

**A SURVEY OF FACTORS THAT INFLUENCE THE CHOICE
AND SUCCESS OF EQUITY RIGHTS ISSUE AS SOURCE OF
FINANCE FOR LISTED PUBLIC COMPANIES IN KENYA**

BY

CAROLINE J. CHEPTOO

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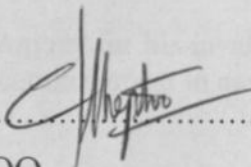
MR MOSES N. NYANGU

DEPARTMENT OF FINANCE AND ACCOUNTING, FACULTY OF BUSINESS

UNIVERSITY OF NAIROBI

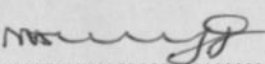
DECLARATION

This management project is my original work and has not been submitted for a degree in any university for the award of a degree.

Signed.......... Date.. 27/11/06.....

CAROLINE J. CHEPTOO

This management project has been submitted for examination with my approval as the University Supervisor.

Signed.......... Date..... 28/11/06.....

MR. MOSES N. ANYANGU

DEPARTMENT OF FINANCE AND ACCOUNTING, FACULTY OF COMMERCE

UNIVERSITY OF NAIROBI

DEDICATION

Dedicated to my Husband Aggrey for his invaluable support and my parents Luka and Sally for planting the seed of educational quest in me.

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I thank the Almighty for the abundant blessing and the Gift of Patience that has seen me to this end. Much appreciation goes to all those who offered me moral and practical support in the production of this work. I am very grateful to my supervisor Mr. Anyangu, Senior Lecturer, University of Nairobi, for the guidance and advice he gave me right from proposal writing to the final project.

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1. Background

ABSTRACT

The Capital markets have created much interest amongst corporate entities and individual investors in Kenya and the East African region. The interest of the Corporate bodies is the use of equity as a source of financing and to the general investor it is the general intricacies of stock exchange investment that has generated interest. This study has objectively focused on Equity rights issue . The main objective of the study was to identify the factors that influence rights issues as a method of financing for listed public companies.

To achieve this, data was collected from 14 companies that had issued rights issues between 1989 and 2005. The study revealed that profitability of the firm plays a major role in evaluating the sources of finance and that timing of future cash flow is the main factor considered for choosing of rights issue as a source of finance. The proceeds of the rights issue is used to finance further investment. The rights issue is preferred because of its low cost of funding.

The second objective was to determine what influences the success of rights issue in Kenya. Experience of the underwriter was cited as the main reason for their choice which in turn influences the success of the rights issue.

CHAPTER ONE – INTRODUCTION

1.1 Background

Ngugi and Wambua (2004) state that there is a significant relationship between interest rates and the liquidity in the money market. Other factors like fluctuations in the price of crude oil have also significantly influenced the consumption of goods and services causing a drop in the income of most companies. This subdued economic growth has created a strain in the world money markets. They further state that the high interest rates are as result of high interest risk, which they indicate was at 89% of the interest charged. Interest risk has affected the cost and availability of credit in Kenya and other developing countries.

In Kenya, the economic recovery strategy for creation of wealth and employment has failed to spur growth. Investment levels in 2005 have remained low at 13.4% of GDP. This low GDP has been blamed on lower levels of confidence, high interest rates and insecurity. In regard to this, the national levels of savings have fallen to about 9.8% of the GDP. Listed and Non-listed companies have experienced difficulties in raising funds in this subdued economy. The Institute of Economic Affairs of Kenya (2005) has indicated that the high corporate tax regime of about 30% and the double-digit inflation levels has affected the savings and profits of companies. According to the Central Bank of Kenya's monthly economic report overall inflation increased to 15.21% in the year to July 2005 from 14.97% in June 2005 and 13.62% in April 2005. The report attributes this to the rise in oil prices. Oil prices in the international market rose to about \$75 in August 2005.

Kenya as a country has no policy on mobilization of mass savings. The harnessing of savings by financial institutions has been vital in the creation of credit. Nganga (1999) has argued that credit or bank borrowing remains a very vital source of funding by corporate institutions. Titman and Wessels (1988) quotes Donaldson and Brealey (1984) who postulate that firms prefer raising capital first from retained earnings, second from debt and third from equity. Nganga (1999) argues that the expectations of the shareholders will push the management to maximize their returns and increase the market value of their firms.

The Capital Markets Act of Kenya (2002) stipulates the guidelines on corporate governance and the various rules that govern the sourcing of funds from the Kenyan financial markets. Since 1970 when the defunct African Tour and Hotels Company floated the first rights issue, Kenya has seen a significant growth in the use of rights issues as a source of financing. Titman and Wessels (1988) like Myers and Majluf (1984) have argued that equity financing is more attractive to firms than debt. The attached appendix 1 indicates Kenyan firms, which have used equity as a source of long term financing.

Myers and Majluf (1984) argue that interest rates are the most important indicator of the financing option for the firm. This state of affairs could also apply to Kenya. The implementation of financial sector reforms within the donors' sponsored structural adjustment programs in the 1990s had caused considerable strain on the economy. According Ngugi and Wambua (2004) the cost of borrowing and lending in the early nineties was affected by the high interest rates that peaked at 56% in 1993. This eased out in the early 2003 when the Kenyan government adopted stringent fiscal discipline and a monetary policy that has seen an improvement in the economic performance and a stable interest rate regime. The average lending rate has fluctuated between 18% and 14.1% in the year 2005. An economic growth rate of 4.3% in 2004 has been an indication of the success of the economic reforms.

A poor financial structure, a past regime of non-performing loans forced the rules of prudence in investment have all discouraged financial institutions to invest in government securities other than lending. On the other hand the regulatory requirements of the Central Bank of Kenya have put stringent capital adequacy requirements that have strained the profitability of lending institutions.

Firms in Kenya that have used rights issues as indicated in the attached appendix 1 vary from large to small firms. This size has been considered in terms of turnover and capitalization. This seems to contrast the studies of Gitman (2000) who argued that equity right issues are used by smaller firms whose shares are closely or publicly owned but less traded.

In Kenya, the government has used rights issue to aid its privatization process. The nature of rights issue makes it very easy for a government to privatize particularly for listed state corporations. Equity rights issues are a privilege granted to existing shareholders to buy more stocks from the same company. The attractiveness of this option is the lower price of the stock. The cost of borrowing through rights issues is less than the cost of conventional borrowing. Rights issues offer a long-term cheaper alternative of raising

finances when compared to conventional debt. Borrowing affects profitability of companies since interest expense must be met before the declaration of profit. The volatility of interest rates and donor skepticism has pushed long-term borrowers to consider the use of equity right issues as source of finance in Kenya.

Ng'ang'a (1999) has argued that in the long term, stocks are a good protection against inflation. Fixed income investors are faced with the challenge of inflation. According to the Expectancy Theory, anytime the annual rate of inflation is expected to decline, the yield curve must be downward sloping and vice versa if inflation is expected to rise. Equity investors in particular will need to consider the long-term monetary and fiscal policies before investing in securities. Linking securities to the inflation will lead to lower yields as explained by the Expectancy Theory of the yield curve that has been stated above. The Expectancy Theory will apply to the first option a shareholder has to take up all the rights allotted to him so as to benefit from the anticipated positive developments in the company. Unlike bonus issues, which increase the number of shares without a corresponding increase in assets, rights issue brings in new money into the company.

1.1.1 The Rationale for Equity Rights Issues

Rights issues are a way for companies to raise capital. They do this by issuing shares and giving existing shareholders the first priority (Right) to buy in proportion to their existing shareholding. McClure (2000) defines a rights issue as an invitation to existing shareholders to purchase additional new shares in the company. This type of issue gives existing shareholders securities called "rights". These are rights that allow shareholders to purchase new shares at a discount to the market price on a stated future date. The company is giving shareholders a chance to increase their exposure to the stock at a discount price.

A rights issue is made in the following circumstances; To finance further investments, to replace short-term debt capital that has caused the company to become over geared and to take advantage of favorable market conditions to obtain equity finance i.e. fewer shares will have to be issued when share prices are buoyant and there is greater chance the issue will be taken up fully.

According to Pandey (1999) a Right also called "a subscription right" or a "pre-emptive right" is a privilege granted by a company to its shareholders to buy a new share in proportion to what they already own.

have. A pre-emptive right entitles a shareholder to maintain his proportionate share of ownership in the company.

Both the Companies' Act 1985 and Stock Exchange listing regulations require companies to offer new issues of shares to existing shareholders before offering them to the public. It is the main method of making new share issues in the same proportion as their current ownership. Thus, if a shareholder owns 1% of the company's ordinary shares, he has pre-emptive right to buy 1% of new shares issued. In a rights issue therefore, the existing shareholders have the right to apply for new shares in a fixed proportion for example, one right for every five shares held or one right for every ordinary share. At the end of the exercise the shareholding structure remains unchanged.

According to Van Horne et al (1975), holders of Rights have three choices: first he can exercise them and subscribe for additional shares, secondly he can sell them as they are transferable and thirdly he can simply do nothing and let them expire or lapse. The latter usually occurs only if the value of the right is negligible and if the shareholder owns only a few shares of stock. The attractions of making a 'right' over a public issue are varied. The proportionate ownership of existing shareholders are preserved and therefore their control over the company. A rights issue is also more likely to be successful because it is being offered to committed shareholders. The costs of issue are much lesser than for a public issue. A broader equity capital base provides further scope for future borrowing.

When the issue is agreed, each shareholder is sent a 'rights' letter outlining his or her entitlement to new shares. She may then accept the offer or renounce the privilege and sell the 'rights' through a broker or to the company. A renounceable allotment letter is enclosed with the offer to the shareholder; a time limit is placed upon the receipt of acceptances. Even if the share price is depressed, existing shareholders may be willing to subscribe for the issue because they will retain their same proportionate holdings. According to Van Horne et al (1975) a Right Issue does not benefit a shareholder since it does not affect the shareholders wealth. The Right represents merely a return on capital. Pandey (1999) states that the Rights issues have no effect on the shareholders wealth, which he receives in form of the value of a right, he loses in the form of a decline in share price. His wealth remains unaffected when he exercises his rights or sells them. However according to Gupta (1981), a shareholder will lose from the Right issue if he does not exercise or sell his Rights.

Pandey (1999) also states that the subscription price of a right is irrelevant in terms of the impact on the shareholder's wealth, which it can be fixed at any level below the current market price. The primary objective in setting the subscription price low is that after the rights offering the market price should not fall below it.

1.1.2 Equity Rights issues in Kenya

According to Akumu (2005) Companies, governments and municipalities are always in need of extra funds for financing extra activities. This extra income is always hard to secure. Particularly in the Kenyan context as the cost of funds is very high. For example family business may use family relations to raise those funds, whereas governments may borrow from multinational agencies and other governments. However, for companies it is rather difficult because of the independence between owners and managers.

In Kenya, listed public companies, the decision to raise more capital requires the approval of the shareholders, the regulatory authorities, the listing bodies and the parent ministries. Should these companies decide to use the existing shareholders for additional long-term capital a rights issue comes into effect.

Most of the public companies quoted at the Nairobi stock exchange (NSE) have used rights issue as a method of raising funds since 1970 when the defunct African Tours and Hotels Ltd issued the first rights issue. In recent years some Kshs. 100 million to 2.45 billion have been raised in this way each year on the NSE serving to indicate the importance of equity rights issue as a topic in corporate finance in Kenya.

In Kenya a listed company can make rights offering to its shareholders after meeting the requirements specified by the regulators who include: The Capital Market Authority (CMA) and the Nairobi Stock Exchange (NSE), the Treasury and Central Bank of Kenya (CBK). The regulatory requirements of the Capital Markets are drawn from the Capital Markets Authority Act Cap 485A and rules, regulations and guidelines issued under the same act as well as the listing and trading rules of the Nairobi Stock Exchange as approved by the Authority (CMA)

Capital Markets Authority (CMA) issues the operating rules and regulations to govern all aspects of equity offering. CMA regulates the equity offerings in order to ensure proper and appropriate disclosure of information for the benefit of investing companies and shareholders. Financial institutions wishing to offer rights issue must also get additional authority from Central Bank of Kenya (CBK) in line with Banking Act. Before a Rights issue is made, a listed company must also seek approval to issue the Rights from the existing shareholders through a special resolution or annual general meetings. The allotment procedure for the Rights is subject to the existing regulatory requirements as set out by the Capital Markets Authority Act and the Banking Act.

The normal method of making rights issue as per the CMA regulations, for a company is to send an explanatory letter to each shareholder accompanied by a provisional allotment letter (PAL) in respect to the shares each shareholder is entitled to apply for and a copy of the information memorandum. The letter contains detailed notes on the procedures to be followed when handling the Right. The PAL normally has attached to it a form of acceptance and a form of renunciation so that a shareholder is in a position to exercise his Rights to apply for all or part of the shares or to renounce all rights or the balance to some other person. The information memorandum contains detailed report on the status of the company and the growth prospects that help the shareholder or other investors to make informed investment decision regarding the investment.

Before the issues closing date the shareholders as well as those who have renounced them will complete the acceptance or application forms and send them to the company registrar along with the banker or stockholders cheques as payment for the shares. Failure to return PALs by the closing date will mean that the right to acquire the share lapses.

Unsold rights can be disposed off in a number of ways: First, by offering them to interested shareholders; second; by placing them with an underwriter who take up all the unsold rights – this is done to ensure that the issue is fully subscribed, and thirdly to only accept the amount subscribed for. In Kenya, companies, which issue Rights, use dealers called placement agents or arrangers. They provide the issuing company with a comprehensive service in two main ways:

- i) Arranging which include; preparation of prospectus and detailed financial analysis, seeks approval or CMA on behalf of the issuer, explains to prospective investor how the funds will be used and provides background information on issuing company.

- ii) Placement – this involves the actual selling and buying of the Rights at Nairobi Stock Exchange bourse.

1.2 Statement of the Problem

Several factors have been cited for the choice of rights issue as a source of funding. Akumu (2005) has argued that rights issue, as a source of finance is the most possible convenient way to raising funds for firms that may be facing liquidity problems.

Njoroge (2004) argues that rights issues have several advantages when compared with other sources of finance. She argues that rights issues are cost effective and have an intrinsic value to the firm that issues them. In her findings she concluded that rights issues could positively or negatively affect the value of the shareholders wealth. On the other hand Eckbo and Masulis (1992) have argued that indirect costs like capital gains and the cost of the rights transaction are some of the hidden costs that make rights issues disadvantageous to the firm. Russell (1999) indicates that large corporations in Asia prefer to use other sources of finance other than rights issues. Handley (1995) and Marsh (1979) both cite rights issues as the preferred source of financing large listed companies in Australia and Europe. Several reasons have been cited for this preference. Jensen and Meckling (1986) argue that the profitability of the firm and the obligation to pay dividends will determine the source of finance.

In Kenya the choice has been determined by other unique factors. Wahome (2004) argues that privatization of state corporations has been instrumental in determining the source of financing. It has also been used to bring in strategic investors into the company.

Nyangweso (2003) studied how a rights issue in a firm will affect the financial statement before and after the issue. The subsequent study by Njoroge (2004) was concerned with the price movements of the individual stocks after the announcement dates.

1.3 Objectives of the study

The objectives of the study are:

- (i). To establish the factors that influence rights issues as a method of financing for listed public companies in Kenya
- (ii). To determine what influences the degree of success of rights issues in Kenya.

1.4 Importance of the Study

This study will be important for the following reasons:

- a) It will help the CMA and other regulators in the formulation and administration of regulations governing right issues.
- b) It will explore reasons that influence firms in Kenya to use right issues as a means of raising funds.
- c) Investors/shareholders will be able to understand the reasons to the market for this option and how it will affect their ownership.
- d) It will help predict what companies that may use equity right issues as a source of funding.
- e) It will assist the government to manage its divesture programme.

CHAPTER TWO- LITERATURE REVIEW

2.0 Introduction

According to Van Horne et al (1975), financial decision-making entails corporate decisions that are made by the corporate entity. A Corporate entity comprises; the real assets of the firm, which include land, equipment and machinery, stocks and how the assets are provided – This is through the issue of financial securities. These are instruments issued to investors to be able to avail money (funds) to the firm.

In financial decision making the concern is therefore choosing the appropriate asset mix and suitable financing mix of the firm. These decisions are made through the management team. In making financial decisions the management is therefore faced with two main problems that revolve around the investment problem (using the funds) and, the financing problem (acquiring the funds). The financial manager's task is to acquire and use funds so as to maximize the value of the firm.

2.1 The Financing Problem of the Firm

Brigham and Gapenski (1988) state that the financing problem of the firm involves planning for and obtaining funds to permit effective use in maximizing the value of the firm. The questions to be addressed include; which source of funds should the firm use i.e. should a firm opt for short-term or long-term financing? The firm should also consider the cost of the funds – the lower the cost the better. Another important factor to consider is the timing of cash flows i.e. are they likely to come in when they are required? Finally, what is the convenience of the source? Will it impose fixed or variable obligations on the firm? Fixed obligations may not be chosen if future earnings are not due.

Van Horne .et al 1975 indicates that there are two major sources of funding options to the firm. These sources can be categorized as long -term and short- term. This categorization is dependent on the financial need, term of the debt and cost of capital. Short-term capital is acquired when a firm needs to finance its working capital. Sources of short-term capital include bank loans and commercial paper. The maturity date for these type of debt instruments is less than a year and they are not attractive to most firms since they put a strain on the earnings of the firm. Equity financing, corporate bonds, long term loans, project financing, lease and hire purchase are forms of long term financing. This study surveys the use of equity rights issue as a source of long- term financing.

Many of these questions are dictated by necessity but some require in-depth analysis of the financing alternative, their costs and their long run implications. The goal of the firm is to maximize the shareholder's wealth. The shareholder's wealth is measured by the share price of the stock, which in turn is based on the timing of returns (cash flows).

When considering a financial decision, alternative or possible actions in terms of its impact on the share price of the firm stock, the financial manager should accept only those actions that are expected to increase the share price. This is because share price represents the owners' wealth in the firm. Share price maximization is consistent with owner-wealth maximization.

2.2 Factors Considered in Choosing Sources of Finance

Pandey (1999) recognizes that financing or capital structure decisions are a significant managerial decision, which influences the shareholders return and risk. The financial Manager must consider and evaluate the alternative sources of financing available and their relative costs as well as their effect on the firms' financial risk, when evaluating the alternative sources of capital, the financial manager should remember that the firm is an economic unit whose objective is maximization of the net economic gain accruing to its owner.

According to Pandey (1999) the capital structure decisions begin with the making of a capital budgeting decision, which brings about the need to raise funds so as to finance positive net present value projects. A demand for raising funds generates a new capital structure since a decision has to be made as to quantity and forms of financing. This decision will involve an analysis of the existing capital structure and the factors, which will govern the decision at present.

Van Horne et al (1975) also recognize that capital budgeting decision is directly related to the financing decision because acceptance of investment proposal depends on how these proposals will be financed. That the discount rate is the vehicle by which to judge the attractiveness of an investment opportunity. This discount rate is the cost of capital of the firm. They therefore suggest that because the firm is valued as an overall entity it is appropriate to associate specific methods of financing with specific investment opportunities. That for most firms the sources of funds employed vary overtime and a company cannot

continually finance with debt without building its equity base either through the retention of earnings or through the sale of common stock. It is the overall mix of financing overtime that is important.

Shapiro (2002) has indicated that in selecting appropriate strategy for financing companies must consider the availability of different sources of funds and the relative costs and effects of these sources on the firms operating costs. That the key variables in the evaluation include the firm's capital structure (debt-equity mix). Van Horne et al (1975) suggests that the financial structure decision is about the financing mix with the financial manager comparing various sources of financing so as to maximize the value of the share.

The dividend decision is also in a way a financing decision. Dividends represent that part of current earnings that is distributed to the shareholders. Pandey (1999) states that the company's policies to retain or distribute earnings affect the owner's claim. Whatever is retained in the business can be used to finance business investments. How much of the earning are available to finance investments therefore depends on the dividend decisions of a company.

Public companies use many types of financing for their operations and investment projects. Financing can come from the issue of common equity, use of retained earning or external borrowing. External borrowing could either be on short-term or long-term. Short-term external sources include bank borrowing, overdrafts, and commercial paper; long-term external sources include long-term loan (debts), equity financing and issuing of corporate bonds.

According to Van Horne et al (1975) three factors need to be considered by companies in situations in which external funding is required. These are, the analysis of the funding needs of the firm, the financial condition or profitability, and the analysis of the business risk to the firm. They suggest that these factors should be considered jointly.

The nature of the funds needs of the firm influences the type of financing that should be used. If there is a seasonal component to the business this lends itself to short-term financing that is bank overdrafts and short-term loans in particular. The basic business risk of the firm also has an important effect on the type of financing that should be used. The greater the business risk the less desirable debt financing is when compared to common stock financing. Equity financing is safer in that it puts no contractual obligation to pay interest and principal as with debt. A firm with a high degree of business risk will be ill advised to

take on considerable financial risk as well. The financial condition and performance of the firm also influences the type of financing that should be used in that the greater the liquidity, the stronger the overall financial condition and the greater the profitability of the firm the more risk that can be incurred with respect to the type of financing. This means that debt financing becomes more attractive with improvement in liquidity and profitability.

Titman and Wessels (1988) have stated that the past profitability of a firm and hence the amount of earnings available to be retained should be an important determinant of its current capital structure.

The pecking order theory proposed by Myers (1984) views the firm as preferring internal financing to external financing. In the event that the positive net present value investments of a firm require funds to be sourced externally the safest sources are preferred. The order starts from safer debt, riskier debt and finally to equity. Donaldson (1961) studies the financial structure of companies and found out that managers favoured use of equity earnings, and have little regard to cost of financing. Donaldson (1961) and Brealey and Myers (1984) suggest that firms prefer raising capital first from retained earnings second from debt, and third from issuing new equity. According to Myers (1977) this behaviour may be due to costs of issuing new equity such as transaction costs. The past profitability of a firm and hence the amount of earnings available to be retained is therefore an important determinant of its current capital structure.

The pecking order theory also has a linkage of the challenges posed by asymmetric information. The theory explains that if the firm acts in the interest of its existing shareholders, the announcement of a new equity issue is negative news that leads to the fall in share prices. This is in contrast to a repurchase of equity to issue debt since the market believes that management has superior information this decision is considered a signal for optimistic future prospects and the share price rises.

The future cash flows expected by the company is also a key determinant of whether a firm should use debt or equity financing. Where the cash flows are expected to be high and stable, a firm could be optimistic and take on debt with the comfort that it can manage to service the principal and interest cost payments. During a regime of high interest rate in an economy, the risk of the firm facing difficulties in servicing debt payments is high enough to influence owners to choose equity financing instead of debt.

Morris (1976) suggests that in determining what type of debt financing to use the approach is to use short-term debt when there exists a positive covariance between the net operating income and the expected future interest rates. Use of short-term debt in such circumstances reduces the risk borne by shareholders and increases the value of equity.

According to Hengel (2005) the 'cost' being referred to is the measurable cost of obtaining capital. That with debt this is the interest expense a company pays on debt. With equity, the cost of capital refers to the claim on earnings, which must be afforded to shareholders for their ownership stake in the business. The advantage of the fixed-interest nature of debt can also be a disadvantage since if a company fails to generate enough cash; the fixed cost nature of debt will affect the earnings of the firm.

Another approach suggested by Myers (1977) was the use of agency costs, whereby optimal financing can be achieved in terms of agency costs. Debt and equity holders need secure interest in the firm to reduce debt and shareholders conflict. Shareholders of a company that has positive net present value (NPV) projects to invest in will not get maximum benefit accruing from such investments if the company has used long-term debt in its capital structure. This is because part of the benefits accruing from the investments will pass on to the debt-holders in form of reduced default risk since the positive NPV projects are expected to increase profitability and improve cash flow. If such a firm had used short-term debt the likelihood is that such debt will have fallen due and be repaid by the time the company receives the benefits of investing in the positive NPV projects whose full benefit is now enjoyed by the shareholders. This therefore means that as leverage increases, the debt-holders agency costs increase and as leverage decreases the equity holders' agency costs decline. To the financial managers therefore, the decision on financing should aim to achieve an optimal structure where the two costs are equalized.

According to Brigham and Gapenski (1988), the static trade-off theory brings out the issue of the tax shield created by the use of debt since interest on debt is taxable. By increasing debt in its capital structure, the firm gains higher tax shield, which leads to the rise in the firm's market value. Use of more debt however brings with it other costs such as agency costs of debt and the likelihood of financial distress. These costs cut into the benefits accrued from the tax shields eventually leading to reduced market value of the firm. According to the static trade-off hypothesis a firm's optimal debt ratio is usually determined by a trade-off between the costs and benefits of borrowing holding the firm's assets and investments plans constant. The firm is therefore portrayed as balancing the value of the interest tax-shields against various costs of bankruptcy or financial embarrassment. The firm should thus substitute debt for equity or equity for debt until the value of the firm is maximized.

The size of the firm is also an important factor when considering source of finance. Ang, Chua and McConnell (1982) suggest that relatively large firms tend to be more diversified and less prone to bankruptcy. This means therefore that large firms are more highly leveraged. Hengel (2005) states that

companies are never 100% certain what their earnings will amount to in the future (although they can make reasonable estimates), and the more uncertain their future earnings, the more risk presented. Thus companies in very stable industries with consistent cash flows generally make heavier use of debt than companies in risky industries or companies who are very small and just beginning operations. New business with high uncertainty may have a difficult time obtaining debt financing, and thus finance their operations largely through equity.

Smith (1977) also argues that the cost of issuing debt and equity securities is also related to firm size. In particular, small firms pay much more than large firms to issue new equity and even more to issue long-term debt. This suggests that small firms may be more leveraged than large firms and may prefer to borrow short-term (through bank loans) rather than issue long-term debt because of the lower fixed costs associated with borrowing short-term.

According to Titman and Wessels (1988) small firms use more short-term finance than large firms because the former expect to incur large transaction costs when they issue securities. Most capital structure theories argue that the type of assets, owned by a firm in some way affects its capital structure. Arguments put forth by Myers and Majluf (1984) suggest that firms may find it advantageous to sell secured debt. They demonstrate that these may be costs associated with issuing securities about which the firm's managers have better information than outside shareholders. Issuing debt secured by property with known values avoids these costs. For this reason, firms with assets that can be used as collateral may be expected to issue more debt.

Titman and Wessels (1988) also suggests that the uniqueness and classification of the industry are relevant to capital structure decisions. They present a model in which a firm's liquidation decision is linked to its bankruptcy status. That customers, workers and suppliers of firms that produce unique and specialized products probably suffer relatively high costs in the event they liquidate. Their workers and suppliers have specific job skills and capital and their customers may find it difficult to find alternative servicing for other relatively unique products. Titman also suggest that firms that make products requiring the availability of specialized servicing and spare parts will find liquidation especially costly. Therefore according to Titman firms with relatively unique products and those manufacturing machines and equipment should be financed with relatively less debt.

2.3 Equity Rights Issues Outside Kenya

Marsh (1979) states that in most European countries quoted companies raise virtually all their new equity capital via the rights issue method. He further states that in the UK, in 1975 London Stock Exchange changed its rules to allow companies to raise equity via placing subject to shareholder approval.

Russel (1999) argues that rights issues are not a popular source of capital in Asia since the companies are relatively small and a right issue could put pressure in family finances. He also blames the complicated levels of bureaucracy and poor regulatory environment for this. Amongst other factors that could affect rights issues in Asia are pre-emption rights that have been used in Indonesia to fight dilution. This together with recapitalization has pushed companies in Asia to use right issues as a source of funding.

Handley (1995) states that the majority of rights issues undertaken by companies listed on the Australian Stock Exchange are underwritten whereby the underwriter for a fixed fee assumes the risk of a shortfall in subscription for the new shares on offer.

Majority of equity rights issues in the world are underwritten. Handley (1995) states that equity capital remains the most used method to raise funds by listed Australian companies. He further states that most of these issues are underwritten so as to guarantee firms. Levy and Sarnat (1971) examined underwriting contracts in relation to 679 seasoned new equity issued by companies listed in the New York stock exchange in the period between 1982-1985 and concluded that the pricing mechanism for the underwriting of rights risk was very competitive in the USA.

In his study though, Handley further argues that as an alternative to underwriting companies can reduce the risk of a failed issue by setting the offer price at a sufficiently lower rate. In Australia, companies normally reduce their risk by entering into sub underwriting deals. The sub underwriting of issues will minimize risks for issuing companies by through the sub underwriting agreements. In case of a failure by the shareholders in exercising their rights the underwriter will minimize his exposure by offloading the risk on the sub underwriters.

2.4 Factors That May Influence the Success of Equity Rights Issues

The success of a rights offering is influenced by the subscription price; the amount of discount; the size of the capital outlay in relation to shareholder's existing ownership of the stock, the mix of existing shareholders; the trend and tone of the stock market; standby arrangement; privileged subscription versus public issue.

According to Levy and Sarnat (1971) if the market price of the share should fall below the subscription price, shareholders will obviously not subscribe to the stock for they can buy the shares in the market at a lower price. Consequently, a company will set the subscription price at a value lower than the current market price to reduce the risk of market price falling below it.

Van Horne et al (1975) states that the risk that the market price of a share will fall below the subscription price is a function of the volatility of the price of the company's share, the tone of the market and the expectation of earning. Therefore the greater the discount from the current market price, the greater the probability of a successful sale of shares. A discount of between 15% and 30% on the current market price has been made on past issues.

Guthmann et al (1962) states that the size of the capital outlay in relation to the shareholders lasting ownership of the stock will influence the success of the offering because shareholders are likely to be more willing to subscribe to an issue amounting to a 10% addition to the stock they presently hold than to an issue amounting to a 50% addition.

Van Horne et al (1975) states that the mix of existing shareholders will influence the success of the offering in that if a substantial number of shareholders hold only a few shares, the success of the offering may be less than if most shareholders hold units.e.g institutional versus individual investors. To avoid all risk a company can set the subscription price so far below the market price that there is virtually no possibility that the market price that there is virtually no possibility that the market price will fall below it. According to Van Horne et al (1975) the greater the discount from the current market price the greater the value of the right and the greater the probability of a successful sale of shares. As long as the shareholder does not allow the right to expire, theoretically he neither gains nor loses by the offering. It might seem

visible to set the subscription price at a substantial discount in order to assure a successful sale. However the greater the discount the more shares that will be issued to raise a given amount of money required and the greater the dilution in earnings per share. This dilution may be an important consideration for the investors as it analyses closely the growth trend in earnings per share (EPS). Significant under-pricing of a new issue may excessively dampen the growth trend in earnings per share (EPS) and result in a low price/earnings ratio in the market.

Moreover if the company wishes to maintain the same dividend per share, under-pricing which will result in more shares issued, will increase the total amount of dividend the company will need to pay and lower its coverage ratio. The disadvantage of under-pricing must be balanced against risk of market price falling below the subscription price. The primary consideration is selling the subscription price to reduce probability of this occurrence to a tolerable level. If then the subscription price results in excessive dilution the company should consider a public issue where the amount of under-pricing usually is less.

The current trend and tone of the stock market according to Van Horne et al (1925) also affects the success of the offerings in that if the trend is upward and the market is relatively stable, in this upward movement the probability of a successful sale is quite high. That the more uncertain the stock market the greater the under pricing that will be necessary in order to sell the issue. According to Van Horne et al (1975) a company can insure the complete success of Rights offering by having an investment dealer or group of investments dealers "stand by" to underwrite the unsold portion of the issue. For this standby commitment the underwriter charges a fee that varies with the risk involved in offering.

Ross et al (1996) defines standby underwriting to refer to a situation where the underwriter makes a firm commitment to purchase the unsubscribed portion of the issue and the subscription price less a small take-up fee. The underwriter usually receives a standby fee as compensation fee for his risk-bearing function. The fee consists of two parts; (i) A flat fee, (ii) an additional fee for each unsold share of stock that the underwriter has to buy. From the standpoint of the company issuing the shares, the greater the risk of an unsuccessful sale, the more desirable a standby arrangement although it is also more costly.

Smith (1977) calculated the issuance cost from three alternative methods viz: An equity issue with underwriting, a rights issue with standby underwriting and lastly pure rights issue. The result of his study showed the total costs as a percentage of the proceeds as 6.17%, 6.05% and 2.45% for the three

alternatives. This means that a pure rights issue is the cheapest of the three alternatives. If corporate executives are rational, they will therefore raise equity in the cheapest manner. The above evidence suggests that the issue of pure rights should dominate, but surprisingly Smith states that over 90% of new issues are underwritten. This is viewed as an anomaly in the finance profession. He further states that underwriters increase the stock price because of the increased public confidence or by the selling effort of the underwriting group. Since the underwriter buys the shares at the agreed price, he is providing insurance to the firms that may fail to sell all the shares. This potential loss might mean that the underwriters' effective compensation is less. The potential economic loss is probably not large because in most cases the offer price is set within 24 hours of the offering by which time the underwriter has made a careful assessment of the market for the shares. The underwriter provides a wider distribution of ownership than would be true with a pure rights offering. Consulting advice from investment bankers acting as underwriters is beneficial. Some stakeholders find exercising rights a nuisance and mostly let them to expire.

According to Booth and Smith (1986) the underwriter certifies that the offering price is consistent with the true value of the issue. This certification is implied in the underwriting relationship and is provided when the underwriting firm gets access to the inside information and puts its reputation for correct pricing on the line. Smith (1977) states that the cost of underwriting include; legal fees, accounting fees, trustee fees, engineering fees, printing and engraving expenses, security and exchange commission registration fees, federal Revenue stamps, state taxes and compensation received by investment bankers for underwriting services rendered.

Ross et al (1996) argues that a small percentage (less than 10%) of shareholders fail to exercise valuable rights, shareholders are usually allowed to purchase unsubscribed shares at the subscription price. This over subscription privilege makes it unlikely that corporate issue would need to turn to its underwriter for help.

According to Van Horne et al (1975) a privileged subscription compared to a public issue influences the success of an offering that by offering shares first to existing shareholders the company taps investors who are familiar with the operator of the company as a result a successful rate is more probable than the current market price to reduce the Risk of market price falling below it.

2.5 Activity Level for Equity Rights Issues

Since 1970 when the defunct African Tours and Hotels issued the first Rights issue 35 listed companies have raised funds through rights issues. Companies which had previously borrowed from its main shareholders opt for rights issues as they desperately need urgent funds. According to Akumu (2005) this is a paper transaction that shifts the money from its previous classification as loan to equity.

Rights issue, as a source of funds has proved advantageous to many listed companies in Kenya. A rights issue has been used to bring strategic investors to a company. This happened in the market when Express Kenya Limited used Rights issue to bring in a strategic partner, Flowerwings Limited into the group. Akumu (2005) however argues that Uchumi Supermarket as a public listed company was forced to opt for a Rights issue after failing to attract a strategic partner, he argues that the company was in desperate need of short-term finance to restructure and reposition itself in the retail business.

Rights issues have also been used as means to reduce influence from one shareholder for example in the 1990s many banks in Kenya went under due to some disturbance of such ownership structure and internal struggles. To control undue influence from one or more majority shareholder a rights issue can be arranged in such a way that the design would drastically bring down the majority shareholding to acceptable levels because after the exercise the other shareholders or new investors would increase their new stake in the firm. In the financial bill of 2004 however the Finance Minister is seeking to regulate the ownership structure of financial companies. The bill touches on regulation of ownership in banking and non-banking financial institutions. In the proposal no single shareholder may own beyond 5% of the institution unless the Central Bank has approved such and the investor has declared his intention for such moves.

Rights issues as an option of raising funds has also recently increased since its advantageous to the government of Kenya as a divesture programme. Akumu (2005) states that apart from raising capital from Rights Issues the government has been able to ease out of the ownership of loss making ventures.

The government that had previously invested heavily in state corporations has been able to sell the extra shares at a premium and in the same vein surrender its current shares without affecting the ownership structure and the balance of the management of these companies. Since the majority shareholder who is the government holds the share in trust for the public, it is advisable that the public should buy the floated extra shares as the government and other majority shareholders stay out of the issue. The sale of the public companies would also increase the diversity of ownership by indiscriminately offering shares to diverse groups in the market.

The advantage of this arrangement is that the number of shares available in the market increases. This could be advantageous to the firm in three ways: -

- i) The stocks become liquid because there are more shares than before
- ii) The percentage of government ownership is drastically reduced. This increases the public and other investors level of shareholding and their participation through the annual general meeting
- iii) For corporations or companies that are fully or partially owned its the surest way of increasing public ownership and improve decision making levels.

The government of Kenya has used this strategy on a number of occasions to divest from parastatals that are listed. Since the Kenyan government embarked on its privatization programme by selling shares and raising money nothing has accrued to the state corporations. This strategy has worked well as long as the parastatals did not need additional funds. However, the reality is that many current organizations do need a lot of funds to either to expand and restructure.

Akumu (2005) indicates that the level of activity of sourcing funds via the Rights issue option has also recently increased as most companies listed at the Nairobi stock exchange use it as a way of raising exceptional funds. When companies want additional funds they can raise them through many ways, which could either be through debt or equity.

2.6 Response Level to Equity Rights Issues

Asquith and Mullins (1986) have argued that the market response to the news of seasoned equity offerings differs substantially across countries according to issuing methods. In countries with developed

capital markets and large ownership dispersions such as the U.S., the stock price reaction is negative for general cash offers and less negative for rights issues. Tsangarakis (1996) has further argued that in countries with less developed capital markets and large ownership concentration such as Greece, Italy, Korea, and Singapore, the reaction to rights offerings, industries consistently large and positive. It is also important to note that these countries also have a higher gross domestic product (GDP) growth. This disparity suggests that the mixed evidence on Rights offerings may reflect different economic and institutional characteristics of the associated countries.

Markets respond differently to announcements of seasoned equity offering due to various reasons, first, the institutional arrangements that firms use to raise new equity. One option is to use a general cash offer, which enables any member of the public to subscribe. This method permits the possibility of wealth transfers from new to old shareholders, arising from the information asymmetry between the management and outside investors. For this reason Myers and Majluf (1984) predicts a negative stock return to equity offerings. Another option is a rights offering. This approach allows firms existing stockholders to buy additional shares, in proportion to their current holdings, at a price usually lower than the current market price. The market may respond differently to these options because rights offerings are much less expensive than general cash offers. This cost savings result from lower underwriting commissions and other transaction and administrative costs.

The second explanation for differences in market reaction to seasoned equity issues involves the information effects. Researchers often ascribe the negative effect of announcement of seasoned equity offerings to the adverse selection problem that arises when managers are better informed than outside investors. Based on the results from U.S. data this adverse selection problem is greater for a firm committing the seasoned equity offers than the rights offerings. According to Heinkel and Schwartz (1986), as well as Eckbo and Masulis (1992), managers of firms using equity rights offerings have more favourable private information than do those firms choosing firm commitment offerings. Hence, the market reaction to announcement via a rights offering should be less negative than a cash offer. Miller and Rock (1985) predict a negative stock price reaction to equity issues because the market perceives them as releasing negative information about the firm's cash flows.

In a world where symmetric information exists, firms should issue new shares under two situations. When they have highly profitable investments that cannot be financed by other means or when managers believe the shares are overvalued.

Jensen (1986) in his free cash flow hypothesis states that the access to funds from issuing additional stock increases the amount of discretionary cash available to managers. Discretionary cash availability increases the likelihood of over investment by management that means accepting investment projects with negative NPVs. An equity issue not dedicated to positive NPV investments would also increase the agency costs from free-cash flows. Because investors recognize this, they may view the announcement of the sale of new as an unfavourable signal.

According to price-pressure hypothesis, selling pressure drives down a firms share price when it announced plans to issue new shares. Thus the market may respond negatively when mature firms with limited growth opportunities announce their intension to issue new shares.

Several factors may alter the negative information effect. For example the high shareholder participation might mitigate adverse selection problems of rights offerings. In Singapore rights offering are the norm except when unseasoned firms go public and list their shares in the Singapore Stock Exchange (SES). Because no active secondary markets exist for the unsubscribed rights, there is no dilution from outside parties buying at the current price and insiders are buying at the discounted price. A large proportion of existing shareholders participate in the rights issues, which substantially reduces the adverse-selection costs described by Myers and Majluf (1984). In Italy, Bigelli (1998) also found out that active insiders could lead to a pro rata underwriting of newly issued shares.

Kalay and Shimrat (1987) argue that economies with very high growth rates may interpret rights issues as favourable news about the firm's investment opportunities. This is because existing shareholders must commit the additional capital. Right issues attest to the stockholders confidence in their own firms' future particularly if the shares are closely held. Therefore, investors may perceive rights as a signal that the firm has discovered new positive NPV projects, which would cause a positive valuation of the firm's shares.

Mikkelson and Partch (1986) has argued that investors may also recognize that emerging firms with limited capital but good growth opportunities often must raise external equity to increase their investment outlays in positive NPV projects. This is true if lenders downplay debt financing for high growth and

risky projects. Consequently investors may not view the announcement of new stock offerings by such companies with as much concern as those offerings by mature firms with unlimited growth opportunities. In Singapore for example the economy has been growing rapidly over three decades with average GDP growth rate of about 7.5% Thus investors view right offering as signaling favourable investment opportunities.

A third explanation for the market reaction to equity issues involves the economic conditions under which a firm raises additional equity. Jensen's (1986) argues that, firms that raise new equity during recessions may increase the likelihood of over investment. This tendency is less severe during economic booms because substantial growth opportunities during boom years may lead to an upward valuation of stocks. Finally Jensen (1986) argues that other institutional differences may account for the different responses to seasonal issues within different markets. For example rights offering involve less scrutiny by financial markets than general cash offers. Routine financial disclosure requirements imposed on firms in non- U.S. markets are less restrictive than in the U.S. Stock offering in these markets provide an opportunity for increased information about firms, which has positive value. Also unlike the practice in U.S. firms in international markets announce the offer price, on average, two months before the issue date.

Khan and Ariff (1998) state that restrictions to foreign ownership create segmented markets in Singapore as well as in India and Finland. These restrictions make the domestic securities less liquid than if they were permitted to trade with the rest of the world. As a result the price elasticity of demand for securities is smaller than in the US.

Tsangarakis (1986) argue that in Korea and Greece, for many publicly traded firms either the state or a few members of a single family own the majority of shares. To sustain their percentage ownership, the shareholder will approve stocks issues only if the firms prospects for profitability are promising. This implies that in countries with less developed capital markets and ownership concentration investors may view the announcement of rights offering as providing good news.

Loderer and Zimmerman (1988) and Tsangarakis (1996) further argue that the announcement of stock offering should not necessarily reveal an overpricing of the outstanding shares in such markets, unlike the case of some developed markets that the stock price effect should be positive if the purpose of the capital increase is the finance unanticipated positive NPV projects, such projects should be less abundant during recessions than during non-recessions.

Tsangarakis(1996) quoting Nelson(1965),indicate that share prices six months after the rights offering of the company are not significantly differently from the prices six months earlier. This observation of the response levels closely compares with the findings of Schole (1972) who observed the effects of rights offering in the USA and concluded that the prices of shares generally rise before the issue and then don't change after the issue. Marsh (1979) analyzes rights issues in the UK and concluded that there is a large positive abnormal return on a companies share when there is a hint of a rights issue in the market.

Asquith and Mullins (1986), Kalay and Shimrat (1987), Masulis and Korwar (1986), Mikkelson and Partch (1986) and Smith (1986) using prior studies relying on US data all report that investors react negatively to announcements of seasoned equity offerings. They fund a significant price reduction of about 2% to 3 % to announcements of general cash offers by seasoned firms.

Several non-U.S studies generally report a positive stock price response to the announcement of rights offerings especially in less developed and institutionally different capital markets. In his analysis of rights in the UK, Marsh (1979) finds large positive abnormal returns before the announcement of the issue, but a statistically insignificant setback in the months surrounding the issue. Ball, Brown and Finn (1977), Berglund, Liljebloom and Wahlroos (1987), Kang 1990) Tsangarkis (1996), Bohren, Eckbo and Michalsen (1997) provide evidence of a non-negative price effect around rights offering announcements in Australia, Finlands, Korea, Greece, and Norway respectively.

Several recent studies in the U.K. for example, Levis (1995), using a sample of first equity rights issues in the UK made after an initial public offerings reports a significant negative three-days cumulative abnormal returns (CARs) equal to -1.33 percent. In their examination of UK reactions of stock prices on announcement date of right issues, Wolfe, Dalia Kopoulos and Gwelyn (1999) report a significantly negative two-day CAR of - 2.67 percent.Slovin, Sushka and Lai (2000) show that rights offering in the UK characterized by high shareholder take-up (participation) do not affect firm value, while rights offerings that elicit lower shareholder take-up have significantly negative announcement effects.In Singapore Dawson (1984) and Ariff and Finn (1989) report that positive price effects are associated with announcements of Rights offerings, their evidence may however no longer apply because the structure of the Singapore market has changed since the mid-1980s due to delisting of a large number of firms from a neighbouring economy and growth thereafter.

Information effects, economic conditions and institutional effects also influence market response to views of rights offering public listed companies in Kenya. Kenyan Companies that issue rights will always set a benchmark for success. Main shareholders issuing the rights must sit outside the issue. This is pertinent especially in these main shareholders have advanced money to the firm that are issuing the rights as in the case of Unga Group Limited in 2000 and Uchumi supermarkets Ltd in 2005. These shareholders are allowed to turn the loan into equity.

According to Wahome, (2004) Many public listed firms, the majority of the shares are owned by the state, issues of rights offering has therefore been seen as good news especially because it has become evident that the best way to privatize the state corporations especially those that need new funds for development and expansion is to do a Rights issue. The process reduces the Government shareholding but more importantly enables the corporation to raise the funds it needs for development. For example in the Rights issue by KCB Group limited in 2004 whose aim was to raise 2.45 billion additional capital to recapitalize the Bank, the government reduced its shareholding by 10% by denouncing its rights. The Rights issue reduced the Government shareholding to 25 % down from the original 35%. KCB shareholders expected to receive a good discount on the rights issue because it represented a practical dilution of the shareholdings. The KCB rights issue was therefore good news to the investors as it effectively provided an opportunity for the existing shareholders, non-shareholders as well as foreign investors to buy those rights. It also presented a win-win case for the privatization process. The KCB rights issue was over-subscribed by Kshs. 400 million.

Information effects also affect the market response to rights issues. KCB for example issued its rights at the time when it was experiencing a turnaround. The good results of year 2003 assured the investors that the bank could revert to profitability.

Akumu (2005) argues that the institutional Investors act as barometer that will determine the success and sentiments of the market. Institutional effects such as reforms in the capital markets also affect market response to equity offerings in Kenya. According to Mweni (2005) the capital markets tends to have a momentum of its own. That the growth of this sector is clear indicator that Kenya has come of age in terms of its ability to finance its long term financial needs. Reforms in the capital markets have seen organizations achieve their objectives of financing their long-term investments. For example in the 2000 budget the government exempted companies seeking listing from stamp duty, withholding tax was

reduced to 7.5 percent for foreign investors and 5 percent for local investors and was also made final. In the 2004/2005 budgets the government amended the Capital Markets Authority (CMA) Act to protect investors. Investors who wanted to invest at the NSE announcements of new issues (IPO) and additional issues will be good news and as a result most issues tend to be oversubscribed.

Economic conditions also affect market response to equity offerings. For example since the economy started picking in 2003 publicly listed companies have made successful Rights issue for example Express Kenya Ltd in 2003 and KCB Ltd in 2004 whose issues were over subscribed.

The objective of this research is to study the use of rights issues by listed companies in Kenya from 1970 to 2005. The study is limited to the period 1970 and 2005 because of the limited availability of data on rights issues before 1970 and after 2005. The Nairobi Stock Exchange secretariat indicated that 14 listed companies had used equity rights issues as a financing option within this period.

Since 1970 was used because this was the first time a listed company issued Rights

Sampling

The sample was selected to cover the period between 1980 and 2005. This was because most of the companies, which issued rights earlier, didn't have complete information. Secondly the sampling was done to include all firms that used rights issues and were listed at the Nairobi Stock Exchange during the study period. This convenience sampling yielded a sample of 14 companies.

Data Collection

Data was collected from all the firms within the sample using a coded questionnaire. The questionnaire was distributed through desktop pack method administered by the researcher and where possible personal interviews were conducted.

The researcher used a four-part questionnaire. The first part of the questionnaire was used to gather general profiles of the companies in the study. The second part identified factors that influenced the use of rights issues. The third part looked at the rights issues as a source of finance. The fourth part looked at the impact of rights issues on the company's performance.

CHAPTER THREE -RESEARCH METHODOLOGY

3.0 Research Design

This was an exploratory study. According to Ragab et al (1988), this kind of study sought to answer to questions why, who, where, and how of a research question. This study intended to identify and describe the factors that influence the choice and success of rights issues as a method of financing in Kenya.

3.1 Population of the Study

The population of study consisted of all public companies listed at the Nairobi Stock Exchange(NSE) that used equity right offerings as a means of raising funds between the period 1970 and 2005. Records available at the Nairobi Stock Exchange secretariat indicated that 34 listed companies had used equity rights issues as a financing option within this period.

The year 1970 was used because this was the first time a listed company issued Rights.

3.2 Sampling

A sample was selected to cover the period between 1989 and 2005. This was because most of the companies, which issued rights earlier, didn't have complete information. Secondly the sampling confined the study to firms that used rights issues and were listed at the Nairobi Stock Exchange (NSE) by the time of study. This convenient sampling yielded a sample of 14 companies.

3.3 Data Collection

Primary data was collected from all the firms within the sample using a coded questionnaire. The researcher, through drop and pick method administered the questionnaire and where possible personal interviews were conducted.

The researcher used a four-part questionnaire. The first part of the questionnaire was used to gather demographic profiles of the companies in the study. The second part identified factors that influenced the choice of the sources of financing. The third part looked at the rights issues as a source of finance. Lastly the fourth part looked at the success of rights issue as method of finance.

3.4 Data Analysis

Response Rate to questionnaires

The data collected was edited for accuracy, uniformity, consistency and completeness and then arranged to enable coding and tabulation before statistical analysis (cooper and Emery 1995). The data was then analyzed by use of descriptive statistics. Questionnaire responses was analyzed using tables, percentages and bar charts among others to present the demographic information on companies.

3.4.1 Nature of Business



The companies studied were from manufacturing sector while 27% were from Finance & Investment and Industrial respectively. There was 0% from the Agricultural and others sectors that are not shown on the figure above.

Ownership of the firm



The firms under study, 46% were locally owned, 16% were multi-national, 34% were partly foreign and Foreign in the other sub-periods respectively.

CHAPTER FOUR- DATA ANALYSIS AND FINDINGS

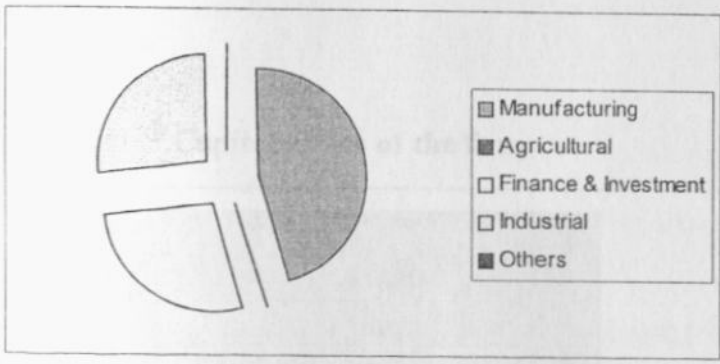
4.1 Preliminary Analysis

4.1.1 Response Rate to questionnaires

A total of 14 questionnaires were issued to various companies for the research. Out of these, 11 questionnaires were completely filled while there was no response in some respondents and some were incomplete therefore excluded from further analysis.

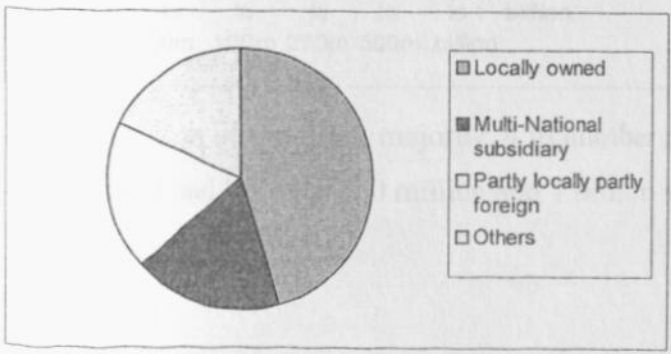
This represented a responsive rate of 79 %. This was considered sufficient for analysis.

Figure 4.1 Nature of Business



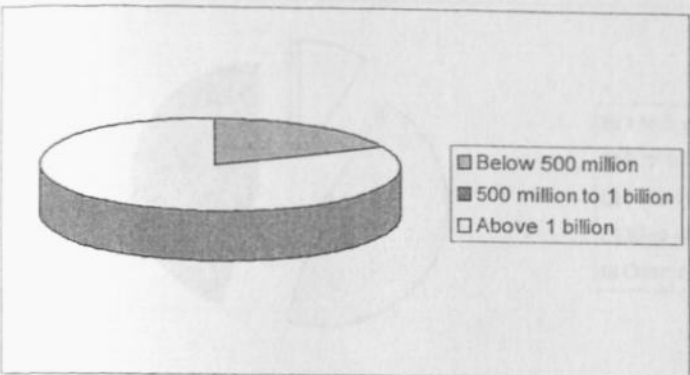
46% of the companies studied were from manufacturing sector while 27% were from Finance & Investment and Industrial respectively. There was 0% from the Agricultural and others sectors thus not represented on the figure above.

Figure 4.2 Ownership of the firm



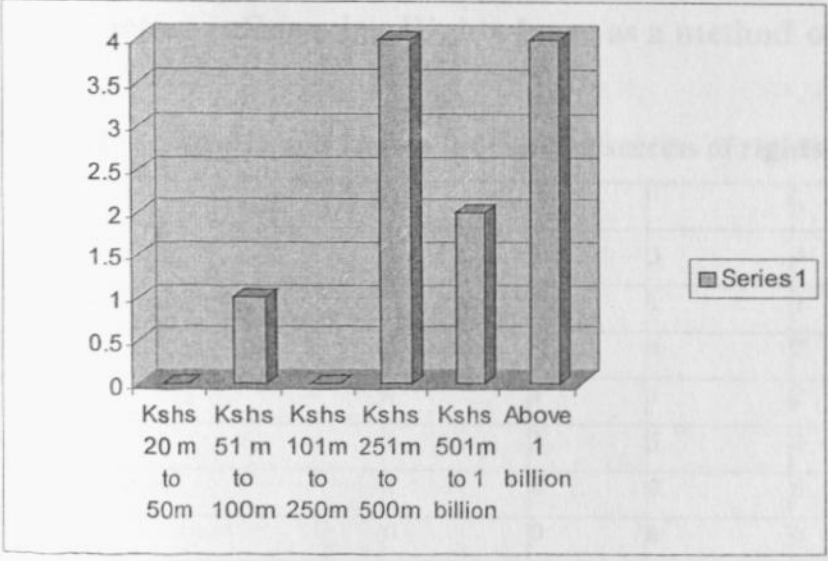
Majority of the firms under study, 46% were locally owned, 18% were Multi-National subsidiary, partly locally partly foreign and Foreign in the other categories respectively.

Figure 4.3 Turnover per last financial report



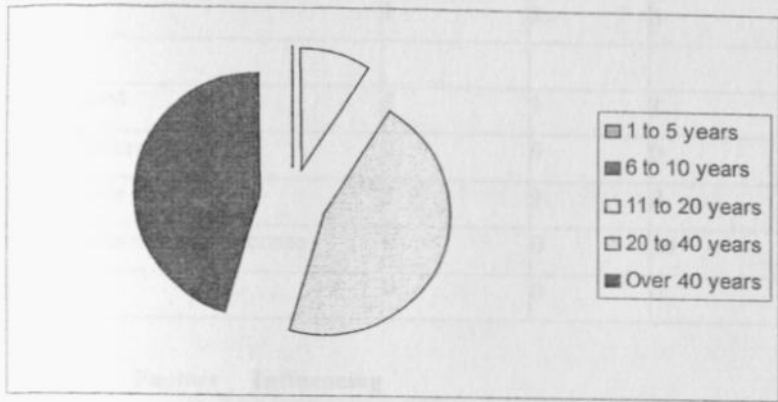
When asked about turnover as per their last financial report, 82% had above 1 billion while 18% had below 500 million while none had between 500 and 1 billion.

Figure 4.4 Capitalization of the firm



On capitalization of the firms, majority, 4 in number had between 251 and 500 million and above 1 billion respectively. 2 had between 500 million and 1 billion while 1 had between 51 million and 100 million.

Figure 4.5 Years in operation



It was found that the companies studied had been in operation for a long time, depicted by 46% who have operated for between 20 and 40 years and over 40 years respectively. 8% had operated for between 11 and 20 years.

4.2 Factors influencing Rights Issue as a method of financing

Table 4.1 Choice and factors influencing success of rights issue

	1	2	3	4	5	%	Ranking
Source of funding							
Retained earning	5	3	1	1	0	73%	1
Debt	0	1	4	2	0	9%	4
Equity	4	4	1	2	0	73%	1
Debt/Equity	1	3	5	1	0	36%	3
Strategic Investors	1	0	0	5	1	9%	4
Others	0	0	0	0	0	0%	6
Key variables in evaluation of sources of finance							
	1	2	3	4	5		
Capital structure	1	2	7	0	0	27%	3
Dividend policy	0	0	2	9	0	0%	4
Nature of debt	0	8	0	0	0	73%	2
Profitability of the firm	10	1	0	0	0	100%	1
Others	0	0	0	0	0	0%	4

Preference for the chosen source of finance	1	2	3	4	5		
Cost of capital	8	1	1	1	0	82%	2
Timing of future cash flow	2	9	0	0	0	100%	1
Fixed/variable cost	1	1	0	9	0	18%	3
Impact on shareholders income	0	0	10	1	0	0%	4
Others	0	0	0	0	0	0%	4

Table 4.2 Factors Influencing Success of Rights Issues

	1	2	3	4	5		
Purpose of rights issue							
Finance further Investment	10	1	0	0	0	100%	1
Place short term debt	0	0	8	2	0	0%	4
Favourable market	1	1	1	7	0	18%	3
Finance working capital	0	9	1	1	0	82%	2
Others	0	0	0	0	0	0%	4
Choice of rights issue							
No security required	0	6	1	1	0	55%	2
Cost of funding is lower	8	1	2	0	0	82%	1
Needed money urgently	0	0	1	8	0	0%	5
Convenience in terms of arrange	0	4	5	2	0	36%	3
Others	3	0	0	0	0	27%	4
(To give existing shareholders the first chance to buy shares)							
Influenced by the underwriter							
Experience of the firm	4	5	2	0	0	82%	1
Costs of underwriting	0	0	3	6	0	0%	5
Recommendation of the advisor	5	3	2	1	0	73%	2
Previous relationship	1	1	4	2	0	18%	4
Others	1	0	0	0	0	9%	3

The above table comprise of several factors and their effect. When asked about the preference of source of funding, retained earning and equity were highly preferred followed by debt/equity and lastly strategic investor.

On key variables used in evaluating the company's sources of finance, profitability of the firm was considered very important, followed by nature of debt and then capital structure and lastly dividend policy.

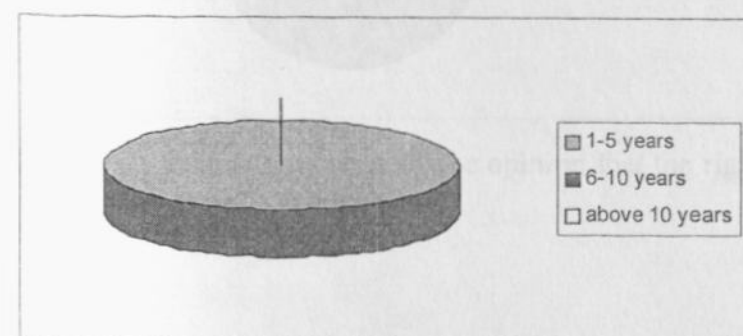
When asked what influenced the preference of the chosen source of finance, timing of future cash flows was ranked as the most important followed by cost of capital, fixed/variable cost and lastly consideration of impact on shareholders income was ranked as the least important.

The most significant purpose of seeking finance by rights issue stated as to finance further investment, followed by to finance working capital, then to take advantage of favourable market conditions and lastly fixed or variable interest was the least significant.

On reasons for choosing the rights issue in preference to other similar long-term sources of finance, lower cost of funding was considered the most important, followed by no security requirement, then convenient in terms of arrangement, to give the existing shareholders the first chance to buy shares was somewhat important in the others category, lastly the least important was cited as the need of money urgently.

When asked what influenced the preference of the underwriter, experience of the firm was cited as the most important followed by the recommendation of the advisor, and then previous relationship and lastly requirements in the other category was the least important.

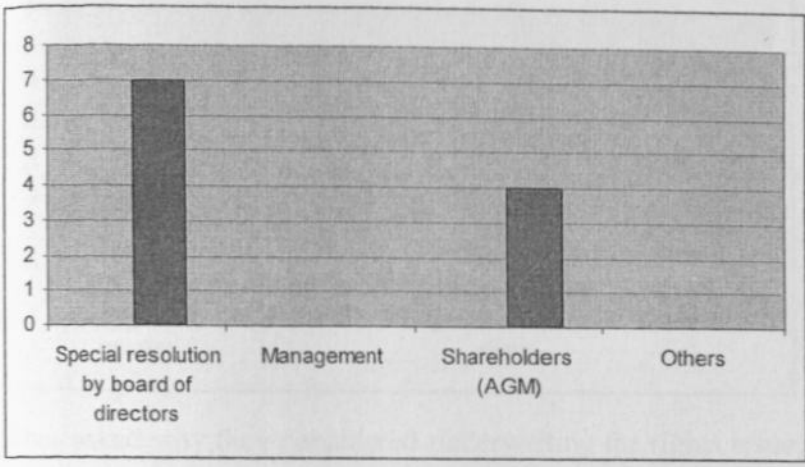
Figure 4.6 Frequency of issue



100% of the respondents had issue rights issue between 1 and 5 times, none had issued more than 5 years.

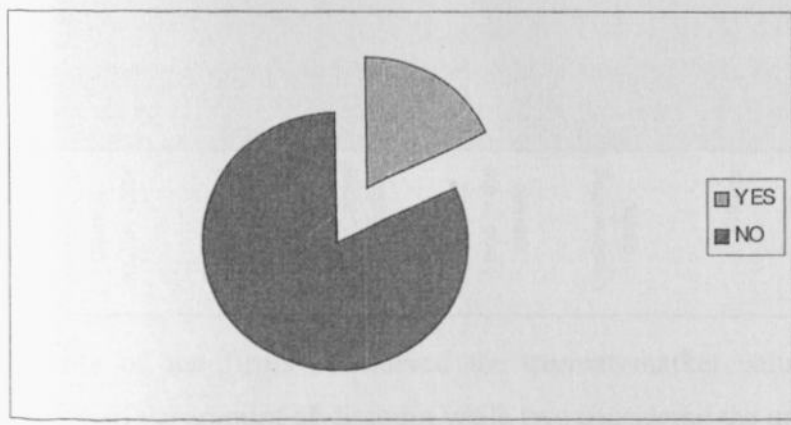
All the rights issue issued were public issues, the study revealed.

Figure 4.7 Approval of decision to raise finance



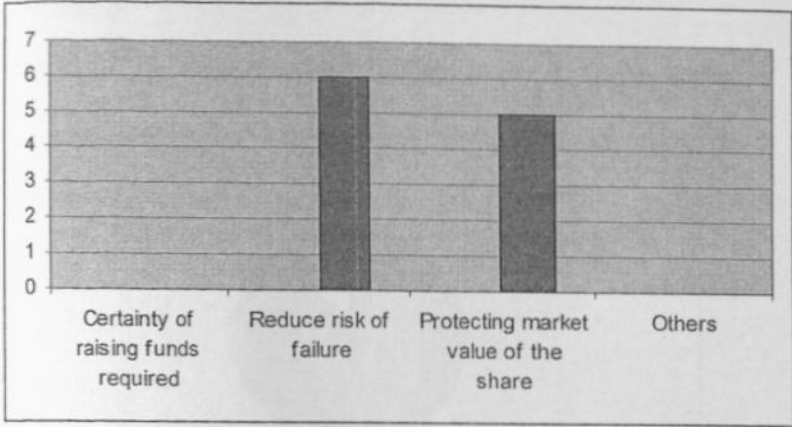
From the study 7 of the respondents said the decision to raise finance was approved by the board of directors while 4 said it was approved by shareholders in AGM.

Figure 4.8 Was rights issue underwritten



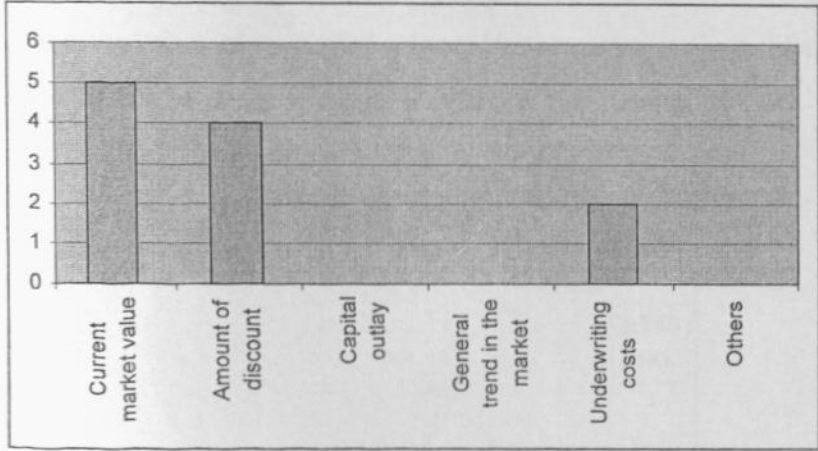
82% of the respondents were of the opinion that the rights issue were not underwritten while 18% said they were underwritten.

Figure 4.9 Consideration for underwriting the rights issue



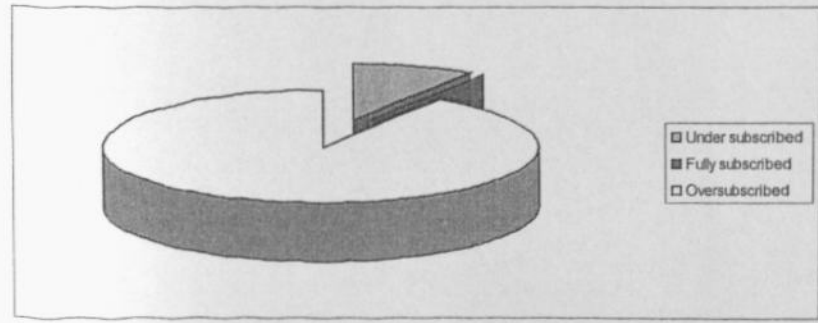
When asked why they considered underwriting the rights issue, 7 of the respondents said to reduce risk of failure while 5 were of the opinion to protect market value of the share.

Figure 5.0 Determined the subscription price



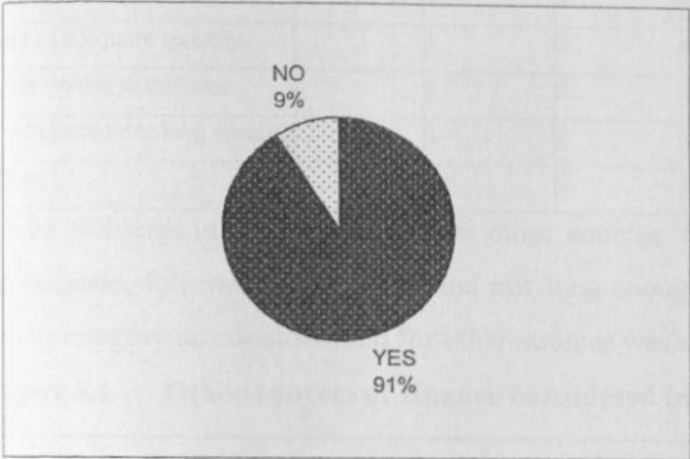
Majority of the firms considered the current market value to determine the subscription price, 4 considered the amount of discount while two considered the underwriting costs.

Figure 5.1 Level of subscription



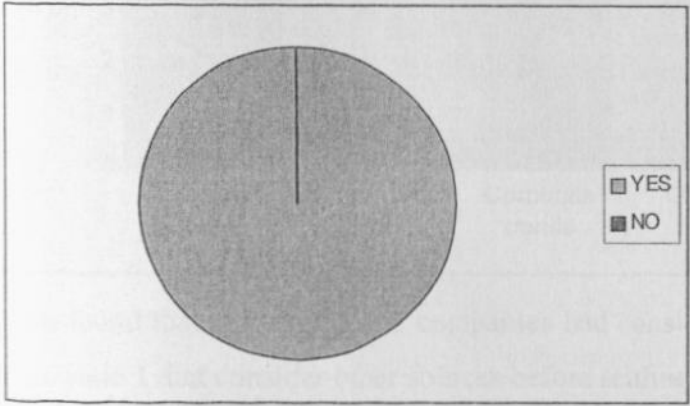
91% of the companies studied their rights issue had been oversubscribed while 9% had been under subscribed.

Figure 5.2 Release information prior to rights issue



91% of the companies studied released information to the public prior to rights issue and only 9% didnt.

Figure 5.3 Access to funds increased the amount of cash



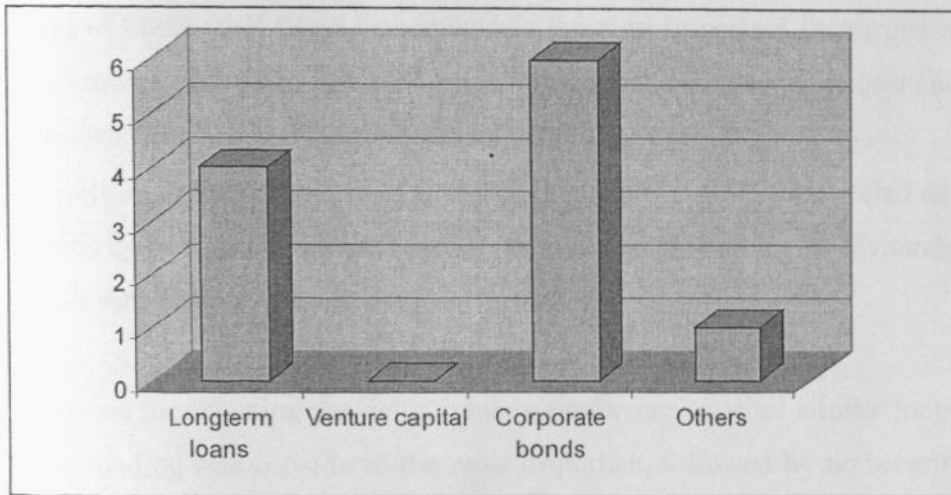
100% of the respondents agreed that access to funds increased the amount of cash available to manager's discretion.

Table 4.3 Problems in raising funds from other sources

	1	2	3	4	5	%	Ranking
Lack of adequate security	1	2	6	0	0	27%	3
Tight lending conditions	8	2	1	0	0	91%	1
Credit period not long enough	1	7	4	0	0	73%	2
Others	1	0	0	0	0	9%	4

Under problems in raising funds from other sources, tight lending conditions was found to be the most problematic, followed by credit period not long enough, then lack of adequate security and lastly in the others category no consideration for other sources was specified.

Figure 5.4 Other sources of finance considered before choosing rights issue



It was found that majority of the companies had considered corporate bonds, 6 of them, and 4 long term loans while 1 dint consider other sources before settling for rights issue.

CHAPTER FIVE-SUMMARY OF FINDINGS AND RECOMMENDATIONS

5.1 Summary of findings

Majority of the companies under study were manufacturing multi-national subsidiaries with over 1 billion turnover and above 1 billion capitalization who had been in business for over 20 years.

The figures and tables in chapter 4 comprise of several factors and their effect. When asked about the preference of source of funding, retained earning and equity were highly preferred followed by debt/equity and lastly strategic investor. On key variables used in evaluating the company's sources of finance, profitability of the firm was considered very important, followed by nature of debt and then capital structure and lastly dividend policy.

Timing of future cash flows was ranked as the most important factor that influenced the preference of the chosen source of finance followed by cost of capital, fixed/variable cost and lastly consideration of impact on shareholders income was the least important.

The most significant purpose of seeking finance by rights issue stated as to finance further investment, followed by to finance working capital, then to take advantage of favourable market conditions and lastly fixed or variable interest was the least significant.

On reasons for choosing the rights issue in preference to other similar long-term sources of finance, lower cost of funding was considered the most important, followed by no security requirement, then convenient in terms of arrangement, to give the existing shareholders the first chance to buy shares was somewhat important in the others category, lastly the least important was cited as the need of money urgently.

Experience of the firm was cited as the most important factor that influenced the preference of the underwriter followed by the recommendation of the advisor, and then previous relationship and lastly requirements in the other category was the least important.

All the companies that had issued rights issues between 1-5 frequency level whose decision to issue was approved by special resolution by the board of directors and the issues were successful depicted by the over subscription. The rights issues were underwritten to reduce the risk of failure and the subscription price was determined by the current market values.

The companies released the information prior to rights issue. The proceeds of the rights increased the amount available to manager's discretion. Tight lending conditions was found to be the most problematic when other sources of raising funds was considered, among the other sources corporate bonds was enlisted.

5.2 Conclusions

The main objective of the study was to identify factors that influence rights issue as a method of financing for listed public companies, the type of business, ownership structure, capitalization, years in operation and performance in terms of profitability were found to play a significant role on the choice of rights issue.

On the influence of success of rights issues as the second objective, profitability of the firm played a significant influence. Timing of future cash flows compared to other sources, the purpose of finance being to further investment contributed much to the success of rights issues. Other factors were cost of funding, experience of the chosen underwriter and tight lending conditions for other sources of financing.

5.3 Limitation of the study

1. Limited resource-since the research involved personal delivery of questionnaires to the wide spread large firms, and making follow-ups through telephone contacts, were constraint by finance.
2. Given the nature of the study, the time allowed was not sufficient enough to exhaustively carry out the project.

5.4 Suggestion for further research

1. Given the time frame the research was restricted to companies that issued rights issues only, the researcher recommends a further research that will capture all the companies plus unlisted ones.
2. The study only captured five years time frame, the researcher recommends a further study that will bring out the trend for a longer period probably since the first rights issue to date.

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UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 4184160/5 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 19-07-2006.

TO WHOM IT MAY CONCERN

The bearer of this letter CAROLINE J. CHEPTOO

Registration No: D61/P/8779/00

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

J.T. KARIUKI
CO-ORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

APPENDIX 2: QUESTIONNAIRE

Research Questionnaire for "A survey of factors that influence the choice and success of Equity Rights Issues as a source of finance for listed Public Companies in Kenya".

PART 1: GENERAL INFORMATION ON THE COMPANY

1. Name of the Company.....

2. Date of incorporation.....

3. Nature of Business

i) Manufacturing

ii) Agricultural

iii) Finance and investment

iv) Industrial

Others (specify)

v)

vi)

vii)

4. What is the ownership of your Company?

i) Locally owned

ii) Multi-National subsidiary

iii) Partly local- partly foreign

Others (specify)

iv)

v)

vi)

5. What is the turnover of your company as per last annual report?

i) Below 500 million

ii) 500 million to 1 billion

iii) Above 1 billion

6. Total Assets per last Annual Report.....

7. What is the capitalization of your Firm?

i) Kshs. 20 m to 50m

ii) Kshs 51 m to 100m

iii) Kshs 101m to 250m

iv) Kshs 251m to 500m

v) Kshs 501m to 1 billion

vi) Above 1 billion

8. For how long has your firm been in operation?

i) 1 to 5 years

ii) 6 to 10 years

iii) 11 to 20 years

iv) 20 to 40 years

v) Over 40 years

9. What profit did your Company declare in the past years?

Financial Year	Profit/Loss
2004	
2003	
2002	
2001	
2000	
1999	

PART II: CHOICE OF SOURCES OF FINANCING

10. Please rank the sources of funding listed below in order of preference by ticking in the appropriate box

1.Very high 2. High 3.Neutral 4.Low 5.Very low

	1	2	3	4	5
i) Retained earnings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Bank loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Bank overdrafts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Corporate bonds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
v) Commercial paper	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vi) Rights issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii) Off-shore borrowing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (Specify)					
ix)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
x)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

xi)

11. What are the key variables you have used in evaluating your company's sources of finance? (Please rank them in order of importance by indicating 1,2,3,etc in the boxes.)

1. Very important 2.important 3.Neutral 4.Somewhat important 5.Not important

	1	2	3	4	5
i) Capital structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Dividend policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Nature of debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Profitability of the firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
v) Business risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Others (Specify)

vi)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
viii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. What influenced your company's preference for the chosen source of finance? (Please rank them according to the order of importance by indicating 1,2,3 etc in the boxes)

1.Very important 2.Important 3.Neutral 4.Somewhat important 5.Not important.

	1	2	3	4	5
i) Cost of capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Timing of future cash flows	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Fixed or variable interests rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Consideration of impact on	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

shareholders income

Others (Specify)

v)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vi)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

PART III: CHOICE OF RIGHTS ISSUES AS A METHOD OF FINANCING

13. **When did your Company first issue rights?**.....

14. **For what purpose did your firm seek finance by rights issue? (Please indicate the extent of the significance)**

1.Very significant 2.Significant 3.Neutral 4.Somewhat significant 5.Not significant

	1	2	3	4	5
i) Finance further investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) To replace short term debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) To settle long outstanding creditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) To reduce indebtedness to principal shareholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
v) To finance working capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Others (Specify)

vi)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
viii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15. What problems did your Company have when raising funds from other long-term sources of finance? (Please rank them i.e. 1, 2, 3 e.t.c being most problematic)
 1. Most problematic 2. Problematic 3. Neutral 4 Somewhat problematic 5. not problematic

	1	2	3	4	5
i) Lack of adequate security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) High cost of capital (interest rate)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Tight lending conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Credit period not long enough	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (Specify)					
v)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vi)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

16. What has been the frequency of issue since the first issue?

i) 1- 5 years	<input type="checkbox"/>
ii) 6-10 years	<input type="checkbox"/>
iii) Above 10 years	<input type="checkbox"/>
iv) Not issued since the first one	<input type="checkbox"/>

17. For what reason was a Rights issue chosen in preference to other similar long-term of finance? (Please rank them by indicating the extent of importance)
 1. Very important 2. Important 3. Neutral 4. Somewhat important 5. Not important.

	1	2	3	4	5
i) No security required	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- ii) Cost of funding is lower
- iii) We needed money urgently
- iv) Convenience in terms of arrangement

Others (Specify)

- v)
- vi)
- vii)

18. What was your capital structure before and after the Rights Issue?

Before..... After.....

19. What type of Rights issue was offered?

- i) Private/privileged issue
- ii) Public issue

20. Who approved the decision to raise finance through equity Rights Issue?

- i) Special resolution by Board of Directors
- ii) Management
- iii) Shareholders through Annual General Meeting (AGM)

Others (Specify)

- iv)
- v)
- vi)

21. What problems did the Company experience when raising funds through a Rights Issue?.....

PART IV: FACTORS INFLUENCING SUCCESS OF RIGHTS ISSUES

22. Was your Company's Equity Rights Issue underwritten?

Yes

No

23. What influenced your preference of the chosen underwriter? (Please rank them in order of importance.)

1.Very important 2.Important 3.Neutral 4.Somewhat important 5.Not important

	1	2	3	4	5
i) Experience of the firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Cost of underwriting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Recommendation from the Financial advisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Previous relationship with the underwriter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (Specify)					
v)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vi)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

24. Why did your Company consider underwriting the Rights Issue?

i) Certainty of raising funds required

ii) To reduce the risk of failure of the issue

iii) To protect the market value of the share

Other (Specify)

iv)

v)

vi)

25. What determined the subscription price of your Company's Rights Issue?

i) Current market value of the share

ii) Amount of discount

iii) Capital outlay of the firm in relation to shareholders

existing ownership

iv) General trend in the market

v) Underwriting costs

Other (Specify)

vi)

vii)

viii)

26. What was the level of subscription for the Rights Issue? (Please tick the appropriate box and specify by what margin)?

- i) Under subscribed
- ii) Fully subscribed
- iii) Oversubscribed

27. What was the total shareholders wealth before and after the Rights Issue?

Before..... After.....

28. How were the funds raised by Rights Issue used by the Firm?.....

29. Did your Company release information to the market prior to the Rights Issue?

Yes No

30. Did the access to funds that accrued from the Rights Issue increase the amount of cash available at the discretion of top Management ?

Yes No

31. What amount of dividend did your firm pay to the shareholders before and after the rights issues?

Before.....After.....

Thank you for your cooperation.

APPENDIX 3

LIST OF LISTED COMPANIES AT NSE AS AT 31ST DEC 2005

AGRICULTURE

1. Unilever Tea Kenya Ltd
2. Kakuzi
3. Rea Vipingo Plantations
4. Sasini Tea and Coffee

COMMERCIAL AND SERVICES

1. Cars and General (K) Ltd
2. CMC Holdings Ltd
3. Hutchings Biemer Ltd
4. Kenya Airways Ltd
5. Marshalls (K) Ltd
6. Nation Media Group
7. TPS Ltd
8. Uchumi Supermarket

FINANCE AND INVESTMENTS

5. Barclays Bank Ltd
6. C.F.C Bank Ltd
7. Diamond Finance Company Ltd
8. ICDC Investment Co. Ltd
9. Jubilee Insurance Co. Ltd
10. Kenya Commercial Bank Ltd.
11. National Bank of Kenya Ltd.
12. NIC Bank Ltd
13. Pan Africa Insurance Holdings Ltd
14. Standard Chartered Bank Ltd

INDUSTRIAL AND ALLIED

1. Athi River Mining
2. BOC Kenya Ltd
3. Bamburi Cement Ltd
4. British American Tobacco Kenya Ltd
5. Carbacid Investment Ltd
6. Crown Berger Ltd
7. Olympia Capital Holdings
8. E. A. Cables Ltd
9. E. A. Portland Cement Ltd.
10. East African Breweries
11. Firestone East Africa Ltd
12. Kenya Oil Co. Ltd

13. Mumias Sugar Co. Ltd
14. Kenya Power and Lighting Co. Ltd
15. Total Kenya Ltd
16. Unga Group Ltd

ALTERNATIVE INVESTMENTS

1. EAAGADS Ltd
2. City Trust Ltd
3. Standard Group Ltd
4. A. Baumann & Co. Ltd
5. Express Ltd
6. Williamson Tea Kenya Ltd
7. Kapchorua Tea & Co.
8. Kenya Orchards Ltd
9. Limuru Tea Co. Ltd