EFFECT OF EQUITY FINANCING ON SHAREHOLDER VALUE CREATION OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

KELVIN KITATHE KASEE

19/05940

A RESEARCH DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN COMMERCE (FINANCE AND ECONOMICS) IN THE SCHOOL OF BUSINESS AT KCA UNIVERSITY

AUGUST, 2023

DECLARATION

I declare that this research dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Signature…… Date…….……

Kelvin Kitathe Kasee

Reg No. 19/05940

I do hereby confirm that I have examined the master's project of Kelvin Kitathe Kasee and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Sign: …… Date: ……

DR PETER KARIUKI

Dissertation Supervisor

EFFECT OF EQUITY FINANCING ON SHAREHOLDER VALUE CREATION OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

ABSTRACT

The ability of management to make efficient and effective use of the company's resources, which contribute to the growth and development of the economy of the country, is essential to the well-being and continued existence of any organisation. It is a strong indicator of a company's ability to transform its financial resources towards the achievement of its mission and vision if the company is able to create positive shareholder wealth. The increase in shareholder wealth should be the primary focus of any and all decisions that management makes regarding equity financing, and the success of such decisions can only be judged based on their capacity to produce favourable outcomes and contribute to the growth of shareholder wealth. Most of listed firms at the NSE have been recording mixed results in relation to shareholder value creation over the past decade. The current study sought to investigate the effect of equity financing on shareholders' value creation of firms listed at NSE. The study evaluated the effect of ordinary share capital, retained earnings and equity reserves on shareholder value creation of firms listed at the NSE. The study adopted descriptive research design. The target population of this study was 59 firms listed at NSE. A census sampling technique was adopted in this study. Secondary data was extracted from NSE audited annual financial reports database for the 10 years (2012-2021). STATA was used in this study to analyse the data. In order to investigate the nature of the relationship that exists between the independent and dependent variables, panel data regression analysis was carried out. Before beginning a regression analysis, diagnostic tests like the multicollinearity test, autocorrelation test, heteroskedasticity test, normality test, and Hausman test were also carried out. The results showed that the VIF values for each of the three independent variables ranged from 1 to 5, indicating that the values were moderately correlated and that, under the null hypothesis, the regression residuals would follow a normal distribution. Since FGLS is adaptable in handling Auto Correlation and Heteroscedasticty issues, panel data analysis techniques were used to fit the model. All independent variables had a statistically significant and positive association with shareholder value creation. Firms with more retained earnings on the NSE can enhance their shareholders' value creation, as retained earnings contribute to increased net income and profitability. The study recommended that policy makers at NSE should always strive to ensure that they maintain effective equity financing options as this is very likely to affect the overall shareholders value creation which is very critical for listed firm to attract prospective investors. It was also advised that the management of publicly traded companies always make sure that they have an efficient planning tool that can help them choose the best financing combination and strategies that create the most value for the shareholders, drawing in more potential investors.

Key Words: Equity Financing, Ordinary Share Capital, Retained Earnings, Equity Reserves

ACKNOWLEDGEMENT

I give thanks to the Almighty God for keeping me alive and sustaining me to successfully conduct this research project. I also acknowledge my supervisor Dr. Peter Kariuki, who has guided me tirelessly and advised me in each and every stage of developing this research dissertation.

DEDICATION

I dedicate my dissertation work to my dear parents Richard Kasee Kitathe and Joyce Kavanda Kakuti and my dear sisters Lynnette and Olive.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACRONYMS & ABBREVIATIONS

ARM	Athi River Mining
ASEA	African Securities Exchange Association
AUM	Asset Under Management
CMA	Capital Markets Authority
CSV	Creating Shareholder Value
CVA	Cash Value Added
EP	Economic Profit
EPS	Earnings per share
ER	Equity Reserves
EVA	Economic Value Added
IPOs	Initial Public Offers
KNBS	Kenya National Bureau of Statistic
MENA	Middle East and North African
MVA	Market Value Added
NGX	Nigeria Stock Exchange
NSE	Nairobi Securities Exchange
NWC	Net-operating Working Capital
OPEX	Operating Expenses
OSC	Ordinary Share Capital
PFAs	Pension Fund Administrators
RE	Retained Earnings
ROA	Return on Asset
ROE	Return on Equity
SA	South Africa
SEOs	Seasoned Equity Offerings
SHV	Shareholder Value Theory
SVC	Shareholder Value Creation
UK	United Kingdom
USA`	Unites State of America
VIF	Variance Inflation Factor

TERMS AND DEFINITIONS

Equity financing: The process of selling a company's stock in exchange for cash in order for the company to meet its liquidity needs and raise the funds necessary to do so (Drover, et al., 2017).

Ordinary share capital: The total amount of money raised by a company through the sale of common shares to public and private investors. The selling of ordinary shares to shareholders raises ordinary share capital from the general public. Ordinary shares have voting rights and may influence company decisions (Faniband & Prakasam, 2019).

Equity reserves: They are balances created from shareholders' contributions. Equity reserves always have a credit balance. It is the component of shareholders' equity, the amount set aside for estimated claims (Nguyen & Rahman, 2020).

Retained earnings: Companies retain or save a certain percentage of their earnings to use later on. Revenue retentions or retained surplus are other terms for retained earnings. It's the part of a company's income set aside for debt repayment or reinvestment in the firm (Ball, Gerakos, Linnainmaa, & Nikolaev, 2020).

Shareholder value creation: refers to gains in shareholder wealth over time due to rising share prices and dividend payments. Value is created for stockholders when a company's ROE is greater than the minimum required ROE. (Radić, 2015).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Any organisation health and survival, depends on its management team capacity to effectively and efficiently utilise its resources that supports nation economic growth (Pham, 2020). Thus, finding the best financial structure to maximize stockholder wealth and subsequently ensure the long-term viability of the organization in question is the objective when comparing different financing options. This is due to the fact that businesses obtain their financing in a variety of ways, including through equity contributions, credit facilities from financial institutions, lease or hire-purchase agreements, or by holding onto a portion of profits, all of which are importance for a business's expansion. However, it is important to remember that there may be consequences regardless of the type of financing used by businesses.

Prudent finance managers are required to optimize the most appropriate financing method between debt and equity for purposes of maximizing shareholders' wealth (Park, 2021). The ability of the firm to create positive shareholder wealth is a strong indicator of a firm's ability to transform its financial resources towards the achievement of its mission and vision. Shareholder wealth maximization is the key goal of all equity financing decisions management adopts, and the success of such decisions can only be evaluated on their ability to create positive outcomes and add to shareholders' wealth (Triani & Tarmidi, 2019).

Capital structure decisions affect all firms but may vary from one firm to another due to unique financial needs, thus narrowing down firms' success to finance managers' ability to manage the firm's financial resources (Eka, 2018). When trying to identify the source of funds, the management is always faced with a dilemma as to whether to rely on retained earnings or

issue equity shares. The creation of the capital structure directly affects the governance structure of businesses, which in turn influences the managers' decisions regarding equity financing (Mutua & Atheru, 2020).

The majority of investors are long-term thinkers who do not expect a quick return on their investment. This aspect makes firms have more cash flow for investing than for repaying loans. This makes equity financing a good financing strategy in situations when a firm cannot take on more debt (Eka, 2018). Firms' desired financial sustainability is achieved as a result of a better equity financing mix strategy. Financial sustainability can be improved by making various forms of internal reconstruction, like altering ordinary share capital, and improving the management of working capital, which in turn reduces operation costs (Rahman, Sarker, & Uddin, 2019).

When businesses raise money by issuing new shares, the ownership structure changes, which can have a significant impact on the makeup of the board of directors and executive management. Loans can be a good way to get money, but sometimes you have to put up collateral that might not be easy to get. Businesses make decisions about money based on what they need and how much it will cost them in the long run. This means that they have to carefully weigh all of their options and think about how much it will cost them in the future. According to Chindengwike (2021), understanding how to recognize financing options that have the biggest effects on generating shareholder value makes it easier to choose the best strategies in any organization.

Managers have to make important decisions about financing that will affect the company's ability to stay competitive and increase the wealth of its shareholders. Therefore, the capacity of any financing option to maximize shareholder value must be taken into consideration. Financing options that produce a positive net present value are necessary to

increase shareholder value. Management is free to choose from a variety of capital structure options. The choice of the capital structure to be used may not be made with the goal of maximizing value but rather to protect managerial self-interest, particularly in companies where management decisions are made using the voting rights of the shares they own. Internally or externally generated funds may be used by businesses for their operations (Vuong, Vu, & Mitra, 2017).

Firms have the option of raising money externally through either debt or equity. The financial decision-making process spends the majority of its time figuring out what a firm's ideal capital structure should be. A business capital structure must be determined based on the resources available to it. Choices vary based on the available resources. The ability of the finance manager to effectively and efficiently manage the company's financial resources is a major factor in determining the level of success that will be achieved by the company.

In their study in the UK, Wilson, Kacer and Wright (2019) found that equity investors give money to businesses in exchange for shares at different stages of their development, from the beginning, or seed stage, all the way up to the venture stage. This contributes to the success of the commercialization and growth stage. Equity investment is frequently associated with high-tech and knowledge-intensive ventures because it is difficult for lenders to evaluate the risk, as well as the timing and scale of the business's returns. However, equity investment plays an essential part in the transformation of startups into large-scale companies. In addition to providing financial backing, equity investors can also lend their business knowledge and experience to assist growing businesses. In addition, equity financing is widely regarded as an essential element for growth, productivity, and innovation, particularly in the context of small businesses. According to Wilson et al. (2019), timely funding, combined with the knowledge

that outside equity investors bring, can foster rapid growth in businesses that are just starting up, growing, diversifying, or entering new markets.

Jee et al. (2021) noted that Malaysian business value and strategy are affected by capital structure decisions. This is one of the most crucial and effective parameters in the capital markets. Rating companies, which rely on their capital structure and strategic planning to maximize shareholder wealth, must adapt to the current changing and evolving environment. Therefore, increasing shareholder wealth should be one of the primary focus of the financial manager when determining the optimal combination of financial resources for the company. This is because increasing shareholder wealth is good for business. Making certain that the business maintains a healthy cash flow is one way to accomplish this goal.

By increasing the precision and timeliness of the decisions they make in order to improve the performance of the company, a prudent financial manager is able to decrease the cost of capital for the company and increase the value of the company. This is because the decisions they make are targeted towards improving the performance of the company. This action is taken so that the overall value of the company can be increased. An increase in the amount of funding and investment that is adequate and appropriate will lead to an increase in both the value of the company and the wealth of its shareholders.

Akintunde, Nwabuisi, and Oyeyemi (2021) argue that wealth maximization is the primary focus of management and shareholders of companies in Africa, specifically in Nigeria. Aligned with the corporation's goal of enlarging its operations and enhancing profitability, the administration is focused on the proficient and productive utilization of resources. Management is responsible for all internal factors that affect shareholder wealth, such as cost control, cost management, and capital investment. Shareholders put up equity funds so that management can carry out all of the strategic decisions that will help a company reach its goals.

In their study of Nigeria, Akintola and Olurin (2020) found that capital is very important to the firm's financial performance and its ability to reach its long-term goals. Capital is a very important factor for a firm's survival and growth. A company has two options for financing its investment: debt or equity. This is referred to as a financing choice. Both the managers of the company and the funders place a high value on how an organization is financed. This is due to the possibility of negatively affecting the performance and viability of the business enterprise if the incorrect mix of finance is used. Maximizing shareholder wealth is just one of financial managers' many goals.

For the purpose of increasing the value of the company to its shareholders, it is essential to optimize the capital structure. In order to accomplish this, it is necessary to address a variety of issues, including the management of a lower cost of capital, the production of tax shield benefits from debt financing, and the reduction of agency costs of debt and equity. In order to identify and resolve these issues, financial managers consistently work towards achieving the optimal debt-to-equity ratio. This helps them to maximize the efficiency of the capital structure.

Locally, Muthoni, Jagongo, and Muniu (2019) argued that smart investors expect to get a good return on their money over the long run. So, increasing shareholder value is becoming the new standard for cooperatives. Managers work toward this goal by choosing a mix of financial instruments that will keep the cost of funds as low as possible. So, creating shareholder value is getting harder and harder because owners and managers have to make smart financial decisions that help manage operations that create value and also find activities that destroy value. Also, it's important to set up good tools that can measure the real value created.

1.1.1 Equity Financing

The practise of raising capital through the sale of either common or preferred stock is known as equity financing. When a company retained earnings are insufficient or when it needs to raise more equity capital to balance its debt, the typical time they will turn to equity financing is both of these situations (Fianto, Gan, Hu & Roudaki, 2018). Two types of equity issue exist. The first is the initial public offering, which occurs when a company "goes public" and sells its stock for the first time on a major exchange. The second type is known as a "seasoned issue" and occurs when an established public firm sells authorized but unissued stock. According to financial theory, equity financing is the most expensive way to attract money. If funds cannot be attracted in any other way, or if the shares are overvalued to the point that the benefits of an issue outweigh the expenses, a company's management will decide to issue equity to attract capital (Belo, Lin, & Yang, 2019).

The issue of common stock may be accomplished through a right offering or a cash offer. SEOs are issued by companies with a long history of financial success and an active presence on the stock market trading shares. IPOs, on the other hand, are the first time a company sells stock on a major stock exchange (Fianto et al., 2018). The need for funds for projects such as the acquisition of heavy machinery, research and development, and the availability of financing, as well as the firm's existing cash flow and investment prospects, are some of the reasons why corporations issue equity. Future cash flows are affected by long-term debt, which in turn affects liquidity, compelling managers to issue seasoned equity (Belo et al., 2019).

Since their compensation is based on asset size rather than profitability, managers frequently consider equity offers as a successful method of expanding the business's size and offer incentives to grow the firm beyond its ideal size (Cumming, Meoli, & Vismara, 2021). Firms with greater investment and development potential choose stock issuance to avoid

interest-bearing debt. Equity financing is a means of providing value to shareholders through the optimisation of a business's capital structure, which entails balancing the advantages of a tax shield against the drawbacks of financial distress. So, listed companies are better able to get equity financing through the securities market, while large companies that aren't listed usually get equity financing through private placement from institutional investors. In this context, the equity financing of a company will consist of share-capital, retained earnings and equity reserves. Equity financing refers to raising capital through the issuance of common or preferred shares to the general public. Listed companies typically have a greater opportunity to raise capital through the security markets.

Bloom, Sadun and Van Reenen (2015), view equity financing as the funds raised through an initial public offering unlike use of debts in capital structure. Every company requires substantial working capital to keep their business smooth and running. Such capital proves effective at times when the company is faced with financial restrictions to keep its regular operations active. More than often, companies use their equity shares to raise the required capital known as equity share capital. Through such ownership, shareholders are entitled to earn returns in the form of dividends. Equity of net assets is the residual interest of the assets of the company after deducting all its liabilities. Various forms of equity financing incudes; ordinary share capital, retained earnings, equity reserves, angel investors, crowd funding and ploughed back profits.

Ordinary shares capital is defined as the amount of money which is raised by the companies from the issue of the common shares of the company from the public and the private sources and it is shown under owner's equity in the liability side of the balance sheet of the company (Muiruri & Wepukhulu, 2018). The ordinary share capital is an account present in the stockholder’s equity. The money is raised through the issue of shares to public and private

sources. This can be the business's amount from the owners in the exchange of common equity shares or stocks. The ordinary share capital is generally updated in proportion to the number of holdings the business holds in the form of equity. The business does not have to pay or obligates to pay interest back to the shareholders. The holders of the ordinary share capital generally receive dividends in proportion to their stock ownership whenever the business performs well and generate profits for itself in a given financial year

Retained earnings are an internal source of financing company investment and it is perceived to be less risky than any other sources of financing. However, an inverse relationship exists between retained earnings and the dividends declared to shareholders, such that an increase in the amount of retained earnings indicates that less would be available for payment of dividends to shareholders of an organization (Drover, Busenitz, Matusik, Townsend, Anglin & Dushnitsky, 2017). Equity reserves are the type of bank capital representing funds set aside for contingencies such as losses on assets, legal action against the bank, and other extraordinary events, as well as providing a reserve for dividends expected to be paid out to stockholders but not yet declared and a sinking fund to be used to retire stock or debt capital instruments in the future (Muthoni, Jagongo & Muniu, 2019). Equity reserve is the part of the equity section of the balance sheet which excludes share capital and retained earnings. Equity reserves are reserve funds.

1.1.2 Shareholders Value Creation

Creating shareholder value is when a company's management uses the equity capital that its shareholders have put in to come up with and carry out financing and strategic decisions that will make the shareholders richer than what they have put in by utilizing the equity capital provided by the company's shareholders (Zumente & Bistrova, 2021). On the other hand, the generation of future inflows that are greater than what investors would receive from another

investment of a similar nature elsewhere can be understood as creating shareholder value. In other words, value can be created in one year for a corporation when that company beats its expectations. Increasing the shareholder value production is something that has been researched by multiple authors.

According to Fernandez (2019) the components that determine value are the rate of growth, the rate of income tax, the operating profit margin, the fixed capital investment, the cost of capital, and the working capital investment. An increase in the value of a company can be attributed to a number of different factors. Some of these factors include an increase in cash flows, an acceleration of those flows, a reduction in volatility and fragility, and an increase in the residual value of cash flows. Zumente and Bistrova (2021) identified six components that constitute shareholder value. These components are as follows: net operating profits after taxes; the tax advantage of debt in the company's capital structure; new capital invested to expand the business; the return on the new capital investment after taxes; the cost of capital for the business risk; and the anticipated duration within which the company is projected to generate returns that exceed the cost of capital.

The two main objectives of the companies are to increase the value of the company to its shareholders and its revenue. While maximizing shareholder value is more interested in long-term returns and sustainability, maximizing profits may be more of a short-term objective. The current value of the wealth that shareholders have accumulated as a result of their investments in shares and continued ownership of the company's stock is known as shareholders' value. According to Zumente and Bistrova (2021), this wealth was generated as a direct result of the stockholders' continued ownership of company shares. The result is achieved by multiplying the total number of shares that were in circulation by the annual average price of a share on the market for the period in question. This measurement is

frequently called "average market capitalization." A rise in shareholders' wealth relative to a prior time period may serve as a sign of value. A company can add value for its shareholders when its economic value added (EVA) is positive.

Every business aims to make money for its shareholders, but success can mean different things depending on the situation. In this regard, the company's directors should base their choices on a set of objectives and principles with the aim of optimizing and maximizing the value for the various company stakeholders. Caballero, Teruel, and Martinez (2020) companies are believed to maximize shareholder value as their primary objective. A company's long-term growth is encouraged by a variety of incentives, such as value creation, efficiency, and long-term efficiency. Equity shares generate shareholder value when their market value serves as a proxy for the company's market value.

According to Tipape and Jagongo (2019), the decision-making processes of businesses pertaining to liquidity, dividends, investments, and financing all have a role in the generation of shareholder value. According to Caballero et al. (2020), the most appropriate kind of alternative financing should make it possible for businesses to raise their net income in an effort to gratify equity holders. When calculating the value that has been created for shareholders, it is essential to take to account any residual revenue. It is generally accepted that a company's share price accurately reflects the residual income. When determining the value that was produced, it is crucial to take to account how the target market feels about the organization.

According to Ndulue, Okoye, and Amahalu (2021), the overarching goal of any and all actions taken by a business should be to maximize the return on investment for shareholders. This should be the case regardless of what actions are taken. The primary driver behind corporate finance is the idea of increasing the wealth of the company's shareholders to the greatest extent possible. When a company uses only equity capital in its operations, all of the

cash flows that are generated by the company's assets and operations belong entirely to the company's stockholders. These cash flows are the primary source of financial resources for a company because they are generated by the company's primary source of revenue: its assets and operations. If an organization's only source of funding is debt, then the cash flows that are produced by the assets and operations of the organization do not belong to anyone.

In order to accumulate value, a company must first demonstrate that it can generate a return on investment that is superior to its cost of capital over a predetermined period of time. When operating costs and an allocation for capital are subtracted from total revenue, the remaining figure, which must be more than zero, constitutes a firm's economic profit and must be positive. Van Horne (2002) argues that a corporation creates value by providing its shareholders with additional money that they could not have achieved on their own. The value of a corporation is created when its shareholders gain value from it.

It is essential for the management of the company to accord careful consideration to the selection of decisions that will result in increased shareholder value (Bessler, Conlon & Huan, 2019). The most important factors in the formation and creation of shareholder value are decisions about investments and finance. There is a lot of written material on the subject of shareholders' value creation, but there isn't any agreement on how it should be measured. Others are of the opinion that value-based methods would be preferable, despite the fact that some people believe accounting metrics are superior.

The measures used in accounting are considered to be short-term, open to interpretation, and straightforward to manipulate. On the other hand, value-added metrics are believed to have a broader perspective of time, to be more objective, and to be more challenging to manipulate. In addition, value-based metrics make it possible to make comparisons between different businesses. Additionally, they take to account time effects and the possibility of losses in

capital costs (Zumente & Bistrova, 2021). This is one of the components of the cost of capital. There are many different kinds of value indicators, but two of the most common ones are the economic value added (EVA) and the market value added (MVA). The economic value added, a measure of shareholder value creation derived from literature discussed previously, is used in this study to measure shareholder value creation.

1.1.3 Equity Financing and Shareholders Value Creation

Profitability and creating value for shareholders are two of the most important goals in the business world. Corporate executives work to maximize shareholder value by selecting effective financing strategies (Nyamoma, 2020). Key measures of shareholder value, economic value added, market value added, and created shareholder value have been gaining popularity among decision-makers and academics in recent years. When selecting a method of financing, it is important to take to account the capital structure, which includes the ratio of debt to equity. Constantly presenting a challenge for finance managers and practitioners is the quest to identify the optimal capital structure that, if implemented, would result in increased profitability and elevated shareholder value.

Companies are made so that their shareholders can make more money than they would have gotten from other sources. For managers to maximize value creation for their shareholders, they need to have a thorough understanding of the value drivers within the company and the industry as a whole (Akintunde et al., 2021). Value can be affected by both monetary and non-monetary variables. Due to the copycat nature of businesses, managers need to identify the unique aspects of their operations that have the greatest bearing on stock price. The firm's shareholder value will eventually rise by consistently using those variables. The main reasons why businesses examine value creation are to develop and evaluate their strategies (Pham, 2020).

In the UK, the US, China, India, Brazil, and Canada, strategic decisions about equity financing have led to greater value for shareholders (Miralles, Miralles, & Redondo, 2019). Making sound financial decisions has been shown to hasten the growth of successful businesses and the spread of globalization. Capital structure decisions are influenced by the frequency with which companies list and trade on the Stock Exchange, as well as the volume of stocks that are traded on that exchange. According to Abdul (2015), the corporate sector in Nigeria is characterized by a large number of businesses that operate in an environment that is highly diverse, highly competitive, and largely unregulated.

A study comparing all US manufacturing companies that received equity from 2005 to 2015 with five companies that did not, found that the firms that received equity saw positive increases in shareholder value and significant productivity growth (Islam, Fremeth, & Marcus, 2018). For a study to evaluate management practices, 4,000 businesses in Asia, the US, and Europe were surveyed. According to the study, the sample's private equity-backed companies are, on average, the best managed (Hotchkiss, Smith, & Stromberg, 2021).

In their research, Muthoni, Jagongo, and Muniu (2019) say that the best financial strategy is easier to put into place when you know which financial factors have the most impact on creating value for stakeholders. Wilson et al. (2019) also says that businesses that were highly competitive and did their jobs well were able to create long-term value. The proficient management of a firm's financial resources is a contributing factor to the attainment of a reduced cost of capital. This, in turn, facilitates the generation of value by diminishing the amount of funds required to finance novel investments. Akintunde et al. (2021) argued that operating costs, profit margins, returns on capital employed, and expense ratios all play a big part in creating shareholder value in Nigeria.

A study was conducted by Achieng, Muturi, and Wanjare (2018) on the effect that equity financing had on the performance of forty non-financial companies that were listed on the NSE between the years 2009 and 2015. This group of companies was chosen at random for the study. To calculate the amount of equity financing, return on assets was used in place of performance, and total equity was used in place of total assets. This was done so that total equity could be used as the denominator. The theory of capital structure indifference that Modigliani and Miller published in 1958 served as the basis for this study.

According to Achieng, Muturi, and Wanjare (2018), this theory was developed using a variety of methods, including pooled ordinary least squares, fixed effects, and random effects. The investigation did not include any firms that were publicly traded within the banking or insurance sectors of the economy. Instead, the researchers decided to take a look at data from forty non-financial companies listed on the NSE. According to the results of the research, total equity had an effect on performance that was not only significant but also significant in its positive impact.

The effect of equity financing on the creation of shareholder value for non-financial companies listed on the NSE between 2008 and 2014 was studied by Muthoni, Jagongo, and Muniu (2019). The study's non-experimental explanatory design was grounded in positivism and was influenced by pecking order and market timing theories. The study also made use of the design. Muthoni, Jagongo, and Muniu (2019) there was a correlation between shareholder value creation and equity financing that was both statistically significant and positive. However, at the time that the study was being conducted, the data that was being used in the study was more than six years old. It is unclear whether the conclusions can be applied to the present.

Mbuvi and Gekara (2015) looked into how the dividend policies of companies that were listed on the local capital market affected the ability of shareholders to make money. The hypothesized variables and the dividend policy were found to be linked in a way that was both linear and statistically significant. Mwenje and Olweny (2016) looked at how much private equity affected the creation of companies listed on the Nairobi stock exchange and shareholders' efforts to maximize value. The findings indicate that private equity has little effect on generating shareholder value. There is no consensus regarding how financing decisions affect shareholders' value creation because different variables have different effects on how much value is created for shareholders, according to the empirical literature reviewed.

1.1.4 Firms Listed at Nairobi Securities Exchange

The Nairobi Securities Exchange, abbreviated as NSE, is the primary stock exchange that operates in Kenya. In 1954, a stock market was established as a voluntary association of any stockbroker who was registered under the applicable Societies Act. This association began trading shares of stock. NSE has established a name for itself over the course of many years across the continent. As a direct consequence of this, it has attracted and continues to draw a significant number of local and international investors. The Capital Markets Authority (CMA) is in charge of monitoring the Nairobi Securities Exchange and issuing licenses to participants. Additionally, public offers and listings of securities that are issued and traded on the NSE have been given the green light by the CMA (NSE, 2017).

The Nairobi Stock Exchange is widely regarded as the region's premier financial marketplace. It is also a member of the African Securities Exchange Association (ASEA), and it provides trading services of the highest caliber to both domestic and international investors who are interested in participating in the expansion of the country's economy. NSE 20 Share Index, FTSE NSE Kenya 15 Index, NSE All Share Index (NASI), NSE 25 Share Index, FTSE

NSE Kenya 25 Index, FTSE ASEA Pan African Index, and NSE Kenya Government Bond Index are the indices that are used by the Nairobi Stock Exchange (www.nse.co.ke) to measure the performance of the stock market. By the end of 2021, the Nairobi Stock Exchange had 59 listed companies. The NSE 20-share index has been the most popular and oldest index since it was first introduced in 1964. It is regularly updated to ensure that it accurately reflects stock market performance.

Every economic sector whose shares are performing well has a sizable sectoral index on the NSE (Buigut & Soi, 2020). There are currently sixty-four (64) companies that are listed on the NSE. There is a total of thirteen (13) categories into which these businesses fall, covering sectors as varied as agriculture, transportation, banking, commercial and financial services, construction, energy and petroleum, insurance, investment, investment services, manufacturing, telecommunications, and technology (NSE, 2022). In January of 2018, the NSE made history by becoming the first exchange in East and Central Africa to formally become a member of the World Federation of Exchanges.

NSE updated its mobile app in June 2020 to give investors easier, faster, and more accurate access to market information in real time. Inability of NSE to attract any new listings, it is challenging to find a solution to the problem of domination by the top four companies on the bourse, Safaricom, Equity, Kenya Commercial Bank, and East African Breweries Limited, controlling 78% of investor value.

1.2 Statement of Problem

In developing economies such as Kenya, firms continuously face a financing dilemma due to their inability to make effective financial decisions, especially those trading stocks at the NSE (Muthoni et al., 2019). As a result, many listed firms at the NSE have been recording mixed results in relation to shareholder value creation over the past decade, hence raising substantial

queries regarding their financing decisions, especially given their extensive reliance on the equity financing option, which is easier to raise. For example, despite the fact that shareholders' wealth as measured by market capitalization among the listed firms increased by 20.84% in 2019 compared to the previous year, 85% of this was controlled by only 10 firms (NSE, 2020).

As a consequence of this, there is relatively limited numbers of firms that are listed on the NSE that are able to maximize their shareholder value. This is due to the higher number of firms that have been facing significant financial crises over the course of the past decade. Some examples of these firms include Mumias Sugar, ARM Cement, Uchumi Supermarket, Baumann Limited, and Hutchings Biemer Limited, amongst others. The average number of NSE firms' holdings decreased from 15.7% in 2016 to 11.6% in 2020, indicating a declining trend (KNBS, 2021).

At the end of year 2022, Nairobi Securities Exchange (NSE) lost Kes 610 billion in shareholders invested wealth in the quarter ended December 2022. It is also during this period when top five stocks at the NSE recorded a drop-in market capitalisation. Safaricom which is the leading company in terms of average market capitalisation experienced shareholder wealth drop to Kes 967.5 billion in December 2022 from Kes 1 trillion in October 2022. For Equity bank shareholder value invested dropped from Kes 176.53 billion to Kes 167.93 billion over the same period while East African Breweries Limited (EABL) market capitalisation recorded slow growth from Kes 132.26 billion in October 2022 to Kes 132.45 billion in December 2022 (CMA, 2022). The significant loss of shareholder value creation among many of these listed firms has been blamed on poor financing decisions, especially being too reliant on equity financing and thus failing to maintain a proper financial structure.

Both internationally and locally, a lot of research has been done on the concepts of equity financing and shareholder value creation. Akintunde, Nwabuisi, and Oyeyemi (2021)

conducted a study in Nigeria that looked at the connection between financing choices and maximising shareholder wealth among the nation's listed companies and discovered a significant relationship between the two. In a separate study, Nyamoma (2020) looked at how financing decisions affected the value creation of shareholders at manufacturing companies with focus to firms listed on NSE. The results showed that equity and debt financing had a favourable and statistically significant impact on shareholders' value creation.

Mwenje and Olweny (2016) examined the effect of private equity on value creation among Kenyan listed companies. According to this study, while strategic and operational indicators showed a significant impact, financial changes had little to no effect on the creation of shareholder value. In their study, Muthoni, Jagongo, and Muniu (2019) examined the impact of equity financing on the creation of shareholder value at non-financial firms listed on the Nairobi Securities Exchange. Even though this study was focused on equity financing on creation of the shareholder at non-financial firm listed in NSE a focus similar to the current study, the study covered only non-financial firms.

This presented a contextual gap since the situation maybe different to other organizations. This study aims to bridge this gap. Based on these studies, it is very clear that there has been limited literature undertaken regarding the concept of equity financing and shareholder value creation in Kenya. As such, the current study sought to bridge this knowledge gap by examining the effect of equity financing on shareholders' value creation of firms listed at the NSE.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study was to examine the effect of equity financing on shareholders' value creation of firms listed at NSE.

1.3.2 Specific Objectives

i. To evaluate the effect of ordinary share capital on shareholder value creation of firms listed at NSE.
ii. To evaluate the effect of retained earnings on shareholder value creation of firms listed at the NSE.
iii. To evaluate the effect of equity reserves on shareholder value creation of firms listed at the NSE.

1.4 Research Questions

i. What is the effect of ordinary share capital on shareholder value creation of firms listed at NSE?
ii. What is the effect of retained earnings on shareholder value creation of firms listed at the NSE?
iii. What is the effect of equity reserves on shareholder value creation of firms listed at the NSE?

1.5 Significance of the Study

1.5.1 Government and Policy Makers

The findings of the study were of great importance to the government as well as other concerned policy makers at NSE and the CMA. The study findings aided the government and regulatory bodies especially the CMA in understanding how employing various financing options especially equity option is likely to affect the overall shareholders value creation which is very critical for listed firm to attract prospective investors.

1.5.2 Managers of Listed Firms

The findings of this research provide useful information for corporate management teams interested in learning how various forms of equity financing affect the value creation of their shareholders. According to the managers of each company, the value of the company's shareholders needs to be increased. As a result of this, the study was utilized as a tool for planning purposes, assisting managers in selecting the optimal financing combination and strategies that generated the highest possible value for the shareholders.

1.5.3 Scholars and Academicians

In addition, scholars and academicians will greatly benefit from the study findings because they will contribute to the scant literature on equity financing and shareholder value creation. Also, academicians who wish to conduct additional research on this concept can easily use this study's materials as references.

1.6 Scope of the Study

The primary objective of this study was to examine the value created for shareholders by equity financing at companies listed on the Nairobi Stock Exchange. The 59 companies that had been listed at NSE at some point between 2012 and 2021 formed the basis of the study's population. The parameters of this analysis were share capital, earnings retained, and equity reserves. The study's conclusion relied on information gleaned from a diverse set of secondary resources, including the Nairobi Stock Exchange's (NSE) audited annual financial reports and its data services department. The panel data set that was compiled included information from 2012 through 2021.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The conceptual framework, the variable operationalization, the empirical review, and the theoretical framework were all presented in this chapter. At the outset, the hypotheses that guide the research are dissected and analysed. This is then followed by a comparison of two separate pieces of empirical research in order to find out what other people have done while pointing out where the literature is lacking.

2.2 Theoretical Review

Saunders, Lewis, and Thornhill (2015) define a theory as an organized set of propositions that seeks to explain or predict some aspect of the world. A theory, then, is a set of interconnected ideas, concepts, and claims. Pecking order theory, trade-off theory, market timing theory, and shareholder value theory all provided theoretical underpinnings for the study's findings. An explanation of each of the four hypotheses used in this investigation can be found in the subsequent subsections.

2.2.1 Pecking Order Theory

Myers and Majluf (1984) and Lukas and Mac Donald (1990) contributed to the development of the pecking order theory. This school of thought maintains that it is preferable for businesses to raise capital from within rather than from outside investors. If the company needs money from outside sources, it will likely seek debt financing instead of generating new equity until all other options have been exhausted. Due to information asymmetry, there is no "ideal" or "predetermined" debt-to-equity ratio for businesses. Businesses typically take a conservative approach to dividends and heavily utilize debt financing in order to maximize the value of the

company. To avoid taking on more debt or equity, a successful company will likely rely on its own resources, as suggested by one interpretation of the pecking order theory. Companies, according to this theory, should prioritize increasing shareholder value by funding growth through the most cost-effective means possible (Sheikh & Wang, 2010).

According to Myers (1984), firm managers have access to more information concerning the company and the projects it is working on than investors who have less knowledge. In addition, shareholders and other stakeholders are not as informed as managers are about the true value of the company and the risks it faces. Fama and French found in 2002 that businesses that make money tend to use less debt than businesses that don't make money, which supports this argument. The theory holds that if a company issues debt, it is signaling to the market that it is confident in its ability to meet its debt obligations, while if it issues equity, it is signaling to the market that it may be overvalued, which could lead to a decline in the share price. According to Frank and Goyal (2003), large corporations are the most vocal proponents of the pecking order theory because they are commonly held to have fewer negative selection problems.

If markets are not operating at their optimal level, a company may decide to raise external capital before a temporary overvaluation of debt or equity disappears. In this scenario, raising external equity may be more cost effective than raising external debt. Although the pecking order theory predicts that there won't be a great deal of equity issues, the market timing theory does not support this prediction. Fama and French (2002) argued that the number of equity offerings has gone up and that companies issue equity even when they could have used their own money or issued debt instead.

The theory rests on two crucial premises, which are applicable to financial managers. The first advantage is the possibility that the executives of a company have a deeper

understanding of the company's existing profits and potential for future expansion than do investors from outside the company. The confidentiality of such information is something that is very strongly desired to be preserved. When a business invests its own money, its managers are not obligated to tell shareholders about the opportunities available to them or the potential returns on those investments.

Managers will act in a way that benefits the company's current shareholders, which is the second premise. Even if a project has a positive net present value, managers may decide against pursuing it if it requires the issuance of new equity, as stated by Myers and Majluf (1984). The reason for this is that if the current shareholders were to give up control of the project to new investors, the new investors would receive a much larger share of the project's value.

It is common practice for the management of companies to favor the use of retained earnings as a source of operational funding because retained earnings are regarded as a superior source of capital to both equity and debt. According to the research published by Harelimana (2017), equity is regarded as a less desirable source of capital than debt. According to Ekpo et al. (2017), companies should start by issuing securities with a low informational cost, the company should then issue securities with a high informational cost, enabling it to first pay off its existing short-term debt before embarking on a new round of long-term borrowing.

However, the theory is not flawless because it does not explain how factors such as taxes, financial difficulties, the cost of issuing securities, the cost of using an agent, or the number of investment opportunities influence the actual capital structure of a company. It does not take to account the problems that may arise when the managers of a company save up such large amounts of money that they are unable to be disciplined by the market. As a result of this, the theory cannot serve as a suitable replacement for the conventional trade-off model. As a

matter of fact, it contributes to it (Fama & French, 2005). In this particular investigation, this theory was utilized to access the use of equity financing while placing an emphasis on retained earnings' contribution to the creation of shareholder value. This theory is relevant because it explains how and why businesses generate wealth for their shareholders through investment and how retained earnings are used to fund those investments.

2.3.2 Trade-off Theory

In 1958, Modigliani and Miller were the primary proponents of this theory. According to Kraus and Litzenberger's theory from 1973, the costs of filing for bankruptcy are the costs associated with the bankruptcy itself, while the benefits are opportunities for growth. This theory proposes that a company will make choices regarding its financing with the end goal of reaching a predetermined level of debt ratio. Keeping the costs associated with declaring bankruptcy to a minimum can be accomplished by making use of the tax benefits that come with using debt financing in this particular scenario. This is due to the fact that there is as little expenditure as possible.

On the other hand, the marginal benefits of using more debt will decrease as the cost of financing through debt will increase. This is because the cost of financing through debt will increase. This is due to the fact that the costs associated with financing through debt will rise. After this, the company is obligated to prioritise the trade-off by determining the ratios of debt to equity that it will use in order to achieve the greatest possible increase in its total value. This must be done in order to comply with the requirements of the regulatory body. According to Kraus and Litzenberger (1973), the optimal point is reached when the present value of the benefits obtained from making use of debt is equivalent to the expenses incurred from making use of additional debt.

Miller (1977) observed that despite the fact that corporate taxes are high and unavoidable, bankruptcies are relatively rare and, as a result, have lower costs. If the trade-off theory were true, businesses would have much more debt than they do (Miller, 1977). In addition, share price fluctuations account for the bulk of the variation in the capital structures of most companies (Welch, 2004). In contrast, to notion that equity is typically issued in exchange for debt.

While the trade-off theory is able to explain why different companies operating in the same sector have varying capital structures, it is unable to explain why profitable companies operating in the same group have a lower proportion of debt capital. In addition to this, the theory presupposes that both knowledge and markets are perfect, which is an extremely unrealistic assumption in practice (Myers, 1984). The trade-off theory has been criticized, but it is still widely used by professionals and academics in the field of corporate capital structure. The trade-off theory is not only malleable, but also consistent with the available data, making it hard to disprove empirically (Fama & French, 2002). This theory explains most business is financed in portions partly by debt and partly by equity, thus supporting the independent variables which represent the portion financed by equity.

2.3.3 Market Timing Theory

Market timing theory was developed in 2002 by Baker and Wurgler. According to market timing theory, the capital structure of a company is the end result of its previous financing decisions in response to varying market conditions. This is also referred to as "timing the equity market" (Baker & Wurgler, 2002) when discussing the stock market. The concept of "market timing" is generally attributed to Baker and Wurgler. According to this theory, companies will opt for debt financing when the cost of obtaining external equity funding is high, and they will opt for equity funding when the cost of obtaining debt funding is high. According to the equity

market timing theory, a company should issue common shares when the value of those shares is high in the market and repurchase those shares when the value of those shares has fallen in the market (Baker & Wurgler, 2002).

According to Zavertiaeva and Nechaeva (2017), the phrase "timing the debt market" refers to a situation in which businesses increase their issuance of debt capital during periods in which interest rates are historically low and gradually reduce their reliance on debt financing during periods in which interest rates are historically high. In other words, businesses increase their issuance of debt capital during periods in which interest rates are historically low and increase their issuance of debt capital during periods in which interest rates are historically high. This would lead one to believe that the timing of the debt market is not determined by a mispricing of equity shares but rather by the interest rates that are being charged.

The pecking order theory and the trade-off theory have been replaced by the market timing theory, which is a relatively recent addition to the discussion of corporate finance. According to this theory, firms must carefully consider the timing of their market entry when deciding on the best financing strategy. Mabrouk and Boubaker (2020) find no apparent incompatibility between the market timing model and the trade theory because both hypothesize that a firm will increase its issuance of equity financing when its share price is high. For the same reason that when a company's share price is high, both models predict an increase in equity financing for the business.

By timing the market, managers can lower their cost of capital. According to Baker and Wurgler's (2002) argument, the timing of the market can be utilized by managers to lower their cost of capital, which suggests that market rates have an impact on the hierarchy. Hovakimian (2006) posits that the temporal aspect of equity issuance can exert a transient influence on a firm's capital structure. This stands in opposition to the hierarchical and cost-benefit paradigms.

Baker and Wurgler's (2002) market timing theory posits that corporations can optimize their financial resources and stock valuation by strategically issuing debt and equity during opportune periods.

According to Baker and Wurgler's (2002) suggestion, managers ought to seek out instances of mispricing that result in a lower cost of issuing equity shares. It can be argued that business leaders ought to endeavor to engage in market timing. The hypothesis posits that in instances where a company's market value of shares surpasses its book value and past valuations, there is a higher probability of management opting to release fresh equity shares. Based on the research findings, it can be inferred that enterprises will give precedence to equity financing as opposed to debt issuance in periods when equity shares are being traded at a higher value. Despite the extensive research conducted on market timing perspectives in developed markets (Zavertiaeva & Nechaeva, 2017; Mabrouk & Boubaker, 2020), limited attention has been given to developing markets (Muhammad & Yet, 2020).

Each company develops its own timing opportunities. Multiple criticisms have been made against the theory. According to Havokimian (2006) market timing has a negligible effect on a company's strength whenever it occurs. However, not all stock market participants will exhibit the rational behavior anticipated by the theory. Even though very few studies have looked at market timing in these companies, it is clear that it cannot account for their behavior. The purpose of this research was to ascertain how the timing of equity financing decisions affects the generation of shareholder value for publicly traded companies.

It explains why businesses use the concept of equity market timing to make financing decisions, which generate returns for the purpose of maximizing shareholder wealth, this theory is relevant to the current investigation. As a result, the theory lends credence to the primary elements that constitute equity, which include ordinary share capital, equity reserves, and

retained earnings. Furthermore, the aforementioned theory bears significance in understanding the relationship between the creation of shareholder value and the various aspects of equity financing. The aforementioned theory was employed to provide backing for autonomous variables, namely ordinary share capital, equity reserves, and retained earnings.

2.2.4 Shareholder Value Theory

According to the shareholder wealth maximization model, a company's primary objective should be to maximize shareholder returns, which are calculated by adding together capital gains and dividends, while maintaining a constant level of risk (Eiteman et al., 2004). Milton Friedman (1970), winner of the Nobel Memorial Prize in Economics, makes a compelling case for increasing the financial return on investment for a company's shareholders by arguing that corporations have no other moral obligation or social responsibility than to increase their own profits. The SV theory asserts that stock prices are always fair because they reflect investors' expectations of return and risk and because they promptly factor in any newly available information.

Financial management, as outlined by Watson and Head (2007) seeks to maximize shareholder value through dividend payments and/or market value increases for the purpose of capital gain. To achieve this goal, the company's assets could be increased in value. As the market value of an asset is the price at which it would sell in a competitive auction, maximizing value is synonymous with maximizing shareholder value. Value can be returned to shareholders in a number of ways, including through the sale of shares by shareholders or the company itself.

Booth (1998), the economic justification for creating shareholder value (CSV) as the firm's primary objective stems primarily from the implicit assumption that all of the firm's markets are perfectly competitive in the majority of finance literature. This premise has served

as the basis for the vast majority of the investigation carried out in the field of finance. Long-Term Cash Flows, as opposed to maximizing share price, managing earnings, or any other activity that generates profits, are the primary factor in determining whether or not a company is able to create value for its shareholders. Value creation occurs when the cost of capital is surpassed by long-term returns, and conversely.

A number of well-known traditional metrics for evaluating a company's performance are utilized in order to calculate shareholder value or wealth maximization. Stock prices, profits, dividends, cash flow, free cash flow, ROIE, and ROE are all examples of performance indicators. When used as a performance metric, traditional metrics for measuring the creation of shareholder wealth have severe limitations and deficiencies (Hecking, 2002). As a result, newer metrics such as economic profit (EP), economic value added (EVA), and cash value added (CVA) were created. As a result, the theory provided support for the creation of shareholder value, which was the dependent variable.

2.3 Empirical Literature Review

In this segment, pair-wise review of existing literature is reviewed along the hypothesised relationships. In so doing, various research gaps are exposed along contextual, conceptual and methodological lines.

2.3.1 Ordinary Share Capital and shareholder value creation

Earnings per share was studied by De Wet (2013) as a way to evaluate a company's financial health. This article begins with a brief introduction to EPS and its prevalence, then moves on to discuss its limitations. EPS has some drawbacks, such as its inability to accurately reflect shareholder value, the complexity of managing EPS, and a natural bias toward a rising EPS. Using a case study approach, the authors examine the rise in EPS at three publicly traded companies and identify the four most important contributors to EPS growth. Several examples

include the escalation of prices, augmented asset investment resulting from retained profits and debt, amplified operating leverage, and elevated financial leverage. The method for calculating "excess" EPS growth is presented, and it is found that none of the three companies in the case studies experienced positive "excess" EPS growth. As a result, it became clear that "excess" EPS growth is impossible to produce.

Abdoli and Pourkazeni (2013) investigated the relationship between Teheran Stock Exchange share capital and structure of ownership with the creation of shareholder value in their research. Between 2008 and 2011, the research looked at 95 different companies. It was investigated how separately and simultaneously the value of shareholders is affected by share capital. The effect of most independent variables, and the sign of those effects, were determined using a combination of simple and multivariate models, as well as stepwise modelling. Shareholder value creation was found to have a direct and negative relationship with ownership, while it had a direct and positive relationship with share capital.

Research was carried out by Muthoni, Jagongo, and Muniu (2019) to investigate the impact that equity financing has on the creation of shareholder value for non-financial companies that are listed on the Nairobi Securities Exchange. They maintain that in order for a dividend policy to be considered optimal, it must maximize share price, which in turn must maximize shareholder wealth and, ultimately, value. To achieve its goal of maximizing value for its shareholders, the company's primary focus should be on developing the most appropriate dividend policy. The decisions pertaining to financing and investment made by a company's management have a direct impact on the company's capacity to generate value for its shareholders.

In an economy that is primarily motivated by values, certain companies may experience an increase in shareholder value, while others may encounter a decrease in shareholder value.

Companies run the risk of hostile takeovers, falling share values, and in some cases, an inability to pay maturing financial obligations, which can lead to bankruptcy, when value is destroyed in their organization.

Caballero, Teruel, and Martinez (2020) conducted research on the relationship between net operating working capital and firm value. A correlation between "net operating working capital" (NWC) and "business value" was investigated using a sample of companies from 30 different countries between the years 1995 and 2013. According to the findings of the study, shareholder value is higher in countries where investor rights are strictly enforced and where there is greater overall economic and financial development. In an effort to make equity investors happy, Caballero, Teruel, and Martinez (2020) asserted that the most effective method of financing should make it possible for businesses to increase their net income.

When figuring out how much value a company offers its shareholders, it is essential to take residual income into account. It is a widely held belief that the share price of a company accurately reflects the amount of residual income that the company has. As a consequence of this, it is of the utmost importance to factor in the ways in which customers view the company when carrying out the process of determining the value of the company.

Oyuga (2014), investors' decisions regarding whether or not to buy, sell, or keep their shares are significantly influenced by the share prices of companies that are listed on the NSE. Capital gains and share price fluctuations are areas of focus for certain types of investors, most notably those with a long-term horizon. If an investor saw a rise in share prices, it would indicate that the value of their investment increased, while seeing a decline in share prices would indicate that the value of their investment decreased.

Mbuvi and Gekara (2015) carried out research to determine how the dividend policy of companies that are traded on the Nairobi stock exchange affects the growth of shareholder

value. Management, who must set the policy, investors, who are planning portfolios, and economists, who are trying to understand and evaluate the functioning of the capital market all place great importance on a company's dividend policy and its impact on the current price of its shares. Management is responsible for both establishing and factoring in the policy when setting the share price of the company. The study's primary data came from a survey sent to Finance Managers at publicly traded companies. The data was analysed using SPSS in order to carry out Regression Analysis and descriptive statistics. According to the findings, dividend declaration, dividend payment, tax incentives, and free cash flows were all factors that contributed positively to the value creation for shareholders of NSE-listed companies.

In most cases, a drop-in share price will occur concurrently with a reduction or elimination of dividend payments. According to the findings of the study, a reduction in the number of dividends paid out or the elimination of dividends altogether is typically accompanied by a fall in share price, which has an effect on the market value of a company. The inability of a business to pay dividends is typically interpreted as a reflection of that business's inability to generate profits. The vast majority of investors believe that consistent profit generation is a positive indicator of value creation, and as a result, they are drawn to businesses that exhibit this characteristic.

Luvembe, Njangiru, and Mungami (2014) did a study investigate the effect that stock dividends have on the market value of listed banks in Kenya. The purpose of this research was to determine the impact that dividend payments have on the stock prices of Kenyan banks that are publicly traded. The purpose of the study was to provide an answer to the following question: "Does the market value of publicly traded Kenyan banks depend in any way on factors such as capital structure, corporate earnings, dividend pay-out ratio, and capital market investments?" A descriptive research approach was utilised for the purposes of this study. All

ten of the Kenyan banks that were publicly traded as of the end of 2010 constituted the intended audience.

The study looked into each of the ten banks that were on the list at the time of the study. The sampling strategy for the survey consisted of conducting a census. In the study, both primary and secondary sources of data were considered. The secondary data for the years 2006-2010 were obtained from the Nairobi Securities Exchange, while the primary data were gathered through an interview schedule with senior finance officials. These data were compared. A response rate of 70% was received from the primary data sources. The data that was gathered was analysed using both descriptive statistics and inferential statistics. To analyse the data, the Statistical Package for the Social Sciences (SPSS) was used. According to the findings, there is a strong and positive relationship between market value and capital structure, corporate earnings, dividend pay-out ratio, and capital market investments in most years.

Research was carried out by Muthoni (2019) regarding the financing decisions and shareholder value creation of non-financial companies that are listed on the Nairobi Securities Exchange in Kenya. This study investigated the impact that various financing decisions had on the development of shareholder value for non-financial companies that were traded on the NSE between 2008 and 2014. The research was directed in a specific direction by a variety of different financial models, such as the Modigliani and Miller model, the Pecking Order Theory, the Agency Free Flow Theory, the Market Timing Theory, and the Capital Asset Pricing Model. For the purpose of this study, general and empirical models from earlier studies were used as a basis for studying specific models, which were then modified to fit the parameters of this study.

The research was based on the positivist tenet, which served as a guide. The methodological approach of this study was descriptive rather than experimental. At the time of

the study, there were forty non-financial businesses, so a census design was utilized for the research. This information was gleaned from annual financial statements, income statements, and supplementary notes found in CMA publications and NSE handbooks. The study employed the ordinary least squares regression method to examine the influence of various financing decision variables on the creation of shareholder value. The study employed the statistical technique of stepwise regression to examine the moderating impact of the rate of growth in gross domestic product. According to the findings, dividend financing, debt financing, equity financing, and working capital financing all had a statistically significant and positively impactful role in EVA.

2.3.2 Retained Earnings on Shareholder Value Creation of Firms

Tirmizi, Khan, Ullah, Ahmad, and Shah (2021) looked into how important the retained-earnings-based firm valuation model was in Pakistan during the time of the military regime. This study aimed to investigate the impact of retained earnings on both firm value and shareholders' wealth, as well as the influence of firm value on shareholders' wealth. To gather primary data, a survey was conducted among 85 manufacturing firms that are listed publicly. The constructs of the research instrument were correlated in order to arrive at the final alpha score of 0.866. In addition, the hypotheses of the study were put to the test by employing factor analysis as well as ordinary least squares regression. The results of the study indicated that retained earnings played an important part in expansion activities and assisted sample firms in achieving their growth goals. This was concluded based on the findings of the study. The maximisation of shareholder wealth was also helped along by investments made with retained earnings and subsequent reinvestments in projects that increased value.

In the context of expected returns, earnings, retained earnings, and book-to-market ratios were investigated by Ball, Gerakos, Linnainmaa, and Nikolaev (2020) in the United

States. According to the findings of the research, the book value of equity is made up of two separate economic components, namely contributed capital and retained earnings. According to the findings of the study, book-to-market strategies will be successful due to the fact that the retained earnings component of the book value of equity takes to account both the accumulation and, as a result, the weighted average of previous earnings. In addition to incorporating book-to-market analysis, the retained earnings-to-market forecast takes to account international and average return data. There is no predictive value to be gained from considering the capital that is contributed to the market. The findings of the study indicate that book-to-market and retained earnings-to-market, in particular, are reliable indicators of future returns. This is not due to the fact that book value represents the company's intrinsic value because retained earnings-to-market is a good proxy for underlying earnings yield. Rather, this is because of the first explanation.

Thirumalaisamy (2020) conducted a study on the efficiency implications of corporate earnings retentions, using a sample of 27 high-growth, profitable Indian companies and tracking their retained earnings over a 15-year period, from 2002 to 2016. The study focused on the implications of earnings retentions for corporate efficiency. The findings imply that these companies did not put their retained earnings to good use, and the financial performance metrics that serve as the foundation for shareholders' investment decisions are misleading as a result of the distorted association between corporate profitability and shareholder enrichment. Consequently, shareholders may be making poor investment decisions. The stock market places a much lower value on the cash flows that will result from the investment of retained earnings, which means that when a company makes a profit, the shareholders of that company actually end up losing money. There is no guarantee that a company's profitability will translate into financial success for its shareholders if the company is profitable.

A study was carried out by Lawal, Akinrinola, Ekperiware, and Ogbogbo (2022) to investigate the impact that retained earnings have on the rate of financial growth experienced by pension fund administrator (PFA) companies in Nigeria. The population of the study was comprised of twenty Pension Fund Administrators (PFAs) in Nigeria that were both registered and licenced. An analysis was performed using a population-based sample of the top four (4) PFAs in terms of Assets Under Management (AUM). By collecting secondary data from the websites of the various PFAs between the years 2016 and 2020 and analysing it using panel regression analysis, we were able to determine the effect that Retained Earnings (RE) and Operating Expenses (OPEX) have on the Gross Earnings of these businesses.

The findings suggest that the fixed effect panel is plausible and establishes a significant positive correlation between retained earnings and gross earnings or growth of these companies in Nigeria. Additionally, the results indicate that there is a significant positive correlation between retained earnings and growth of these companies in Nigeria. According to the findings of the study, retained earnings are an essential component of PFA's overall funding structure. It is recommended that pension fund administrators (PFAs) in Nigeria improve their design strategies to increase their earnings, and that operating expenses (OPEX), which are the growth lubricant for these companies, be used wisely. The goal of this recommendation is to reduce the likelihood of future shocks.

Ugwu, Francica, and Onyekwelu (2021) conducted research in Nigeria to investigate the influence that retained earnings have on the operational performance indicators of oil and gas companies. Simple Linear Regression was utilised for the purpose of conducting the analysis of secondary data obtained from the financial statements and annual reports of the various oil companies that were under consideration. The independent variable was represented

by retained earnings, and the dependent variable, operational performance, was represented by returns on assets and returns on equity.

The research was conducted over a decade, from 2009 all the way up until 2018. For the purpose of the research, a representative sample of four (4) oil companies trading on the Nigeria Stock Exchange was chosen. According to the findings of the study, retained earnings have a positive influence, albeit a negligible one, on the Return on Asset and Return on Equity of Nigerian oil and gas companies. This effect was found to be negligible for all of the sampled oil and gas companies, with the sole exception of Mobil Nigeria, where it has a positive and significant influence on Return on Equity.

Yemi and Seriki (2018) conducted a separate study in which they investigated the connection between retained earnings and market value. The information used in the sample was collected from seventy-five various non-financial businesses traded with Nigeria Stock Exchange. between the years of 2003 and 2014. The annual financial statements of the various companies were used in order to collect the unbalanced panel data (cross-sectional and time series) that were used in order to investigate the relationship. This was done in order to determine whether or not there is a connection between the two.

In order to get a better understanding of the kind of connection that exists between the underlying variables, the study utilised not only descriptive models but also multiple regression models, which represent two fundamentally different approaches. According to the findings, there is a correlation that is both positive and statistically significant between dividend pay-outs, earnings per share, retained earnings, and the value of firms. On the other hand, there is a correlation between market value and financial leverage, but this correlation is not statistically significant.

Ndulue, Okoye, and Amahalu (2021) carried out research on the management of earnings and the creation of shareholder wealth in publicly traded conglomerates in Nigeria. Panel data were collected for the purpose of this study from the annual reports and financial statements of five (5) publicly traded conglomerates. These conglomerates were selected at random and used as a sample for the years 2010-2020. Ex-post facto methodology was utilised in the research that was carried out. The data obtained from the study variables were analysed using descriptive statistics, which comprised the mean, standard deviation, minimum, and maximum values for each variable, respectively. In order to investigate the hypotheses of the study, we made use of both the Panel Least Square (PLS) regression analysis as well as the Hausman test.

The findings indicated that there was a significant and positive relationship between discretionary accruals and cash flow return on investment of quoted conglomerates in Nigeria. On the other hand, there was a non-significant and negative relationship between discretionary accruals and cash value added. The significance level for this finding was set at 5%. In addition, the findings suggested that there was not a significant connection between discretionary accruals and the cash flow return on investment of quoted conglomerates in Nigeria.

Thuranira (2014) conducted a study on the impact of retained earnings on the returns of Nairobi Securities Exchange-listed firms in Kenya. The study relied on secondary data collected from the Nairobi Securities Exchange as well as the annual reports submitted by the listed companies for the years 2009 to 2013. After the data were summarized using Excel spreadsheets, they were put through an analysis with the help of the Statistical Package for the Social Sciences (SPSS). Through the use of regression analysis, they were able to determine the likelihood of a relationship between the two variables by calculating the coefficient of determination (R), the correlation coefficient (R-square), the P-value, and the F-tests. The first

part of the analysis consisted of running a regression of stock returns against retained earnings by themselves.

The second part of the analysis involved running a regression using retained earnings along with three additional control variables. These variables were the dividend yield, the net asset value per share, and the price to book value. In addition, a P-Value of 0.361 was obtained, which indicated that a simple linear regression model describing the relationship between stock returns and retained earnings was statistically insignificant. This model was based on the hypothesis that there is no correlation between the two variables. In addition, the research showed that the multiple linear regression model that took to account the control variables was statistically significant, with a P-value of 0.000. This model was included in the study. The conclusion drawn from the P-value was verified by the F-test statistic that was obtained. However, the results showed that there was only a very slight and insignificant relationship between retained earnings and stock returns in both cases. Furthermore, the results showed that the relationship is inverse, as the retained earnings coefficient in the model was always negative.

Nduati and Wepukhulu (2020) conducted a study on the effect of retained earnings on the financial performance of Kenyan saving and credit co-operative societies in Nairobi County. The study utilised a descriptive survey design. The study's target population consisted of 29 registered Deposit accepting Saccos. Secondary data extracted from financial reports of Deposit-Taking Saccos was typically used in the study. Both univariate linear regression and descriptively analysing data was conducted to establish the relationship between retained earnings and financial performance. It was evident from the results that impact of retained earnings on financial performance of Deposit-Taking Saccos was both significant and positive.

2.3.3 Equity Reserves on Shareholder Value Creation of Firms

Eneh, Onyekwelu, and Igweonyia (2019) carried out research to determine the influence that corporate reserves have on the overall financial performance of Nigerian oil and gas companies. In this study, the influence of corporate reserves on the economic performance of Nigerian oil and gas companies was investigated. Due to its reliance on secondary sources of information, the study utilised an ex post facto research design. The research spanned the period beginning in 2003 and continuing through 2017. Using E-Views software, descriptive statistics and graphical representation were first used to examine the data for trends, linearity, or lack thereof. Using a regression model, the extent of the impact of depreciation provision, amortisation fund, employee benefit, and return on equity on the corporate reserve was determined.

The research was supported by the agency theory, the pecking order theory, and the signalling theory. The analysis indicates that depreciation provision, amortisation fund, employee benefit, and return on equity do not have a significant and positive impact on the equity reserves of Nigerian oil and gas companies. This study's findings generally support the pecking order and signalling theory. This study concludes that depreciation provision, amortisation fund, employee benefit, and return on equity have no effect on the equity reserves of Nigerian oil and gas companies.

Shahwan, Saadeh, Hamza, Al-Ramahi, and Swiety (2022) carried out research on the effect that equity reserves had on the financial and non-financial performance of businesses during the COVID-19 pandemic. A questionnaire was used to collect data for the study so that we could better understand the topic. The top management of the companies that are traded on the Amman Stock Exchange (ASE) were the recipients of the questionnaires, which were sent to them in an electronic format. According to the findings, the pandemic of COVID-19 has a

negative impact on both the financial and non-financial performance of companies that are listed on the Amman Stock Exchange in Jordan. This is the case even though the pandemic has been contained. These findings are applicable to companies operating in every sector of the economy. However, the reserves that the companies have help to mitigate the negative impact that the COVID-19 pandemic has had on the firms' performance (both financially and otherwise). Specifically, the pandemic has had an effect on the firms' ability to generate revenue.

Research was carried out by Yarba (2019) on the topic of equity reserves as an alternative firm financing channel in a significant developing economy. Trend analysis and empirical panel model estimations provide evidence that Turkish nonfinancial firms have reserves that are used during periods of persistent stress and tightening macro prudential policies. It is interesting to note that this is only the case for small and medium-sized businesses and not for larger corporations.

Harford, Mikkelson, and Partch (2003) conducted a study to investigate the impact of cash reserves on business investment decisions and performance when the economy is in a slump. According to the study's findings, businesses with larger cash reserves invest more during and immediately after a recession. Furthermore, the study discovered that cash reserves mitigate the direct impact of a sales decline on investment. According to the study's findings, the ability to continue investing during a recession is advantageous, and it results in improved operating performance and sales growth after a recession. Cash reserves also contribute to increased investment in a control group of non-recessionary industries; however, this increased investment has a negative impact on the industries' performance. The study concluded that cash reserves are harmful during non-recessionary times because they encourage overinvestment,

but they are beneficial during recessionary times because they serve as a source of internal financing for continued investment. This finding was presented as the study's conclusion.

Almustafa and Kalash (2022) conducted research in order to investigate the dynamic relationship that exists between firms' reserves and financial leverage: evidence from Middle Eastern and North African (MENA) emerging markets. The research used a method known as dynamic modelling to analyse the data collected from nonfinancial companies that were listed in ten MENA nations between the years 2010 and 2019. The empirical model addressed the shortcomings of previous literature by including indicators of financial leverage dynamics to account for its persistence in corporate cash holdings reserves.

This study discovered a significant inverse relationship between the amount of cash readily available and the level of financial leverage. The findings supported the pecking order model, indicating that using leverage can be viewed as an alternative to holding more cash and marketable securities. The author argues that the negative relationship between financial leverage and corporate cash holdings reinforces the precautionary motive for businesses in emerging markets in the Middle East and North Africa (MENA) to have internal cash reserves rather than external debt to support their capital and investment activities.

Oganda, Mogwambo, and Otieno (2018) conducted research on the effect of reserves on the performance of Kenyan commercial banks. The two commercial banks that were active in Kenya were the focus of this research's population of interest. A census of the chosen commercial banks was carried out, and for each bank, information was collected for the ten-year period beginning in 2007 and ending in 2016.

The data was obtained from audited statements of financial position and income statements, as well as published annual reports and financial statements that were found on the websites of the banks and in publications that were available at the headquarters of the banks.

It was discovered that reserves have a strong negative correlation with return on equity, which indicates that they have a significant negative relationship with the performance of Kenyan banks. The cash reserves of financial institutions ought to be reduced in favour of investments that are more productive, and these institutions ought to diversify both their sources of funding and the investments of the funds they receive.

2.4 Conceptual Framework

The formation of a large collection of concepts and ideas, which have been compiled from a variety of sources, and which are then utilized to show diagrammatically is the process that constitutes a conceptual framework. It is a tool utilized by researchers to enhance their comprehension and situational awareness of the subject matter under investigation. This facilitates the attainment of more sound conclusions regarding the situation. Establishing a conceptual framework is crucial during research as it allows researchers to effectively demonstrate the connection that often exists among different study variables, which are conceptualised within the variable components and their indicators. In other words, establishing a conceptual framework enables researchers to conduct research in a more efficient manner. The following is an illustration of a conceptual framework that shows the interrelationships between the independent variables and the dependent variables that were used in this study.

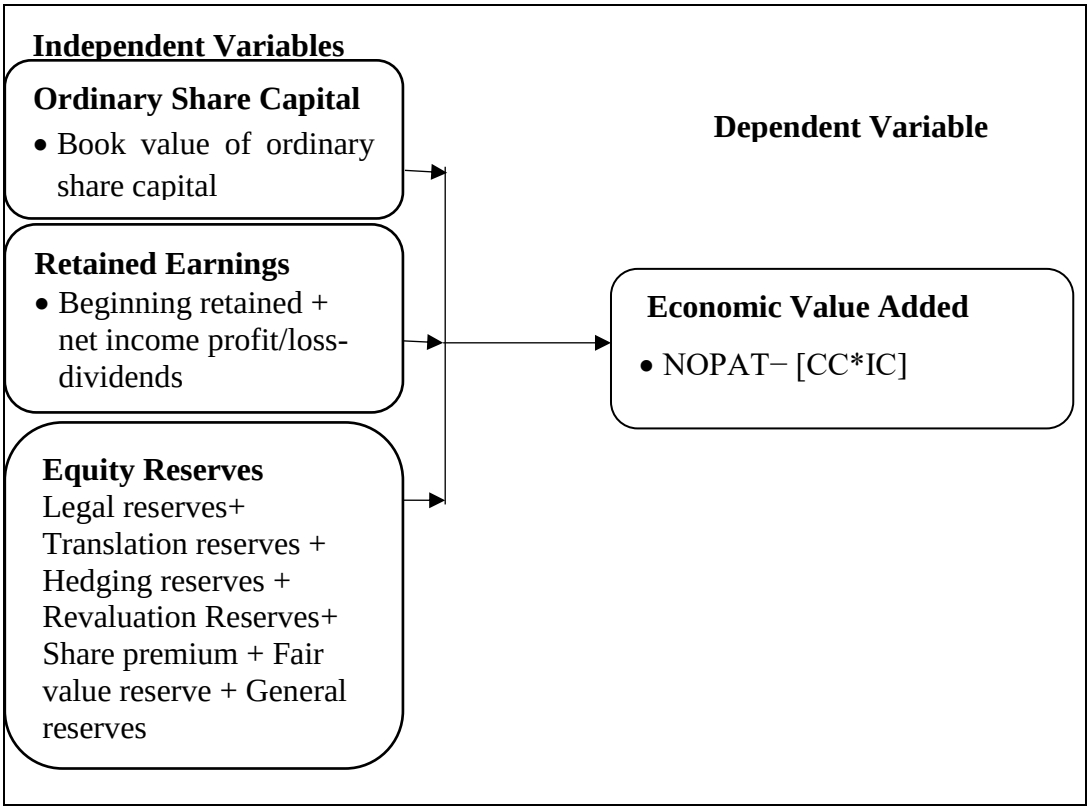

FIGURE 1

Conceptual Framework

2.5 Operationalization of Variables

TABLE 1

Operationalization of Study Variables

Variable	Measurement	Type of Data	Analytical tools used
Ordinary Share Capital (OSC)	Book value of Ordinary share capital	Continuous panel data obtained from NSE audited financial reports 2011 -2021.	Descriptive statistics, Panel regression, correlation coefficients.
Retained Earnings (RE)	Beginning retained + net income profit/loss- dividends	Continuous panel data obtained from NSE audited financial reports 2011 -2021	Descriptive statistics, Panel regression, correlation coefficients
Equity Reserves (ER)	Total equity reserves = Legal reserves+ Translation reserves + Hedging reserves + Revaluation Reserves+ Share premium + Fair value reserve + General reserves	Continuous panel data obtained from NSE audited financial reports 2011 -2021	Descriptive statistics, Panel regression, correlation coefficients
Shareholder Value Creation (SVC)	Economic value added = [NOPAT− [CC*IC] NOPAT=Net Operating Profit After Tax CC=Cost of Capital IC = Invested Capital	Continuous panel data obtained from NSE audited financial reports 2011 -2021	Descriptive statistics, Panel regression, correlation coefficients

Source: Literature Review

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explained how the research was carried out. It goes through the research methodology that was used. The study population, sampling methodologies, data gathering tools, data collection methods, and data analysis approaches.

3.2 Research Design

A research design is a blueprint that is utilized to provide an explanation of the way the research methodology is carried out. In addition, a research design makes it easier to collect data and ensures that the quantity and quality of the data collected are sufficient to answer the questions posed by the research (Kothari, 2004). A research design, in its most basic form, is an explanation of the nature and scope of a study.

A descriptive approach was taken for the purpose of this study. A descriptive design is one that allows for the description of study variables while also demonstrating how the variables being studied are related to one another. In light of the objectives of this investigation, the choice of a descriptive research design was appropriate because it made it easier to articulate the connection between equity financing and the generation of shareholder value.

3.3 Target Population

According to Sekaran (2005) a research target population consists of the people he or she is looking to learn more about. All fifty-nine companies that were listed on the NSE as of the 31st of December in 2021 served as the population of interest for this study (NSE, 2022). The study covered a time span of ten years, from 2012 to 2021 specifically. The time frame was selected because it corresponds to the period in which the Kenyan market witnessed the

delisting of companies, mergers and acquisitions, and the collapse of significant companies that were listed on the NSE. The research excluded five companies because their data was insufficient. Companies such as Deacons (East Africa) Ltd., Uchumi Supermarkets Ltd., NCBA, KenolKobil, and Mumius Sugar Limited were among the firms excluded (NSE, 2022).

3.4 Sampling and Sampling Procedure

A population that is chosen at random from the entire population to serve as a proxy for the population that is being studied is known as a sample. The term "sample" refers to a representative subset of a population that is picked out specifically for the purposes of observation and investigation. A census sampling technique was chosen for this study because the population that was being looked at is manageable and relatively small. Using a census method requires that each and every member of the population take part in the research. Therefore, all 59 firms that are listed on the NSE were included in the sample for this study (NSE, 2022).

3.5 Research Instrument

According to Taber (2018), a research instrument is a tool that is used to collect data from subjects, measure that data, and analyse the results of the research. The data collection sheet served as a tool for collecting and organizing the data that was gathered. The NSE financial reports were combed through for secondary data collection over a period of ten years (2012-2021). Data collected was panel data in nature.

3.6 Data Collection Procedure

Libakova and Sertakova (2015) stated that secondary data was the method of choice for the collection of information for this study. The secondary data came from the databases of the NSE's audited annual financial reports and span a period of ten years (2012-2021).

3.7 Data Analysis Procedure

During the process of analysing the data that was gathered, a descriptive method was utilized with the assistance of the STATA software. According to Mehmetoglu and Jakobsen (2016), the data collected consisted of panel data, which was then analysed through the use of inferential statistics, correlation analysis, and descriptive statistics. In addition, panel data regression analysis was utilized so that the interrelationships between the study variables could be explained. These descriptive statistics led to the production of quantitative data through the use of the mean and the standard deviation. In addition, tables and figures were utilized in the process of representing the findings in order to make the results easier to comprehend. The regression model that was used in this study was as follows:

$$\mathbf{Y_{it}} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1 X_{1it}} + \boldsymbol{\beta_2 X_{2it}} + \boldsymbol{\beta_3 X_{3it}} + \boldsymbol{\varepsilon it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \mathbf{(1)}$$

Where;

$\boldsymbol{Y_{it}}$= Shareholder Value Creation (SVC)

$\boldsymbol{X_{1it}}$= Ordinary Share Capital (OSC) i in period t

$\boldsymbol{X_{2it}}$= Retained Earnings (RE) i in period t

$\boldsymbol{X_3} it$= Equity Reserves (ER) i in period t

$\boldsymbol{\varepsilon} it$= Error term

$\boldsymbol{\beta_0}$ = Shareholder value creation in situations where the other predictor is zero.

$\boldsymbol{\beta_1}, \boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$, are the regression co-efficient

t- Time period of the study (10 years)

$\boldsymbol{\varepsilon it}$=is the random error that accounts for any other variable that may affect shareholder value creation but is not captured in this model.

3.8 Diagnostic Tests

Before beginning the regression analysis, statistical assumptions were put through their paces with various tests. The diagnostic tests guaranteed that the regression model's presumptions were correct and were satisfied. For the purpose of this investigation, the diagnostic tests consisted of the following: tests for multicollinearity, heteroskedasticity, autocorrelation, normality, and the Hausman test (Kosack, Page, & Klatser, 2017).

3.8.1 Multicollinearity Test

Failure to address multicollinearity can result in an unstable parameter estimator, rendering the evaluation and comprehension of the impact of explanatory variables on the dependent variable (specifically, shareholder value creation) challenging. Failure to detect and rectify multicollinearity may lead to an unreliable parameter estimator. Perez-Melo and Kibria (2020) utilised the variance inflation factor (VIF) within the software to assess the presence of multicollinearity concerns in the model with respect to the research variables. When the Variance Inflation Factor (VIF) values of variables exceed 10, it indicates the presence of multicollinearity, which requires resolution. A prevalent factor contributing to this issue is the use of an excessive quantity of independent variables for the purpose of assessing a single dependent variable. In light of this situation, the problem was resolved by eliminating the variable with the highest VIF and upgrading the status of the remaining variables, which were previously deemed insignificant, to a significant level.

3.8.2 Autocorrelation Test

In order for a model to be useful, it must be devoid of serial correlation as well as autocorrelation. The Wooldridge method was utilised in order to conduct an analysis of autocorrelation in panel data. If the value of the probability was greater than 5%, there was no statistical connection between the residuals of the estimated equations and the dependent

variable. Modelling behaviours like serial correlation and autocorrelation should be avoided. The variance of the estimated coefficients is inflated due to autocorrelation (Chen, 2016). The standard errors are also affected negatively. A fixed effects regression with AR (1) distortions was performed to find a solution. By taking AR (1) disturbances into account, the effect of first-order serial correlation is reduced, and the coefficient variance is stabilized. The possibility that the model was missing a significant explanatory factor was also investigated.

3.8.3 Heteroskedasticity Test

When errors in all of the data observations have the same variance, this provides evidence that homoscedasticity does in fact exist. On the other hand, the absence of homoscedasticity is what's meant when we talk about heteroskedasticity. The primary reason for the model's heteroskedasticity is that it does not take to account all of the relevant variables. The reason for this occurrence is that the explanatory variable fails to account for the influence of the omitted variable, which may instead be assimilated by the error term.

As a result, the model draws incorrect conclusions. This is because the influence of the omitted variable was not factored into the analysis of the explanatory variable, so this result is due to that fact. In order to determine whether or not error terms have a constant variance, the research used the Breusch-Pagan-Test in conjunction with the Cook-Weisberg test. The fact that heteroskedasticity is present results in biased standard errors for the model. The issue of heteroskedasticity was resolved through the calculation of the robust standard errors.

3.8.4 Normality Test

The Jarque-Berra Test was carried out in order to determine whether or not the data are distributed normally. If the value of Asymp.Sig (Pro>chi2) is greater than 0.05, then the rule in statistics states that the data in that particular research is not normally distributed. On the other hand, if the value of Asymp.Sig is less than 0.05, then the rule in statistics states that the

data in that particular research is normally distributed. The Jarque-Berra Test is the one that is most often used because it can provide conclusive results.

3.8.5 Hausman Test

In order to assist in determining whether random or fixed effects should be utilized, a Hausman test was utilized. In addition, the Durbin–Wu– Hausman test, which is more commonly known as the Hausman specification test, analyses the consistency of an estimate by comparing it to the consistency of a less efficient estimator that has already been established as consistent. According to Pace and LeSage (2008), it aids in determining whether a statistical model is related to the statistics. Due to the fact that it is derived from the difference in opinion between the two valuers, a Hausman statistic is an extremely important metric.

The Hausman statistic's test group plays a crucial role in determining the level of significance of a difference and its consistency with the correct specification null hypothesis. This is justified by the fact that the test group is used to determine whether the observed discrepancy is significant enough to rule out the null hypothesis given the right conditions. In order to evaluate the Hausman statistic in conjunction with the critical value obtained from the sample distribution of the appropriate specification, a Hausman test is utilised. This test is utilised to evaluate the Hausman statistic. When the Hausman statistic exceeds the critical value, the test infers that the null hypothesis is false and invalidates the accurate specification. When the p-value exceeds 0.05, it is recommended to employ a model that incorporates random effects.

TABLE 2

Diagnostic Tests

Key Diagnostic Test	**Sample Statistics**	**Interpretation**
Normality Tests	Jarque Berra Test	P<0.05 is an indication that data wasnormally distributed. P>0.05 Data was notnormally disturbed.
Multicollinearity Test	Variance Inflation Factor(VIF) test	Range for VIF values of 1-10, indicates no multicollinearity. VIF values less than 1 or greaterthan 10, indicates multicollinearity
Autocorrelation Test	Wooldridge F Test	P<0.05 is an indication that auto correlation exists. P>0.05 is an indication that autocorrelation doesn't exists.
Heteroscedasticity Test	Breusch-Pagan & Cook- Weisberg Test	P<0.05 is an indication that heteroscedasticity exist P>0.05 is an indication that doesn't heteroscedasticity exist
Model Specification	Hausman specification test	P<0.05 is an indication that the data set has a fixed effect. P>0.05 is an indication that the data set has a random effect.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 Introduction

The chapter presented the findings of the study following the analysis of the raw data as well as a detailed discussion of these findings regarding the effect of equity financing on shareholders' value of firms listed at the Nairobi Securities Exchange. First, the chapter presented the study findings from the analysis with discussion of the findings following thereafter.

4.2 Descriptive Statistics

Various descriptive statistics for the study data were analysed in terms of means, standard deviation, minimum as well as maximum values for all 59 listed companies at NSE from which fully complete data was able to be obtained. A ten years' period data was analysed based on the various study variables in terms of ordinary share capital, retained earnings and equity reserves.

According to the study findings, it was observed that shareholders value creation had a mean of Kshs. 2,680,318, standard deviation of Kshs. 8,951,956, with a corresponding minimum and maximum values of Kshs. -45,700, 000 and 71,100,000 respectively. A man of Kshs. was an indication that majority of firms were financially fit. Standard deviation of Kshs. 8,951,956 was an indication of large variability in shareholder value creation in years 2012 to 2021 implying that firms created varying values to their shareholders.

On the other hand, ordinary share capital had an average of Kshs. 1,718,100 standard deviations of Kshs. 2,895,000, minimum value of Kshs. 0 and a maximum value of 16,500,000. The huge variation in ordinary share capital was attributable to factors such as suspension of Athi River Mining stock trading on NSE. Further, it was observed that retained earnings had a

mean of Kshs. 11,900,000, standard deviation of Kshs. 25,900,000, with a corresponding minimum and maximum values of Kshs. -132,000, 000 and 182,000,000 respectively. Retained earnings mean of Kshs. 11,900,000 was a clear indication that most firms were financially fit since they could retain portion of their earnings. A minimum of Kshs. 132,000 in retained earnings is an indication that some firms listed at NSE during the study period did not retain any earnings.

Lastly, equity reserve was established to have a mean of Kshs. 5,514,942, standard deviation of Kshs. 13,700,000, with a corresponding minimum and maximum values of Kshs. 6,194, 000 and 98,300,000 respectively, this is an indication that some firms resorted to equity reserves while others did not.

Variable		Mean	Std. Dev.	Min	Max	Observations	
Shareh~n	overall	2680318	8951956	-4.57e+07	7.11e+07	N =	590
	between		8033224	-1.98e+07	4.16e+07	n =	59
	within		4073191	-2.48e+07	3.22e+07	T =	10
Ordina~l	overall	1718100	2895000	0	1.65e+07	N =	590
	between		2789576	24000	1.24e+07	n =	59
	within		847465	-4789181	6202625	T =	10
Retain~s	overall	1.19e+07	2.59e+07	-1.32e+08	1.82e+08	N =	590
	between		2.23e+07	-4.55e+07	8.02e+07	n =	59
	within		1.34e+07	-7.50e+07	1.14e+08	T =	10
Equity~s	overall	5514942	1.37e+07	-6194000	9.83e+07	N =	590
	between		1.18e+07	-1254600	6.58e+07	n =	59
	within		7002333	-5.52e+07	4.06e+07	T =	10

FIGURE 2

Descriptive Statistics

4.3 Trend Analysis

Trend analysis was also carried out in order to try and establish whether there was any significant co-movement recorded within the 10 years' time frame between various study variables. According to the findings, it was observed that the slopes were non-significantly different among the various factor except for firms 4, 19 and 22.

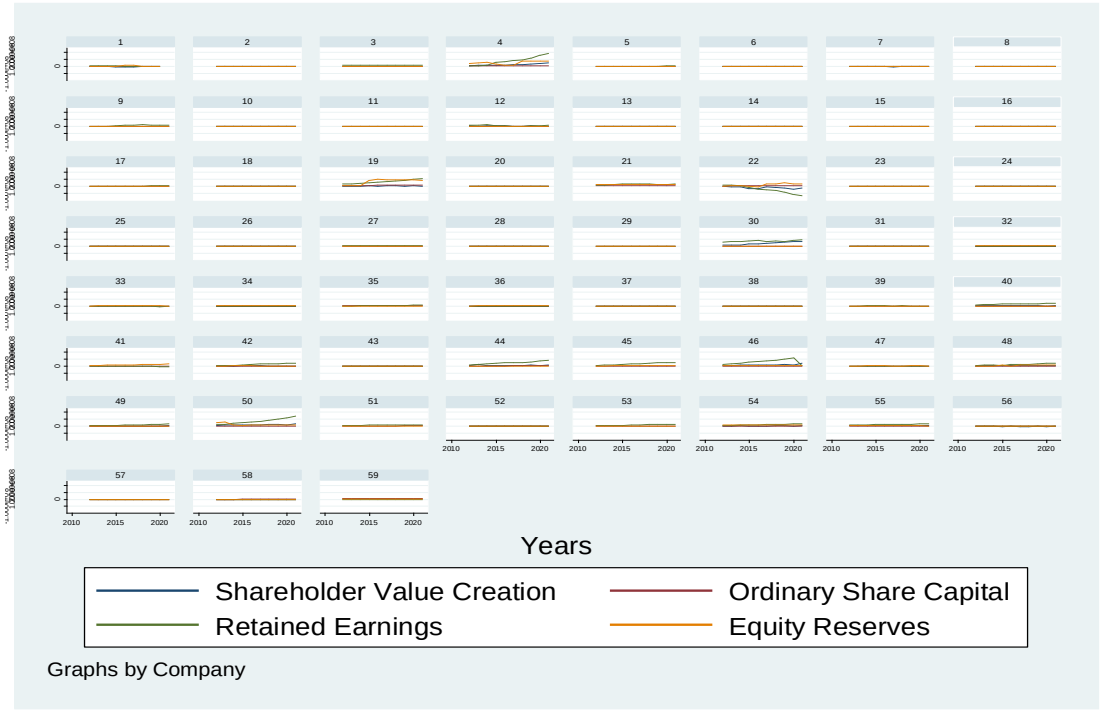

FIGURE 3

Trend Analysis

4.4 Diagnostic Tests

Diagnostic tests were carried out including multicollinearity test, autocorrelation test, heteroscedasticity test, normality test and Hausman test as detailed in the following section.

4.4.1 Multicollinearity Test

Multicollinearity is a phenomenon in regression analysis where the presence of highly correlated predictor variables renders the estimation of equations inaccurate. Multicollinearity test was undertaken using VIF in order to establish the strength of correlation existing within study variables within the regression model. Multicollinearity test was undertaken with the assumption that VIF value of more than 10 and tolerance values below indicates existence of multicollinearity. Based on the results, it was discovered that the VIF value of each of the three independent variables fell within the range of 1 to 5. This suggests that there was a moderate level of correlation among the variables.

Variable	VIF	1/VIF
EquityRese~s	1.59	0.628377
OrdinarySh~l	1.48	0.676389
RetainedEa~s	1.24	0.804035
Mean VIF	1.44	

FIGURE 4

Variance Inflation Factor

4.4.2 Autocorrelation Test

Auto-correlation test was performed to examine the presence of any serial dependence among the study variables. The Wooldridge F-Test was employed to attain this objective. The study results indicate a chi-square value of 229.23 and a P-Value less than 0.05. The obtained results indicate the rejection of the null-hypothesis, which suggests the presence of serial correlation within the data set. To resolve the issue of autocorrelation in the data set, an investigation on to the absence of any other key explanatory variable in the model was done.

lags(p)	chi2	df	Prob > chi2
1	229.231	1	0.0000

FIGURE 5

Wooldridge F-Test

4.4.3 Heteroscedasticity Test

The Breusch-Pagan Cook-Weisberg test was employed to examine the presence of heteroscedasticity. The findings indicate that a chi-square value of 12.46 was obtained, which was statistically significant at a P-value of less than 0.05. The findings obtained from the analysis indicate that the null hypothesis was rejected, thereby concluding that homoscedasticity was not present in the error term.

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: OrdinaryShareCapital RetainedEarnings EquityReserves

         F(3 , 506)   =    12.46
         Prob > F     =   0.0000
```

FIGURE 6

Breusch-Pagan Cook-Weisberg Test

The fixed effect regression model fitting process employed robust standard errors to mitigate the potential for model bias arising from heteroscedasticity.

Fixed-effects (within) regression Number of obs = 590
Group variable: Company Number of groups = 59

R-sq: Obs per group:
within = 0.2255 min = 10
between = 0.5767 avg = 10.0
overall = 0.4876 max = 10

F(3,58) = 6.11
corr(u_i, Xb) = 0.3743 Prob > F = 0.0011

(Std. Err. adjusted for 59 clusters in Company)

ShareholderValueCr~n	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
OrdinaryShareCapital	-.9474751	.400356	-2.37	0.021	-1.748875	-.1460754
RetainedEarnings	.1492118	.0371503	4.02	0.000	.0748474	.2235763
EquityReserves	.0875064	.0375662	2.33	0.023	.0123094	.1627034
_cons	2055294	338454.8	6.07	0.000	1377803	2732785
sigma_u	5771909.2					
sigma_e	3786119.9					
rho	.69916449	(fraction of variance due to u_i)				

FIGURE 7

Robust Standard Errors

4.4.4 Normality Test

In the current study, the Jarque Bera Test was used to determine whether or not the data were normal. If the P-value at the 5% level is greater than 0.05, the null hypothesis states that the disturbances do not have a normally distributed distribution. If the P-value is lower than 0.05, then the alternative hypothesis asserts that the disturbance terms follow a normal distribution. The results showed a P-value that was lower than 0.05, which led to the rejection of the null hypothesis and the acceptance of the alternative hypothesis. This also indicated that the data followed a normal distribution.

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
myResiduals	590	0.0000	0.0000	.	0.0000

FIGURE 8

Jarque Berra Test

4.4.5 Hausman Test

The panel data set was subjected to the Hausman test to determine whether it had a fixed or random effect. For the purposes of the test, the alternative of fitting fixed effects was done in opposition to the null hypothesis that a model with random effects would be the most suitable model to fit. The results showed that the null hypothesis was disproved given the P-Value of less than 0.05, which meant that there was no systematic difference between the different coefficients due to fixed effect within the data set.

	Coefficients			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
OrdinarySh~l	-.9474751	-.5921375	-.3553375	.1669681
RetainedEa~s	.1492118	.1887022	-.0394904	.0046856
EquityRese~s	.0875064	.058592	.0289144	.011146

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)
= 530.90
Prob>chi2 = 0.0000

FIGURE 9

Hausman Test

It was determined, on the basis of the findings obtained from the time fixed effect, that the fixed effect regression model did not require any dummies because, as a result, there was no need for them.

```
Fixed-effects (within) regression               Number of obs      =       590
Group variable: Company                         Number of groups   =        59

R-sq:                                           Obs per group:
     within  = 0.2354                                         min =        10
     between = 0.5800                                         avg =      10.0
     overall = 0.4919                                         max =        10

                                                F(12,519)          =     13.32
corr(u_i, Xb)  = 0.3738                         Prob > F           =    0.0000
```

ShareholderValueCr~n	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
OrdinaryShareCapital	-.9448013	.2311088	-4.09	0.000	-1.398825	-.4907776
RetainedEarnings	.150229	.0125069	12.01	0.000	.1256586	.1747994
EquityReserves	.0882169	.0267883	3.29	0.001	.0355901	.1408437
Years						
2013	317664.1	698917.4	0.45	0.650	-1055391	1690719
2014	115417.2	699592	0.16	0.869	-1258963	1489797
2015	-172566.2	700788.5	-0.25	0.806	-1549297	1204165
2016	-49454.72	704554.7	-0.07	0.944	-1433584	1334675
2017	-224120.8	704708.9	-0.32	0.751	-1608553	1160312
2018	97516.84	707371.6	0.14	0.890	-1292147	1487180
2019	233935.8	710309.7	0.33	0.742	-1161500	1629371
2020	-955117.8	712962.6	-1.34	0.181	-2355765	445529.6
2021	689759	712805.2	0.97	0.334	-710579.1	2090097
_cons	2029410	563777.9	3.60	0.000	921843.2	3136978
sigma_u	5752499.6					
sigma_e	3794226.3					
rho	.69684271	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(58, 519) = 12.74                     Prob > F = 0.0000
```

FIGURE 10

Time Fixed Effect

4.5 Inferential Statistics

4.5.1 Correlation Analysis

The researcher used the Pearson correlation coefficient in order to determine the extent to which ordinary share capital, retained earnings, and equity reserves impacted the overall value

creation for shareholders in companies that were listed on the NSE. According to the findings of the research, it was determined that the ordinary share capital had a favorable and statistically significant effect on the shareholders of companies that were listed on the NSE (0.1253, P-Value less than 0.05).

A unit change in share capital will have a 12.53% positive correlation on shareholders' value creation among listed firms on the NSE, according to the findings, provided that all other factors remain unchanged. This finding indicates this correlation. On the other hand, it was discovered that retained earnings also have a positive and statistically significant relationship with the value that is created for shareholders in companies that are listed on the NSE (0.7660, P-Value less than 0.05). According to the findings, a unit change in retained earnings will result in a positive correlation of 76.6% on shareholders' value creation among listed firms on the NSE, provided that all other factors are held constant.

In conclusion, equity reserve was had a favorable and statistically significant effect on shareholders' value creation of companies that are listed on the NSE (0.2136, P-Value less than 0.05). Based on this finding and assuming that all other factors will remain unchanged, it can be deduced that a unit change equity reserve will have a positive correlation of 21.36% with the value creation of shareholders for listed companies on the NSE.

	Shareh~n	Ordina~l	Retain~s	Equity~s
Shareholde~n	1.0000			
OrdinarySh~l	0.1253*	1.0000		
	0.0023			
RetainedEa~s	0.7660*	0.3420*	1.0000	
	0.0000	0.0000		
EquityRese~s	0.2136*	0.5567*	0.4239*	1.0000
	0.0000	0.0000	0.0000	

FIGURE 11

Correlation Analysis

4.5.2 Feasible Generalized Least Squares Regression Model

Feasible generalized least squares (FGLS) were adopted in fitting the model since the panel data set used exhibited autocorrelation and heteroscedasticity. The value of R-Squared as per the analysis model was 0.577 which is an indication that 57.7% of the shareholders' value creation among firms listed at NSE between 2012 and 2021 was affected by their ordinary share capital, retained earnings and equity reserves. This is an indication that it is only 42.3% of shareholders' value creation is among firms listed at NSE between 2012 and 2021 was affected by other factors apart from ordinary share capital, retained earnings and equity reserves.

From the findings, it was established that ordinary share capital had a negative and statistically significant effect on shareholders' value creation of firms listed at NSE (-0.370, P-Value<0.05). It was discovered that retained earnings had a positive and statistically significant effect on the value creation for shareholders of companies that were listed on the NSE (0.290, P-Value<0.05). Lastly, equity reserve was established to have a negative and statistically

significant effect on shareholders' value creation of firms listed at NSE (-0.049, P-Value<0.05). Therefore, based on the obtained results, then the resulting study model was as follows:

$$\mathbf{Y = 143,806 - 0.3699}X_{1it} + \mathbf{0.2903}X_{2it} - \mathbf{0.0494}X_{3it} + \varepsilon it$$

```
Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1        Number of obs      =       590
Estimated autocorrelations =         0        Number of groups   =        59
Estimated coefficients     =         4        Time periods       =        10
                                              Wald chi2(3)       =    928.48
Log likelihood             = -10002.15        Prob > chi2        =    0.0000
```

ShareholderValueCr~n	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
OrdinaryShareCapital	-.3698997	.0964863	-3.83	0.000	-.5590094	-.1807899
RetainedEarnings	.2903012	.0099043	29.31	0.000	.2708891	.3097133
EquityReserves	-.0493519	.021201	-2.33	0.020	-.0909051	-.0077987
_cons	143805.7	274194	0.52	0.600	-393604.7	681216

FIGURE 12

Regression Model

4.6 Discussion of Research Findings

From the panel data regression output, holding all independent variables constant, the value of shareholder value creation represented by EVA was Kes 143,806. This implies that during the study period, shareholders of the 59 NSE listed firms would make Kes 143,806 if they did not adopt any equity financing options.

On the first objective on the effect of ordinary share capital on shareholders' value creation of firms listed at NSE, it was established that ordinary share capital had a negative and statistically significant effect on shareholders' value creation of firms listed at NSE (-0.3699,

P-Value<0.05). The finding is an indication that holding all other factors constant, a unit change in ordinary share capital of firms listed at NSE will result in a 0.3699 negative change on their shareholders' value creation.

The findings of this study are consistent with those discovered by Abdoli and Pourkazeni (2013) in their research that was carried out in Iran. This study investigated the connection between the Teheran stock exchange's share capital and the production of value for shareholders. They concluded that there was a direct and significant linear connection between the amount of share capital and the created value for shareholders. In addition to this, they discovered that there was a significant and inverse relationship between ownership and the value that was created for shareholders.

The findings of this study concur with the findings of a study that was done by Muthoni et al. (2019), which examined the effect of equity financing on the creation of shareholder value in non-financial firms that were quoted on the Nairobi Securities Exchange. That study looked at the effect of equity financing on the creation of shareholder value in non-financial firms. According to the findings of this study, in order for dividend policy to be considered the best option, it must first lead to the maximisation of the share price, which in turn must lead to the maximisation of the wealth of shareholders and eventually value. According to the findings of this research, a dividend policy can only be deemed effective if it first leads to the maximisation of the share price, which, in turn, leads to the maximisation of the wealth held by shareholders.

On the second objective on the effect of retained earnings on shareholders' value creation of firms listed at NSE, it was established that retained earnings had a positive and statistically significant effect on shareholders' value creation of firms listed at NSE (0.2903, P-Value<0.05). The finding is an indication that holding all other factors constant, a unit

change in retained earnings of firms listed at NSE will lead to a 0.2903 increase shareholders' value creation.

The findings of this study are in tandem with those found in Tirmizi et al. (2021) study on the significance of the retained-earnings-based firm valuation model during the time of Pakistan's military regime. Both studies were conducted during the same time period. The results of this research can be found in this section. The results of that study indicate that retained earnings played a significant role in the activities related to expansion, which helped sample firms achieve the level of growth they had targeted. This was made possible by the fact that sample firms were able to expand their operations. Additionally, the value of the sample companies increased, along with the wealth of the shareholders, as a direct result of the investment and reinvestment of retained earnings in value-enhancing projects. This led to an increase in both the value of the sample companies and the wealth of the shareholders. This resulted in an increase not only in the wealth of the shareholders but also in the value of the sample companies.

Ball, Gerakos, Linnainmaa, and Nikolaev (2020) did a study on earnings, retained earnings, and book-to-market in the cross-section of expected returns in the United States. This study agrees with the findings of that study. Earnings, retained earnings, and book-to-market value were the topics that were investigated in this study. According to the findings of this study, book-to-market and retained earnings-to-market are both effective predictors of future returns. This is not the case because book value is indicative of true value; rather, retained earnings-to-market is an effective stand-in for underlying earnings yield.

In contrast to the findings of a different study on the efficiency implications of corporate earnings retentions, which was carried out by Thirumalaisamy (2020) this study discovered that earnings retentions have no impact whatsoever on a company's level of efficiency. The

study looked at a sample of 27 high-growth and profitable Indian companies and alluded that these companies were making inefficient use of their retained earnings despite the fact that these companies were profitable. Additionally, it was found that the financial performance metrics that serve as the foundation for the investment decisions made by shareholders were found to be deceptive.

These metrics were found to be deceptive due to the fact that they were found to be misleading. It was discovered that the investment choices that shareholders made for a company were directly related to the profitability of the company. The stock market places a significant discount on the future cash flows that will result from the investment of retained earnings, so while companies are able to increase their profits, their shareholders may end up losing money. This is due to the fact that while companies are able to increase their profits, their shareholders may end up losing money. Even though the companies might be able to increase their profits as a result of this, the shareholders might still suffer financial losses.

In addition, the findings of this study run counter to the findings of Ugwu, Francica, and Onyekwelu (2021), who conducted a study on the effect of retained earnings on operational performance indicators of oil and gas firms in Nigeria. They discovered that retained earnings had a positive and insignificant effect on both the Return on Asset and the Return on Equity of oil and gas firms in Nigeria, with the exception of Mobil Nigeria, where they have a positive and significant effect on the Return on Equity. Other than that, they discovered that retained earnings had a positive and insignificant effect on both measures. On the other hand, this effect was not noticeable at any of the oil and gas companies that were investigated. Mobil Nigeria was the lone outlier in this regard.

On the third objective on the effect of equity reserve on shareholders' value creation of firms listed at NSE, it was established that equity reserve had also a negative and statistically

significant effect on shareholders' value creation of firms listed at NSE (-0.0494, P-Value<0.05). The finding is an indication that holding all other factors constant, a unit change in equity reserve of firms listed at NSE will result in 0.0494 negative change on their shareholders' value creation.

The study concurs with Harford, Mikkelson and Partch (2003) carried out a study on effect of cash reserves on corporate investment and performance in industry downturns and established that the ability to continue investing during a downturn is beneficial, resulting in better operating performance and post-downturn sales growth. In a control group of industries not experiencing downturns, cash reserves also contribute to increased investment, but this investment reduces performance.

The study results disagree with those of Eneh et. al., (2019) who did a study on effect of corporate reserve on the financial performance of oil and gas firms in Nigeria and established that depreciation provision, amortization fund, employee benefit and return on equity does not exerts a significant effect on equity reserves of Nigeria oil and gas firms.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

Provided under this chapter are the summary, conclusion, and recommendations drawn after regarding the effect of equity financing on shareholders' value of firms listed at the Nairobi Securities Exchange. Therefore, the chapter is structured into a summary of the findings, conclusion, and recommendations.

5.2 Summary of Findings

5.2.1 Ordinary Share Capital and Shareholders Value Creation

On the first objective on the effect of ordinary share capital on shareholders' value creation of firms listed at NSE, it was established that ordinary share capital had a negative and statistically significant effect on shareholders' value creation of firms listed at NSE. The finding is an indication that holding all other factors constant, a unit change in ordinary share capital of firms listed at NSE will result in a negative change on their shareholders' value creation.

5.2.2 Retained Earnings and Shareholders Value Creation

On the second objective on the effect of retained earnings on shareholders' value creation of firms listed at NSE, it was established that retained earnings had a positive and statistically significant effect on shareholders' value creation of firms listed at NSE. The finding is an indication that holding all other factors constant, a unit change in retained earnings of firms listed at NSE will lead to a positive increase shareholders' value creation.

5.2.3 Equity Reserves and Shareholders Value Creation

On the third objective on the effect of equity reserve on shareholders' value creation of firms listed at NSE, it was established that equity reserve had also a negative and statistically significant effect on shareholders' value creation of firms listed at NSE. The finding is an indication that holding all other factors constant, a unit change in equity reserve of firms listed at NSE will result in a negative change on their shareholders' value creation.

5.3 Conclusion

Regarding the association between ordinary share capital and shareholders' value creation of firms listed at NSE, it was concluded that there existed positive and statistically significant relationship between ordinary share capital and shareholders' value creation. This is a clear indication that issuing more ordinary shares to new members is one of the most crucial and advantageous way for listed firms at NSE to enhance their shareholders value creation. This can be attributed to the fact that issuing ordinary shares is much cheaper way for firms to finance their business operation compared to debt financing option.

On the relationship between retained earnings and shareholders' value creation of firms listed at NSE, the study concluded that retained earnings also had a positive and statistically significant relationship with shareholders' value creation. Therefore, listed firms at NSE that hold more retained earnings are able to enhance the value creation for their shareholders. This is possible due to the fact that retained earnings increase a firm's net income, which in turn influences the level of profitability that the firm achieves. This is due to the fact that retained earnings represent the amount of profit that a company has after it has paid all of its direct costs, indirect costs, income taxes, and dividends to shareholders. This represents the portion of the company's equity that is available for use, for example, to make investments in new machinery, research and development, and marketing.

Regarding the effect of equity reserve on shareholders' value creation of firms listed at NSE, it was concluded that there existed a positive and statistically significant relationship between equity reserves and shareholders value creation. Because equity reserves are a type of capital that represents funds set aside for contingencies such as losses on assets, legal action against the bank, and other extraordinary events, as well as providing a reserve for dividends that are expected to be paid out to stockholders, the positive and statistically significant relationship between equity reserves and dividends arises from the fact that equity reserves are a type of capital that represents funds set aside for these contingencies. Therefore, maintaining a higher level of equity reserves will result in increased shareholder value creation among the companies that are listed on the NSE.

5.4 Recommendations

Based on the study findings, the following practical as well as policy recommendations were made.

5.4.1 Policy Recommendations

The study was of great significance to government and policy makers both at NSE and CMA. Based on this, the study recommends that the policy makers at NSE should ensure inclusion of report on shareholder value by NSE listed firms and always strive to ensure that they maintain effective equity financing options as this is very likely to affect the overall shareholders value creation which is very critical for listed firm to attract prospective investors. This is because, ineffective financial options are likely to affect the firm's performance which may eventually lead to financial distress.

The findings were also of significant importance to the management of listed firms at NSE. Therefore, the study recommends that the management of listed firms must always ensure that they have to initiate effective planning tool that is capable to aid them to select the ideal

financing combination and strategies that are likely to create highest value to the shareholders, hence, attracting more probable investors.

Lastly, the study was also of great significance to academics and scholars who might be interested in conducting additional research on the effect of equity financing on the creation of value for shareholders. Therefore, the research suggests that academics and scholars who are interested in the topic should look at the findings of this study and ensure that they are able to identify other aspects of financing options that are likely to influence the value that is created for the shareholders of various institutions in both domestic and international contexts.

5.4.2 Practical Recommendations

According to the findings of the study, there is a positive and statistically significant relationship between the amount of ordinary share capital and the value creation by shareholders of companies that are listed on the NSE. Based on this, the study suggests that listed companies on the NSE should always make sure that they are always issuing out new shares so as to ensure that they are able to diversify their investments and to help them set out a threshold for the expansion of their business operations. In addition to this, the study recommends that listed companies should always make sure that they are always issuing out new shares. Through these means, they will be able to become more efficient, thereby increasing the value that is created for their shareholders.

In addition, the study found that a positive and statistically significant relationship exists between retained earnings and the value that is created for shareholders in companies that are listed on the NSE. As a result, companies that are listed on the NSE ought to make it a priority to keep a growing percentage of their earnings in-house. Doing so will enable these companies to finance their day-to-day operations without having to turn to alternative forms of external financing, which are significantly more expensive.

In addition, the study found that a positive and statistically significant relationship exists between firms listed on the NSE that have equity reserves and the value that is created for the firms' shareholders. As a result of this, the research suggests that the management of listed companies should work toward increasing the amount of equity reserves they have so that they are able to finance their operations.

5.5 Limitations of the Study

The scope of this study was restricted to the effect that equity financing has on the value that is created for shareholders in companies that are listed on the NSE. As a result of this, there were problems with the study on both a conceptual and a contextual level. The research was also restricted conceptually due to the fact that it was conducted in Kenya. This was due to the fact that no other studies had been conducted that looked at the impact that equity financing has on the value that is created for shareholders of companies that are listed on the NSE. Because of this restriction, the findings of this study can only be applied to companies that are listed on the NSE; as a result, they cannot be generalized to apply to any other companies that are based outside of the country.

The research was restricted to only the 59 companies that were already listed on the NSE, which meant that the population of the study was also constrained. As a result, the findings of the study were only applicable to companies that are listed on the NSE and not to any other companies that are active in the country. Another limitation of the study was that it did not conduct a sample survey of other companies that are active in other parts of the country. On the other hand, this was somewhat offset by the fact that the research utilized data spanning a period of ten years.

5.6 Areas of Further Study

The primary objective of this research was to investigate the impact that equity financing has on the value that is created for a company's shareholders for firms listed on the NSE. In order to accomplish this goal, the research focused solely on three aspects of equity financing without including a control variable. As a result, it is recommended that additional research be conducted, with the goal of including additional financing options that are likely to affect the value that is created for the shareholders together with a control variable such as debt financing. In addition, the research only used data collected over a period of ten years; consequently, future research should extend the time period covered by the study to cover a greater number of years in order to investigate how different equity financing options are likely to influence the value that is created for shareholders.

REFERENCES

Abdoli, M., & Pourkazemi, L., (2013). The capital and ownership structure with the created shareholders value in Tehran Stock Exchange, (TSE). *Middle East Journal of scientific research*.14 (2): 185-192.

Abdul, M. (2015). Investigating capital structure decisions and its effect on the Nigerian capital market. Second 21st Century Academic Forum Conference Proceedings 5(1), Boston, USA at Harvard.

Achieng, B. O., Muturi, W., & Wanjare, J. (2018). Effect of equity financing options on financial performance of non-financial firms listed at the Nairobi Securities Exchange, Kenya. *Applied Economics and Finance*, *5*(4): 160-173.

Akintola, A. F., & Olurin, T. O. (2020). Equity Financing and Profitability of Selected Manufacturing Companies in Nigeria. *Gsj*, *8*(7).

Akintunde, A., Nwabuisi, N. A., & Oyeyemi, O. G. (2021). Financing Decision and Shareholders Wealth Maximisation of Nigeria Listed Companies.

Almustafa, H., & Kalash, I. (2022). The dynamic relationship between firms' cash reserves and financial leverage: evidence from MENA emerging markets. *Journal of Economic and Administrative Sciences*.

Baker, M., & Wurgler, J. (2002). The equity shares in new issues and aggregate stock returns. The Journal of Finance, 55(5): 2219-2257.

Ball, R., Gerakos, J., Linnainmaa, J. T., & Nikolaev, V. (2020). Earnings, retained earnings, and book-to-market in the cross section of expected returns. Journal of Financial Economics, 135(1): 231-254.

Belo, F., Lin, X., & Yang, F. (2019). External equity financing shocks, financial flows, and asset prices. *The Review of Financial Studies*, *32*(9): 3500-3543.

Bessler, W., Conlon, T., & Huan, X. (2019). Does corporate hedging enhance shareholder value? *International Review of Financial Analysis*, *61*, 222-232.

Bloom, N., Sadun, R., & Van Reenen, J. (2015). Do private equity owned firms have better management practices? *American Economic Review*, *105*(5): 442-446.

Booth, L. (1998, October). What drives shareholder value. In *Presented October* (Vol. 28).

Buigut, K. K., & Soi, N. C. (2020). Effect of Firm Characteristics on Dividend Policy in Firms Listed in Nairobi Security Exchange, Kenya. Journal of Business Management and Economic Research, 4(4): 299.

Caballero, S., Teruel, P. J., & Martínez, P. (2020). Net operating working capital and firm value: A cross-country analysis. *BRQ Business Research Quarterly*, *23*(3): 234-251.

Chen, Y. (2016). Spatial autocorrelation approaches to testing residuals from least squares regression. PloS one, 11(1): 0146865.

Chindengwike, J. (2021). Effect of Equity on Financial Performance among Small Business Firms in East Africa Countries.

CMA. (2022). *Quarterly Statistical Bulletin (QSB).* Nairobi, Kenya: Capital Markets Authority.

Cumming, D., Meoli, M., & Vismara, S. (2021). Does equity crowdfunding democratize entrepreneurial finance? *Small business economics*, *56*, 533-552.

De Wet, J. (2013). Earnings per share as a measure of financial performance: does it obscure more than it reveals. *De Wet, JH v H*, 265-275.

Drover, W., Busenitz, L., Matusik, S., Townsend, D., Anglin, A., & Dushnitsky, G. (2017). A review and road map of entrepreneurial equity financing research: venture capital, corporate venture capital, angel investment, crowdfunding, and accelerators. Journal of management, 43(6): 1820-1853.

Eiteman, D. K., Stonehill, A. I., Moffett, M. H., & Kwok, C. (2004). *Multinational business finance* (574-575). Reading, MA: Addison-Wesley.

Eka, H. (2018). Corporate finance and firm value in the Indonesian manufacturing companies. *Business Studies*, *11*(2): 113-127.

Ekpo, N., Etukafia, & Udofot, P. (2017). Finance manager and the finance function in business sustainability. International Journal of Business, Marketing and Management, 2(1): 31-38.

Eneh, E. N., Onyekwelu, U. L., & Igweonyia, V. (2019). Effect of corporate reserve on the financial performance of oil and gas firms in Nigeria.

Fama, E., & French, K. (2002). Testing trade-off and pecking order predictions about dividends and debt. The review of financial studies, 15(1): 1-33.

Fama, E. F., & French, K. R. (2005). Financing decisions: who issues stock? *Journal of financial economics*, *76*(3): 549-582.

Faniband, M., & Prakasam, C. (2019). Determinants of differential voting rights share prices and ordinary share prices: Evidence from dual-class companies in India. Indian Journal of Research in Capital Markets, 6(4): 36-49.

Fernández, P. (2019). *EVA and cash value added do not measure shareholder value creation*. SSRN.

Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2018). Equity financing and debt-based financing. *Pacific-Basin Finance Journal*, *52*, 163-172.

Frank, M. Z., & Goyal, V. K. (2003). Testing the pecking order theory of capital structure. Journal of financial economics, 67(2): 217-248.

Friedman, M. (1970). Rethinking the social responsibility of business. *Journal of Reason*, *10*, 15-17.

Harelimana, J. (2017). Effect of debt financing on business performance: A comparative study between I&M Bank and Bank of Kigali, Rwanda. Global Journal of Management and Business Research.

Harford, J., Mikkelson, W., & Partch, M. M. (2003). The effect of cash reserves on corporate investment and performance in industry downturns. *Unpublished working paper*.

Hecking, S. (2002). A methodology to measure shareholder value orientation and shareholder value creation aimed at providing a research basis to investigate the link between both magnitudes. Research Paper.

Hotchkiss, E. S., Smith, D. C., & Strömberg, P. (2021). Private equity and the resolution of financial distress. *The Review of Corporate Finance Studies*, *10*(4), 694-747.

Hovakimian, A., Hovakimian, G., & Tehranian, H. (2006). Determinants of target capital structure: The case of dual debt and equity issues. Journal of Financial Economics, 71, 517–540.

Islam, M., Fremeth, A., & Marcus, A. (2018). Signaling by early stage startups: US government research grants and venture capital funding. *Journal of Business Venturing*, *33*(1): 35-51.

Jee, K. F., Ngui, J. E. J., Poh, P. P. J., Chan, W. L., & Wong, Y. S. (2021). Capital Structure and Firm Performance. *UNIMAS Review of Accounting and Finance*, *5*(1): 116-135.

Kosack, C., Page, A., & Klatser, P. (2017). A guide to aid the selection of diagnostic tests. Bulletin of the World Health Organization, 95(9), 639.

Kothari, C. (2004). Research methodology: Methods and techniques. New Age International.

KNBS. (2021). National Statistical System Bulletin 2021: Kenya National Bureau of Statistics.

Kraus, A., & Litzenberger, R. H. (1973). A state-preference model of optimal financial leverage. The journal of finance, 28(4): 911-922.

Lawal, J. & Akinrinola, O. & Ekperiware, M. & Ogbogbo, O. (2022). The Impact of Retained Earnings on the Financial Growth of Pension Fund Administrator (PFA) Companies in Nigeria. *Caleb Journal of Social and Management Science*. 07. 54-77.

Libakova, N., & Sertakova, E. (2015). The method of expert interview as an effective research procedure of studying the indigenous peoples of the north. Journal of Siberian Federal University. Humanities & Social Sciences, 114-129.

Lucas, D. and R. McDonald (1990). Equity Issues and Stock Price Dynamics, *Journal of Finance*, 45, 1019–1043.

Luvembe, L., Njangiru, M. J., & Mungami, E. S. (2014). Effect of dividend payout on market value of listed banks in Kenya. *International journal of innovative research and development*, *3*(11): 350-370.

Mabrouk, L., & Boubaker, A. (2020). investigation of the association between entrepreneurship life cycle, ownership structure and market timing theory: Empirical evidence from Tunisian and French context. *The Asia Pacific Journal of Innovation and Entrepreneurship*, 14(1): 107-122.

Mbuvi, J. N., & Gekara, M. G. (2015). Effect of dividend policy on value creation for shareholders of companies listed in the Nairobi Securities Exchange. IOSR Journal of Economics and Finance, 6(2), 35 - 41.

Mehmetoglu, M., & Jakobsen, T. (2016). Applied statistics using Stata: a guide for the social sciences. Sage.

Miller, M.H. (1977). Debt and Taxes. *The Journal of Finance*. 32 (2): 261-275.

Miralles, Q. M. M., Miralles, J. L., & Redondo, J. (2019). ESG performance and shareholder value creation in the banking industry: International differences. *Sustainability*, *11*(5): 1404.

Modigliani, F., & Miller, M. (1958). The cost of capital, corporation finance and the theory of investment. *The American Economic Review* 48(3): 261-297.

Muhammad, M., & Yet, C. (2020). Capital structure of family firms: The effect of debt and equity market timing in South East Asia. *Journal of Family Business Management*, 1-18.

Muiruri, W. N., & Wepukhulu, J. M. (2018). Effect of financing decisions on financial performance of listed companies at the Nairobi Securities Exchange, Kenya. *Journal of International Business, Innovation and Strategic Management*, *2*(3): 101-114.

Muthoni, K. G., Jagongo, A., & Muniu, J. (2019). Effect of equity financing on shareholder value creation of non-financial firms quoted at the Nairobi Securities Exchange. *Journal of Finance and Accounting*, *3*(5): 32-52.

Mutua, L. M., & Atheru, G. K. (2020). Capital Structure and Financial Performance of Companies listed under Manufacturing and Allied Sector at Nairobi Securities Exchange in Kenya. *Journal of Finance and Accounting*, *4*(1): 24-38.

Mwenje, J., & Olweny, T. (2016). The impact of private equity on value creation among listed firms at the Nairobi securities exchange. *International Journal of Economic, Commerce and management,* 4(2): 84-106.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics,* 13(2): 187-221.

Myers. (1984). Capital structure puzzle. Journal of Finance, 39(3): 575-592.

Nduati, N. W., & Wepukhulu, J. M. (2020). Effect of retained earnings on financial performance of saving and credit co-operative societies in Nairobi County, Kenya. *International Academic Journal of Economics and Finance*, *3*(6): 197-209.

Ndulue, G. C., Okoye, P. V., & Amahalu, N. N. (2021). Earnings management and shareholders' wealth creation of quoted conglomerates in Nigeria. *Journal of Research in Education and Sustainable Development*, *1*(9): 47-65.

Nguyen, P., & Rahman, N. (2020). Institutional ownership, cross- shareholdings and corporate cash reserves in Japan. Accounting & Finance, 60, 1175-1207.

Nyamoma, C. N. (2020). The Effect of Financing Decisions on Shareholders' Value Creation of Manufacturing Firms Listed at The Nairobi Securities Exchange in Kenya (Doctoral dissertation, KCA University).

NSE. (2022). Quarterly Statistical Bulletin (QSB). Nairobi, Kenya: Nairobi Securities Exchange.

NSE. (2020). Quarterly Statistical Bulletin (QSB). Nairobi, Kenya: Nairobi Securities Exchange.

NSE. (2017). Impact of Financial Leverage on the Value of Firm: Evidence from Some NSE Listed Companies. *The BESC Journal of Commerce and Management, 4*, 19-40.

Oganda, A. J., Mogwambo, V. A., & Otieno, S. (2018). Effect of cash reserves on performance of commercial banks in Kenya: A comparative study between national bank and equity bank Kenya limited. *International Journal of Academic Research in Business and Social Sciences, 8*(9): 685-704.

Oyuga, C. N. (2014). Effects of earnings announcement on the share price for firms listed at the Nairobi Securities Exchange, Doctoral dissertation, University of Nairobi.

Pace, R., & LeSage, J. (2008). A spatial Hausman test. Economics Letters, 101(3): 282-284.

Park, J. J. (2021). From Managers to Markets: Valuation and Shareholder Wealth Maximization. *J. Corp. L.*, *47*, 435.

Perez-Melo, S., & Kibria, B. (2020). On some test statistics for testing the regression coefficients in presence of multicollinearity: a simulation study. Stats, 3(1), 40-55.

Pham, C. D. (2020). The effect of capital structure on financial performance of Vietnamese listing pharmaceutical enterprises. *The Journal of Asian Finance, Economics and Business, 7*(9): 329-340.

Radic, N. (2015). Shareholder value creation in Japanese banking. Journal of Banking & Finance, 52, 199-207.

Rahman, M. A., Sarker, M. S. I., & Uddin, M. J. (2019). The impact of capital structure on the profitability of publicly traded manufacturing firms in Bangladesh. *Applied Economics and Finance, 6*(2): 1-5.

Saunders, M., Lewis, P., Thornhill, A., & Bristow, A. (2015). Understanding research philosophy and approaches to theory development. University of Burmingham.

Sekaran, U. (2005). Research Methods for Business with SPSS 13. United Kingdom: John Wiley and Sons.

Shahwan, Y., Sa'adeh, A., Hamza, M., Al-Ramahi, N., & Swiety, I. A. (2022). Do the reserves help the financial and non-financial performance of firms during the covid-19 pandemic? *Corporate Governance and Organizational Behavior Review*, *6*(2): 217-222.

Sheikh, N. A., & Wang, Z. (2010). Financing Behavior of Textile Firms in Pakistan. *International Journal of Innovation, Management and Technology*, 130-135.

Taber, K. (2018). The use of Cronbach's alpha when developing and reporting research instruments in science education. Research in science education, 48(6): 1273-1296.

Thirumalaisamy, R. (2020). The efficiency implications of corporate earnings retentions. *African Journal of Business Management*, *14*(4): 140-150.

Thuranira, M. G. (2014). *The effect of retained earnings on the returns of firms listed at the Nairobi Securities Exchange* (Doctoral dissertation, University of Nairobi).

Tipape, E., & Jagongo, A. (2019). Financial decisions, resource constraints and financial performance of family-owned businesses in the manufacturing industry in Ke

Tirmizi, S. M. A., Khan, M. Y., Ullah, N., Ahmad, M., & Shah, S. M. H. (2021). The Significance of Retained-Earnings-based Firm Valuation Model During Military Regime Era in Pakistan.

Triani, N., & Tarmidi, D. (2019). Firm value: impact of investment decisions, funding decisions and dividend policies. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *9*(2): 158-163.

Ugwu, P. N. O., Francica, I., & Onyekwelu, U. L. (2021). Effect of retained earnings on operational performance indicators of oil and gas firms in Nigeria. *Advance Journal of Business and Entrepreneurship Development*, *5*(1): 1-9.

Van Horne James, C. (2002). Financial Management & Policy, 12/E. Pearson Education India.

Vuong, N. B., Vu, T. T. Q., & Mitra, P. (2017). Impact of capital structure on firm's financial performance. *Journal of Finance & Economics Research*, *2*(1): 16-29.

Watson, D., and Head, A. (2007). Corporate Finance: Principles and Practice. 4 th edition. Financial Times: Prentice HalL.

Welch, I. (2004). Capital structure and stock returns. Journal of political economy, 112(1): 106-131.

Wilson, N., Kacer, M., & Wright, M. (2019). Understanding regional variations in equity and growth finance: an analysis of the demand and supply of equity finance. *Available at SSRN 3252346*.

Yarba, I. (2019). *Hidden Reserves as an Alternative Channel of Firm Finance in a Major Developing Economy*, 1936.

Yemi, A. E., & Seriki, A. I. (2018). Retained earnings and firms' market value: Nigeria experience. *The Business & Management Review*, *9*(3): 482-496.

Zavertiaeva, M., & Nechaeva, I. (2017). Impact of market timing on the capital structure of Russian companies. Journal of Economics and Business, 92, 10-28.

Zumente, I., & Bistrova, J. (2021). ESG importance for long-term shareholder value creation. *Journal of Open Innovation: Technology, Market, and Complexity*, *7*(2): 127.

APPENDIX I: DATA COLLECTION SHEET

Variable	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Shareholder Value Creation [NOPAT− [CC*IC]										
Ordinary Share Capital Book value of Ordinary share capital										
Retained Earnings (Beginning retained- + net income profit or loss- dividends)										
Equity Reserves = Legal reserves+ Translation reserves + Hedging reserves + Revaluation Reserves+ Share premium+ Fair Value Reserves + General Reserves										

APPENDIX II: LIST OF FIRMS LISTED AT NSE

1. Athi River Mining
2. B.O.C Kenya Ltd
3. Bamburi Cement Ltd
4. BK Group Plc
5. British American Tobacco Kenya Limited
6. Car and General (K) Ltd
7. Carbacid investments (1)
8. Crown Paints
9. Deacons (East Africa) Plc
10. E.A. Portland Cement Ltd
11. EA Cables Ltd
12. Eaagads Ltd
13. East African Breweries Plc
14. Eveready East Africa Limited
15. Express LTD
16. Flame Tree Group
17. Home Africa Limited
18. Kakuzi Plc
19. Kapchorua Tea
20. KenGen Ltd
21. Kenya Orchards
22. Kenya Power & Lighting Co Ltd
23. KQ
24. Limuru Tea Co
25. Longhorn Publishers Ltd
26. Nairobi Business Ventures
27. Nairobi Securities Exchange Ltd
28. Nation Media Group Limited
29. Olympia Capital Holdings ltd
30. Rea Vipingo Plantations
31. Sameer Africa PLC
32. Sasini Ltd
33. Scangroup Ltd
34. Standard Group Ltd
35. Total Kenya Ltd
36. TPS (SERENA)
37. Uchumi Supermarket Ltd
38. Umeme Ltd
39. Unga Group Ltd
40. Williamson Tea
41. ABSA
42. Britam holdings PLC
43. Centum Investment Co Ltd
44. CIC Insurance Group
45. Co-operative Bank of Kenya
46. DTB
47. Equity Group Holdings
48. HF Group
49. I&M Bank
50. Jubilee Holdings
51. KCB
52. Kenya reinsurance corporation ltd
53. Liberty Kenya Holdings
54. NCBA
55. NIC
56. Safaricom
57. Stanbic Holdings Plc (1)
58. Standard Chartered
59. Trans-Century Ltd
60. Kurwitu Ventures
61. Stanlib Fahari I-REIT
62. National Bank Of Kenya
63. KenolKobil
64. Mumias Sugar Limited

Source: NSE website, 2023