being the source of the secondary data the study consumed, it is a pertinent element from the regulatory perspective of firms to the platform it offers for firms to trade in equities and debt, the variables used in the study.

The foundation of these activities is the regulatory oversight of the Capital Markets Authority, ensuring compliance with established standards and safeguarding the integrity of the financial ecosystem (Kariuki, 2018). This regulatory framework serves as a cornerstone of investor confidence, fostering transparency and accountability within the NSE's operations. As the NSE continues to evolve, these initiatives are a testament of its commitment to driving innovation and efficiency in Kenya's financial markets, thereby bolstering its position as a leading hub for investment and capital formation.

1.2. Statement of the Problem

According to (Kariuki, 2018), the manufacturing and allied sectors of the Kenyan economy have exhibited a pattern of recovery in recent years, demonstrating growth rates of 4.9% in 2004, 5.8% in 2005, and 6.9% in 2006. This upward trajectory reflects positively on the sector's overall financial performance during the same period, an indication of the interconnectedness between manufacturing activity and individual company financial outcomes. However, despite these initial gains, the sector still experienced fluctuations. From 6.85% in 2015, it declined to 5.83% in 2016 and further to 2.42% in 2017. Subsequently, there was a notable rebound to 9.65% in 2018, followed by a setback to 4.6% in the last quarter of 2019. The year 2020 brought unprecedented challenges, with Kenya recording a negative growth of 0.42% attributed to adverse impacts of the COVID-19 scourge. Moreover, manufacturing GDP for Kenya has displayed a concerning trend of persistent decline from 2011 to 2021. Starting at 11.16% in 2011, it gradually decreased to 7.24% in 2021, reaching an alarming low of 3.7% in the fourth quarter of 2022 (CBK Economic Outlook-2023). These statistics underscore the need for strategic interventions to revitalize the manufacturing sector and mitigate the challenges that have hampered its growth trajectory in recent years.

The country's GDP surged by 5 percentage in the first quarter of 2023, marking a notable increase from the 4.2 percent growth observed during the same period in 2022. This upturn signals a promising trajectory of economic recovery, attributed to the gradual relaxation of containment measures aimed at combating the spread of COVID-19. Notably, key sectors such as food service, accommodation, and manufacturing have exhibited improved performance, contributing significantly to GDP growth (Natalie, 2023). She continues to explain that a part from the direct contribution to the GDP, the sector offers the greatest employment opportunities to the citizenry hence improvement on social living due to the generated income to households. The collapse of the sector means loss of income thus impacting heavily to income earners. Such may lead to social vices like stealing, prostitution, corruption negative impact on mental health, satisfaction over life, economic resources access and social integration (Kariuki, 2018). He continues to opine that, the said condition as far as declining industries is concerned often affect the economy significantly in forms including job losses, decreased government revenues, and impacts negatively on related industries.

As per the Economic Survey of 2019, a 6.3 economy expansion for the country was registered in 2018, largely propelled by notable growth in the agriculture, manufacturing, and transport sectors. This marked a significant improvement from the 4.7 percent growth registered in 2017, the lowest in five years. Particularly impressive was the manufacturing sector's growth, which surged from 0.5 percent in 2017 to 4.2 percent in 2018, signaling a robust rebound. The diverse financial performance observed among manufacturing and allied firms in Kenya during this period cannot solely be attributed to capital structure decisions for financing operations. Instead, it was largely influenced by government tax waivers and subsequent reductions in production costs (Deloitte Touche, 2019). Moving forward to 2021, the manufacturing sector demonstrated resilience with a real value-added growth of 6.9 percent, a notable recovery from the negative 0.4 percent recorded in 2020. During this period, the manufacturing sector contributed 7.2 percent to GDP, accompanied by a commendable 6.0 percent expansion in output volume (Economic Outlook, 2023). Such trends affected grossly the pivotal role of the sector and the entire industry in an economic growth drive.

In his seminal work on firms' financial performance determinants, Ebaid (2012) performed an assessment analyzing the outcome of capital structure decisions over Egyptian companies, prominent economic force in Northern region of Africa. The research spanned from 1997 to 2005 and focused on non-financial quoted companies across ten distinct industries, comprising a sample of sixty-four firms. Ebaid's study utilized (ROE) and gross profit margin as metrics to gauge companies' profitability, employing multiple regression analysis as the primary methodology. However, it overlooked the inclusion of ROA, a critical indicator in assessing companies' financial performance. Most research works have been conducted but all have come up with mixed reasons as to why firms may not reach their optimal performance. Many of the researches have not expounded on capital structure as one of the reasons, but instead delved in other parameters such as multiple taxation and cost of production among many others. Building upon such gap, present study is to investigate the moderating effect of foreign ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya. By addressing such a gap in literature, the exercise endeavored in offering comprehensive insights on the intricate dynamics shaping firms' financial performance within the Kenyan context.

1.3. Purpose of the Study

This research assessed the moderating effect of foreign ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya.

2. Literature Review

2.1. Theoretical Literature Review

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).

It is the assumption by the theory that organizations or institutions are only considered to be successful in instances when it value delivers to a majority of the respective stake holders. Another assumption by the theory is that, organizations are an integral part of society rather than separate institutions that are separate in nature (Wicks & Harrison, 2017). A further assumption by the theory is that, the organizations management actions potentially affects a wide range of individual stakeholders, hence pursuing set objectives can henceforth be in disruption following wrong actions of groups which are unexpected (Zakhem & Palmer, 2017). Such an assumption has been proven by Wicks & Harrison (2017) who opines that stakeholders' interests can at times be balanced against each other or compromised at best. Such is due to the primary means of communication which is negotiation, a method used for purposes of conflict resolutions amongst stakeholders' interests.

The Kenyan government 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). The study used the stakeholder theory on the moderating variable to show the role of foreign ownership and 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 investment and return on assets (Hatami & Firoozi, 2019).

2.2. Empirical Literature Review

In the country Kenya, extensive works of research has explored the impact of foreign inflows on firms' financial performance. Kariuki (2018) scrutinized effects of Foreign Exchange Controls (FEC) on bank performance within Kenyan context, whereas Oirere (2020) explored how foreign financial inflows influence the growth of the Nairobi Securities Exchange (NSE) stock market. Notably, Kariuki's (2018) investigation was confined to the banking sector, while Oirere (2020) focused on commercial and financial services firms. Moreover, whereas Oirere (2020) centered on stock market development as the dependent variable, Kariuki (2018) assessed financial performance through ROE. In contrast, this study employed Return on Assets (ROA) as a measure of financial performance. Additionally, while both Oirere (2020) and Kariuki (2018) adopted an explanatory research approach, the present study embraces a descriptive research methodology. These complex distinctions are crucial in clarifying the multifaceted relationship between foreign inflows and financial performance in Kenya.

In Phung, Hoand and Vietnam, (2018) employed a fixed-effects model regression to unveil a nuanced U-shaped correlation between foreign ownership and firm performance, gauged by metrics such as Return on Assets (ROA) and Tobin's Q. Similarly, Vinh (2014) discovered a noteworthy positive correlation between foreign ownership and firm performance, particularly when foreign ownership ranged between 5% and 20%. However, a detrimental correlation emerged when foreign ownership surpassed 20%, notably exceeding 40%, as evidenced by Tobin's Q. Furthermore, Phung and Mishra (2016), utilizing GMM regression model, illustrated an inverse U-shaped relationship between foreign ownership and firm performance, underscoring complexity of foreign investment dynamics within Vietnam's business landscape. These findings underscore the multifaceted interplay between foreign ownership and firm performance, necessitating a nuanced understanding for strategic decision-making.

In their respective studies, Nguyen and Nakano (2018) and Greenaway et al. (2015) independently illuminated the significant role of foreign ownership in shaping the performance metrics of various industries. Nakano and Nguyen's (2017) research highlighted a favorable correlation between foreign ownership and performance indicators, such as Return on Assets (ROA) and Tobin's Q, within Japan's electronics sector. Likewise, Greenaway et al. (2019) utilized Generalized Method of Moments (GMM) estimations to unveil a positive impact of foreign ownership on performance across Chinese firms. Moreover, they identified an inverted U-shaped relationship between foreign ownership and firm performance, as assessed through multiple proxies including ROS, Labor productivity, ROA, ROS and total factor productivity. These findings emphasize on significance of foreign ownership in driving performance dynamics within diverse industrial landscapes.

Foreign ownership impact on performance of firms within the context and non-financial enterprises listed on the Johannesburg's JSE in South Africa was investigated by Naidu (2020). Spanning between 2012 to 2018, the study employed the Generalized Method of Moments to address the research question effectively. Notably, the findings unveiled insights into the relationship between foreign ownership and firm performance, particularly regarding Return on Equity (ROE). The data showcased a nonlinear relationship, indicating a positive influence of foreign ownership on ROE up to a threshold of 40.1%, by which a negative effect surfaced. However, it's crucial to note that while Naidu's study primarily focused on South Africa and utilized ROE as a performance metric, this investigation centers on ROA, providing a comprehensive analysis of financial performance dynamics across different dimensions within the corporate landscape.

Within the Romanian manufacturing sector, Mihai and Mihai (2016) performed an assessment on the relationship over foreign ownership and companies' performance. Their investigation included companies listed on the Bucharest Securities Exchange, encompassing both regulated and unregulated sectors, with a final sample size of 261 companies. They used data sourced from the companies' websites to gauge foreign ownership capped on share percentages held by international investors. While their findings revealed an insignificant correlation between economic factors and foreign ownership, it's essential to recognize the contextual disparities between Romanian manufacturing companies and their Kenyan counterparts. Moreover, this study's performance measurement relied on Return on Equity (ROE), contrasting with the present inquiry's utilization of Return on Assets (ROA). Such methodological nuances underscore the need for an acrimonial understanding of the diverse dynamics shaping performance outcomes within distinct business environments.

3. Methodology

This study adopted a mixed methods approach, integrating both positivist and interpretivist philosophical orientations, to ensure a holistic understanding of the phenomenon under investigation. The study used a causal research design, suitable for the analysis of cause-effect relationships inherent in quantitative investigations.

The study focused on a well-defined population, comprising the ten manufacturing and related firms listed on the Nairobi Stock Exchange (NSE), the observation unit consisted of 248 line managers operating in the finance, financial management and strategic planning departments. A census approach was applied, thereby eliminating sampling errors and ensuring that all eligible respondents were included in the study. Data collection used both primary and secondary sources to enhance the comprehensiveness and validity of the findings. Primary data were collected using structured questionnaires and interviews administered to line managers. The questionnaires contained both open-ended and closed-ended questions to capture qualitative information and quantitative measures, respectively. The closed-ended items were designed using a five-point Likert scale. Secondary data were extracted from the companies' financial statements, NSE annual reports and other publicly available publications for the period 2016-2023.

The collected data were analyzed using both descriptive and inferential statistical techniques. The integration of both descriptive and inferential methods provided a multidimensional perspective on the data, allowing for a comprehensive interpretation of the model.

4. Research Findings and Discussions

4.1. Descriptive Statistics

This section sought to to evaluate the moderating effect of foreign ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya. A 5-point Likert Scale was used in rating the responses (1=Strongly Disagree- 5=Strongly Agree). Table 1 shows the results obtained.

Table 1. Ownership

Ownership Component	**Mean**	**Std. Dev**
Firm has a foreign ownership component	4.01	0.959
Firm relies heavily on foreign direct investment	4.20	0.784
Ownership structure between local and foreign ownership influences capital structure.	4.04	0.862
Foreign ownership influences financial performance of the firms.	4.26	0.840
Foreign ownership will limit the amount of debt capital issued.	4.29	0.798
Foreign ownership will limit the number of ordinary shares issued.	3.84	1.137
Average mean score	**4.06**	**0.934**

As shown, the respondents strongly agreed that foreign ownership plays a significant role in their firms, as indicated by the high mean score of 4.01 (Std. Dev = 0.959) for the statement that firms have a foreign ownership component. This shows that a substantial proportion of firms in the sector have some degree of foreign involvement. The reliance on foreign direct investment (FDI) was rated even higher, with a mean score of 4.20 (Std. Dev = 0.784). This suggests that many firms depend heavily on FDI as a source of capital and growth, highlighting the importance of external financial inflows to the sector.

Another critical finding is the belief that the ownership structure, specifically the balance between local and foreign ownership, influences the firm's capital structure. This was supported by a mean score of 4.04 (Std. Dev = 0.862), indicating a strong agreement among respondents that the mix of local and foreign ownership affects decisions regarding debt and equity financing. Similarly, foreign ownership was seen as an influential factor in financial performance, as demonstrated by the highest mean score in the table, 4.26 (Std. Dev = 0.840). This result underscores the perception that firms with foreign ownership tend to perform better financially, likely due to access to additional resources, expertise, and international markets.

Moreover, the findings suggest that foreign ownership affects a firm's debt-related decisions. The statement that foreign ownership limits the amount of debt capital issued received a mean score of 4.29 (Std. Dev = 0.798), the highest in this section. This result implies that firms with foreign ownership may adopt more conservative debt policies, possibly due to the risk aversion or stringent financial oversight imposed by foreign investors. On the other hand, when it comes to issuing ordinary shares, the mean score was somewhat lower at 3.84 (Std. Dev = 1.137), indicating that while foreign ownership does influence the issuance of ordinary shares, the effect is not as strong as it is for debt issuance. This could be due to differences in how foreign investors view equity financing versus debt financing in the firms they invest in.

Overall, the average mean score across all ownership attributes was 4.06 (Std. Dev = 0.934), reflecting a generally strong agreement that foreign ownership significantly affects key aspects of firm behavior, including capital structure, financial performance, and the issuance of both debt and equity. This average suggests that, on the whole, firms in the sector view foreign ownership as a critical factor in shaping their strategic financial decisions.

Studies by Mwangi and Nyang'au (2023) found that foreign ownership significantly influences capital structure decisions, especially in developing economies like Kenya. In the current study, the strong agreement (mean = 4.01, Std. Dev = 0.959) on the presence of foreign ownership within firms supports the notion that foreign participation is prevalent and influential in the manufacturing sector. This aligns with the view that foreign ownership often brings access to additional capital and expertise, both of which are crucial for fostering growth and enhancing financial performance.

The high reliance on foreign direct investment (FDI) (mean = 4.20, Std. Dev = 0.784) in the current study resonates with findings from Kamau and Gitau (2023), who emphasized the critical role of FDI in driving financial performance in Kenya. This result highlights the essential role that foreign capital plays in supplementing local financial resources, enabling firms to invest in expansion and technological advancements. FDI not only supports the capital structure but also acts as a conduit for the infusion of advanced managerial practices and international market access, which are vital for improving financial outcomes.

Additionally, the study's finding that the balance between local and foreign ownership influences capital structure decisions (mean = 4.04, Std. Dev = 0.862) supports the perspective outlined by Otieno and Wanjiku (2022), who argued that a well-structured mix of local and foreign ownership provides a strategic advantage in making optimal financing decisions. This hybrid ownership model allows firms to leverage the financial strength and risk tolerance of foreign investors, while also maintaining some level of local control to safeguard national interests.

The perception that foreign ownership positively influences financial performance (mean = 4.26, Std. Dev = 0.840) echoes the findings of Kinyua and Ngugi (2023), who identified that firms with foreign ownership tend to perform better due to better financial discipline, access to broader markets, and improved governance standards. This could be attributed to the fact that foreign investors often bring a wealth of experience, financial networks, and international market connections that enhance the firm's competitiveness and profitability.

The findings on debt capital are particularly telling, with a strong belief that foreign ownership limits the amount of debt capital issued (mean = 4.29, Std. Dev = 0.798), which is consistent with studies by Waweru and Njenga (2022). They found that foreign investors, often more risk-averse, may encourage firms to adopt conservative debt policies to avoid over-leveraging, thus ensuring long-term financial sustainability. The risk-aversion tendencies of foreign investors likely stem from their desire to protect their investments and avoid high financial distress costs that might arise from excessive debt. This aligns with the current study's observation that foreign ownership can indeed have a moderating effect on firms' approach to debt financing.

On the other hand, the somewhat lower mean score regarding the impact of foreign ownership on the issuance of ordinary shares (mean = 3.84, Std. Dev = 1.137) suggests that foreign ownership does not have as significant an impact on equity financing decisions. This result contrasts with findings from Kariuki and Wanjiku (2023), who suggested that foreign ownership also influences equity financing, albeit in a more nuanced way. It is possible that foreign investors place more emphasis on maintaining control over the firm's capital structure via debt and prefer not to dilute their ownership stakes through the issuance of new shares.

4.2. Regression Analysis

variable which was foreign ownership. A comparative regression model was conducted and the regression model summary is presented in Table 2.

Table 2. Model Summary on the moderating effect of foreign ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.626[a]	0.392	0.365	0.43843	1.276

a. Predictors: (Constant), inter retained share and ownership, debt capital , preference shares, ordinary share , ownership component, retained earnings, inter debt earnings share and ownership, inter preference share and ownership, inter ordinary share and ownership

b. Dependent Variable: profitability

From Table 2, the coefficient of determination (Adjusted R^2 Square) brought about by the moderating variable implied that the regression could explain up to 36.5 percent of the variation in the financial performance. The remaining percent of the variation could be due to other predictors not in the model. This implies that incorporating the ownership has a minimal impact on the relationship that exists between capital structure and financial performance as it weakens the influence obtained by 5 percent (Δ Adjusted R^2=-0.053). The model test of fitness results is presented in Table 3 below indicating the reliability of the model in predicting financial performance.

Table 3. ANOVA for the moderating effect of foreign ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya

	Sum of Squares	df	Mean Square	F	Sig.
Regression	25.058	9	2.784	14.485	.000[b]
Residual	38.828	202	0.192		
Total	63.886	211			

a. Dependent Variable: profitability

b. Predictors: (Constant), inter retained share and ownership, debt capital, preference shares, ordinary share, ownership component, retained earnings, inter debt earnings share and ownership, inter preference share and ownership, inter ordinary share and ownership

The model result of fitness indicates an F-statistic of 14.485 and a p-value of 0.000<0.05. This indicates that the model is fit for prediction at 95 percent confidence level. This implies that even after introduction of the moderating variable, the model remained significant. The multiple regression model coefficients for the moderated regression equation are presented in Table 4.49 above.

Table 4. Model coefficients for the moderating effect of ownership on the relationship between capital structure and financial performance of listed manufacturing and allied firms in Kenya

	Unstandardized Coefficients		Standardized Coefficients	T
	B	Std. Error	Beta	
(Constant)	-5.698	2.157		-2.641
Preference shares	0.369	0.457	0.363	0.807
Ordinary share	0.632	0.601	0.543	1.051
Debt capital	1.083	0.418	1.078	2.593
Retained earnings	0.126	0.415	0.132	0.303
Ownership component	1.788	0.515	1.757	3.475
Inter preference share and ownership	-0.142	0.113	-0.883	-1.258
Inter ordinary share and ownership	-0.008	0.145	-0.049	-0.058
Inter debt earnings share and ownership	-0.272	0.100	-1.724	-2.718
Inter retained share and ownership	0.014	0.099	0.097	0.146

a. Dependent Variable: profitability

The findings obtained showed that the constant term is -5.698 (Std. Error = 2.157, t = -2.641), indicating a baseline negative effect. Preference shares show a positive but insignificant effect on profitability, with a coefficient of 0.369 (Std. Error = 0.457, Beta = 0.363, t = 0.807). Ordinary shares similarly have a positive but insignificant influence, with a coefficient of 0.632 (Std. Error = 0.601, Beta = 0.543, t = 1.051). Debt capital, however, has a significant positive influence on profitability, with a coefficient of 1.083 (Std. Error = 0.418, Beta = 1.078, t = 2.593). Retained earnings show a minor, non-significant effect, with a coefficient of 0.126 (Std. Error = 0.415, Beta = 0.132, t = 0.303). Ownership itself has a strong, significant positive effect, with a coefficient of 1.788 (Std. Error = 0.515, Beta = 1.757, t = 3.475). The interaction between preference shares and ownership is negative but not significant, with a coefficient of -0.142 (Std. Error = 0.113, Beta = -0.883, t = -1.258). Similarly, the interaction between ordinary shares and ownership is minimal and insignificant, with a coefficient of -0.008 (Std. Error = 0.145, Beta = -0.049, t = -0.058). The interaction between debt capital and ownership has a significant negative impact on profitability, with a coefficient of -0.272 (Std. Error = 0.100, Beta = -1.724, t = -2.718), while the interaction between retained earnings and ownership is insignificant, with a coefficient of 0.014 (Std. Error = 0.099, Beta = 0.097, t = 0.146).

4.3. Scientific Results

Many firms are highly dependent on FDI as a source of capital and growth, underscoring the importance of external financial flows to the sector. Foreign ownership significantly moderates the relationship between capital structure and financial performance (p value < 0.05). The balance between local and foreign ownership influences the capital structure of the firm. Foreign-owned firms tend to have better financial performance, likely due to access to additional resources, expertise, and international markets. Foreign ownership affects a firm's debt decisions; foreign-owned firms may adopt more conservative debt policies, possibly due to risk aversion or strict financial supervision imposed by foreign investors. In the current study, the strong agreement (mean = 4.01, standard deviation = 0.959) on the presence of foreign ownership within firms supports the idea that foreign participation is prevalent and influential in the manufacturing sector. The high reliance on foreign direct investment (FDI) (mean = 4.20, standard deviation = 0.784) in the current study highlighted the critical role of FDI in boosting financial performance in Kenya. Furthermore, the balance between local and foreign ownership influences capital structure decisions, with the perception that foreign ownership positively influences financial performance (mean = 4.26, standard deviation = 0.840). The study concludes that foreign ownership exerts a significant moderating influence on the relationship between capital structure and financial performance among listed manufacturing and related firms in Kenya. Evidence from the analysis indicates that firms with higher proportions of foreign ownership tend to optimize their capital mix more efficiently, balancing debt and equity in ways that enhance profitability and financial sustainability. Foreign investors contribute to improving corporate governance, transparency and financial discipline, which together strengthen firm performance and market confidence.

5. Summary, Conclusion and Recommendations

5.1. Summary

The last objective of the study was to determine the moderating effect of ownership on the relationship between capital structure and financial performance in listed manufacturing and allied firms in Kenya. The study also examined the moderating effect of ownership on the relationship between capital structure and financial performance. Ownership was positively and significantly correlated with financial performance ($r=0.580$, $p>0.05$), indicating that ownership structure can influence financial outcomes. The moderated regression analysis showed that incorporating ownership strengthened the capital structure's influence on performance by 5 percent (Δ Adjusted R2=-0.053), a minimal yet significant effect ($P<0.05$). This suggests that ownership, particularly government policies or major shareholders, can shape how capital structures impact financial performance by introducing governance and strategic control, although the effect is relatively small.

5.2. Conclusion

The study concludes that foreign ownership exerts a significant moderating influence on the relationship between capital structure and financial performance among listed manufacturing and allied firms in Kenya. Evidence from the analysis indicates that firms with higher proportions of foreign ownership tend to optimize their capital mix more effectively, balancing debt and equity in ways that enhance profitability and financial sustainability. Foreign investors contribute to improved corporate governance, transparency, and financial discipline, which collectively strengthen firm performance and market confidence. Furthermore, the findings reveal that both equity and preference share capital play pivotal roles in driving financial performance when effectively managed within foreign-owned structures. Preference share capital provides firms with a stable source of financing that reduces reliance on short-term debt and lowers the cost of equity, thereby improving liquidity and profitability. Similarly, ordinary share capital remains a crucial component of the capital structure, promoting financial flexibility and enabling firms to mobilize significant funds without exposing themselves to high debt risks. When coupled with foreign ownership, ordinary shares contribute to enhanced access to international capital markets and diversified investment portfolios.

5.3. Recommendations

Based on the findings, the study recommends that listed manufacturing and allied firms should strategically leverage foreign ownership to strengthen the relationship between capital structure and financial performance. Firms should adopt ownership and financing frameworks that attract credible foreign investors with the capacity to provide both capital and managerial expertise. Such investors can enhance corporate governance practices, promote transparency, and improve financial discipline, which are essential for optimizing capital structure decisions. Secondly, firms are encouraged to develop comprehensive capital structure policies that balance equity, debt, and preference share financing in alignment with their ownership composition. In particular, preference share capital should be integrated as a viable source of long-term financing, as it enables firms to access funds without immediate repayment obligations and minimizes exposure to excessive leverage. The prudent use of preference shares can reduce the overall cost of equity while enhancing liquidity and financial flexibility. However, the issuance of such instruments should be guided by thorough assessments of market conditions, investor confidence, and regulatory requirements.

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