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

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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 prefered 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 underwiter was cited as the main reason for their choice which in turn influences the success of the rights issue.