

**FACTORS THAT INFLUENCE THE PERFORMANCE OF INITIAL
PUBLIC OFFERING AT THE NAIROBI SECURITIES EXCHANGE IN
KENYA**

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DECLARATION

This research report is my original work and has not been presented for a degree in any other University.

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This research report has been submitted for examination with my approval as University supervisor.

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DEDICATION

This research study is dedicated to the University of Nairobi faculty, students and to whoever finds the contents of this study useful.

ABSTRACT

This study focuses on the factors that influence the performance of initial public offering in the Nairobi Securities Exchange. The objectives of the study were to determine; the relationship between sales volume turnover, the relationship between profitability and the relationship between asset base and the performance of initial public offering. The study adopted a descriptive research design. The sample size of the study was 8 companies who issued initial public offering between the periods of 2001-2011 and were listed at the Nairobi Securities Exchange. Secondary data was gathered from past published scholarly articles explaining on profitability, asset base and sales turnover of the firms, this study focused on firms listed in the main market segment of the Nairobi Securities Exchange during the period of 2011-2015. The data obtained was analyzed using the multiple regression analysis method through the use of statistical package for social sciences (SPSS) which was applied to code, enter and compute measurements of the multiple regressions for the study. From the study it was found that there was evidence of a positive relationship between asset base and IPO performance with a correlation value of 0.299, while a correlation value of sales volume turnover and IPO performance yielded a value of 0.213 and between profitability and IPO success had a correlation value of 0.097, the study also revealed that 6.5% of the variation in IPO performance was explained jointly by the independent variables under study (profitability, asset base and sales volume turnover) and that 93.5% constituted of other factors which were not studied in this research. The research further revealed that the regression model predicting the relationship between the IPO performance and the independent variables deduced that holding all the other factors constant, a unit increase in asset base would lead to an increase in IPO performance, a unit increase in sales volume turnover would lead to a increase in IPO performance and a unit increase in profitability would lead to a decrease in IPO performance. From the study conducted it can be concluded that the variables which were under study (profitability, asset base and sales volume turnover) played a small role in influencing the performance of initial public offering at the Nairobi Securities Exchange and that many other variables need to be studied to give a clear depiction of initial public offering performance. The study recommends that further research needs to be done in investigating the influence of variables such as corporate governance, share price, age of the firm, level of debt or equity, company market share, political events like elections, government's privatization programs, global economic crises and the flow of foreign direct investment and its relationship with initial public offering performance.

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LIST OF ABBREVIATIONS AND ACRONYMS

CDSC	- Central Depository and Securities Corporation
GDP	- Gross Domestic Product
IPO	- Initial Public Offering
NSE	- Nairobi Securities Exchange
SEC	- Securities Exchange Commission
U.S	- United States of America

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Initial public offering is regarded as a huge milestone for a company. It moves the company from being a private one to a public one. It gives opportunities to prospective investors to be on the ground floor for new investments that the company will wish to partake. Edmonston (2009) defined initial public offering (IPO) as type of public offering where stock of a company is sold for the first time to the public at a securities exchange. A private company through this step converts to a public traded company. Initial public offering are normally carried out for purposes of raising capital to fund investment projects which the company may not have the funds to pursue it themselves. According to Brealy & Myers (2003) IPOs allowed firm to gain entry to equity markets for obtain capital which would be used to finance growth.

Myers and Majluf (1984) introduced the pecking order theory of finance and stated that if a company wishes to raise capital it must first look for equity internally, then look to finance through debt and it feels that the cost of borrowing is very high it can then finally look to obtain equity through external sources. The study used the signaling theory and the window of opportunity hypothesis to explain how the initial public offer is used as a positive signal to the market environment so as to show investors that the firm is one which is good to invest in and that companies opting to issue initial public offers through the securities exchange must decide to go public when there is demand for IPOs and the economic climate of that country is good.

Kenyan companies who wish to obtain capital from the public do so by seeking listing at the Nairobi Securities Exchange. Nairobi Securities Exchange has very few IPOs compared to developed markets, with most companies going public mainly for expansion and investment purposes. Simiyu (2015) stated that after the issuance of IPOs at the NSE, stocks performed fairly well in the first three years of trading and under performed during the fourth trading year and performed well during the following years of trading.

1.1.1 Initial Public Offering

An initial public offering allows a firm to enter into a new stage of life (public company), a new stage which is filled with unique opportunities, risks and challenges. In most parts of the world

IPOs are often issued by smaller and younger companies seeking capital for expansion, but they can also be carried out by large private companies looking to go public. Allison, Hall and Shea (2008) define an initial public offering as the realization of a dream for many entrepreneurs, executives, board members and stockholders, a singular achievement that demonstrates their performance in building a strong business and creating value for owners, employees and customers.

Brown (2014) stated that companies raise IPOs for various reasons: the need to raise additional capital to fund further growth of the company, either organically or through acquisitions; access to a much broader and potentially international investor base, consisting of both institutional and retail investors; access to the capital markets as an additional source of capital, through both subsequent equity offerings and potential debt offerings, possibly on more favorable terms than those available in the private equity or loan markets; increased liquidity for existing shareholders; the ability to use the listed shares of the company as a potential acquisition currency; an enhanced method to lure and retain key experts for the company by being able to offer executive and employee compensation and incentive arrangements such as incentive shares, stock options or similar arrangements; the need to facilitate the transition from an “owner- managed” company to a more widely held company with professional (non owner) management team, frequently in connection with succession planning in family owned or otherwise tightly held companies; and/or a generally enhanced company by investors, creditors, customers, suppliers and other stakeholders in the company, deriving from its status as a public company and the enhanced transparency and disclosure that comes with that status.

1.1.2 Determinants of a Successful Initial Public Offerings

Mark (2001) found that there were many reasons that determined the performance of an IPO: IPO companies entered the market with already established products or services which were being utilized by the public, the company had an established brand name in the market place well before going public meaning it had a significant market position even though it wasn't the market leader; Management team of the firms has to be very highly skilled, competent when it comes to conducting their tasks and be able to understand how the business and stock market

operate; Commencing the IPO with proof of retained earnings in the firm's account and a strong balance sheet will give the firm a better position as they meet with public investors, and convincing them that their cash isn't being invested to save the company from financial distress; The management team must continually meet or exceed financial projections thereby earning a reputation on delivering and understanding how to manage the Securities market; Devoting a lot of time to building investor relations so as to explain to them why they need to invest in their company and how it will be beneficial to both the investors and to the companies; Ensure you use a metric system that an investor can be able to understand because they will only buy the stock if they understand how to forecast the performance, so let the key drivers that help the management forecast internally guide what metrics you disclose hence being simple not overwhelming for investors to comprehend.

1.1.3 Firms listed at the Nairobi Securities Exchange

The Nairobi Securities Exchange is a public limited liability company which was incorporated as a private company on 29th November 1990 it converted into a public company on 25th April 2014. NSE has been operating the exchange and it is the only approved securities exchange in Kenya, by the Capital Markets Authority. It has had a remarkable development to become amongst the most vibrant stock markets in Africa. There has been an upsurge of IPO activity at the NSE during the last couple of years mainly due to the popularity across the world towards privatization. There are 67 firms that are listed at the Nairobi Securities Exchange.

The major IPOs which have been issued in the Kenyan economy were as follows: Kenya Commercial Bank was the first company to have ever issued an IPO at a listing price of Ksh.20 in 1988 investors made a small profit with the price reaching at Ksh.24 at ; National Bank of Kenya in 1994 at listing price Ksh.10 it posted 400% returns for its IPO investors; Kenya Airways in 1996 at a listing price Ksh.11.25, this IPO was the biggest one of its day it saw 110,000 new investors which was huge for that time because it was the first airline which issued an IPO which was African. It failed due to the controversies surrounding Goldenberg, drought and bad policies issued by the former Moi government, KQ's shares went down to KSh6. KenGen in 2006 at a listing price Ksh.11.90, this ushered the new era of NSE with an increase of

investors of up to 500,000; Everready in 2006 at a listing price Ksh.9.50, most speculative investors bought these share it only did well for about a month and then its price fell way below the IPO issue price; Access Kenya in 2007 became the first Information Communication and Technology firm, it offered 80 million shares at a price of Ksh.10 per share. it wasn't well perceived at first due to the fact that French Telecom's takeover of Telkom but it picked up the following year; Safaricom in 2008 at listing price of Ksh.5 Kenyans came out strong with over 800,000 investors buying the IPO but quickly they felt like the biggest losers because within a short period the price fell to Ksh.2 but later picked up a couple of years later and is around Ksh.20 today.

1.2 Research Problem

Balasubramaniam (2016) stated that the companies decided to go public mainly to obtain capital outside the banking system so as to reduce debt and to spread the risk of ownership among a large group of shareholders, he stated that it was important to spread the risk of ownership especially if a company is still at the growth stage and that shareholders would want to cash in some of their profits while still possessing ownership of the company. Worldwide studies have been done on IPOs such as Tomas, Marek and Justyna (2014) conducted a study to find out the determinants of IPOs in Poland covering the years between 2004 to 2012 they found Gross Domestic Product growth had a huge impact on the number of new shares issued while Bansal and Khanna (2012) conducted the same study in India, the study was based on IPOs listed at the Bombay Stock Exchange over the period of April-1999 to Dec-2012. Their outcomes revealed that age of a firm, book building pricing mechanism, ownership structure, retail subscriptions and market capitalization accounted for the degree of underpricing. Long and Zhang (2014) examined the IPO performance in the market of China for 243 companies during 2009 to 2011 period. Their study found the firm's profit and rates of growth heavily influenced the IPOs volume.

The research studies done in Kenya about IPOs mainly focused on long run performance, effects, determinants of stock prices of IPOs. Njoroge (2004) analyzed the existing and long run performance of IPOs at the NSE during the period 1984-2001 using a three year holding period he concluded that all IPOs during the long run underperformed in the market. Simiyu (2015)

conducted a study on the long run performance of IPOs in the Kenyan market over the period 2006-2012 and concluded that after the issuance IPOs at the NSE, stocks performed fairly well in the first three years of trading during the fourth trading year the IPO underperformed but later on performed well in the later years of trading. Chibeka (2014) carried out a study on the effect of pricing of initial public offering on the long run stock returns of all listed companies at the NSE 2000-2013, the study revealed that 51.5% of the variation in long run performance of shares was explained jointly by 1st Day pricing differential between the offer price and closing day one price. Kanja (2014) carried out a study to find out the effect of IPO on the stock returns of 62 companies which were listed at the NSE between the period of 2006 to 2013, she found that there was a low median return that the average return hence concluding that the distribution of initial returns was skewed to the right. In the beginning the general presence of IPOs in Kenya was negative one with low valuation of shares and poor economic conditions but as the years progressed IPOs have performed well.

As noted above most of the studies done in Kenya focus on IPO performance and IPO pricing at the Nairobi Securities Exchange (NSE) and despite its importance there is limited knowledge in regard to determining the factors that influence the performance of IPOs at Nairobi Securities Exchange (NSE). Therefore this study sought to fill in the knowledge gap by answering the question: what are the factors that influence the performance of IPOs at the Nairobi Securities Exchange?

1.3 Research Objective

The objectives of this study were to determine:

1. The relationship between sales volume turnover and the performance of initial public offering.
2. The relationship between profitability and the performance of initial public offering.
3. The relationship between asset base and the performance of initial public offering.

1.4 Value of the study

The study will hope to be significant to the academic fraternity sothat it contributes to the general body of knowledge/information on the factors that influences performance of IPOs at the NSE in Kenya. The study also suggests areas of further research that can be pursued by students of

finance in enriching the available information on initial public offering performance at the Nairobi Securities Exchange.

The firms who will wish to issue IPOs at NSE would appreciate the factors that influence the performance of IPOs; this would assist the firm's management in making prudent decisions when they decide to issue IPOs at the NSE. Additionally, the results of this study will also assist the firms to provide an insight on the various challenges that are accompanied with IPOs performance at the NSE so that the management teams have appropriate remedies.

The government, market regulators and Capital Markets Authority who has the responsibility of protecting investors who participate in IPOs may find the results of this study informative in developing appropriate policies that will regulate the sector and facilitate growth of the market.

CHAPTER TWO: LITERATURE REVIEW

2.1 introduction

Literature review was carried out to support the study carried out in this research project. This chapter elaborates in brief theoretical and empirical studies that have been done on IPO. The chapter also tried to identify any research gaps that may have existed.

2.2 Theoretical Review

The theoretical studies that this research study concentrated on were mainly four theories which included; the signaling theory, window of opportunity hypothesis, funding for growth theory and cost of capital theory

2.2.1 Signaling Theory

Bird and Smith (2005) stated that signaling theory is when one provided an integrative and interactive theory of symbolic communication and benefit to the society with materialist theories of individual strategic action and adaptation. Its assumption is based on that the firms know more about its prospects than the investors in the market. Allen and Faulhaber (1989) found that in some cases superior firms would wish to signal to the market about better future prospects and therefore underprice their IPOs, this is supported by Ibbotson (1975) who stated that underpricing of IPOs will create a positive view in the mind of investors so that at a future date seasoned equities can be price higher.

Welch (1989) developed a two period model for this theory which stated that high quality firms will under price but low quality firms will not be able to do so because of high imitation costs. Grinblatt and Hwang (1989) further elaborated this theory by revealing that issuers signal higher quality in IPOs by underpricing and keep some of the shares in their own portfolio. This theory helps our study by understanding that by viewing IPOs as a positive signal, investors will know that the company they are investing in in investment projects which will help in the future growth and expansion of the company all leading to higher financial gains for both the firm and its investors.

2.2.2 Windows of Opportunity Hypothesis

Ritter (1991) stated that firms may calculate the appropriate time to issue an IPO; he argued that companies will go public if they are optimistic about a potential future growth for the company. Companies time when they should issue IPOs especially if the market is really good so that they can get the most money from investors. He argued that IPOs which yield low returns are consistent with issuers who take advantage of the window of opportunity in order for the market to be willing to overpay for their equity.

Several empirical studies support this hypothesis which is normally referred to as a 'hot issue markets anomaly'. Myer (1994) viewed this framework as a dynamic financing hierarchy or window of opportunity hypothesis. Outside financing is at times the initial choice for financing because sometimes firms can issue overvalued equity. This hypothesis predicts small long run returns of firms which have issued IPOs than on firms which have issued seasoned equity offering. This theory helps our study by understanding that before a private company can make an IPO announcement it must clearly monitor the market environment. The company must know when it is the ideal time to act. The company must issue the IPO during a period of time where it feels that the economy is doing well and the investors are willing to buy the IPOs.

2.2.3 Agency Theory

This theory was pioneered by Jensen and Meckling (1976) which elaborates the relationship that exists between principals and agents when resolving problems that can exist during this relationship. There exists two parties, a principal and an agent who acts as representative of the principal to a third party. An agency relationship is formed when a principal task an agent to perform services on his behalf. Eisenhardt (2016) stated that this theory is concerned in solving the following problems: when principal and agents objectives are in conflict to each other; when its costly for a principal to confirm if an agent is doing what he/she is hired for; assessment and attitude of risk between the principal and agent.

Dalziel et al. (2010) stated that even though pursuing IPOs generates new capital for funding new business opportunities, research has provided evidence that firms that issue IPOs that their value decrease after an IPO issue. He stated that IPO process may not only raise governance costs but also create a diversion for managers who need to be focused on the long term strategy

to effectively use a large portion of the IPO capital. Members of the board will be distracted by the duties which are necessary to take the firm public and may not be fully focused on the strategic observing crucial for the firm's continued viability. Without monitoring the agents this may lead to managers taking advantage of large amount of capital which are available to them once the company has gone public. They argued that massive governance costs may be related to the IPO process and subsequent IPO performance of the firm. This theory helps our study by understanding that the private company when going public will be entering in a relationship with the investors making them the agents and the investors the principals hence a Principal-Agent relationship is created. The company's management will conduct all managerial activities on behalf of their investors. This will lead to the investors wanting full disclosure of all the financial and managerial activities even before and after they invest in the company.

2.2.4 Pecking Order Theory

Myers and Majluf (1984) stated that a firm's desire to finance new projects are first funded internally, then from financial institution at low risk debt, and lastly by raising equity. Their theory suggests that firms always prefer debt to equity, and that it allow a firm to gain entry to public equity markets for more capital necessary for future expansion at a lower rate of borrowing. For profitable firms even though debt is regarded to be cheaper than equity within certain proportions, Myers (1984) suggested that a firm's value and that shareholder's wealth associated with the firm is suffering from information asymmetry. This is supported by Fama and French (2000) who firms which made the most profit were less levered when comparing them to the non-profitable firms. Murray, Frank and Goyal (2003) stated that large firms accumulated debts so as to give provide and keep up with dividend payments while smaller firms tended to behave in the contrary.

2.3 Determinants of Initial Public Offering

The determinants of initial public offering that are explained for this study include macroeconomic conditions, firm size, financial and regulatory considerations, market demand for initial public offering and firm's age.

2.3.1 Macroeconomic conditions

Ming (2013) stated that economic conditions directly and indirectly affect IPO activities. She believed that macroeconomic factors indirectly affected decision of a firm that was deciding to go public. Macroeconomic conditions are believed to affect the economic climate of an industry level and performance of a firm, the economic climate would determine whether a firm is ready to go public. In a growing economy there would be a higher number of firms desiring for funds for growth and expansion thus leading to firms deciding on an initial public offering as a way of funding. Lerner (1994) studied 350 biotechnology firms and concluded that the firms went public when equity valuations were high while seeking private sources of funding when equity valuations were low. Pagano et al. (1998) stated that most significant IPO determinants were the company size and the industry market to book ratio, they found that going public lowered borrowing cost and that companies make an effort to time their IPO entrance to the market so as to take advantage of good economic conditions.

2.3.2 Firm's size

Pinelli (2013) stated that market leaders are always ahead of the competition in every part of their performance before issuing an IPO. The core functions of the market leaders are strong and feasible. Many successful companies that issue IPOs beat their counterparts on every aspect whether it is profitability, sales performance, market share and growth rate. The best IPO companies are those that are well established and large in size, offer exceptional product and services, highly qualified management team, strong reputation in the market, strong business model, high entry barriers to the industry, highly funded research and development departments and first mover advantage.

2.3.3 Financial and regulatory considerations

Companies must adhere to strict financial and regulatory conditions before they can be able to issue an IPO which are imposed on them by Securities and Exchange Commission of the country they are operating in. The company must have desirable integrity in their financial documents which are free from biasness and false reports through the hiring of an external auditor either a yearly or semi annually basis to test the validity of the company's financial reports. The company's leadership capable and commitment is very important, the board of directors must

have the right educational qualification and skills so as to develop a good structure of corporate governance and ensure that operations are conducted effectively.

2.3.4 Market demand for Initial public offering

Markets which have a high demand for IPOs will be more likely to succeed and survive in the long run compared to markets which have a low demand for it. A private company must ensure that there is a positive receptiveness of IPOs in the market that it wishes to issue IPOs or else it may end up being a complete failure for the company. Baluga & Singh (2014) found that IPOs which are highly demanded and supported by widely known managers were more promising to survive and exhibit lower hazard of failure.

2.3.5 Firm's age

Firms which have been in the market for a long period and have a history will be more likely to succeed when it issues an IPO than a new firm which has entered the market. It is very important for a company to look at the life cycle stage that it is in; firms in the maturity life cycle stage will perform better than firms in the introduction part of the life cycle stage when raising IPOs in the securities exchange. Audretsch and Lehmann (2005) and Chi et al (2010) found that older firms demonstrate a stronger fit for IPOs surviving in the market than younger firms and they tend to survive longer in the marketplace.

2.4 Empirical Review

Ameer (2012) conducted a study on the influence of macroeconomic variables on the number of IPOs in the Malaysian market. The study covered the period of 1990 to 2008. A tobit regression model was used. The researcher found a large negative relationship between interest rate and the number of IPOs issued, a positive relationship between industrial production and the numbers of IPOs issued was also established. It was found the IPO market gradually developed when investors began obtain high initial returns and that their belief about future rates of interest provided a sign about manager's ability to move to the IPO market. It also revealed that the government monetary regulation lead to investors believing that rates of interests would go high

thus reducing their future profits, share valuation effects would yield a low dividend share price hence hindering investors from investing in IPO markets.

Tomas, Marek and Justyna (2014) conducted a study on the determinants of IPOs in the Polish market. Their objectives were to find out whether local macroeconomic variables like gross domestic product growth rates, reference interest rates, industrial production growth rates, Warsaw Stock Exchange Index returns and the volumes of private equity investments, on the number of initial public offerings the Polish market. The study was carried out for the period of 2004 to 2012. They did a consensus researching on 218 companies that had issued IPOs at the Warsaw Stock Exchange. They used the ordinary least squares method as a model estimate and they came up with the conclusion that gross domestic product growth had a huge effect on the number of new IPO shares issued, resulting to a direct impact between business cycle and IPO activity in the Polish market. It was also concluded that investors who were attracted to the capital market measured the annual index returns, which used this as a significant characteristic for going public. The model also confirmed that other capital market factors and macroeconomic factors had no effect on IPOs in Poland.

Long and Zhang (2014) examined the IPO performance in the Emerging Growth Enterprise Market (GEMC) in China. They carried out a study on 243 companies that had issued an IPO during the period of 2009 to 2011. Using a regression model they investigated the relationships between the factors and found out that rates of growth of the issuing companies and profitability determined the number of IPO shares that was issued. They used probit models to find out the effect of the four factors on IPO, it revealed that fundraising amount was positively correlated to IPO probability on the new listing market; net profit was a major determinant and had a positive association to IPO probability; net assets explained the IPO probability but not the number of IPOs which were issued in the market.

Daisuke and Miho (2013) conducted a study on the performance of newly listed firms in the Japanese Stock Exchange. They sought to find out the change that IPOs had on the firm's performance. They used a descriptive research design; they relied on secondary data which included the financial characteristics of all the listed and non listed firms. Data was obtained from the Basic Survey of Business Structure and Activities and the Japan Research Company.

Their study yielded that firms which were already listed at the stock exchange and then later decided to issue an IPO did much more better than firms that were never listed then had decided to enter the stock market through issuing initial public offers

Darani (2012) conducted a study on how corporate governance affects initial public offering in the long run return in the Malaysian market. He was seeking to determine how much did corporate governance activities affect the long run performance of an IPO in the Malaysian market. A descriptive research design was adopted and data of a secondary nature was collected for 157 companies least at the stock exchange for the period 2007 to 2010. Both enter and stepwise method was used to analyze the data and find a relationship. It was revealed that corporate governance activities affected the long run performance IPOs in the Malaysian market.

Bansal and Khanna (2012) carried out a study to discover the determinants of Initial public offerings (IPOs) in India. The study analyzed firms that were listed at the Bombay Stock Exchange from the period of April 1999 to December 2012. They used a multiple linear regression method to determine whether there was a relationship between the predictor variables and dependent variables, i.e level of underpricing. They used ordered probit regression to determine the relationship between book building pricing mechanisms with the other variables. Their study found that firm's age, book building pricing mechanisms, ownership structure, retail subscription and market capitalization accounted for the degree of underpricing. These findings were more important to the retail and institutional investors, who likely to buy IPOs in the Indian primary market.

Kaaria and Moronge (2013) conducted a study to examine the success of initial public offers at the Nairobi Securities Exchange. Their objective was to find out the determinants of IPO success in Kenya. They used a descriptive research design and they didn't use a sample but instead did a consensus and studied 56 listed firms at the time. They used questionnaires for data collection, it was checked for validity and reliability; both qualitative and quantitative techniques of analysis were used. Their study yielded that market performance, disclosure of companies information, pricing factors affected firms from going public.

Kinyua, Nyanumba, Gathaiya and Kithitu (2013) conducted a study on IPO effects on the companies listed at the NSE. The variables they investigated were liquidity, leverage and profitability. The study covered the period 2006-2011, with 56 companies as their target population and a descriptive research design was adopted. Their analysis included frequencies, variances, standard deviations and average weighted means. They found that debt, times interest earned ratios, current liabilities and current assets such as inventories, receivables, payables, cash at bank and cash at hand increased after the IPO was issued.

2.4 Summary of Literature Review

In a nutshell, the literature review above has shown the theories relate to issuance of IPO. The empirical review has shown the studies done in the area and they mainly focused on macroeconomic variables effect initial public offering performance at a countries securities exchange, initial public offering determinants, and IPO performance of new entry firms at the securities exchange. The insufficiency of empirical evidence shows that there is no clear studies have been done to find out what are the factors that influence initial public offering performance at the Nairobi Securities Exchange.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter elaborates on the research design, target population and sample size that will be used to conduct the study, the data collection methods and how the data analysis will be carried out.

2 Research Design

The research design adopted for this was a descriptive one. It gives a true and accurate description of the variables that are appropriate to the objectives being studied upon. A descriptive research design is mainly interested in finding out what is going on, this can be applied to the study because the researcher is trying to investigate what are factors that influence the performance of the initial public offering at the Nairobi Securities Exchange in Kenya. Descriptive research design covers both quantitative and qualitative elements, and they tell us 'what is' unlike inferential statistics explain the cause and effect. Glass & Hopkins (1984) stated that descriptive research involves collecting data, analyzing the data in the most expressive manner and presenting them in simplistic way which is easy for readers to understand like graphs and charts.

3.3 Population and Sample

The target population were all the 67 companies listed on the NSE. The sample size of this study was 8 companies: Mumias Sugar Company, Kengen, ScanGroup, Eveready, Kenya Reinsurance Plaza, Safaricom, Co-operative Bank of Kenya, Britam Holdings Limited. This sample was chosen because these 8 companies conducted an IPO between the years 2001-2011.

3.4 Data Collection Method

The data that was collected of the firms were secondary in nature. It was obtained from the Nairobi Securities Exchange and the Capital Market Authority databases. Secondary data will include information on profitability, asset base and sales turnover of the firms. This study focused on listed

firms which were operational at the Nairobi Securities Exchange between the period of 2011-2015.

3.5 Data Analysis

Following the data collection it was analyzed using multiple regression analysis, this analysis method allowed the researcher to inspect how the predictor variables related to the dependent variable. It helps to answer the question is there a significant relationship between the dependent variable Y and one or more of the independent variables? Once a relationship was established strong and valid conclusions were made.

The researcher used the Statistical Package for Social Sciences (SPSS) to find the multiple regression equation for the study. The regression model was as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y is the dependent variable (IPO Performance)

α - Intercept

X_1 – Profitability,

X_2 – Asset base,

X_3 - Sales volume turnover,

$\beta_1 \dots \beta_4$ - coefficients of variables in the regression model

ε = Error term normally distributed about the mean of zero.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter analysed and interpreted the descriptive, regression and correlation analysis using the Statistical Package for Social Sciences. It covered the data of the IPO issuing firms for the period covering the period covering 2011-2015.

Table 1: Asset base values of firms

Company	2015	2014	2013	2012	2011
	Ksh	Ksh	Ksh	Ksh	Ksh
Cooperative bank of Kenya	49,303,252,000	42,877,119,000	36,583,992,000	29,367,000,000	20,952,000,000
Scangroup limited	8,790,016,000	8,844,095,000	8,484,833,000	5,092,421,000	4,692,339,000
Kengen	117,784,821,000	225,009,295,000	171,000,653,000	148,143,916,000	149,736,697,000
Britam holdings limited	17,674,448	21,439,672	14,752,324	12,472,324	8,557,448
Kenya reinsurance	21,812,234	19,991,404	16,993,628	13,964,827	11,526,485
Eveready	860,359	357,764	497,778	454,965	358,481
Mumias sugar company	6,762,973,000	12,927,937,000	18,873,220,000	21,679,458,000	20,214,825,000
Safaricom limited	104,767,293,000	96,338,359,000	92,265,128,000	84,283,777,000	79,737,036,000

From the table above can be noted that Safaricom limited, Scangroup limited, Mumias sugar company, Kengen and Cooperative bank of Kenya had their asset base value which were worth

over billions of Kenyan shillings, Britam holdings limited and Kenya reinsurance had asset base values which were worth in millions of shillings while Eveready had the lowest asset base values which were less than a million shillings per year.

Table 2: Sales Volume Turnover values of the firms

Company	2015	2014	2013	2012	2011
	Ksh	Ksh	Ksh	Ksh	Ksh
Cooperative bank of Kenya	19,783,000,000	29,267,406,000	24,510,922,000	24,596,104,000	16,374,032,000
Scangroup limited	5,022,408,000	5,125,162,000	3,838,912,000	3,922,763,000	3,597,260,000
Kengen	25,602,038,000	17,423,771,000	16,451,195,000	15,999,078,000	14,389,027,000
Britam holdings limited	11,047,297	15,681,874	15,130,058	11,743,384	3,382,684
Kenya reinsurance	11,680,662	14,036,932	11,661,605	10,393,193	8,126,150
Eveready	1,132,136	1,216,580	1,415,395	1,374,789	1,374,789
Mumias sugar company	5,531,357,000	13,075,912,000	11,957,823,000	15,542,686,000	15,795,300,000
Safaricom limited	163,364,121,000	144,672,477,000	124,287,856,000	106,995,529,000	94,832,227,000

From table 2 we find that Safaricom limited had the highest sales volume turnover with values of over a hundred billion shillings except for the year 2011, Scangroup limited, Mumias sugar company, Kengen and Cooperative bank of Kenya also had sales volume turnover figures of more than a billion shillings over the past five years. Britam holdings limited and Kenya reinsurance had asset base values which were worth in tens of millions of shillings for the past 4 years while Eveready had the lowest asset base values which were less than two million shillings per year for over the past 5 years.

Table 3: Profitability values of the firms

Company	2015	2014	2013	2012	2011
	Ksh	Ksh	Ksh	Ksh	Ksh
Cooperative bank of Kenya	11,705,559,000	8,014,997,000	9,108,186,000	7,723,858,000	5,362,602,000
Scangroup limited	1,271,870,000	1,199,078,000	831,327,000	752,009,000	911,116,000
Kengen	11,517,327,000	2,826,323,000	5,224,704,000	2,822,600,000	2,080,121,000
Britam holdings limited	(1,009,458)	2,497,878	2,315,448	2,519,461	(1,490,867)
Kenya reinsurance	3,433,619	3,137,172	2,792,466	2,801,832	1,914,584
Eveready	(77,710)	(177,589)	45,092	70,084	(123,994)
Mumias sugar company	(4,644,801,000)	(2,706,595,000)	(1,660,406)	2,012,679,000	1,933,225,000
Safaricom limited	31,871,303,000	23,017,540,000	17,539,810,000	12,627,607,000	13,158,973,000

From the table above we can see that Safaricom limited had the highest profits for the past 5 years generating over 10 billion shillings profit per year, followed by Cooperative bank of Kenya, Kengen and Scangroup limited who also profits in billions of shillings. Mumias sugar

company had losses for the past 3 years while Eveready has been barely surviving with low profits and losses for the past 5 years. Kenya reinsurance had profits of less than 4 million shillings per year.

4.2 Descriptive Statistics

This sub section analyses the descriptive statistics of the companies that have raise initial public offers at the Nairobi Securities Exchange over the period of 2011-2015.

Table 4: Descriptive statistics

	N statistic	Minimum statistic	Maximum Statistic	Mean Statistic	Standard Deviation Statistic
Profitability	8	-2,706,595,000	31,871,303,000	4,058,054,840	7,068,655,7801
Asset base	8	357,764	225,009,295,000	39,116,854,229	57,237,761,791.
Sales volume turnover	8	1,132,136	163,364,121,000	23,051,944,088	41,631,981,005

From table 4 above it is to be noted that the profitability average was Ksh. 4,058,054,840 with the lowest value being a loss of Ksh. -2,706,595,000, highest value being at Ksh. 31,871,303,000 and standard deviation of Ksh.7,068,655,7801; asset base average was Ksh. 39,116,854,229 with the lowest value being at Ksh. 357,764, highest value being at Ksh. 225,009,295,000 and standard deviation of Ksh 57,237,761,791; and sales volume turnover average was Ksh. 23,051,944,088 with the lowest value being at Ksh. 1,132,136, highest value being at Ksh. 163,364,121,000 and standard deviation of Ksh 41,631,981,005.

Table 5: Descriptive statistics

	Skewness statistic	Skewness Standard error	Kurtosis statistic	Kurtosis Standard error
Profitability	2.361	.374	6.109	.733
Asset base	1.564	.374	2.084	.733
Sales volume turnover	2.369	.374	4.646	.733
Valid 8 (list wise)				

The measure of asymmetry shows that all the predictor variables were skewed to the left because all the values obtained were less than 3, with values of 2.369 sales volume turnover, 2.361 for profitability and 1.564 for asset base. The measure of peakness shows that profitability has the steepest distribution more than a normal distribution as it has a kurtosis statistic of more than 3 its value was 6.109, followed sales volume turnover with a value of 4.646 and asset base with a value of 2.084.

4.3 Regression results

A multiple regression was conducted on the listed firms at the NSE who had issued initial public offering and data was collected over the period of 2011-2015. A 95% confidence level and 5% significant level was undertaken. Coefficient of multiple determinations (R²) was used to explain the variation in the dependent variables.

4.3.1 Coefficient of Determination

Table 6: Model Summary

Mode	R	R square	Adjusted R square	Standard error of estimate
	.370	.137	.065	.474

Coefficient of determination explained the degree to which the dependent variable (IPO) changed that could be explained by the independent variables. The three predictor variables explained a 6.5% variation in IPO performance, thus indicating that the other 93.5% symbolized the factors which weren't researched upon for this study.

4.3.2 Analysis of Variance

In order to establish the strength of the model in explaining the relationship between the dependent variable (IPO performance) and the independent variables (profitability, asset base and sales volume turnover). The study conducted an Analysis of Variance (ANOVA). The results were as follows:

Table 7: Analysis of Variance

Model	Sum of squares	df	Mean square	F	Sig
Regression	1.287	3	.429	1.909	.146
Residual	8.088	36	.225		
total	9.375	39			

a. Dependent Variable: IPO performance

b. Predictors: (Constant), Sales Volume Turnover, Asset Base, Profitability

The significance value 0.146 is more than 0.05, thus revealing to us that the independent variables, doesn't provide accurate explanation for the degree of change of the dependent variable which is IPO performance at the Nairobi Securities Exchange.

Table 8: Correlations

	IPOSUCCESS	PROFITABILITY	ASSETBASE	SALESVOLUME TURNOVER
IPO SUCCESS	1	.097	.299	.213
PROFITABILITY	.097	1	.457	.860
ASSET BASE	.299	.457	1	.460
SALES VOLUME TURNOVER	.213	.860	.460	1

Correlation analysis above displays Pearson coefficients which were tested at 0.05 level of significance. From table 3 above we can find that asset base has the highest correlation to IPO success with a value of 0.299 followed by sales volume turnover which has the second highest

correlation to with IPO success with a value of 0.213, while profitability has the lowest correlation to IPO with a value of 0.0.97

Table 9: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std error	Beta		
(Constant)	.526	.094		5.604	.000
Profitability	-0.000028	.000	-.400	-1.304	.200
Asset base	0.0000245	.000	.286	1.627	.113
Sales volume turnover	0.0000504	.000	.425	1.384	.175

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$$Y = 0.526 - 0.000028 X_1 + 0.0000245 X_2 + 0.0000504 X_3 + 0.094$$

$$Y = 0.62 - 0.000028 X_1 + 0.0000245 X_2 + 0.0000504 X_3$$

According to the regression coefficient Table 3, taking all factors (profitability, asset base and sales volume turnover) constant at zero, IPO performance will have an autonomous value of 0.526. The results shows that when all the predictor variables are at zero, a unit increase asset base will lead to a 0.0000245 increase in IPO performance, a unit increase in sales volume turnover will lead to a 0.0000504 increase in IPO performance and the results also yielded that a unit increase in profitability would 0.000028 decrease in IPO performance. Based on the stipulated criteria for testing for significance, the study found out that at 5% level of significance all the predicator variables were insignificant since their corresponding probability values were more than significance level ($\alpha=0.05$).

4.4 Discussion of findings

This study tried to show whether there was a relationship between profitability, asset base and sales volume turnover, from the general findings of the regression analysis imply that the relationship between profitability and IPO performance was a negative one meaning that there was no correlation between profitability and IPO performance and that the relationship between asset base and/or sales volume turnover and IPO performance was a positive one hence there was a correlation between them. This is explained by the values received in the Pearson correlation coefficient table where asset base had the highest correlation to IPO success with a value of 0.299 followed by sales volume turnover which has the second highest correlation to with IPO success with a value of 0.213, while profitability has the lowest correlation to IPO with a value of 0.097. The Coefficient of determination explained the degree to which the dependent variable (IPO performance) changed that could be explained by the independent variables, the overall adjusted R-Square of the regression was low with a value of 6.5% denoting that the strength of association between the three variables studied were low and that other more factors influence the IPO performance. From the regression equation we can see that the independent variables which were under study (profitability, asset base and sales volume turnover) have only a small influence on the dependent variable (IPO performance) being studied with a unit increase asset base will lead to a 0.0000245 increase in IPO performance, a unit increase in sales volume turnover will lead to a 0.0000504 increase in IPO performance and the results also yielded that a unit increase in profitability would 0.000028 decrease in IPO performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 introduction

This chapter brings out the discussions of findings of the study and conclusions which were drawn from it, recommendations to market participants and regulators, limitations occurred during the study and the suggestions for further research.

5.2 Summary of the findings

The objectives of this study were to establish where there existed a relationship between asset base, the relationship between profitability and the relationship between sales volume turnover and the performance of initial public offering. To achieve this objective, data was collected regarding the 8 companies under study that issued IPOs on asset base, profitability and sales volume turnover. The researcher went on to analyse the information using descriptive and regression analysis. From the correlation analysis the study has presented proof that there exists a positive relationship between asset base and IPO performance with the highest correlation value of 0.299, while a correlation value of sales volume turnover and IPO performance yielded a value of 0.213 and between profitability and IPO success had a correlation value of 0.097.

From the regression analysis, the study revealed that 6.5% of change in IPO performance was accounted for by the predictor variables under study as the obtained coefficient of determination (R^2) from the model summary was 0.065. The study further revealed that the regression model predicting the relationship between the IPO performance and the independent variables deduced that holding all the other factors constant, IPO performance would be 0.526 units, a unit increase asset base will lead to a 0.0000245 increase in IPO performance, a unit increase in sales volume turnover will lead to a 0.0000504 increase in IPO performance and the results also yielded that a unit increase in profitability would 0.000028 decrease in IPO performance.

5.3 Conclusion

From the study conducted it can be concluded that the variables which were under study (profitability, asset base and sales volume turnover) played a small role in influencing IPO

performance at the Nairobi Securities Exchange because the variables studied contributed to only 6.5% of variation in IPO performance while the other 93.5% must contribute to the other variables not yet studied. IPOs is still a relatively new concept in Kenya despite the fact that the first that the first IPO in Kenya was issued in 1988 by Kenya Commercial Bank, there have only been 13 IPOs that have been issued to date, when in comparison to other markets like the American market, Rothberg (2012) stated that within the year 2000-2009 they had over 200 IPOs. The NSE market is still very small having only sixty six (66) quoted companies and not very many of them have issued IPO, most of them issue an initial public offering for growth and expansion purposes and Kenyan firms explore other ways of listing at the NSE rather than issuing IPOs.

5.4 Recommendations

The study recommends that investors should also be careful when investing in IPOs not to rush just because the company has a high reputation, like when the Safaricom IPO was issued it was selling at KSh.5 and it did well for a few days but then its share price value went down and it continued going down up to Ksh. 2 and finally a few years later it picked up and today it's at Ksh. 19.95. Investors must understand that the key of IPO success is patience the gains are normally seen after a long time.

The government and regulatory bodies like the Capital Markets Authority to thoroughly audit companies that wish to be listed screening their financial statements especially the five years before going public in order to discourage the management from "window dressing" of their financial statements in order to avoid mis - informing the public on the true financial position of the company been listed, even after they have listed the companies at the NSE they have to be checked if they are making profits and not losses and if they continue making losses yearly they must be told to exit the NSE because it lowers the value of the securities exchange.

5.5 Limitations of the Study

The researcher faced certain limitations when conducting the study, the main one being that the number of firms selected which were eight for analysis and the time period of 5 years. There

aren't very many IPOs which have been done in Kenya when you compare it to the other international markets.

The above research involved data analysis, which may have incurred a lot of errors in the analysis and hence deduction may not be satisfactory. Processing the data to generate the required information proved to be a hardy task; developing the regression model was time consuming. The findings were more difficult to characterize in a visual way.

The data regarding the firm's profitability, asset base and sales volume was very expensive to obtain that's why the researcher couldn't consider a longer period in the study and could only conduct a five year study.

5.6 Suggestions for Further Research

The researcher suggests that further studies need to be done to determine the influence of variables such as corporate governance, share price, age of the firm, level of debt or equity, company market share, political events like elections, corporate governance, government's privatization programs, global economic crises and the flow of foreign direct investment and its relationship with initial public offering performance.

Further studies should define the various public issues with the need for the company to take out an IPO. There is need to go on further to explain the advantages of an IPO and analyze in detail the IPO Scenario as well as go on to explain the evolution of the IPO in Kenya and explain how the scene has changed dramatically.

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APPENDICES

Appendix 1: List of firms who issued IPOs

Company	Shares on Issue	Year of Issue	Issue Price	Sum Raised	Subscription level
Ordinary Shares	Year/Month		KShs	KShs.	%
Mumias sugar company	300,000,000	2001 November	6.25	1,125,000,000	60
KenGen	658,900,000	2006 April	11.9	7,840,910,000	333
ScanGroup	69,000,000	2006 June	10.45	721,050,000	620
Eveready	63,000,000	2006 Aug	9.5	598,500,000	830
Kenya Reinsurance	240,000,000	2007 July	6.5	2,280,000,000	334
Safaricom	10,000,000,000	2008 June	5	50,000,000,000	532
Co-operative Bank of kenya	701,000,000	2008 October	9.5	5,400,000,000	81
Britam Holding	660,000,000	2011 September	9	3,515,103,000	60

Appendix 1: List of Companies Listed at the Nairobi Securities Exchange

NO.	AGRICULTURAL	NO.	
1	Eaagads Ltd	37	E.A.Portland Cement Ltd
2	Kakuzi Ord.5.00	38	ENERGY AND PETROLEUM
3	Limuru Tea Co. Ltd	39	KenGen Ltd
4	Rea Vipingo Plantations Ltd	40	Kenol Kobil Ltd
5	Sasini Ltd	41	Kenya Power & Lighting Co Ltd
6	Williamson Tea Kenya Ltd	42	Total Kenya Ltd
	AUTOMOBILES & ACCESSORIES	43	Umeme Ltd
7	Car and General (K)		INSURANCE
8	Marshalls (E.A.)	44	Britam Holdings Ltd
9	Sameer Africa Ltd	45	Liberty Kenya Holdings Ltd
	BANKING	46	CIC Insurance Group Ltd
10	Barclays Bank Ltd	47	Jubilee Holdings Ltd
11	CFC Stanbic Holdings Ltd	48	Kenya Re-Insurance Corporation Ltd
12	Diamond Trust Bank Kenya Ltd	49	Pan Africa Insurance Holdings Ltd
13	Equity Group Holdings		INVESTMENT
14	HF Group Ltd	50	Centum Investment Co Ltd
15	I&M Holdings Ltd	51	Home Afrika Ltd
16	KCB Group Ltd	52	Kurwitu Ventures
17	National Bank of Kenya Ltd	53	Olympia Capital Holdings Ltd
18	NIC Bank Ltd	54	Trans-Century Ltd
19	Standard Chartered Bank		INVESTMENT SERVICES
20	The Co-operative Bank of Kenya Ltd	55	Nairobi Securities Exchange Ltd O
21	COMMERCIAL AND SERVICES		MANUFACTURING AND ALLIED
22	Atlas Development and Support Services	56	A.Baumann CO Ltd
23	Express Ltd	57	B.O.C Kenya Ltd
24	Hutchings Biemer Ltd	58	British American Tobacco Kenya Ltd
25	Kenya Airways Ltd	59	Carbacid Investments Ltd
26	Longhorn Publishers Ltd	60	East African Breweries Ltd
27	Nation Media Group	61	Eveready East Africa Ltd
28	Scangroup Ltd	62	Flame Tree Group Holdings Ltd
29	Standard Group Ltd	63	Kenya Orchards Ltd
30	TPS Eastern Africa (Serena) Ltd	64	Mumias Sugar Co. Ltd
31	Uchumi Supermarket Ltd	65	Unga Group Ltd
32	CONSTRUCTION AND ALLIED		TELECOMMUNICATION AND TECHNOLOGY
33	Athi River Mining	66	Safaricom Ltd
34	Bamburi Cement Ltd		REAL ESTATE INVESTMENT TRUST
35	Crown Berger Ltd	67	Stanlib Fahari I-REIT
36	E.A. Cables Ltd		