ABSTRACT

Several firms in Kenya had experienced agency problems that elucidated a reaction from the Nairobi Securities Exchange (NSE) imposing a suspension or an interim halt on the trading of share of these firms from the NSE. The direction was intended to protect the interest of investors after a panic in Capital Markets. The general objective was therefore to test for the information content of agency problems on share prices of companies listed at the Nairobi securities exchange. An event study methodology was adopted to analyze the data. The population comprised of 61 companies listed at the NSE. The sample consisted of 19 out of the NSE 20 share index constituent counters at the Nairobi securities exchange. The study excluded the CMC Holding since it had been suspended from trading at the NSE and therefore it would be difficult to obtain post event data on its trading share prices. The interval was set at one day, thus daily stock returns was used. A 61-day event window was employed, comprising of 30 pre-event days, the event day, and 30 post-event days. The standard approach was based on estimating the market model for each firm then calculating the abnormal returns which was assumed to reflect the stock market`s reaction to announcement of the event .The study used secondary data obtained from the NSE. Microsoft Excel and statistical package for social sciences (SPSS) was used for data analysis. The results of the study indicated that the CAR, ACAR and the AR around the event date were significant in the post event period because the z statistic was significantly did experience a significant reaction to the announcement of the agency problems, that is, Express Kenya, Rea Vipingo Ltd, Safaricom Ltd, Nation Media Group, Barclays Bank of Kenya, Equity Bank and Kenya Commercial Bank,. The CAR for the 30 days before the announcement is negative. The z statistic is significantly different from zero in the post event period and this implies that the market felt the impact of the event announcement. This implies that the agency problem influences the stock prices abnormal return around the event date. It is evident that there is leakage of price sensitive information in the market during the agency problems by listed companies and the regulators need to act upon this including reviewing rules pertaining to insider trading. Policy makers and regulators at the NSE are encouraged to carry more research on the NSE form of efficiency, this will provide a forum for investors to get the information on the form of efficiency of the market and boost their confidence when investing at the NSE. The stock market should also be encouraged to maintain a record of the various event dates in a way that they are easily accessible so as to aid in event studies as opposed to current way where these are not kept in a summarized form and a researcher has to go through so much information to extract the data on announcement dates