

## **The Effect Of Rights Issue On Market Performance Of The Companies Quoted At The Nairobi Securities Exchange**

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### **ABSTRACT**

Rights issues give existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price (Lambrechts & Mostert, 2009) to encourage participation in the capital rising over purchasing shares in the market. Rights issues have been the subject of much research by academics and practitioners for over two decades (Bayless & Jay, 2008). In Kenya, stocks are traded in Nairobi Stock Exchange (NSE) which is the only stock market in Kenya and by far the most important stock market in East and Central Africa. It is clearly evident that there is limited empirical evidence on effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange. This study sought to establish the effects of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange. The research design employed in this study was descriptive research design inform of a survey. The population of interest of this study comprised of 60 companies listed at the Nairobi Securities Exchange. The study sampled 60 respondents for this study. The researcher used structured questionnaires as the main data collection instrument. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views about the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange. Descriptive statistics such as means, median mode and standard deviation was also used to help in data analysis. Tables and other graphical presentations as appropriate was used to present the data collected for ease of understanding and analysis. Inferential statistics regression was done to establish the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange. The study established market timing had a positive effect on market performance of the companies quoted at the Nairobi Securities Exchange. The study also established that financing decision had a positive effect on the market performance of the companies quoted at the Nairobi Securities Exchange. The study revealed that rights issues had a positive impact on the market performance of the companies quoted at the Nairobi Securities Exchange. The study found that future earning had a positive effect on market performance of the companies quoted at the Nairobi Securities Exchange. The study revealed that there is need form managers in firm listed in the NSE to make the right timing for rights issue as this will significantly influence their

performance. There is need for the firm listed in the Nairobi Securities Exchange to apply various financing decision so as to improve their market performance of the companies quoted at the Nairobi Securities Exchange.

## **Background of the study**

### **Right Issue and Market Performance**

The primary process through which new shares of listed companies in Africa are issued as a means to raise equity is a rights issue, the focus of this research is to establish the effect of rights issue on market performance. Rights issues give existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price (Lambrechts & Mostert, 2009) to encourage participation in the capital raising over purchasing shares in the market.

This opportunity of raising capital through right issues is of a significant discount on the new shares being issued, as existing shareholders would otherwise be unable to mitigate the negative effect of such an issue. Shareholders may also sell their rights should they not wish to purchase the additional shares.

The focus of the research will be specifically rights issues, but for literature review purposes this will broadly encompass the other forms of issuing new shares discussed, with terminology being used interchangeably. Comprehensive literature already exists on rights issues (Bayless & Jay, 2008), which shall be explored as the basis of this study.

If a firm intends to reduce its leverage by adding equity to its capital structure, it can do so through foregoing the payment of dividends, or through the issue of new shares, which are restrained due to transaction costs (Marsh, 2002). This study seeks to establish the effects of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange.

### **Statement of the problem**

Rights issues have been the subject of much research by academics and practitioners for over two decades (Bayless & Jay, 2008). In Kenya, stocks are traded in Nairobi Stock Exchange (NSE) which is the only stock market in Kenya and by far the most important stock market in East and Central Africa.

Empirical studies done in Kenya include; Kibuthu (2005) who did a study on Capital Markets in Emerging Economies a case Study of the Nairobi Stock Exchange and Gitobu (2000) who did a study on determining the Influence of Macro Economic Indicators on Stock Market Indicators, clearly indicate that there is positive relationship between share issue and Stock Prices, Exchange Rates, Interest Rates, Money Supply and Inflation. It is clearly evident that there is limited empirical evidence on effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange. This study seeks to establish the effects of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange.

### **Purpose of the study**

The general purpose of the study was to establish the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange. The study was guided by the following research objectives; to establish the effects of market timing on

market performance, to examine the effects of financing decision on market performance, to determine the effects of size of issues on market performance and the effects of future earning on market performance of the companies quoted at the Nairobi Securities Exchange.

### Significance of the study

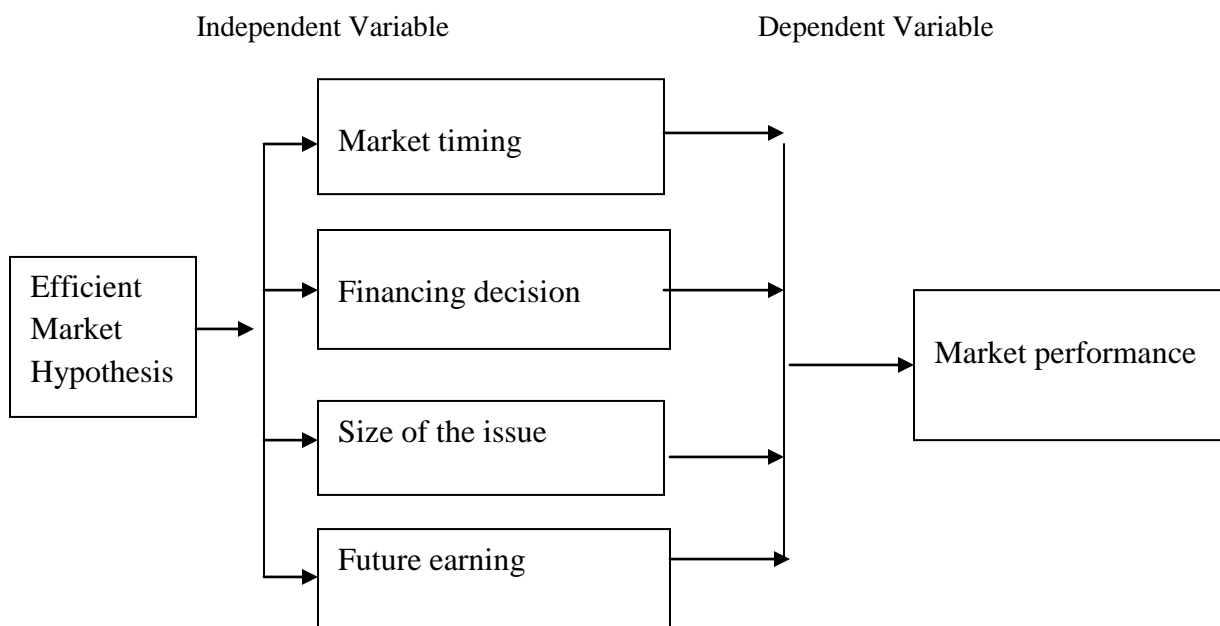
The study will expose some of the challenges private and professional investors are likely to be encountered in their investment in shares. As a result, the investors will be more endowed with knowledge and prepared to fit in the prevailing securities exchange market.

The findings of the study will be beneficial to members of the public based on accurate decision making during the buying and selling of share in the Nairobi Securities Exchange Market.

### Scope of the study

The study focused on the all firm listed at the Nairobi Security Exchange where a sample respondent was selected for this study. The study was limited to establishing the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange from between 2004 to 2012.

### Conceptual framework



The diagram depicts the relationship between independent variables and the dependent variable which is the market performance of companies quoted at the Nairobi Securities Exchange.

## LITERATURE REVIEW

This section covers theoretical principles underlying on the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange.

### Theoretical Review

#### Efficient Market Hypothesis Theory

The Efficient Market Hypothesis (EMH) states that efficient, competitive markets “ruthlessly exploit all available information when setting security prices” (Ball, 2009). Fama (1995) defines an efficient market as one in which actual security prices represent precise estimates of their intrinsic values at all times. In other words, in an efficient market, asset prices must fully reflect all information available in the market

Grossman and Stiglitz (2005) argue that a perfectly efficient market cannot exist. Investors require a return for gathering information, which is impossible if all available information is already included in share prices. Without an incentive to gather information, there would be no reason to trade and the market would collapse. According to Grossman and Ball, (2009) the level of inefficiency in a market will determine the time and money spent in gathering and trading on information. Sustainable market equilibrium thus requires sufficient arbitrage opportunities to reward investors for finding and acting on new information.

#### Market Timing

In the specific instance of rights issues, the correlation to market-timing is again shown to exist (DeAngelo, 2010). In addition, firm life cycle is found to have a high correlation to the probability of a firm conducting a right issue, with a 9% probability in the first year of listing compared to a 2.5% probability for firms listed for a more than a year (DeAngelo & Stultz, 2010). A recent study found however that these relationships are indeed correlations, rather than explanatory of a firm’s choice to raise funds through a rights issue. A flaw in market-timing analysis is its focus on firms that do issue equity, rather than considering all firms with additional cash requirements, a majority of whom do not issue equity despite favourable market-timing conditions (Grossman & Stiglitz, 2005).

#### Financing Decisions

Myers and Lakshmi (1999), argue that while the simple trade-off model described is supported by literature, it is secondary in explanatory power and that the choice of debt or equity will rather follow from an imbalance between internal cash flows, net of dividends, and investment opportunities (DeAngelo & Stultz, 2010). They show that changes in capital structure are driven by the need for external funds, rather than attempts to achieve a target (Myers & Lakshmi, 1999). Myers pecking order model thus offers a model of the expected order in which firms will fund operations, with preference firstly to retained earnings, followed by safe debt, risky debt, and outside equity as a last resort due to transaction costs (Fama & French, 2005). This would suggest that rights issues will seldom take place.

The pecking order model was however discredited by, amongst others, Fama and French who found empirical evidence that firm financing decisions did not follow the pecking order sequence (Fama & French, 2005). Specifically, firms were found both to issue and retire equity more frequently than the model suggests (Fama & French, 2005). They find that both the trade-off model and pecking order model are problematically flawed, but that both offer elements of truth and that the two should be considered jointly (Fama & French, 2005).

An aspect of the Myers-Majluf (1984) pecking order which has further relevance particularly in the case of rights issues is that of asymmetric information. Firm management will tend to increase debt when the business outlook is favourable, and conversely will prefer equity when the outlook is less favourable (Myers & Lakshmi, 1999). Indeed, Baker and Wurgler found that a better predictor of a firm choosing rights issues to raise finance is found in “equity market timing”, the practice of issuing shares at high prices and repurchasing shares at low prices (Baker & Wurgler, 2002).

Market timing is therefore a strongly supported reality, but far better executed by firms with low financial leverage than by those with high financial leverage (Baker & Wurgler, 2002). This stands to reason, as firms with low leverage have the luxury of raising equity at their convenience, where firms with high leverage may often have to raise funding by necessity, which would typically occur during periods of negative market sentiment. Baker and Wurgler (2002) conclude that capital structure is the outcome of the cumulative effects of past attempts to time the equity market, rather than any targeted optimum structure.

### **Influences of the Size of the Rights Issue**

Whether the issuer has low or high leverage prior to the rights issue, negative post-issue performance of the company is partly attributed to the reduction in leverage as “their exposures to unexpected inflation and default risks decrease, thus decreasing their stocks’ expected returns relative to matched firms” (Eckbo, Masulis, & Norli, 2000). This is added to by “some evidence that the return-generating process changes from issue to non-issue periods in ways we believe reflects changing systematic risk” (Bayless & Jay, 2008).

Given the direct relationship between the reduction in systematic risk through lower leverage and post-issue underperformance, the size of the rights issue relative to the market capitalization of the firm becomes material. Little recent and relevant literature was found on the topic, and this could prove an interesting area for further research.

### **Future Earnings**

Lamoureux and Poon (2007) support the signaling hypothesis that firms use stock splits to signal future positive earnings. Lakonishok and Lev (2007) find that firms that split have better-than-average earnings growth following the split. McNichols and Dravid (2000) found that the difference between actual and forecasted earnings following a split tends to be directly related to the size of the split factor: the higher the split factor, the better the earnings. Ikenberry, Rankine, and Stice (2006) found that the post-split stock returns for firms that split their stock are higher than those of a control sample of firms that do not split their stock. Pilotte and Manuel (2006) find that when firms split their stock multiple times, the abnormal return at the announcement of the second split is directly proportional to the earnings surprise following the first split. There is also evidence that seems to refute the signaling explanation.

A signaling explanation of splits based on information asymmetries between managers and investors has received considerable attention in the academic literature (Dash and Gouda, 2007). Theories combining informational issues and transactions costs yield further insights into splits.

## **Market Performance**

While market-timing is shown to be secondary as a motive for firms conducting rights issues, evidence is clear that the practice does exist, shown in strong rises in share prices in the period prior to the issue (Levis, 2005). This and the other theory presented provide a strong base for the long-held perception of the announcement of a rights issue as a negative signal amongst investors (Asquith & Mullins, 2006).

Bhana (2009), identifies several factors giving further substance to the negative reaction. Asymmetric information (Bhana, 2009), with managers closer to the business than outside investors, sends a negative signal of company performance, potentially deeper than market timing. Managerial incentives, following the dilution of their equity (Bhana, 2009), may discourage performance. Lastly, Bhana notes the rights issue leads to a less tax-efficient capital structure, (Asquith & Mullins, 2006).

A measure over 5 years post-issue shows significantly weaker performance amongst issuers relative to comparable firms that did not issue equity (Bayless & Jay, 2008).

## **Empirical Review**

A number of company specific and external factors have been shown to influence the performance of firms raising equity through rights issues. A company specific measure found to have a direct impact on post-issue performance is governance (Dbouk & Ismail, 2010).

A study was done into the complex issues of ethics and disclosure on post-issue performance, measured through business ethics, accounting and finance (Jo & Kim, 2008). The study found that firms with extensive disclosure significantly outperformed firms with less disclosure, despite them managing their earnings (Jo & Kim, 2008). The conclusion drawn is that greater disclosure reduces information asymmetry, thereby reducing agency costs of the separation of ownership and control, and reduces the underperformance post a rights issue (Jo & Kim, 2008).

A South African study, moving away from the firm-specific factors to external, examined the relationships to economic factors including interest rate, stock market performance, economic growth, business cycle, business confidence and time (Pascoe, Ward, & MacKenzie, 2005). Not all factors were found to show correlation, but, most interestingly, a negative correlation was found to share market performance, with the negative reaction to a rights issue announcement greater for a company that had stronger pre-announcement performance (Pascoe, Ward, & MacKenzie, 2005). Also surprising was the negative correlation to interest rate levels, possibly attributed to firms being rewarded for choosing to raise equity when the cost of debt was high (Pascoe, Ward, & MacKenzie, 2005). Economic growth was found to have a positive correlation, with less of a negative share price reaction associated with higher economic growth (Pascoe, Ward, & MacKenzie, 2005).

Another external factor is the regulatory framework of the market, with security exchanges globally differing in their rules around rights issues. Unlike the United States and many western markets, China has several announcement dates for each rights issue, including the board of directors meeting date, the shareholders meeting date, regulatory approval date, and the date of announcement to the public (Shahid, Xinping, Mahmood, & Usman, 2010).

## **Research Gap**

Raising equity through rights issues has been shown to be a financing decision made most often out of necessity for cash flow requirements. A firm would thus principally raise equity through a rights issue to reduce unacceptably high financial leverage; alternatively, the firm may raise equity for purposes of pursuing growth opportunities. The latter would be more characteristic of a firm with levels of gearing acceptable to the board. The differentiation is significant to the impacts of the rights issue, as it has also been noted that firms with low leverage should be more successful at market-timing to their benefit, as opposed to firms with high leverage that tend towards raising funds at low valuations (Baker & Wurgler, 2002). This study sought to determine the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange.

## **RESEARCH METHODOLOGY**

This gives the specific procedures that were followed in undertaking the study. The research design, population, sampling design, data collection methods and data analysis are described below.

### **Research Design**

The research design employed in this study was descriptive research design in form of a survey. These descriptions of a descriptive research matched with the purpose of this study, as its intention of this study was to investigate the effect of rights issue on market performance of the companies quoted at the Nairobi Securities Exchange.

### **Target Population**

The population of interest of this study comprised of 60 companies listed at the Nairobi Securities Exchange (NSE, 2012). Thus the study was conducted as a census survey owing to the small number of NSE listed companies.

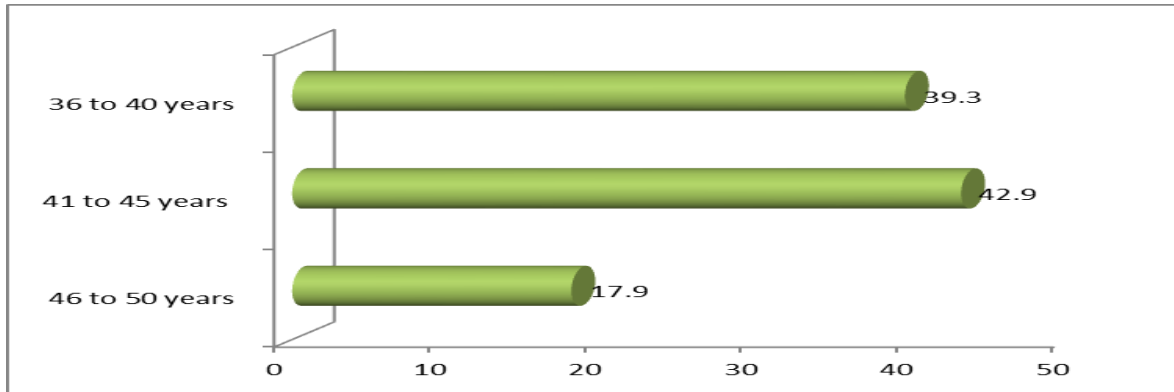
### **Sample Size and sampling Technique**

The sampling frame ensured that current, complete and relevant population for the attainment of the study objectives. The study will employ a purposive sampling to select one respondent (Finance Manager) from each company. The study sampled 60 respondents who were the respondent for this study.

## **DATA ANALYSIS, INTERPRETATIONS AND PRESENTATIONS**

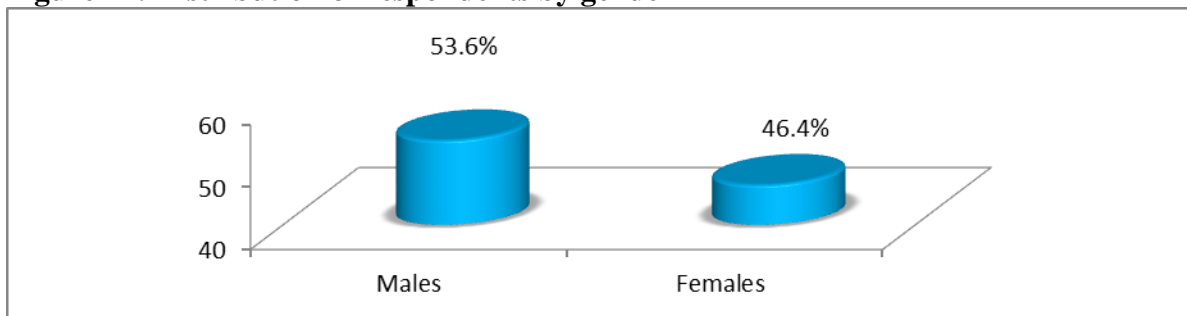
This section discusses the interpretation and presentation of the findings obtained from the field. Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 60 respondents from which 56 filled in and returned the questionnaires making a response rate of 93.3%. This response rate was satisfactory to make conclusions for the study. The response rate was representative.

**Respondents Information**  
**Figure 1: Age distribution**



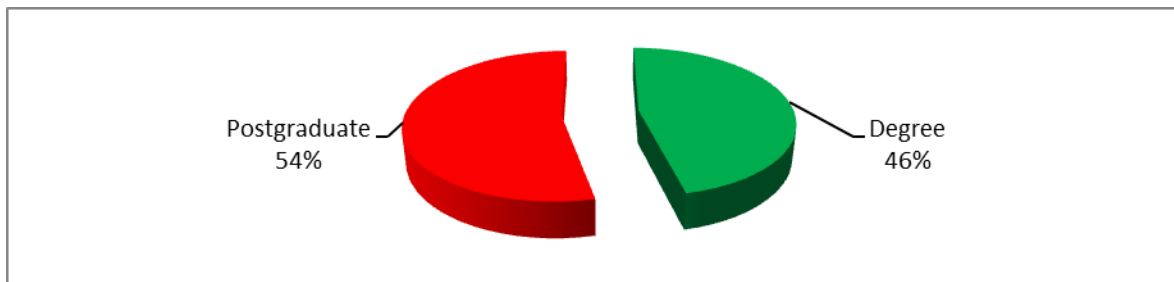
The study requested the respondent to indicate their age category. From the research findings the study established that most of the respondents as shown by 42.9% were aged between 41 to 45 years, 39.3% of the respondents were aged between 36 to 40 years whereas 17.9% of the respondents were aged 46 to 50 years. This is an indication that majority of the respondents were well distributed in terms of their age.

**Figure 21: Distribution of respondents by gender**



The study sought to determine the gender distribution of the respondents. From the findings, the study established that majority of the respondents as shown by 53.6 percent were males whereas 46.4 percent of the respondents were females, this is an indication that both genders were fairly represented in this research and thus the findings of this study did not suffer from gender bias.

**Figure 3: Highest level of education**



The research requested the respondent to indicate their levels of education. From the findings, majority of the respondent as shown by 54 percent indicated their highest level as post graduate whereas 46 percent of the respondents indicated their highest level as bachelor's degree. This is an indication that most of the respondents engaged in this study were well educated and thus they were in a position to respond to the matter under investigation accordingly.

### Market Timing

**Table 1: Effects of market timing on performance of the companies quoted at the NSE**

Opinion	Frequency	Percentage
Yes	48	85.7
No	8	14.3
Total	56	100

The study sought to reveal whether market timing affects market performance of the companies quoted at the Nairobi Securities Exchange, from the research findings majority of the respondents as shown by 85.7% were of the opinion that market timing affects market performance of the companies quoted at the Nairobi Securities Exchange whereas 14.3% of the respondents were of contrary opinion. This is an indication that market timing indeed affects market performance of the companies quoted at the Nairobi Securities Exchange.

**Table 2: Extent to which market timing affect the market performance of the companies quoted at NSE**

Extent	Frequency	Percentage
Very great extent	15	26.8
great extent	26	46.4
Moderate extent	9	16.1
Little extent	6	10.7
Total	56	100

The study sought to reveal the extent to which market timing affects market performance of the companies quoted at the Nairobi securities exchange. From the research findings most of the respondents as shown by 46.6% indicated to a great extent, 26.8% of the respondents indicated to a very great extent 16.1% of the respondent indicated to a moderate extent whereas 10.7% of the respondents indicated to a little extent. This implies that market timing affects the market performance of the companies quoted at the Nairobi securities exchange to a great extent.

**Table 3: Statements relating to the effects of market timing on market performance of the companies quoted at the NSE**

Statement	Strongly Agree	Agree	Moderate	Disagree	Strongly Disagree	Mean	Std Deviation
The life cycle stage has a more significant predictor than market-timing opportunities	12	37	4	2	1	1.98	0.27
Firms issue equity so as to meet their cash requirements	13	35	5	2	1	1.98	0.25
Most firms do increase capital expenditures following a rights issue	14	33	5	3	1	2.00	0.24
Firms listed for one year and poor market-timing opportunities are more likely to conduct a seasoned-equity offering than firms listed for many years	13	34	5	3	1	2.02	0.24
A flaw in market-timing analysis is its focus on firms that do issue equity, rather than considering all firms with additional cash requirements	14	36	2	2	2	1.96	0.26

The study sought to determine the extent to which respondents agreed with the above statements relating to the effects of market timing on market performance of the companies quoted at the NSE. From the research findings, majority of the respondents agreed that; a flaw in market-timing analysis is its focus on firms that do issue equity, rather than considering all firms with additional cash requirements as shown by a mean of 1.96, firms issue equity so as to meet their cash requirements, the life cycle stage has a more significant predictor than market-timing opportunities as shown by a mean of 1.98 in each case, most firms do increase capital expenditures following a rights issue as shown by a mean of 2.00, firms listed for one year and poor market-timing opportunities are more likely to conduct a seasoned-equity offering than firms listed for many years as shown by a mean of 2.02. The above finding concurs with Myers & Lakshmi (1999) that most firms do increase capital expenditures following a rights issue, which was a secondary motive after short-term cash requirements.

### Financing Decision

**Table 4: Effects of financing decision on the market performance of the companies quoted at the N.S.E**

Opinion	Frequency	Percentage
Yes	44	78.6
No	12	21.4
Total	46	100

The study sought to reveal whether financing decision affects market performance of the companies quoted at the Nairobi Securities Exchange, from the research findings majority of

the respondents as shown by 78.6% were of the opinion that the financing decision affects market performance of the companies quoted at the Nairobi Securities Exchange whereas 21.4% of the respondents were of contrary opinion. This is an indication that financing decision indeed affects the market performance of the companies quoted at the Nairobi Securities Exchange.

**Table 5: Extent to which financing decision affect market performance of the companies quoted at the NSE**

Extent	Frequency	Percentage
Very great extent	12	21.4
great extent	30	53.6
Moderate extent	9	16.1
Little extent	5	8.9
<b>Total</b>	<b>56</b>	<b>100</b>

The study sought to reveal the extent to which financing decision affects market performance of the companies quoted at the Nairobi securities exchange. From the research findings 53.6% of the respondents indicated to great extent, 21.4% of the respondents indicated to a very great extent, 16.1% of the respondent indicated to a moderate extent whereas 8.9% of the respondents indicated to a little extent. This implies that financing decision affects market performance of the companies quoted at the Nairobi securities exchange to a great extent.

**Table 6: Statements relating to effect of financing decision on the performance of companies quoted at the NSE**

Statement						Mean	Std Deviation
	Strongly Agree	Agree	Moderate	Disagree	Strongly Disagree		
Firm management tend to increase debt when the business outlook is favourable, and conversely will prefer equity when the outlook is less favourable	18	33	2	1	2	1.86	0.25
a better predictor of a firm choosing rights issues to raise finance is found in “equity market timing”, the practice of issuing shares at high prices and repurchasing shares at low prices	16	35	3	1	1	1.86	0.26
firms prefer to issue equity when market values are high relative to book value and historical share prices, with the contrary also	14	32	5	2	3	2.07	0.22

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<p>true that firms tend to repurchase shares when market values are low</p> <p>capital structure is the outcome of the cumulative effects of past attempts to time the equity market, rather than any targeted optimum structure</p>	<p>15</p> <p>37</p> <p>1</p> <p>2</p> <p>1</p> <p>1.88</p> <p>0.28</p>
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The study sought to determine the extent to which respondents agreed with the above statements relating to the effects of financing decision on market performance of the companies quoted at the NSE. From the research findings, majority of the respondents agreed that; Firm management tend to increase debt when the business outlook is favourable, and conversely will prefer equity when the outlook is less favourable, a better predictor of a firm choosing rights issues to raise finance is found in “equity market timing”, the practice of issuing shares at high prices and repurchasing shares at low prices as shown by a mean of 1.86 in each case, capital structure is the outcome of the cumulative effects of past attempts to time the equity market, rather than any targeted optimum structure as shown by a mean of 1.88, firms prefer to issue equity when market values are high relative to book value and historical share prices, with the contrary also true that firms tend to repurchase shares when market values are low as shown by a mean of 2.07. The study also established that performance of the firm improved using more current liabilities to finance assets increases the performance improves. The above findings concur with DeAngelo & Stultz (2010), they show that changes in capital structure are driven by the need for external funds, rather than attempts to achieve a target.

### Sizes of Issues

**Table 7: Effects of Sizes of issues on the market performance of the companies quoted at the NSE**

Opinion	Frequency	Percentage
Yes	46	82.1
No	10	17.9
Total	56	100

The study sought to reveal whether sizes of issues affect market performance of the companies quoted at the Nairobi securities exchange, from the research findings majority of the respondents as shown by 82.1% were of the opinion that sizes of issues affects market performance of the companies quoted at the Nairobi securities exchange whereas 17.9% of the respondents were of contrary opinion. This is an indication that sizes of issues indeed affects market performance of the companies quoted at the Nairobi securities exchange.

**Table 8: Extent to which sizes of issues affect market performance of the companies quoted at NSE**

Opinion	Frequency	Percentage
Very great extent	8	14.3
great extent	37	66.1

Moderate extent	7	12.5
Little extent	4	7.1
Total	46	100

The study sought to determine the extent to which sizes of issues affects market performance of the companies quoted at the N.S.E. From the research findings 66.1% of the respondents indicated to great extent, 14.3% of the respondents indicated to a very great extent 12.5% of the respondent indicated to a very a little extent whereas 7.1% of the respondents indicated to a little extent. This is an indication that sizes of issues affect market performance of the companies quoted at the Nairobi securities exchange to a great extent.

**Table 9: Statements relating to effects of sizes of issues on market performance of the companies quoted at NSE**

Statement						Mean	Std Deviation
	Strongly Agree	Agree	Moderate	Disagree	Strongly Disagree		
If the offer price is too high, the investment firms may fail to sell all of the new issue	10	40	3	2	1	2.00	0.29
If the investment firm holds the new issue in inventory, this will tie up capital that can be used elsewhere, or, worse yet, it will have to borrow money	13	37	5	0	1	1.91	0.27
Rights equity issue can be a potential solution to the adverse selection problem associated with capital issue and have comparatively low direct costs.	14	38	1	2	1	1.89	0.28
The investing public and analyst who are too optimistic about the issuers should consider deteriorating performance while arriving at the valuations	17	35	1	2	1	1.84	0.27
Optimistic managers should reassess the investment opportunities and have conservative plans before approaching the market.	15	34	4	2	1	1.93	0.25
If the offering price is too low, then the new issue will quickly sell out, and the price of the new issue will rise quickly because the supply will be limited	10	38	5	2	1	2.04	0.27

The study sought to determine the extent to which respondents agreed with the above statements relating to the effects of size of issues on market performance of the companies

quoted at the NSE. From the research findings, majority of the respondents agreed that; the investing public and analyst who are too optimistic about the issuers should consider deteriorating performance while arriving at the valuations as shown by a mean of 1.84, rights equity issue can be a potential solution to the adverse selection problem associated with capital issue and have comparatively low direct costs as shown by a mean of 1.89, if the investment firm holds the new issue in inventory, this will tie up capital that can be used elsewhere, or, worse yet, it will have to borrow money as shown by mean of 1.91, Optimistic managers should reassess the investment opportunities and have conservative plans before approaching the market as shown by mean of 1.93, If the offer price is too high, the investment firms may fail to sell all of the new issue as shown by mean of 2.00, if the offering price is too low, then the new issue will quickly sell out, and the price of the new issue will rise quickly because the supply will be limited as shown by a mean of 2.04. The study also established that most companies undertook stock splits so as to bring the trading range of the share price to an optimum point. This was undertaken so that the majority of investors, both individual and institutional, could have access to the shares of the company. The study further established that other factors such as the split ratio also influenced share prices. The above findings concurs with of Fama & French (2005) it is inappropriate to measure the reaction according to size of issue, an unknown at that point in time,

### Future Earning

**Table 10: effects of future earning on market performance of the companies quoted at NSE**

Opinion	Frequency	Percentage
Yes	49	87.5
No	7	12.5
Total	46	100

The study sought to determine whether future earning affects market performance of the companies quoted at the Nairobi securities exchange, from the research findings majority of the respondents as shown by 87.5% were of the opinion that future earning affects market performance of the companies quoted at the N.S.E whereas 12.5% of the respondents were of contrary opinion. This is an indication that future earning indeed affects market performance of the companies quoted at the Nairobi securities exchange.

**Table 11: Extent to which future earning affect the market performance of the companies quoted at the NSE**

Extent	Frequency	Percentage
Very great extent	11	19.6
great extent	31	55.4
Moderate extent	12	21.4
Little extent	2	3.6
Total	46	100

The study sought to determine the extent to which future earning affects market performance of the companies quoted at the Nairobi securities exchange. From the research findings majority of the respondents as shown by 55.4 % indicated to great extent, 19.6% of the respondents indicated to a very great extent 21.4% of the respondent indicated to a moderate extent whereas 3.6% of the respondents indicated to a little extent. This is an indication that future earning affects market performance of the companies quoted at the Nairobi securities exchange to a great extent.

**Table 12: Statements relating to future earning the effects on market performance of the companies quoted at the Nairobi Securities Exchange**

Statement	Strongly Agree	Agree	Moderate	Disagree	Strongly Disagree	Mean	Std Deviation
Firms that split have better-than-average earnings growth following the split	10	40	3	2	1	2.00	0.29
The difference between actual and forecasted earnings following a split tends to be directly related to the size of the split factor: the higher the split factor, the better the earnings	11	42	2	0	1	1.89	0.32
The post-split stock returns for firms that split their stock are higher than those of a control sample of firms that do not split their stock	12	34	5	3	2	2.09	0.24
When firms split their stock multiple times, the abnormal return at the announcement of the second split is directly proportional to the earnings surprise following the first split	14	38	1	2	1	1.89	0.28
Value increases on split announcements are often attributed to this signalling effect	10	41	2	2	1	1.98	0.30

The study sought to determine the extent to which respondents agreed with the above statements relating to the effects of future earning on market performance of the companies quoted at the NSE. From the research findings, majority of the respondents agreed that; The difference between actual and forecasted earnings following a split tends to be directly related to the size of the split factor: the higher the split factor, the better the earnings when firms split their stock multiple times, the abnormal return at the announcement of the second split is directly proportional to the earnings surprise following the first split as shown by a mean of 1.89 in each case, value increases on split announcements are often attributed to this signalling effect as shown by a mean of 1.98, firms that split have better-than-average earnings growth following the split as shown by a mean of 2.00, the post-split stock returns

for firms that split their stock are higher than those of a control sample of firms that do not split their stock as shown by a mean of 2.09. The above findings concur with Pilotte and Manuel (2006), who found that when firms split their stock multiple times, the abnormal return at the announcement of the second split is directly proportional to the earnings surprise following the first split.

### Regression Analysis

**Table 13: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887(a)	.788	.745	.19440

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable: From the findings in the above table the value of adjusted R squared was 0.745 an indication that there was variation of 74.5% on market performance due to changes in market timing, financing decision, size of issues and future earning. This shows that 74.5% changes in market performance could be accounted to changes in market timing, financing decision, size of issues and future earning. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.887.

**Table 14: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	0.432	4	0.072	2.483	.018 <sup>b</sup>
Residual	1.247	49	0.029		
Total	1.679	55			

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 1.8% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The F critical at 5% level of significance was 2.483 since F calculated is greater than the F critical (Value = 1.960), this shows that the overall model was significant.

**Table 15: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 Constant	.298	.453		2.165	.006
Market timing	.237	.160	.198	1.479	.012
Financing decision	.231	.126	.245	1.834	.001
Size of issue	.239	.145	.008	.065	.023
Future Earning	.281	.114	.031	.246	.016

From the data in the above table the established regression equation was

$$Y = 0.298 + 0.237 X_1 + 0.231 X_2 + 0.239 X_3 + 0.281 X_4$$

From the above regression equation it was revealed that holding market timing, financing decision, size of issues and future earning to a constant zero, market performance would be at 0.298, a unit increase in market timing would lead to increase in market performance by a factors of 0.237, a unit increase in financing decision would lead to increase in market performance by factors of 0.231, a unit increase in size of the issue would lead to increase in market performance by a factor of 0.239 and a unit increase in future earing would lead to increase in market performance by a factors of 0.281. At 5% level of significance and 95% level of confidence, size of issue had a 0.023 level of significance; future earning showed a 0.016 level of significance, market timing had a 0.012 level of significance while financing decision showed 0.001 level of significance hence the most significant factor is financing decision.

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

From the analysis and data collected, the following discussions, conclusion and recommendations were made.

### **Summary of findings**

#### **Market Timing**

The study reveal that market timing affects the market performance of the companies quoted at the Nairobi securities exchange to a great extent. The research also revealed that; flaw in market-timing analysis is its focus on firms that do issue equity, rather than considering all firms with additional cash requirements, firms issue equity so as to meet their cash requirements and the life cycle stage has a more significant predictor then market-timing opportunities. Most firms do increase capital expenditures following a rights issue, firms listed for one year and poor market-timing opportunities are more likely to conduct a seasoned-equity offering than firms listed for many years.

#### **Financing decision**

The study established that financing decision affects market performance of the companies quoted at the Nairobi securities exchange to a great extent. firm management tend to increase debt when the business outlook is favourable, and conversely will prefer equity when the outlook is less favourable, a better predicator of a firm choosing rights issues to raise finance is found in “equity market timing”, the practice of issuing shares at high prices and repurchasing shares at low prices, capital structure is the outcome of the cumulative effects of past attempts to time the equity market, rather than any targeted optimum structure, firms prefer to issue equity when market values are high relative to book value and historical share prices, with the contrary also true that firms tend to repurchase shares when market values are low. The study also established that performance of the firm using more current liabilities to finance assets increases improves the performance.

#### **Sizes of Issues**

The study revealed that sizes of issues indeed affects market performance of the companies quoted at the Nairobi securities exchange.to a great extent, the investing public and analyst

who are too optimistic about the issuers should consider deteriorating performance while arriving at the valuations, rights equity issue can be a potential solution to the adverse selection problem associated with capital issue and have comparatively low direct costs, if the investment firm holds the new issue in inventory, this will tie up capital that can be used elsewhere, or, worse yet, it will have to borrow money, Optimistic managers should reassess the investment opportunities and have conservative plans before approaching the market, If the offer price is too high, the investment firms may fail to sell all of the new issue, if the offering price is too low, then the new issue will quickly sell out, and the price of the new issue will rise quickly because the supply will be limited. The study also established that most companies undertook stock splits so as to bring the trading range of the share price to an optimum point. This was undertaken so that the majority of investors, both individual and institutional, could have access to the shares of the company. The study further established that other factors such as the split ratio also influenced share prices

### **Future Earning**

The study revealed that future earning affects market performance of the companies quoted at the Nairobi securities exchange to a great extent. the study also established that; the difference between actual and forecasted earnings following a split tends to be directly related to the size of the split factor: the higher the split factor, the better the earnings when firms split their stock multiple times, the abnormal return at the announcement of the second split is directly proportional to the earnings surprise following the first split, value increases on split announcements are often attributed to this signalling effect, firms that split have better-than-average earnings growth following the split, the post-split stock returns for firms that split their stock are higher than those of a control sample of firms that do not split their stock.

### **Conclusions**

From the findings the study established that firms listed in NSE issued equity so as to meet their investment requirements thus the study concludes that market timing had a positive effect on market performance of the companies quoted at the Nairobi Securities Exchange.

The study also established that firms prefer to issue equity when market values are high relative to book value and historical share prices thus the study concludes that financing decision had a positive effect on the market performance of the companies quoted at the Nairobi Securities Exchange.

The study revealed that rights equity issue can be a potential solution to the adverse selection problem associated with capital issue and have comparatively low direct costs thus the study concludes that sizes of issues had a positive impact on the market performance of the companies quoted at the Nairobi Securities Exchange.

The study revealed that value increases on split announcements are often attributed to this signalling effect thus the study conclude that future earning had a positive effect on market performance of the companies quoted at the Nairobi Securities Exchange.

### **Recommendations of the Study**

The organization should employ appropriate strategies to ensure that the firm has constant flow of finances this will give various stakeholders in the company confidence of the firm

going concern. The study revealed that there is need for managers in firm listed in the NSE to make the right timing for rights issue as this will significantly influence their performance.

There is need for the firm listed in the Nairobi Securities Exchange to apply various financing decision so as to improve their market performance of the companies quoted at the Nairobi Securities Exchange.

There is need for managers of firm listed in the NSE to consider the size of right issue as it was found that size of issues affects market performance of the companies quoted at the Nairobi Securities Exchange.

Future earning was found to affect market performance of the companies quoted at the Nairobi Securities Exchange. The study recommends that managers of firm listed in the NSE should consider the future earnings before the issue of rights.

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