

**THE EFFECTS OF LISTING ON FINANCIAL PERFORMANCE OF COMPANIES
LISTED AT THE NAIROBI SECURITIES EXCHANGE**

BY

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ABSTRACT

In recent times, interest in listing at the stock exchange has assumed high proportions. This is probably due to the great push from the developing countries to the African countries to embrace positive image in order to attract foreign investors and to improve shareholders value. The general objective of the study was to investigate the effect of listing on the financial performance of companies listed in the Nairobi stock Exchange. This study utilized four main theories i.e. market timing theory, capital asset pricing model, arbitrage pricing theory and portfolio theory. The study used descriptive survey research design with the target population being companies listed at the Nairobi Securities Exchange between 2002-2012. Secondary Data was collected from NSE and published financial statements from the companies' websites. Data collected was analyzed using Chi square test. Findings from the study revealed that the $\chi^2 > 5.991$ at 2 degree of freedom show that the results are statistically significant at 5% significance level. The research findings indicate that there is negative relationship between listing and firm financial performance. The implication of these findings is that listing may affect the company's performance negatively. Further research should be carried on similar studies in Kenya so as to analyze the impact of listing on financial performance over a longer time-span. Also in the future, it would be important to investigate to what extent these conditions impact firm performance.

Key words: Listing, Financial performance

DECLARATION

This research project is my original work and has not been presented for any degree or diploma in any other college or university.No part of this work may be reproduced or transmitted in any other form without prior permission of the author and or Nairobi University

Signature _____ Date _____

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Declaration by supervisor:

This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This research project is dedicated to God for granting me life and good health all through my course work and while undertaking this research project.

I also dedicate it to my parents, Mathew and Jane Ruto, and all my siblings for being a constant source of inspiration. They have given me the drive and discipline to tackle the research project with great enthusiasm and determination.

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TABLE OF CONTENTS

ABSTRACT.....	ii
DECLARATION	iii
DEDICATION	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS.....	vi
LIST OF ABBREVIATION.....	viii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.1.1 Listing of companies.....	3
1.1.2 Financial performance	4
1.1.2.1 Performance of listed companies	5
1.1.3 Effects of listing on financial performance.....	6
1.1.4 The Nairobi Securities Exchange.....	10
1.2 Statement of the problem	13
1.3 Objective of the study	14
1.4 Importance of the study	14
CHAPTER TWO	16
LITERATURE REVIEW	16
2.1 Introduction.....	16
2.2 Theoretical review	16
2.2.1 Market timing theory	16
2.2.2 Capital market theory.....	17
2.2.2.1 Portfolio theory	17
2.2.2.2 Capital asset pricing model	18
2.2.2.3 Arbitrage pricing theory.....	19
2.3 Variables of performance of listed firms	20
2.4 The decision to go public.....	21
2.5 Empirical review	23

2.6 Summary	25
CHAPTER THREE	26
RESEARCH METHODOLOGY	26
3.1 Introduction.....	26
3.2 Research design	26
3.3 Population of the study	26
3.4 Data type, source and collection	26
3.5 Data analysis	26
CHAPTER FOUR.....	29
DATA ANALYSIS AND FINDINGS	29
4.1Introduction.....	29
4.2 Brief description of listed firms under analysis	29
4.2.2: Pre and post financial performance of listed companies.....	41
4.3: Chi test results on financial performance.....	46
4.4: Interpretation of findings	50
CHAPTER FIVE	52
SUMMARY, CONCLUSION AND RECOMMENDATIONS	52
5.1 Introduction.....	52
5.2 Summary	52
5.3 Conclusion	52
5.4 Recommendations for Policy	53
5.5 Limitations of the study	53
5.6 Areas for Further Research	54
REFERENCES	55
APPENDIX 1	58

LIST OF ABBREVIATION

AMSE-AMERICAN MARKET SECURITIES EXCHANGE

CMA-CAPITAL MARKETS AUTHORITY

IPO-INITIAL PUBLIC OFFER

LSE-LONDON STOCK EXCHANGE

M/B-MARKET TO BOOK RATIO

NSE-NAIROBI SECURITIES EXCHANGE

NYSE-NEW YORK STOCK EXCHANGE

P/E-PRICE TO EARNINGS RATIO

ROA-RETURN ON ASSETS

ROE-RETURN ON EQUITY

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Capital market is that part of financial market in which trade of long term debts and securities are done by brokers and it includes share/stock market and bond market. The buyers are general public, middle investors, companies and brokers who are interested to invest their money for getting profit in the form of interest and profit from bargaining (Kumar, 2008). Purchases and sales of existing stocks and bonds occur in the secondary market. Transactions in the secondary market do not provide additional funds to the firm. The secondary market increases the liquidity of securities outstanding and lowers the required returns of investors (Kuhlemeyer, 2004). Capital Markets securities such as stocks and long term bonds are often held by financial intermediaries such as insurance companies and pension funds, which have little uncertainty about the amount of funds they have in the future (Mishkin and Stanelly, 2009).

In 1984, a study on the Development of Money and Capital Markets in Kenya was jointly undertaken by the Central Bank of Kenya and the International Finance Corporation with the objectives of making recommendations on measures that would ensure active development and strengthening of the financial sector. This became a blueprint for structural reforms in the financial markets. The Government further re-affirmed its commitment to the creation of a regulatory body for the capital markets in the 1986 Sessional Paper on “Economic Management of Renewed Growth. The CMA in 1989 assisted in creation of a conducive environment for growth and development of country’s capital market (CMA forum, 2005).

Capital markets generate many economic benefits, including higher productivity growth, greater employment opportunities, and improved macroeconomic stability. The ability of companies in their early stages of development to raise funds in the capital markets is also beneficial because it allows these companies to grow very quickly. This growth in turn speeds the dissemination of new technologies throughout the economy. Furthermore, by raising the returns available from pursuing new ideas, technologies, or ways of doing business, the capital markets facilitate entrepreneurial and other risk taking activities. Second, the development of the capital markets has helped distribute risk more efficiently (Dudley et al, 2004).

The capital market has an intricate role to play in mobilizing savings and channeling them into the most efficient investments. Therefore, the capitals markets become a fundamental component of the financial sector in achieving a robust and sustaining economic development. A company lists in the stock exchange in order to raise new equity & reduce debt or to grow business & create wealth or in bid to ensure that they remain a going concern or indeed to provide shareholders with a ready exit strategy. The Capital Markets Authority is further committed to continue consulting with the Government to put in place any additional appropriate measures to support the development and deepening of the Capital Markets as a critical pillar for effective long-term resource mobilization and allocation to the productive sectors of the economy. (CMA forum, 2005). Stock Exchanges provide a market for the trading of securities to individuals and organizations seeking to invest their saving or excess funds through the purchase of securities. Globally, stock exchanges were established for the purpose of facilitating, regulating and controlling the business of buying and selling securities. Also it provides facility for buying and selling securities that have been listed for trading on that exchange (Oditia, 2009).

Enhancing shareholders' wealth and profit making are among the major objectives of a firm (Pandey, 2005). Shareholder's wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decisions (Azhagaiah et al, 2008). Firm performance in this case can be viewed as how well a firm enhances its shareholders' wealth and the capability of a firm to generate earnings from the capital invested by shareholders.

Capital markets in developed countries have grown substantially over the past three decades, experiencing a large boom in the 1990s. The development of capital markets in rich countries has been accompanied by an increasing financial integration across nations. Some of the most developed capital markets in the world are those in Europe and USA. The US market offers both regulated and unregulated capital markets giving investors a choice of both. The capital market in the US include: NYSE, AMSE and NASDAQ. They operate under US securities and exchange commission which is the top regulatory agency responsible for safeguarding the trading of company's shares and protecting US investors. The UK market offers only the London Stock Exchange which is regulated by the UK Listing Authority. Firms listing at the L.S.E must

prepare and disclose financial information in accordance with the US or UK Generally Accepted Accounting Principles or International Accounting Standards (Abdullah, 2008).

Coffee(1999, 2002) argues that firms signal themselves to protect investors by cross listing on both the US and UK regulated exchanges that have the best regulatory mechanisms in the world. This bonding mechanism indicates willingness to be more transparent and reduce risk associated with investment decision making to which information asymmetry represents major obstacle.

Effective capital markets require a firm foundation. This includes the enforcement of laws and property rights, transparency and accuracy in accounting and financial reporting, and laws and regulations that provide the proper incentives for good corporate governance. A well developed financial system is a spur to growth, macroeconomic performance, and more rapid growth in living standards Capital markets have been the driving force behind the development of the UK and US financial systems. (Dudley et al, 2004). To stimulate growth of capital market the Kenyan government has put into place incentives aimed at encouraging both foreign and local investors to participate in the stock exchange. Stock exchange development in Africa is now being promoted, not only to enable investors from the developed nations to peacefully participate in but also being promoted to enable Africans themselves to participate and to enjoy the benefits of liquid and clean markets.

It is therefore the aim of this study is to look at the effects of listing companies at the NSE on financial performance of companies. This study will mainly focus on effects of listing on insurance companies by studying three variables i.e. liquidity, leverage and Profitability(earnings per share).

1.1.1 Listing of companies

Corporations require resources to enable them serve the needs of their customers effectively. This implies that their owners have to go an extra mile to find the funds necessary to sustain their customers. Most common types of long-term financing for firms include long term debt, common stock, preferred stock and retained earnings. Thus firms may borrow or use their own available savings. However, as they continue to expand they resort to borrowing. Equity or debts are the only options at their disposal yet most prefer to use equity because it forms a permanent source of

funding that cannot be easily cancelled. Listing is the admission of a company into a stock market after meeting certain regulatory requirements set by the regulatory authority of that particular country. For a company to be listed it has to be a public company. Cross-listing refers to the listing of ordinary shares of a firm on a different exchange other than its home stock exchange. (Onyuma, Mugo & Karuiya, 2012).

Stock markets provide high-growth, innovative companies with a means of raising large amounts of long-term capital by selling company shares to outside investors. An IPO offers many companies the best way of financing their continued growth and for most venture capitalists is the preferred exit route (best way of profiting from venture capital investment) for their investments. The entry standards imposed for a full listing on traditional stock markets may be too rigorous for young, technology-based companies. Recently, however, a number of initiatives have been taken by traditional stock markets as well as by new market operators to create new stock markets for high-growth, innovative companies. Efficient and liquid risk capital stock markets play a large role as a source of financing for high-growth companies and are necessary for the development of venture capital by offering an exit route for investors. In the United States, the NASDAQ market has been developing for more than twenty-five years and has become the market of choice for raising capital to finance fast-growing enterprise (Rose et al, 2000).

1.1.2 Financial performance

The main objectives of a company are to generate sustainable shareholder value over the long term. Over time, the company needs to generate a return on the capital invested in it and overall the cost of that capital. Measuring performance is a strategic part of any business entity because the in the long run survival of any organization depends on its performance. According to Divenney et al (2008) financial performance encompasses 3 specific areas of firm outcomes: firm performance (profits, return on assets), market performance (sales, market share) and shareholder return (economic value, total shareholder return). Academically, firm performance is the ultimate dependable variable of interest for those concerned with just about any areas of management. March et al (1997), found that roughly 28% of articles in the strategic management

journal, the academy of management journal and administrative science included some measures of firm performance.

Performance is so common in organization research that it is rarely explicitly considered or justified instead it is treated as a seemingly unquestionable assumption (Devinney et al, 2005). Financial performance is derived from or directly related to the company's chart of accounts as those found in the profit and loss statement, balance sheet, cash flow statements. Accounts measures of performance have been the traditional methods of quantitative approach to organization measurement of performance. These measures are considered as lagging since they provide feedback on past performance. Some of these financial measures of performance include: return on assets (ROA), return on investment (ROI), return on sales (ROS), earnings per share (EPS), cash flow analysis, net income, return on capital employed (ROCE) etc.

Greene & Segal (2004) argued that the performance of insurance companies in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity. These measures could be classified as profit performance measures and investment performance measures. However, most researchers in the field of insurance and their profitability stated that the key indicator of a firm's profitability is ROA defined as the before tax profits divided by total assets. Hardwick & Adams (1999), Malik (2011) are among others, who have suggested that although there are different ways to measure profitability it is better to use ROA.

1.1.2.1 Performance of listed companies

Most of these companies have seen their market value decline at the Nairobi bourse over the past six months in a period that has seen the stock market gain 23.3 per cent, aided by the performance of most blue chip firms and increased foreign investor interest. The high profit alerts in 2012 has been driven by the weak local and global economy besides other unique factors that have eroded earnings of individual firms. Agricultural firm Kakuzi joined Longhorn, Eaagads, Express Kenya, Kenol Kobil, Sasini, East African Portland Cement Company (EAPCC), Kenya Airways (KQ), and Kapchorua Tea, which all said their profits would drop by more than 25 per cent in 2012. In 2011, only Total and CMC Holdings issued profit warnings. The increased warnings highlight the challenges corporate Kenya is facing in an economy that is

feeling the weight of expensive credit, high inflation, and political jitters linked to the General Election. EAPCC's share price dipped 31.2 per cent to Sh42 as KQ's share lost 18.5 per cent to Sh12.2. Other firms that recorded share price erosion in the same period include Eaagads and Kakuzi whose shares dropped 30.4 and 12.5 per cent respectively to Sh24.5 and Sh70 a piece. Investors in other companies that have posted strong profit growth have, however, seen their paper wealth rise by double digits, highlighting the negative impact of losses and slow earnings on investor wealth. Safaricom investors have benefitted the most, with the stock's price rising 50.7 per cent over the past six months to Sh4.9, with the company reporting a 98.3 per cent growth in net profit to Sh7.7 billion in first half ended September. City Trust, Pan Africa Insurance, and Standard Chartered Kenya are other top gainers that have seen their share rise by double digits. Eaagads made a net loss of Sh81.4m in the six months to September compared to a profit of Sh26.3 million in 2011 (Nairobi Securities Exchange) . Kenya's listed firms are banking on renewed confidence in the economy in the second quarter to grow their profitability further, after defying a harsh business climate last year to post impressive results in the current reporting period. Of the 11 Nairobi Securities Exchange (NSE) listed firms which had reported their full year results for the period ending December 2012, seven posted double digit growth in profits. An analysis of the full-year results shows that whereas the banking industry continues to post impressive results, firms in other service industries and those in manufacturing are struggling to balance between expansion, stability and shareholder returns, with a good number of the companies opting to suspend dividends payments as they seek to manage their financials (The East African Newspaper).

Kenyan firms view the sub-region as an important market, hence their faith in cross-listing at this early stage and export of expertise. Kenyan cross-listed companies include well-known brands like East Africa Breweries (EABL), Kenya Airways (KQ) Jubilee Insurance Holding (JIH), Equity Bank (EB), Kenya Commercial Bank (KCB), Nation Media Group (NMG) and Centum Investment Company (also in the Ugandan, Tanzanian and Rwandan bourses)

1.1.3 Effects of listing on financial performance

The decision to go public improves the liquidity of a Company's shares as well as the scope for diversification by the initial shareholders of the company. Other benefits realized include

positive public image and better management of quoted companies. Public companies (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors). (Nairobi Securities Exchange).

The main benefits of listing include; source of cheap long-term capital, shareholder protection, positive public image, provision of a ready market for securities, greater liquidity/transferability of securities reduces risk of holding the asset, objective valuation of securities by market forces, greater efficiency due to more rigorous disclosure requirements, greater public profile and awareness of the institution and its products, ability to leverage corporate strength, ready succession and exit strategy (CMA forum, 2005). The rebound NSE coupled with falling interest rates has boosted insurance sector earnings helping reverse the losses. An analysis of listed insurance sector shows that companies recorded a steep increase in investment income and revaluation gains due to 30% rise in value of NSE. Interest rates went down from 28% in 2011 to 18% after tightening of the country's monetary policy (The East African).

Stock markets are only a small part of the overall financial system. However the existence of an equity market is important because it provides investors with an exit mechanism, it attracts foreign capital inflows, it provides important information that improves efficiency of financial system and it provides valuation of companies. A financial system is essential to an economy because it is responsible for resource allocation. Well functioning financial intermediaries may affect positively economic development of a country, through four main channels such as reducing information and transaction costs, improving resource allocation, increasing saving rates, promoting development of markets and instruments that enable risk organic relationship between stock market development and economic growth (Naceur et al, 2007).

The possibility to rebalance the financial structure and improve a company's position relative to its debt holders is found to be another important benefit of going public (Rajan, 1992; Pagano et al., 1998). Capital market development literature indicate that regional integration is important

for stock market development in smaller emerging countries (Demirguic-Kunt et al., 2008, Tahari et al, 2007, Shah et al., 2008). Proponents of cross-listing have argued that regional integration can bring greater efficiency, synergies, and economies of scale; attract the foreign flow of funds; foster risk sharing and portfolio diversification; act as an impetus to financial sector reforms, thereby broadening the competitiveness of regional financial systems and minimizing the risks of financial instability; facilitate capital market development; and lead to economic growth. The differences between quoted and non quoted companies is important from the point of view of financial planning and business valuation as the profitability ratios can be used to predict future profit growth (e.g. Fama and French, 2000) or investor's expectations about future growth. The conditions specific to quoted companies should in a long-term lead to better performance. Among such specifics of quoted companies can be different accounting rules, agency problems and lower information asymmetry between insiders and outsiders compared to the non-quoted companies.

Quoted and non quoted companies can even in specific cases choose different pricing policies. This is closely connected with quality of corporate governance and with the fact that immoral behavior is not usually followed by share price fall at the non-quoted companies (Schargrotsky, 2001). Desai et al (2006) find (on US data) that most of the managers who used "creative accounting", lost their work, have difficulties in finding new job and when they found it, they used to get significantly lower remuneration than was the average. This threat is relevant rather in the case of quoted companies. The non-quoted companies have usually common management and ownership and so we can't imagine manager-owner firing himself. This is one of the reasons why we should be more careful when using and analyzing the financial statements of the non-quoted companies – especially in the case of sale of the company or business. Conservative accounting methods commonly used in non-quoted companies can provide lot of space for creation of hidden reserves or their later disbursement.

The major role of the NSE is that it promotes a culture of saving. Through trading of securities, NSE assists in the transfer of savings to investment in productive enterprises as an alternative to keeping the saving idle. In as much as an economy can have savings, the lack of established mechanisms for channeling the savings into activities that create wealth would lead to

misallocation or waste of those savings? The NSE thus assists in the rational and efficient allocation of capital (NSE profile, 2008). As envisaged in the Vision 2030, to promote long-term investments, particularly in infrastructure, the government will promote long-term marketable securities which will be listed on the NSE. It will encourage secondary trading of such instruments to make them liquid thus attractive to investors. Additional efforts will be made to encourage more companies to be listed on the NSE and to use capital markets to raise long-term finance. Similarly, the government will continue to lengthen the maturity period of treasury bonds. The law is already in place to encourage long-term securities through the annual budget and incentives have been provided to encourage more listings. The government consults with stakeholders and develops a strategy for facilitating the overall deepening of capital markets. (Vision 2030).

The NSE has amended its Listing Manual and incorporated the CMA guidelines on corporate governance into the continuous obligations of listed companies and it continuously monitors compliance by listed companies with these obligations. In Kenya the emphasis on good corporate governance and accountability to shareholders and stakeholders has been on public listed companies. The potential for listed companies being subjected to sanctions for non-compliance by either the CMA or NSE has played an important role encouraging compliance with the guidelines.

Listing of companies at the NSE has led to improved disclosure because of investor orientation, the reports are availed the public and these companies are expected to make non-financial disclosures because of stakeholders expectation. The growth in premiums of insurance firms will be driven by rising GDP per capita that will increase discretionary income of consumers and rise in private household credit that will lead to acquisition of assets, thereby boosting demand for insurance services. Evidence from research indicates that an increasing number of companies see going public as a: Way to improve their reputation and social capital with beneficial effects on their capacity to access external resources and opportunities for new entrepreneurial ventures. The decision to go public improves the liquidity of a Company's shares as well as the scope for diversification by the initial shareholders of the company. Other benefits realized include positive public image and better management of quoted companies. Public companies (companies that are owned by shareholders who are members of the general public and trade

shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors).

1.1.4 The Nairobi Securities Exchange

The NSE was constituted in 1954 as a voluntary association of stockbrokers registered under the Societies Act. Although dealing in shares and stocks started in the 1920's when the country was still a British colony, the market then didn't have any formal rules and regulations to govern stock broking activities. On attaining independence, the economy experienced tremendous growth following structural reforms during the first decade (1963-1973). Some major milestones for NSE include: the government selling 20% stake in Kenya Commercial Bank (1988), the government off-loading its 51% stake in Kenya Airways (1996), live trading on the automated trading systems implemented together with Central Depository System. There are 60 listed companies which are covered under 10 main sectors namely: Agriculture, Commercial and Services, Telecommunication and technology, Automobiles and accessories, Banking, Insurance, Investment, Manufacturing and allied, Construction and allied, Energy and petroleum.

The NSE was a regional security market up to 1972 when it lost its regional character following the nationalization, exchange control and other inter-territorial restrictions introduced in neighboring Tanzania and Uganda. Currently, the ceiling on foreign investment is 40 percent for institutions and 5 percent for individuals (Onyuma, 2012). This market is regulated by the Capital Markets Authority, which operates under the jurisdiction of the Ministry of Finance. The CMA is a government regulator charged with licensing and regulating capital markets in Kenya. The operations of listed companies are regulated by the CMA through various acts, regulations and guidelines. The Corporate Governance Guidelines by CMA define corporate governance as the process and structure used to direct and manage business affairs of the company towards prosperity and corporate accounting with the ultimate objective of realizing shareholder long-term value while taking into account the interest of the other shareholders (The Corporate Governance Guidelines, 2002). Over and above the CMA regulations, banks listed at the NSE also come under additional regulations by the Central Bank of Kenya, which specifies corporate governance guidelines which are adopted by commercial banks to govern their operations, all in

a bid to safeguard shareholders interest. The Insurance Regulatory Authority has also developed Draft Corporate Governance Guidelines to promote prudent management of all insurers in Kenya. The NSE has played an important role in privatization of state owned enterprises such as: Kenya commercial bank, Kenya airways, National bank of Kenya and Mumias Sugar Company. Shares issued through the NSE have proved popular and recorded a substantial rate as high as 400%.

The CMA prescribes that no person may offer its securities for subscription or sale to the public or a section of the public in Kenya unless, before the offer, it publishes an information memorandum and files a copy of it with the Authority. Companies have the option of raising finance from the Main Investment Market Segment, the Alternative Investment Market Segment or the Fixed Income Securities Market Segment (for corporate and treasury bonds). Shares or bonds can be traded on the NSE.

The Listing Regulations require a company seeking approval for offering securities to the public to publish a prospectus, to issue the prospectus free of charge to the members of the public, and to ensure that the prospectus complies with the detailed provisions set out in the Listing Regulations. The Listing Regulations also set out in detail the eligibility requirements for a company to issue securities, which vary according to the type of security being offered and the market segment on which the securities are to be listed. The Authority considers any applications for approvals of offers of securities to the public, taking into consideration any comments from the NSE. To apply for the listing of securities on the NSE, a company is required to appoint a sponsoring stockbroker and notify the NSE. The NSE has its own listing rules. It is through the sponsoring stockbroker that all applications, presentations and ancillary matters will be presented to the NSE. The Listing Regulations do not apply to private offers (which are defined in the Listing Regulations), or to securities offered by the government or by entities that are not companies. The most recent addition to legislation relating to listed shares in Kenya is the Central Depositories Act (the CDA). Under the CDA, a securities exchange can prescribe that a listed security is immobilized. Immobilized securities can only be dealt with using a securities account opened with a central depository (to date, only the Central Depository and Settlement Corporation has been approved as a central depository under the CDA). The central depository is

authorized under the CDS to appoint central depository agents (stockbrokers, banks and so on), through whom some functions are carried out. In conclusion, for a company to be listed it will be required to meet the eligibility and disclosure requirements of a public listed company. Listing regulations for the MIMs at the NSE require the following of every company seeking to list for the first time on the bourse: the issuance of an information memorandum meeting the requirements of the CMA, and so approved by the CMA, and carrying a whole range of disclosures for that purpose; the issuer must be an incorporated company limited by shares under national law; the issuer's authorized and issued share capital must be not less than fifty million Kenya shillings of ordinary fully paid up shares; the issuer's net assets immediately prior to listing must be not less than Kenya shillings one hundred million; additionally, the issuer is required to have current audited financial statements, in the IFRS format, not older than four months prior to listing application, prepared on going concern basis. (The NSE Website).

Publicly quoted companies are either single business or multi-business. Group or Holding companies constitute subsidiary undertakings. However, there are they numerous companies in the NSE which have several subsidiaries but don't refer themselves as Group or Holding companies. Companies adopt diversification strategy due to various motives such as to increase stock value, increase growth rate, make better use of funds that internal investment, revenue earnings, and improve stability and to increase efficiency and profitability. Listing is the process of taking a privately owned entity whose securities can be traded on a stocks exchange. The stock market consists of both the primary and secondary markets. In primary markets shares of stock are first brought to the market and sold to investors. In secondary market existing shares are traded among investors. (Ross et al, 2000).

Going public marks an important watershed in the life of a young company. It provides access to public equity capital and so may lower the cost of funding the company's operations and investments (Motley, 2006). It also provides an avenue for trading the company's shares, enabling its existing shareholders to diversify their investments and to crystallize their capital gains from backing the company. This is an important consideration for investors and venture capitalists. The act of going public itself shines a spotlight on the company, and the attendant publicity may bring indirect benefits, such as attracting a different caliber of management.

At the same time, the company acquires new obligations in the form of transparency and disclosure requirements, and becomes accountable to a larger group of relatively anonymous shareholders who will tend to vote with their feet (by selling the shares) rather than assist the company's decision-makers in the way a venture capitalist might (Loughran et al, 2002).

1.2 Statement of the problem

The best performance of any industry in general and any firm in particular plays the role of increasing the market value of that specific firm coupled with the role of leading towards the growth of the whole industry which ultimately leads to the overall success of the economy. Measuring the performance of financial institutions has gained the relevance in the corporate finance literature because as intermediaries, these companies in the sector are not only providing the mechanism of saving money and transferring risk but also helps to channel funds in an appropriate way from surplus economic units to deficit economic units so as to support the investment activities in the economy. Promotion of financial and capital market in Africa have only received greater attention in recent years in an effort to increase domestic resource mobilization, improve supply of long term capital and encourage efficient allocation of existing resources. This situation has developed as a result of renewed awareness that capital market can play several roles including: lowering cost of equity hence stimulating investment and growth by spreading the risks of long terms investment. The African Capital Market is still in a nascent state. As the continent is primarily dominated by the poor and underdeveloped nations, the capital market in Africa is influenced by the handful of developed economies like South Africa, Nigeria and Botswana. A quantitative assessment of the NSE's performance is a very significant exercise especially with regards to policy development that will spur the growth of the Kenyan capital markets.

Investors rely on accounting information in their pricing of shares and companies which provide good quality information have thus an advantage in a lower cost of capital. Investors in developed countries are keen on the financial information of the intended investing companies. Listing of companies has a lot of impact on the economy; the study investigates if listing has a positive effect on the financial performance of companies.

Despite the recent strong stock market rally and performance, some investors may still doubt the financial health of some listed companies, and the investors are very concerned about whether to cut losses or hope in the healing of these shares for stocks they owned that were classified as under the companies in Malaysia. In some cases, investors do not know about written off notices of these companies (Kok, 2010). The extensive literature on corporate governance and on initial public offerings discusses many costs and benefits of going/being public (e.g. Allen, 1993; Jensen, 1989; Pagano et al., 1998; Faure-Grimaud and Gromb, 2004). These studies indicate that, from the perspective of the company, the benefits mainly reflect different aspects of two major advantages of being quoted: the information production/transparency in financial markets and the reduction in capital constraints. By contrast, Jensen (1989), Mayer and Alexander (1991), Myers (2000) among others, also show that the agency problem between insiders (management or controlling owners) and outside shareholders likely is the most important disadvantage. These properties of a stocklisting create new opportunities and pressures that may influence the effectiveness of performance drivers.

Most of the articles concentrate on the performance around the date of quotation. Degeorge et al (1993) find that at the reverse LBO the performance of a company is extraordinarily good, contrary to the post-quotation period, when the researched companies show poor performance. Jain et al, (1994) even find positive relationships between the share of the original (pre-IPO) owners after IPO and the company's performance in the post-IPO period. The scope of literature dealing with relationships between quotation and performance of a company is quite small.

1.3 Objective of the study

To determine the effect of listing on financial performance of listed companies at the Nairobi Securities Exchange.

1.4 Importance of the study

Capital markets play a fundamental role of the financial sector in achieving a robust and sustaining economic development. The study importance emerges from the fact that insurance sector plays a significant role in enhancing the country economy, and providing critical services for people of Kenya.

The study findings will be of benefit because there is need to secure the confidence of investors and encourage investment in securities by providing them with the results from financial analyses of the listed companies; this is also to encourage more companies to quote on the stock market and money markets. The study will be of benefit to the Kenyan Government because it is interested in knowing which companies operate successfully or failed to take the necessary measures to avoid crises of the bankruptcy in these companies. The findings can be used to improve the current regulatory framework to formulate and implement new corporate governance policies. The study will provide information which can be used by stock analysts in evaluating performance of quoted companies in order to provide prudent advice to customers. The study adds to the wide academia gap of knowledge in this area which may in turn be used to trigger subsequent studies in sub areas of the same topic.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes information from other researchers who have carried out their research on the same field of study. The specific areas covered here are: theoretical review, research variables, decision to list, empirical review and summary of study.

2.2 Theoretical review

2.2.1 Market timing theory

Ritter (1991) argues that firms tend to list at peak valuations. Pagano et al. use the market-to-book ratio (M/B) as a proxy for investor optimism and find that the M/B ratio has the highest explanatory power in determining an IPO. However, while the M/B ratio may be an indication of market buoyancy it may also be a measure of future growth opportunities. Pagano et al. (1998) distinguish between the two arguments by examining ex post evidence. They find that during the years subsequent to the IPO, profitability falls. In addition to this finding, investment and leverage fall. By contrast, Jain and Kini (1994) in their study of IPOs in the US from 1976 to 1988, find that IPO firms have significantly higher capital expenditure growth. Despite the increase in capital expenditure, they also find that profitability deteriorates subsequent to an IPO. Overall, an IPO is not a means for companies to take unprofitable growth opportunities but rather a means for firms to take advantage of a window of opportunity and to adjust their capital structure while equity financing is relatively cheap (Bayless and Chaplinsky, 1996, Pagano et al., 1998).

Baker and Wurgler (2002) and Loughran and Ritter (1995) argue that companies are more likely to issue equity when their shares are overvalued. They focus on the M/B ratio as a determinant of the changes in leverage and attempt to establish whether changes in equity are a result of net equity issues as market timing theory would predict. Like Pagano et al. (1998) they acknowledge that while the M/B ratio may be a proxy for mispricing, it is also a measure of a firm's investment opportunities and profitability. They separate the two signals by examining the effect of profitability on leverage. Baker and Wurgler (2002) find that high M/B ratios are associated

with lower leverage, which is consistent with market timing theories. However, the lower leverage could be a result of higher retained earnings. This is plausible because according to Myers (1984)'s seminal peckingorder theory, higher retained earnings actually reduce leverage giving the impression that profitable firms are net equity issuers. Despite this, Baker and Wurgler (2002)'s results show that leverage is not affected by retained earnings but rather net equity issues as market timing implies.

2.2.2 Capital market theory

Capital Market Theory tries to explain and predict the progression of capital (and sometimes financial) markets over time on the basis of the one or the other mathematical model. Capital market theory is a generic term for the analysis of securities. In general, whenever someone tries to formulate a financial, investment, or retirement plan, he or she (consciously or unconsciously) employs a theory such as arbitrage pricing theory, capital asset pricing model, coherent market hypothesis, efficient market hypothesis, fractal market hypothesis, or modern portfolio theory.

2.2.2.1 Portfolio theory

Portfolio theory of investment which tries to maximize port folio expected return for a given amount of portfolio risk and equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although portfolio theory is widely used in practice in the financial industry and several creators have won Nobel Prize for the theory, in the recent past the basic Portfolio theory has been widely challenged by fields such as behavioral economics. (Markowitz 1952).

Portfolio theory is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. This can be seen intuitively because of different types of assets often change in value in opposite ways. For example, when prices of in the stock market fall, prices in the bond market often increases and vice versa. A collection of both types of assets can therefore have a lower overall risk than either individually. But diversification lowers risk even if assets' return is not negatively correlated even if they are positively correlated (Markowitz, 1952).

A company which has been run as a family concern presents a number of financial problems to its owners which they can overcome by going public. Often the first motivation for obtaining

listing is the desire to consume some of the capital tied up in the business by selling some of the shares held by the family.

To diversify the proprietors investment portfolio out of the family business into a wider spread of assets, the owners may wish to alter their level of gearing either because they will be able to borrow more against quoted securities than against unquoted securities or they may wish to reduce their personnel debt by selling some of their shares.

More technically, portfolio theory models assets return normal distributed (or more generally as an elliptically distributed random variable), define risk as a standard deviation of return and model of portfolio as a weighted combination of assets so that the return of a portfolio is weighted combination of assets' returns. By combining different assets whose returns are not perfectly positively correlated, portfolio theory assumes that investors are rational and market efficient. (Sharpe, 1964)

Capital market theory builds on portfolio theory and develops a model for pricing all risky assets. The concept of a risk-free asset is critical to the development of capital market theory. Portfolio theory was developed in the 1950's through the early 1970s and was considered an important advance in the mathematical modeling of finance. Since then, many theoretical and practical criticisms have leveled against it. This includes the fact that financial returns don't follow a Gaussian distribution and those correlations between assets (Michael, Sproul, 1998).

2.2.2.2 Capital asset pricing model

William Sharpe (1964) published the capital pricing theory. Parallel work was also performed by Treynor (1961) and Litner (1965). CAPM extended Harry Markowitz's portfolio theory to introduce the notions of systematic and specific risk. For his work on CAPM, Sharpe shared a Nobel Prize in Economics with Markowitz and Miller.

Tobin's (1958), super efficient portfolio must be the market portfolio. All investors will hold the market portfolio, leveraging or de-leveraging it with positions in the risk free asset in order to achieve a desired level of risk. CAPM decomposes a portfolio's risk into systematic and specific risk. Systematic risk is the risk holding the market portfolio. As the market moves, each individual asset is more or less affected. To the great extent that any asset participates in such general market moves, that asset entails systematic risk. Specific risk is the risk which is unique

to an individual asset. It represents the component of an asset's return which is uncorrelated with the general market moves (Litner, 1965).

No matter how much we diversify our investments, it's impossible to get rid of all risks. Investors deserve a rate of return that compensates them for taking on risk. CAPM helps in calculating investment risk and what return on investment to expect.

When CAPM was first introduced, the investment community viewed the new model with suspicion, since it seemed to indicate that professional investment management was a waste of time. It was nearly a decade before investment professionals began to view CAPM as an important tool in helping investors understand risk. The key element of the model is that it separates the risk affecting asset's return into two categories. The first is unsystematic or company specific risk. The long term average returns for this kind of risk should be zero. The second is systematic risk, is due to general economic uncertainty. CAPM states that the return on assets should, on average, equal the yield on a risk-free bond held over time plus a premium proportional to the amount of systematic risk the stock possesses (Markowitz, 1952).

The treatment of risk in CAPM refines the notions of systematic and unsystematic risk developed by Markowitz. Unsystematic risk is the risk an asset's value caused by factors that are specific to the organization, this kind of risk is present due to the fact that every company is endowed with a unique collection of assets, ideas and personnel whose aggregate productivity may vary.

A fundamental principle of modern portfolio theory is that unsystematic can be mitigated through diversification. That is by holding many different assets; random fluctuations in the value of one will be offset by opposite fluctuations in another. (Markowitz, 1952)

Systematic risk cannot be removed by diversification. The risk represents the variation in an asset's value caused by unpredictable economic movements. This type of risk represents the necessary risk that owners of a firm must accept when launching an enterprise. In CAPM, the risk associated with an asset is measured in relationship to the risk of the market as a whole. (Sharpe, 1964)

CAPM developed by William Sharpe is well applicable in investment decisions. It describes the identification of an investment's return and diversification of risk on the investments at hand.

2.2.2.3 Arbitrage pricing theory

Arbitrage pricing theory was developed primarily by Ross (1976). It is one-period model in which every investor believes that stochastic properties of returns in capital assets are consistent

with a factor structure. APT describes the price where a mispriced asset is expected to be. It is viewed as an alternative to CAPM, since APT has more flexible assumption requirements. Whereas CAPM formula requires the expected market return, APT uses the risky assets' expected return and the risk premium of a number of macro-economics. Arbitrageurs use the APT model profit by taking advantaged of mispriced securities. A mispriced security will have a price that differs from the theoretical price model predicted by the model. By going short an over-priced security, while concurrently going long the portfolio the APT calculations were based on the arbitrageur is in a position to make a theoretically risk-free profit. (Ross, 1976)

The APT is the idea that the price of a security is driven by a number of factors. This can be divided into macro factors and specific factors. The APT is a substitute for the CAPM in that both assert a linear relation between asset's expected return and their covariance with other random variables. (Ross,1976).

The difference between CAPM and APT is that CAPM has a single non-company factor and a single beta, whereas APT separates non-company factors into as many as proves necessary. Each of these requires a separate Beta that is the sensitivity of the price of the security to that factor.

APT doesn't rely on measuring the performance of the market, instead it directly relates price of the security to the fundamental factors driving it. The problem with this theory in itself provides no indication of what these factors are, so they need to be empirically determined. There is no guarantee that all relevant factors have been identified. This added complexity is the reason APT is far less widely used than CAPM. (Sharpe, 1992).

Companies' profitability is influenced by both internal and external factors. Whereas internal factors focus on specific characteristics, the external factors concern both industry features and macroeconomic variables. The profitability of insurance companies can also be appraised at the micro, meso and macro levels of the economy. This theory is of importance since it enables us identify the key success indicators of listed companies which facilitates the design of policies that may improve the profitability of the listed companies.

2.3 Variables of performance of listed firms

This study focuses on the effects of initial public offer on performance of insurance companies quoted at the Nairobi Stock Exchange, by studying three variables i.e. liquidity, leverage and Profitability(earnings per share)

Research suggests that the performance of a company at the NSE greatly affects its liquidity in that underwriter's createactive aftermarket trading by under pricing IPOs. Stock flippers have the greatest effect on pricing in weak IPOs, compared to hotIPOs. Those findings suggest that both underwriters and marketparticipants generate liquidity in the post-issuance trading of newly traded securities. Price stabilization that underwriters carryout in a short period after the offering can also affect liquidity

Research also suggests that the performance of a company at theNSE greatly influences its level of leverage due to factors such as;control, growth rate of future sale, sales stability, loan covenant,competitive structure of the industry, asset structure, managementattitude and lender attitudes.Research also shows that the performance of a company at theNSE affects its earnings per share in that the firms have ability to identify times in which the market is overvalued or times wheninvestors will pay for an IPO relative to other firms.

2.4 The decision to go public

One question that academics have explored is the motivation to go public. Given the underperformance ofIPO firms, it appears that companies list not to finance future growth, but to take advantage of buoyantmarkets. In fact, Pagano, Panetta and Zingales (1998) question the idea that going public is simply aninevitable growth stage of a company. They argue that the need to finance future growth had little to do withthe motivation to list; rather the relative overvaluation of firms in the same industry provided the greatestincentive to undertake an IPO. Furthermore, some large firms in the US, for example United Parcel Service (UPS), remain private and in Europe, large private firms are far more common.

Various life cycle theories have been proposed to explain the decision to go public. Zingales (1995) proposes that entrepreneurs are able to get more money for their firm via an IPO than they would by simply selling it to a single bidder because a single acquirer can force a target firm on pricing concessions more than outside investors could. Thus, by undertaking an IPO, the initial owners sell their company for a higher value than they would ordinarily receive from an outright sale. Brau et al, (2003) discovered that insiders hide the full extent of their actions, in

that they sell a greater amount of their holdings in the IPO than originally disclosed. Such conduct is consistent with wealth-maximizing behavior.

There are also direct and indirect costs associated with going public. Smaller firms are more likely to remain private as there is a considerable administrative burden on companies that undertake an IPO: underwriting fees, registration fees, etc. Moreover, once listed, there is the expense incurred from auditors, distribution of annual reports, stock exchange fees, etc. However, larger firms can bear these expenses more readily since the magnitude of these costs does not increase proportionally with the size of the IPO (Pagano et al., 1998).

Disclosure rules of stock exchanges may force companies to reveal sensitive information, which may put them at a competitive disadvantage. Such transparency may dissuade firms with sensitive information and a high proportion of research and development (R&D) expenditure from listing. Moreover, listed companies are subject to more scrutiny from tax and legal authorities and thus, have a reduced ability to conceal tax obligations (Pagano et al., 1998). However, announcing an IPO can be beneficial. Pagano et al. (1998) cite the following as benefits of going public: overcoming borrowing constraints, improved bargaining power with lenders, liquidity and portfolio diversification, monitoring, change of control and taking advantage of the market's overvaluation of the firm and investor optimism. Chemmanur et al. (1999) argue further that listing facilitates greater diffusion of ownership, which allows large block, undiversified investors to offset some of their risk. According to Stoughton et al. (2001) an IPO is a signal of high product quality. In the UK, a survey revealed the main reason for undertaking an IPO was to improve the visibility of the company and hence, improve its competitive position (Burton et al., 2003).

Amihud et al. (1988), going public makes the firm's shares more liquid and so more valuable to its owners. The added liquidity of being a public company also gives owners a chance to diversify their own holdings by divesting some or all of their stock. Obviously, as noted in Roell (1996), this reason is not emphasized in IPO prospectuses.

The possibility of differences in performance of quoted versus non-quoted companies is evident: A number of authors point out the difference between excellent performance of companies in pre-IPO phase and poor performance in post-IPO phase (e.g. Jain et al, 1994), which is even worse in comparison with performance of companies that have been quoted for a longer time. Jain et al, (1994) even find positive relationships between the share of the original (pre-IPO) owners after IPO and the company's performance in the post- IPO period. The private benefits of control can be exploited more easily in non quoted companies, especially when owners are members of management board at the same time. The possible differences in performance between quoted and non-quoted companies can be result of wider public knowledge of the quoted companies compared to non-quoted companies.

2.5 Empirical review

Jain et al (1994) were one of the first to study the operating performance of firms going public in the US during the period 1976 to 1988. They investigated the operating performance of US quoted companies in their first few years after going public. They reported that, relative to their pre-going public level, newly listed firms show a decline in post-issue operating performance as measured by the operating return on assets and operating cash flows deflated by assets. An assertion was made to the fact that the declining operating performance of public firms could not be explained by the lack of sales growth opportunities or cutbacks in post-issue capital expenditure since these firms showed a high growth in sales and capital expenditures in the post-public period. Jain et al concluded that investors appear to value public firms based on their expectation that earnings growth will continue for developed markets outside the US.

Pagano et al (1998) analyze the determinants of the Italian IPOs by comparing the ex-post characteristics of IPOs with those of private firms. They show that the profitability deteriorates after the IPO and the decline increases in time from the first year after the IPO to the third. Cai et al (1997) study the operating performance of Japanese IPOs during the first five years after going public and report significant under-performance.

Chan et al (2004) also document a significant decline in the operating performance of Chinese IPOs. They also found that this inferior operating performance was not related to a decline in

business activity. Rather, they argue that managers attempt to window dress their accounts prior to going public which leads to pre-IPO performance being over-stated and post-IPO performance being understated.

Karolyi (2004) reports that at the end of 2003 there were over 2000 foreign firms listed in the USA, more than twice the amount listed in 1990. The total value of trading across world markets reached its peak in 1999 and has remained steady across all major stock exchanges through to 2004. The fraction trading comprised of foreign listings also leveled off at a median of 5.8% in 2004, though this was double the figure noted in 1995.

A more recent example of out-performance of a listed company is that of ICBC (Industrial and Commercial Bank of China). Wang Zhi (2007) on China Economic Net that through going public inside and outside China, the financial condition of ICBC has been improved further, its capital strength and capital adequacy have reinforced notably, the profitability has kept rising and presented a stronger sustainability. According to all data from the annual report of 2006 to the third quarter-report of 2007 issued recently, a rapid up soaring momentum of ICBC has been demonstrated. ICBC handed over a very pleasant “achievement list” for the year of public listing. For the past year of the listing, ICBC’s company governing ability has been enhanced obviously, and under the requirement of modern financial enterprise system, shareholder meeting, Board of Directors, Board of Supervisors and Senior Management have taken their due charges, conducted effective balance and operated in coordination.

Kuria (2008) determined the short-term and long-term effects of cross-border listing announcements on companies listed at the NSE and their post listing performance, and reported that cross-listing announcements have statistically significant negative effects on stock returns. In fact, the non cross-listed firms had higher daily turnover ratios than cross-listed firms, an indicator of increased activity hence liquidity. Moreover, Mugo (2010) and Mugo et al., (2011) have reported that cross listing “may” affect firm liquidity and P/E ratios. However, a closer look at these findings reveals fatal interpretational errors as the changes were never tested for significance. Unlike the developed market, studies on cross-listing are thin.

2.6 Summary

The empirical literature on when and why companies go public is small relative to the number of papers underpricing and under-performance of newly issued shares (e.g. Lowry, 2003, or Ritter, 2002). However, several reasons have been proposed in the academic literature to explain why companies decide to go public and list on a stock exchange. Roell (1996) documents five reasons why companies decide to go public, among which three were reported by stock market entrants themselves. The first is access to new finance. The motives for new finance include prospects of growth by acquisition, funds for organic expansion, corporate marketing, diversity and development and refinancing of current borrowings. Once public, a company's financing alternatives are increased. Thus, a publicly traded company can return to the stock market for additional capital via a bond or convertible bond issue or secondary equity offering. A listed firm is said to experience a performance decline if its ratio of pre-tax operating income to asset has been above its industry median for the previous two consecutive years but then drops to either below 25 or 10 percentiles.

The going public decision is one of the most important and complex questions in corporate finance. In recent years, the theoretical literature has investigated this topic from different perspectives, proposing a host of different models. Nevertheless, the empirical analysis of the going public decision and of its consequences at a firm-specific level is one of the least studied issues in corporate finance. Many of the studies conducted by Ritter (1991) were based in Asia, Europe and the US. These often demonstrated a positive link between initial public offer and the performance of the company but the methodology was not one that could easily be replicated by practitioners on a regular basis. Such studies can demonstrate that IPOs have a relationship with organizational performance but they do not provide much guidance on the actual effects on performance. This study will therefore add to the literature by establishing the effects of IPO on performance of listed companies at the NSE and the study gaps will be filled.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents an overview of the methodology that guided the study. The chapter discusses the research design; population of the study, the sample size and sample design, the data collection methods and data analysis techniques.

3.2 Research design

Hopkins (2000) suggests that descriptive studies is part of a quantitative research design, whose aim is to determine the relationship between an independent variable and another dependent or outcome variable in a population, establishing the associations between variables and the causality. For this study, the research design is descriptive survey since it sought to establish the relationship between listing and firm performance. A sample survey of the companies listed between 2002-2012 at the NSE was conducted.

3.3 Population of the study

According to Cooper and Schindler (2008), population is referred to as the collection of elements about which we wish to reference. The study focuses on the 13 listed companies at the NSE between 2002-2012. Data on company financial performance before and after listing was obtained from companies accounts.

3.4 Data type, source and collection

The study used secondary data which was obtained from published information from the NSE and other available published information from CMA reports. This secondary data includes profits before tax, current assets, current liabilities, fixed assets, turnover, debt level and equity shares outstanding.

3.5 Data analysis

Data collected was analyzed to come up with a comparative analysis of financial performance prior to listing and after listing of companies at the NSE between 2002-2012. Financial ratio analysis was used to compute current ratios, gearing ratios, profitability ratios, and investor

ratios. A correlation analysis was conducted to establish whether the findings indicated a strong positive or negative correlation. The financial ratios can be summarized as follows:

RATIOS MEASUREMENT

Liquidity Ratios

Current Ratios $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Gearing Ratios

Debt-Equity ratio $\frac{\text{Total debt}}{\text{Total shareholder equity}}$

Equity ratio $\frac{\text{Owner's equity}}{\text{Total capital employed}}$

Investor Ratios

Dividend yield $\frac{\text{Divided per share}}{\text{Market price pershare}}$

Earnings per share $\frac{\text{Profit after taxes and preference share}}{\text{Outstanding shares}}$

Price-earnings ratio $\frac{\text{Market price per share}}{\text{Earnings per share}}$

Profitability Ratios

Return on capital employed $\frac{\text{Earnings before interest and taxes}}{\text{Capital employed}}$

Gross profit margin $\frac{\text{Profit before operating expenses}}{\text{Net sales}}$

Return on investment

$$\frac{\text{Earnings after tax}}{\text{Total share capital}}$$

From the data collected, Chi-test was used to establish the significance of the differences between measures of financial performance before and after cross-listing. The tests concentrated on liquidity, profitability, gearing and equity-related ratios.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter explains about the financial review of listed equity companies, findings of the chi test and the interpretation of these findings.

4.2 Brief description of listed firms under analysis

The following firms had data spanning several years following listing at the NSE. They therefore form the listed firms under consideration and results presented below stem from analysis of data: Co-op, Equity, Trans century, Safcom, Access Kenya, Kengen, Longhorn, Scangroup, Kenya-Re, Britam, CIC and Liberty Holdings. The ratios for each company were derived from the Balance Sheets, Income and Expenditure Statements.

BANKING SECTOR

TABLE 1.CO-OPERATIVE BANK OF KENYA

Co-op bank was listed in the securities exchange in December 2008, with 701,300,000 shares floated, data was captured from company's annual reports and financial statements and post listing data from the NSE

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued		4,190,843,298	3,492,370,000	34,923,700.00	34,923,700.00	34,923,700.00	2,660,363 2,618,977
Earnings Per Share (Kshs)		1.84	1.53	1.31	0.85	0.8	7 5.4
Dividends Per Share (Kshs)		0.5	0.4	0.4	0.2	0.1	0.1 0.1
Net Assets Value Per Share (Kshs)		7.0	6.0	6.0	4.5	3.7	1.8 1.5
Price To Earnings Ratio		7.1	6.4	12.1	8.8	10.5	7.1 9.2
Dividend Yield		3.8	4.1	2.5	2.7	1.2	

						2	2
Pay Out Ratio	27%	26%	31%	24%	13%	14%	19%
Return On Equity	26.3	25.6	22.9	19.0	18.3	18	11
Price To Book Value(Kshs)	1.9	1.6	2.6	1.7	2.3	1.4	1.1
Current ratio	1.2	0.88	1.1	1.2	1.2	1.3	1.1

Source: NSE and Co-op website

TABLE 2. EQUITY BANK

Equity bank was listed in the securities exchange in 2006, with 452,823,000 shares floated, data was captured from company's annual reports and financial statements and post listing data from the NSE

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	3,702,777,020	3,702,777,020	3,702,777,020	3,702,777,020	370,277,702	275,000,000	272,000,000
Earnings Per Share (Kshs)	3.26	2.79	1.93	1.14	10.56	7	8.32
Dividends Per Share (Kshs)	1.25	0.80	0.80	0.40	3.00	2	2
Net Assets Value Per Share (Kshs)	11.59	9.26	7.35	6.19	52.88	34.8	24.3
Price To Earnings Ratio	5.90	5.88	3.89	12.55	16.67	13	16.71
Dividend Yield	6.49	4.88	2.99	2.79	1.70	2	1.44
Pay Out Ratio %	38.32%	28.69%	41.53%	34.98%	28.41%	5.71%	24.3%
Return On Equity	6.52	5.58	3.85	2.29	0.92	0.13	9
Price To Book Value(Kshs)	1.66	1.77	3.64	2.32	3.33	4	2.2
Current ratio	1.2	1.2	1.2	1.3	1.3	0.4	0.6

Source: NSE and Equity website

COMMERCIAL AND SERVICES

TABLE 3.LONGHORN KENYA

On May 30, 2012, Longhorn shares were listed (by introduction) on the Nairobi Securities Exchange, becoming the first book publisher in the Eastern Africa region to be publicly listed, 58,500,000 shares were floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	58000	11700	11700	11700	11700		
Earnings Per Share (Kshs)	(0.38)	10.92	1.85	1.72	6.66		
Dividends Per Share (Kshs)	2	7.5	1	1	3		
Net Assets Value Per Share (Kshs)	4.52	34.34	25.62	24.27	25.38		
Price To Earnings Ratio	(48.17)	-	11		-		
Dividend Yield	-	-	-	-	-		
Pay Out Ratio	-5.26	0.69	0.54	0.58	0.45		
Return On Equity	(0.08)	0.32	0.07	0.07	0.26		
Price To Book Value(Kshs)	4.09	-	-	-	-		
Current ratio	0.1	0.7	1.1	1.1	0.6		

Source: NSE and Longhorn website

TABLE 4.SCANGROUP

Scangroup was incorporated on 26th January 1999 and was listed on Nairobi Securities Exchange on 29th August 2006, with 69,000,000 shares floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	284,789,128	284,789,128	237,324,321	220,689,655	220,689,655	159,000	159,000
Earnings Per Share (Kshs)	2.21	2.55	2.13	1.81	1.79	1.54	1.23
Dividends Per Share (Kshs)	0.6	0.7	0.7	0.5	0.69	0.90	0.83
Net Assets Value Per Share (Kshs)	7	5.89	5.2	4.56	4.31	3.82	2.96
Price To Earnings Ratio	31	16.27	28.87	14.09	14.94	19.35	20.13
Dividend Yield	1	2	1	2	3	3.03	3.35
Pay Out Ratio	27%	27%	33%	28%	39%	58.54%	67.49%
Return On Equity	15	17	16	17	15	1.03	1.03
Price To Book Value(Kshs)	1.9	1.6	2.6	1.7	2.3	7.79	8.35
Current ratio	2.5	2	5	1.2	1.2	1.41	1.55

Source: NSE and Scangroup website

	2005	2004
Number Of Ordinary Shares Issued	150,000	150,000
Earnings Per Share (Kshs)	0.96	0.43
Dividends Per Share (Kshs)	0.26	0.2
Net Assets Value Per Share (Kshs)	2	4.7
Price To Earnings Ratio	11	6
Dividend Yield	0.2	0.6
Pay Out Ratio(%)	27%	47%
Return On Equity		

	0.6	0.6
Price To Book Value(Kshs)	0.77	0.93
Current ratio	1.3	1.1

Source: NSE and Scangroup website

ENERGY AND PETROLEUM

TABLE 5. KENGEN

KenGen was listed in 2006 at the NSE, with 658,900,000 shares floated .Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	2,198,361,456	2,198,361,456	2,198,361,456	2,198,361,456	2,198,361,456	159,000	159,000
Earnings Per Share (Kshs)	2.21	2.55	2.13	1.81	1.79	1.54	1.23
Dividends Per Share (Kshs)	0.6	0.7	0.7	0.5	0.69	0.90	0.83
Net Assets Value Per Share (Kshs)	7	5.89	5.2	4.56	4.31	3.82	2.96
Price To Earnings Ratio	31	16.27	28.87	14.09	14.94	19.35	20.13
Dividend Yield	1	2	1	2	3	3.03	3.35
Pay Out Ratio	27%	27%	33%	28%	39%	58.54%	67.49%
Return On Equity	15	17	16	17	15	1.03	1.03
Price To Book Value(Kshs)	1.9	1.6	2.6	1.7	2.3	7.79	8.35
Current ratio	2.5	2	5	1.2	1.2	1.41	1.55

Source: NSE and KenGen website

	2005	2004
Number Of Ordinary Shares Issued	150,000	150,000

Earnings Per Share (Kshs)	1.38	1.25
Dividends Per Share (Kshs)	0.35	0.42
Net Assets Value Per Share (Kshs)	2.2	2.25
Price To Earnings Ratio	1.2	0.86
Dividend Yield	0.07	0.1
Pay Out Ratio(%)	25.4%	33.6%
Return On Equity	0.49	0.13
Price To Book Value(Kshs)	0.77	0.93
Current ratio	1.98	2.1

Source: NSE and Kengen website

INSURANCE

TABLE 6. BRITAM

Britam was listed in the NSE in 2011, with 1,891,451,850 floated shares. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	1,891,451,850	1,891,451,850	1,891,451,850	1,891,451,850			
Earnings Per Share (Kshs)	1.33	(1.03)	0.9	0.84			
Dividends Per Share (Kshs)	0.25	0.15	0.15	0.05			
Net Assets Value Per Share (Kshs)	6.59	4.52	4.6	3.7			
Price To Earnings Ratio	4.5	(5.03)	2.36	3.94			
Dividend Yield	4.17	2.88	0.9	1.2			
Pay Out	18.77	(14.50)	16.67	5.95			

Ratio(%)							
Return On Equity	13.3	(10.3)	15	8			
Price To Book Value(Kshs)	0.91	1.15	1.41	0.89			
Current ratio	1.4	1.5	2	1.8			

Source: NSE and Britam website

TABLE 7. CIC INSURANCE GROUP

The company listed on the 19th July 2012 with 2,100,000,000 shares floated. The Group's gross premiums increased by 34% from Kshs. 6.7B to Kshs. 9.0 billion. Profit before tax increased by 110% from Kshs.787M to Kshs.1.65B. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	2,179,655	108,983	30,571	21,399	20,689		
Earnings Per Share (Kshs)	0.64	5.48	16.75	11.48	8.94		
Dividends Per Share (Kshs)	0.10	1.80	0.16	1.60	1.40		
Net Assets Value Per Share (Kshs)	2.51	39.40	85.35	46.27	36.62		
Price To Earnings Ratio	5.55	4.56					
Dividend Yield	0.03						
Pay Out Ratio(%)	0.16	0.33	0.01	0.14	0.16		
Return On Equity	0.25	0.14	0.19	0.24	0.24		
Price To Book Value(Kshs)	1.41						
Current ratio	1.6	1.6	1.7	1.4	1.3		

Source: NSE and CIC website

TABLE 8. KENYA RE

The company listed at the NSE in 2007 with 240,000,000 shares floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	699,949,068	600,000,000	600,000,000	600,000,000	600,000,000	600,000,000	600,000,000
Earnings Per Share (Kshs)	4	3.19	2.57	2.21	2.47	1.38	1.25
Dividends Per Share (Kshs)	0.4	0.35	0.35	0.5	0.5	0.23	0.1
Net Assets Value Per Share (Kshs)	20.88	19.21	17.62	15.17	13.34	7	7
Price To Earnings Ratio	2.67	2.29	4.3	5.28	5.17	4	2
Dividend Yield	3.74	4.79	3.17	4.27	3.92	2.79	2.68
Pay Out Ratio	9.99%	10.97%	13.62%	22.57%	20.26%	16.67%	8%
Return On Equity	1.6	1.3	1.03	0.9	1	0.49	0.13
Price To Book Value(Kshs)	0.51	0.38	0.63	0.77	0.96	0.25	0.23
Current ratio	2.6	2.5	2.6	2.5	2.4	2.1	1.9

Source: NSE and Kenya-Re website

TABLE 9. LIBERTY HOLDINGS

The group was listed at the NSE in 2011 with 515,270.000 shares floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

2012 2011 2010 2009 2008 2007 2006

Number Of Ordinary Shares Issued	515,270,364	515,270,364	515,270,364	515,270,364			
Earnings Per Share (Kshs)	1.72	1.84	1.64	1.24			
Dividends Per Share (Kshs)	0.4		0.3	0.26			
Net Assets Value Per Share (Kshs)	10.52	8.1	2.51	2.2			
Price To Earnings Ratio	3.89	3.55	3.4	2.89			
Dividend Yield	5.97		4	3.87			
Pay Out Ratio(%)	23.25		18.9	20.96			
Return On Equity	1.72	0.14	0.19	0.24			
Price To Book Value(Kshs)	0.64	0.81	1.4	1.62			
Current ratio	1.2	1.2	1.87	2			

Source: NSE and Liberty website

INVESTMENT

TABLE 10.TRASCENTURY

The Group, as at December 2012 had revenues of KES 13.5bn and net income of KES 740mm. it was listed in 2011 at the NSE with 269,342,155 shares floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	273,950,284	269,342,155	267,038,090	267,038,090	266,588,090		
Earnings Per Share (Kshs)	1.66	1.32	1.29	0.34	1.28		
Dividends Per Share (Kshs)	0.4	0.25	0.20	0.05	0.05		
Net Assets Value Per Share (Kshs)	27.36	24.63	19.82	13.17	11.59		
Price To Earnings Ratio	14	21		15			
Dividend Yield	2	1		0.89			

Pay Out Ratio(%)	24	19	16	15	4		
Return On Equity	10	9	9	7	20		
Price To Book Value(Kshs)	0.9	1.1					
Current ratio	1.3	1.2	1.6	1.8	1.8		

Source: NSE and Transcentury website

MANUFACTURING AND ALLIED

TABLE 11.EVEREADY EAST AFRICA LTD

The company was listed on the 18 December 2006 with 63,000,000 shares floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Earnings Per Share (Kshs)	1.66	1.32	1.29	0.34	1.28	0.60	0.79
Dividends Per Share (Kshs)	0.4	0.25	0.20	0.05	0.05		
Net Assets Value Per Share (Kshs)	27.36	24.63	19.82	13.17	11.59	2.59	2.50
Price To Earnings Ratio	14	21				13.21	22.77
Dividend Yield	2	1				5.66	3.34
Pay Out Ratio(%)	24	19	16	15	4		
Return On Equity	10	9	9	7	20	3	2.5
Price To Book Value(Kshs)	0.9	1.1				3.06	7.17
Current ratio	1.3	1.2	1.6	1.8	1.8	1.56	1.89

Source: NSE and Eveready website

	2005	2004
Number Of Ordinary Shares Issued	210,000	210,000
Earnings Per Share (Kshs)	4.2	4.3
Dividends Per Share (Kshs)	0.35	0.42
Net Assets Value Per Share (Kshs)	2	2
Price To Earnings Ratio	1.2	0.86
Dividend Yield	0.07	0.1
Pay Out Ratio(%)	8.3%	10%
Return On Equity	1	1
Price To Book Value(Kshs)	0.77	0.93
Current ratio	2	2

Source: NSE and Eveready website

TELECOMMUNICATION AND TECHNOLOGY

TABLE 12.ACCESS KENYA

Access Kenya Group Limited went public on 4 June 2007 through listing of its shares on the Nairobi Securities Exchange. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued	218,038.0	207,656.0	207,227.0	207,227.0	203,581.0	210,000	78,082
Earnings Per Share (Kshs)	0.69	0.5	(0.4)	0.72	0.94	0.60	0.79
Dividends Per Share (Kshs)	0.3			0.3	0.4	0.2	0.22
Net Assets Value Per Share (Kshs)	27.36	24.63	19.82	13.17	11.59		28.9

Price To Earnings Ratio	6.39	9.86	(352.20)	27.10	21.08	15.7	2.8
Dividend Yield	0.07			0.02	0.02	0.8	0.6
Pay Out Ratio(%)	43%			42%	42%	20%	28%
Return On Equity	12	10	-1	13	20	9	0.3
Price To Book Value(Kshs)	0.77	0.93	2.59	3.50	3.91	2.4	2.67
Current ratio	0.5	0.7	0.7	1.1	1.5	1.2	1.7

Source: NSE and Access Kenya website

2005 2004

Number Of Ordinary Shares Issued	20,040	20,040
Earnings Per Share (Kshs)	3.6	0.6
Dividends Per Share (Kshs)	1	0.3
Net Assets Value Per Share (Kshs)	9	10.03
Price To Earnings Ratio	17.06	6.5
Dividend Yield	0.2	0.6
Pay Out Ratio(%)	27.8%	50%
Return On Equity	0.5	1.2
Price To Book Value(Kshs)	0.77	0.93
Current ratio	0.8	0.7

Source: NSE and Access Kenya website

TABLE 13.SAFCOM

The company was listed at the NSE in 2008 with 10 billion shares floated. Data was captured from company's annual reports and financial statements and post listing data from the NSE.

	2012	2011	2010	2009	2008	2007	2006
Number Of Ordinary Shares Issued		40,000,000,000	40,000,000,000	40,000,000,000	40,000,000,000	40,000,000,000	40,000,000,000
Earnings Per Share (Kshs)		0.32	0.33	0.38	0.26	0.35	0.47
Dividends Per Share (Kshs)		0.22	0.20	0.20	0.20	0.05	0.15
Net Assets Value Per Share (Kshs)		2.11	1.99	1.76	1.40	1.23	2.41
Price To Earnings Ratio		10.14	11.55	14.66	11.39	10.39	19.17
Dividend Yield		6.88	5.26	3.60	3.33	1.39	2.89
Pay Out Ratio(%)		69.69	60.80	52.81	37.96	14.44	32.6
Return On Equity		10	9	9	7	20	0.4
Price To Book Value(Kshs)		1.52	1.91	3.16	2.15	2.93	1.98
Current ratio		0.56	0.64	0.67	0.49	0.51	0.8

Source: NSE and Safcom website

4.2.2:Pre and post financial performance of listed companies

From the table 4.2.2.1, it is evident that liquidity and profitability ratios Kengen improved after listing while it reduced in the case of Equity and Co-op. The current ratio for Kengen outperformed the recommended 2:1 parameter. Due to increased share capital at Kengen, the gearing of the firm reduced this was also the case at Equity and Co-op. The return on equity reduced after Equity listed while it increased drastically in the case of Co-op and Kengen after

listing. The price-earnings ratio for the three companies also improved. When the P/E ratio is high, it implies that shareholders have more confidence in the firm thus willing to wait for long years to recoup their earnings, the dividend yield also increased but the E/S of Co-op reduced drastically

TABLE 4.2.2.1

CO-OP BANK

EQUITY BANK

KENGEN

Measures	After Listing	Before Listing	Measures	After Listing	Before Listing	Measures	Before Listing	After Listing
Current Ratio	1.1	1.2	Current Ratio	1.24	0.5	Current Ratio	2.04	2.12
Earnings per Share	1.3	6.2	Earnings per Share	4	1.7	Earnings per Share	1.32	1.8
Dividend per Share	0.3	0.1	Dividend per Share	1.3	2	Dividend per Share	0.39	0.7
Price to Earnings Ratio	9	11.7	Price to Earnings Ratio	9	15	Price to Earnings Ratio	1.03	20.66
Return on Equity	22.4	15	Return on Equity	3.83	4.57	Return on Equity	0.31	11.7
Net Assets Value Per Share	5.4	1.7	Net Assets Value Per Share	17.5	30	Net Assets Value Per Share	2.23	4.82
Pay Out Ratio(%)	24.2	16.5	Pay Out Ratio(%)	34.3	15	Pay Out Ratio(%)	29.5	40
Debt-Equity Ratio	6.22	11.33	Debt-Equity Ratio	4.02	4.25	Debt-Equity Ratio	3.2	0.88
Dividend Yield	7.2	2	Dividend Yield	3.77	1.7	Dividend yield	0.09	2.2

Source: Data Analysis (2013)

It is evident from table 4.2.2.2, the liquidity ratio Liberty deteriorated after listing, while it improved in the case of CIC and Scangroup in respect to the current ratio. The return on Equity improved in all the three companies, profitability ratio measured by gross profit margin increased at CIC and Scangroup. Debt ratio reduced at Scangroup and CIC, while it increased at Liberty due to increased borrowing needs. The P/E ratio reduced at Liberty, while it improved at CIC and Scangroup after listing.

TABLE 4.2.2.2

SCANGROUP

CIC INSURANCE LIBERTY HOLDINGS

Measures	After Listing	Before Listing	Measures	Before Listing	After Listing	Measures	Before Listing	After Listing
Current Ratio	2.38	1.2	Current Ratio	1.5	1.6	Current Ratio	1.9	1.2
Earnings per Share	1.8	0.7	Earnings per Share	10.66	0.64	Earnings per Share	1.44	1.78
Dividend per Share	0.64	0.23	Dividend per Share	1.24	0.1	Dividend per Share	0.28	0.4
Price to Earnings Ratio	20.63	8.5	Price to Earnings Ratio	4.56	5.55	Price to Earnings Ratio	4.59	3.72
Return on Equity	16	0.6	Return on Equity	0.21	0.25	Return on Equity	0.22	0.93
Net Assets Value Per Share	5.39	3.35	Net Assets Value Per Share	51.91	2.51	Net Assets Value Per Share	2.36	9.3
Pay Out Ratio(%)	40	37	Pay Out Ratio(%)	0.16	0.16	Pay Out Ratio(%)	19.93	23.25
Debt-Equity Ratio	1.03	4.25	Debt-Equity Ratio	2.16	1.5	Debt-Equity Ratio	4.05	4.4
Dividend yield	2.19	1.14	Dividend yield	-	0.03	Dividend yield	3.94	5.97

Source: Data Analysis (2013)

From table 4.2.2.3, it is evident that there was an improvement on the liquidity of Access Kenya and Safcom, there was also an improvement in the return ratios after listing, and this was contrary to the case of Britam where both liquidity and returns reduced drastically, hence an increase in profitability ratios at Access Kenya and Safcom. There was an increase on the gearing ratio at Britam and Safcom; this is due to increase in borrowings. P/E ratios increased after listing at Access Kenya and Safcom; however the earnings per shares reduced in both cases.

TABLE 4.2.2.3

BRITAM			ACCESS KENYA			SAFCOM		
Measures	Before Listing	After Listing	Measures	Before Listing	After Listing	Measures	Before Listing	After Listing
Current Ratio	1.9	1.5	Current Ratio	0.75	1.1	Current Ratio	0.75	1.43
Earnings per Share	0.87	0.15	Earnings per Share	2.1	0.55	Earnings per Share	0.43	0.33
Dividend per Share	0.1	0.2	Dividend per Share	0.65	0.2	Dividend per Share	0.17	0.17
Price to Earnings Ratio	3.2	(0.28)	Price to Earnings Ratio	11.78	13.8	Price to Earnings Ratio	18.1	11.62
Return on Equity	11.5	1.5	Return on Equity	6.25	9.04	Return on Equity	0.4	11
Net Assets Value Per Share	4.2	5.56	Net Assets Value Per Share	5.02	17.96	Net Assets Value Per Share	2.29	1.7
Pay Out Ratio(%)	2.14	11.31	Pay Out Ratio(%)	38.9	35	Pay Out Ratio(%)	39.42	47.14
Debt-Equity Ratio	1.87	1.93	Debt-Equity Ratio	4.17	3.5	Debt-Equity Ratio	1.18	1.24
Dividend Yield	1.05	3.53	Dividend yield	0.4	0.3	Dividend yield	2.89	4.09

Source: Data Analysis (2013)

It is evident in table 4.2.2.4 below, there was a drastic decline in liquidity of Transcentury and Longhorn, while there was a slight improvement at Eveready after listing. There was an increase in debt ratio at Eveready and Longhorn. The P/E reduced drastically at Longhorn so is the earnings per share, the returns and profitability ratios reduced drastically. The P/E for both Eveready and Transcentury improved so did the dividend yield. However there was a decline On profitability in Transcentury while it improved at Eveready after listing.

TABLE 4.2.2.4
EVEREADY TRANSCENTURYLONGHORN

Measures	Before Listing	After Listing	Measures	Before Listing	After Listing	Measures	After Listing	Before Listing
Current Ratio	0.85	1.55	Current Ratio	1.73	1.25	Current Ratio	0.89	0.1
Earnings per Share	4.25	1.04	Earnings per Share	1.46	1.5	Earnings per Share	(0.38)	5.22
Dividend per Share	0.39	0.14	Dividend per Share	0.1	0.33	Dividend per Share	1.84	10.02
Price to Earnings Ratio	1.03	17.75	Price to Earnings Ratio	15	17.5	Price to Earnings Ratio	(48.17)	11
Return on Equity	1	8.64	Return on Equity	12	9.5	Return on Equity	(0.8)	0.18
Net Assets Value Per Share	2	14.52	Net Assets Value Per Share	14.86	26	Net Assets Value Per Share	22.6	4.52
Pay Out Ratio(%)	9.15	15.4	Pay Out Ratio(%)	17.5	21.5	Pay Out Ratio(%)	(5.26)	1.92
Debt-Equity Ratio	3.8	6.72	Debt-Equity Ratio	2.71	1.29	Debt-Equity Ratio	0.61	1.5
Dividend yield	0.09	3	Dividend yield	0.89	1.5	Dividend yield	-	

Source: Data Analysis (2013)

From table 4.2.2.5 below, it is evident that there was improved liquidity at Kenya-Re after listing. The firm's current ratio outperformed the recommended 2 and 1 times parameter.

There was an increase of the yield ratios. Due to more funds at the disposal, the profitability and return ratios increased on listing. There was also an increase in debt ratio indicating more borrowings.

TABLE 4.2.2.5

KENYA RE

Measures	Before Listing	After Listing
Current Ratio	1.9	2.5
Earnings per Share	1.25	2.64
Dividend per Share	0.1	0.39
Price to Earnings Ratio	2	3.95
Return on Equity	0.13	1.05
Net Assets Value Per Share	7	15.54
Pay Out Ratio(%)	8	15.7
Debt-Equity Ratio	0.23	0.66
Dividend yield	2.68	3.78

Source: Data Analysis (2013)

4.3: Chi test results on financial performance

How significant are these findings? From the data collected, chi-test was performed to establish the significance of the differences between measures of financial performance before and after

listing. Each of these tests concentrated on liquidity, profitability, gearing and equity-related ratios. The results of the chi-test are presented in Table 4.3.1 below. The interpretation of findings are explained in the next section.

Table 4.3.1: Chi- Test Analysis for the Effect on Financial Performance Before and After Listing

CHI-TEST: CO-OP		0.05 level of significance			
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2	
Liquidity ratio	2.3	2.3	0		
Gearing ratio	17.55	8.14	1.09	= 1.32	
Profitability ratio	44.9	32.5	0.44		
EQUITY					
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2	
Liquidity ratio	1.24	0.67	0.547		
Gearing ratio	8.27	4.49	0.1	= 0.6955	
Profitability ratio	14.1	7.66	0.0415		
SCANGROUP					
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2	
Liquidity ratio	3.58	2.71	0.17		
Profitability ratio	19.1	14.16	3.35	= 8.96	
Gearing ratio	5.28	3.99	5.44		
ACCESS KENYA					
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2	
Liquidity ratio	1.85	0.96	0.04		
Gearing ratio	7.67	4	0.1	= 0.171	
Profitability ratio	17.94	9.27	0.02		

CHI-TEST: EVEREADY0.05 level of significance				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	2.4	2.4	0	
Profitability ratio	14.93	9.62	0.0104	= 0.0287
Gearing ratio	10.52	6.78	0.018	
KENGEN				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	4.16	2.93	0.77	
Profitability ratio	15.13	10.68	2.53	= 8.43
Gearing ratio	4.08	2.88	5.13	
SAFCOM				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	2.18	1.82	0.78	
Profitability ratio	2.42	2.02	1.159	= 4.629
Gearing ratio	12.16	10.16	2.69	
CIC				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	3.1	1.56	0.002	
Profitability ratio	3.66	1.84	0.126	= 0.158
Gearing ratio	11.67	10.98	0.015	
LIBERTY				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	3.11	2.11	2.28	
Profitability ratio	12.74	8.75	1.98	= 6.65
Gearing ratio	8.45	5.8	3.39	

CHI-TEST: BRITAM0.05 level of significance				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	3.4	2.57	0.765	
Profitability ratio	14.02	10.66	1.14	= 3.385
Gearing ratio	3.9	2.97	1.48	
TRANSCENTURY				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	2.56	1.56	0.139	
Profitability ratio	4	2.1	0.662	= 0.771
Gearing ratio	2 4.46	12.82	0.07	
LONGHORN KE				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	0.99	0.99	24.77	
Profitability ratio	11.56	8.56	8.88	= 38.84
Gearing ratio	5.11	2.11	5.19	
KENYA RE				
Measure	observed freq(OiJ)	Expected freq(EiJ)	(OiJ-EiJ)^2/EiJ	X^2
Liquidity ratio	4.4	4.39	0.08	
Profitability ratio	5.07	4.07	0.1	
Gearing ratio	0.89	0.88	0.17	
X^2				0.35

Source. Data Analysis(2013)

4.4: Interpretation of findings

This section provides an interpretation of the Chi-test results from the 13 companies, at 0.05% level of significance where

Df=2 i.e.Df-degree of freedom

From mathematical tables at 2 degree of freedom, the value for 0.05%= 5.991

Hence if $X^2 > 5.991$ it is significant

Table 4.4.1, shows name of company and its chi-test results. An explanation of the Chi-test results is provided in the preceding paragraphs

TABLE 4.4.1

NAME OF COMPANY	CHI-TEST RESULTS
CO-OP	$X^2 < 5.991$ not significant
EQUITY	$X^2 < 5.991$ not significant
KENGEN	$X^2 > 5.991$ significant
SCANGROUP	$X^2 > 5.991$ significant
SAFCOM	$X^2 < 5.991$ not significant
EVEREADY	$X^2 < 5.991$ not significant
ACCESSKENYA	$X^2 < 5.991$ not significant
CIC	$X^2 < 5.991$ not significant
LIBERTY	$X^2 > 5.991$ significant
BRITAM	$X^2 < $ not significant
TRANSCENTURY	$X^2 < 5.991$ not significant
LONGHORN KE	$X^2 > 5.991$ significant
KENYA RE	$X^2 < 0.35$ not significant

Source: Data Analysis (2013)

For Co-op $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For Equity $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For Kengen $X^2 > 5.991$, implied that there was significant difference between listing and financial performance. Thus listing had a positive impact on company's financial performance.

For Scangroup $X^2 > 5.991$, implied that there was significant difference between listing and financial performance.

For Safcom $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For Access Kenya $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For CIC $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For Eveready $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance

For Liberty $X^2 > 5.991$, implied that there was significant difference between listing and financial performance.

For Britam $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For Longhorn $X^2 > 5.991$, implied that there was significant difference between listing and financial performance.

For Transcentury $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

For Kenya-Re $X^2 < 5.991$, implied that there was no significant difference between listing and financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the research objectives, methodology and findings, draws conclusions and recommendations, elaborates on limitations of the study and suggests areas for further research.

5.2 Summary

The objective of the study was to determine the effect of listing on financial performance of listed companies at the Nairobi Securities Exchange. The research methodology involved the use of secondary data collected from published information from the NSE and from published annual reports of listed companies. For this study, a descriptive survey was used to establish the relationship between listing and firm financial performance. The research findings indicate that there is negative relationship between listing and firm financial performance in the following firms: Co-op bank, Equity bank, Eveready, Access Kenya, CIC, Britam, Kenya Re, Safcom and Transcentury limited, while there was a positive relationship between listing and financial performance in Longhorn, Kengen, Liberty Holdings and Scangroup. The implication of these findings is that different firms respond differently to the decision going public, the impact it has on each firm is different from others.

5.3 Conclusion

The research findings indicate that there is negative relationship between listing and firm financial performance in the following firms: Co-op bank, Equity bank, Eveready, Access Kenya, CIC, Britam, Kenya Re, Safcom and Transcentury limited, while there was a positive relationship between listing and financial performance in Longhorn, Kengen, Liberty Holdings and Scangroup. The effect of listing on company's financial performance is significant to some firms; this implies that there are other factors that have a greater impact on firm financial

performance as opposed to listing. The difference in performance can be attributed majorly on macro-economic factors based on company's strengths and weaknesses.

5.4 Recommendations for Policy

Even though the research results indicate that there is little or no significant relationship between listing and firm performance, this should not discount the importance of listing to long term performance of any company because listing leads to improvement in a variety of firm fundamentals. The CMA and the NSE should encourage more companies to go public within Kenya and also cross-list across East Africa. To a large extent, the research results seem to have been largely affected by factors such as the country's economic performance. In this regard, the government through the CMA, should realize that it has a pivotal role in laying down micro and macro-economic policies that enhance the country's economic performance. This will translate to improved bottom lines for the listed companies.

5.5 Limitations of the study

The limitations to this study mainly arose from the unavailability of annual reports and financial statements of a number of companies on the company websites and that of the NSE. It was not possible to extend the research period to cover a longer period e.g. over 10 years since some companies were incorporated between 2002 to date, majority of companies didn't have annual reports available for years prior to 2006.

The study focused on the 13 companies quoted on the NSE only. There are 54 listed companies, there are many other public companies operating in Kenya. The findings of this study cannot be generalized.

Time and data were a major limitation.

5.6 Areas for Further Research

Degeorge et al (1993) find that at the reverse LBO the performance of a company is extraordinarily good, contrary to the post-quotations period, when the researched companies show poor performance. Jain et al, (1994) even find positive relationships between the pre-IPO and the company's performance in the post-IPO period. A suggestion for further studies would be to consider conducting similar studies in Kenya so as to analyze the impact of listing on financial performance over a longer time-span. Since the research findings indicate that the prevailing economic conditions have an impact on financial performance of listed companies, it would be important to investigate to what extent these conditions impact firm performance.

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www.longhornpublishers.co.ke

www.liberty.co.ke

www.kenya-re.org

APPENDIX 1
COMPANIES LISTED AT THE NSE BETWEEN 2002-2012

COMPANY	DATE OF LISTING
LONGHORN KENYA	30 th MAY 2012
SCANGROUP	29 th AUGUST 2006
CIC INSURANCE GROUP	19 th JULY 2012
LIBERTY HOLDINGS	21 st APRIL 2011
BRITISH AMERICAN INVESTMENTS COMPANY LIMITED	8 th SEPTEMBER 2011
KENGEN	11 th MAY 2006
ACCESS KENYA	4 th JUNE 2006
SAFARICOM LIMITED	9 th JUNE 2008
EVEREADY EAST AFRICA	18 th DECEMBER 2006
CO-OPERATIVE BANK	22 nd DECEMBER 2008
EQUITY BANK	7 th AUGUST 2006
TRANSCENTURY LIMITED	14 th JULY 2011
KENYA REINSURANCE CO-OPERATION	27 th AUGUST 2007