DETERMINANTS OF SHARE RETURNS OF COMMERCIAL BANKS LISTED

AT NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I declare that this is my work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed: _____Date: _____

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D63/5369/2017

This Research project has been presented for examination with my approval as the University Supervisor.

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DEDICATION

This "research is dedicated to my parents, brothers and sisters for their inspiration, support, encouragement and understanding throughout the project period.

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CBK   Central Bank of Kenya

CBR   Central Bank Rates

CMA   Capital Market Authority

EMH   Efficient Market Hypothesis

EPS   Earnings per Share

FE   Fixed Effect

GARCH   Generalized Autoregressive Conditional Heteroskedasticity

GDP   Gross Domestic Product

KCB   Kenya Commercial Bank

KNBS   Kenya National Bureau of Statistics

NSE   Nairobi Securities Exchange

RE   Random Effect

ROA   Return on Asset

SPSS   Statistical Package for Social Science

ABSTRACT

The objective of the study was to establish the determinants of share returns of the listed commercial banks in Kenya. The study period was nine years (2012-2017). The data collected was analysed using both descriptive statistics (means and standard deviations) and inferential statistics (correlation and regression) with the aid of Statistical Package for Social Sciences (SPSS). Both Kolmogorov-Smirnov and Shapiro-Wilk tests recorded p-values that were greater than 0.05. The implication of this was that the study used secondary data that was sourced from a normally distributed population. The data could therefore be used to carry out inferential analysis such as regression and Pearson correlation. Multi-collinearity tests recorded VIF values of less than 3 implying that there was no multi-collinearity among the independent variables. This implied that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance could be used as determinants of commercial banks share returns. The study concluded that there is a relationship between share returns of commercial banks listed at the NSE and the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). The study also concludes that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance explains 16.2% of the total variance in the share returns of the commercial banks listed at the NSE. The study also concluded that inflation, dividend policy, capital adequacy and corporate governance affects share returns of listed commercial banks negatively while financial performance and firm size affects share returns positively. The effect of firm size was found to influence share returns in a statistically significant manner. The study established that inflation, dividend policy, capital adequacy and corporate governance affects share returns of listed commercial banks negatively. The study recommended that the government should come up with appropriate fiscal policies for cushioning investors from making losses due to high cost of living as was measured using inflation rate. The management of commercial banks should carry out more extensive studies to establish the actual impact of dividend policy, capital adequacy and corporate governance affects as they were found to influence share returns negatively. Financial performance and firm size was found to influence share returns positively. The effect of firm size was found to influence share returns in a statistically significant manner. The management and shareholders of the commercial banks should be steadfast in improving the financial performance of their banks as well as increasing the size of banks in terms of assets. This will allow investors to profit from investing in the banks stocks.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organization share return is determined by many factors including the size of the firm, management team, and economic factors among others. Payment of dividend is important as this is the main means by which shareholders obtain a return on their investments or shares in a given business. Banks play an important role in many countries all over the world (San & Heng, 2013). They play a critical role in supporting a robust economic growth as they act as mobilizers for savings and borrowing. This facilitates movement of money from surplus economic units to deficit economic units.

Shares markets react to any prize-shaping information, relevant for future market development. Firms with higher stock returns are more profitable and thus they generally contribute to economic growth. Therefore, stock markets returns' uncertainties is a fundamental aspect of the aggregate economy since unstable economic growth trends makes consumption and investment difficult (Waweru, 2017).

The study was anchored on following theories; signaling theory, behavioral finance and agency theory. Signaling theory (Arrow 1972, Spence 1973), indicates that profit warnings just like dividend signaling theory, sends information to the investors that future expected or anticipated dividends was less and thus indicate that this negative signal will lead to a decline in stock prices and hence in returns. According to Kahneman and Tversky (1979) studies in behavioral finance have found out that investors overreact or underreact in the market especially where new information sets in contrary to the EMH thus causing a more

than appropriate effect on security prices. In so doing, investors overreact to bad news driving the stocks prices down disproportionately. Jensen and Meckling (1976) stated that firms must be willing to incur agency costs to solve agency problem. This may through an activity like hiring a board of directors to oversight the agents. The activities that a firm engages in have a direct effect on its stock returns because these activities can either lead to increase or decrease in the company's earnings expected by the investors.

Commercial banks usually play a vital role by enhancing mobilization of the financial resources needed for the investment purposes by extending credit to various investors and businesses. They are involved in activities such as allowing deposits and interbank borrowing in order to pool those funds for economic gain in activities such as lending, extending advances and investing in positive NPV projects (San and Heng 2013). Bank operations influence overall financial performance which is important in determining the share returns. Other factors such as inflation and interest rates have influenced the overall bank performance and as a result affect the share return (Ouma & Muriu, 2014).

1.1.1 Share Returns

Kothari and Warner (2005) describe share return as a term used to explain firm's overall financial health over a given financial period. Share return refers to the profits or loss gained by an investor from holding a stock. Share also known as stock or equity is a portion in the ownership of a company and represents a claim on the company's assets and earnings (Barnor, 2014). In classical economics, returns rise where there are more buyers than sellers, and vice versa. It consists of capital gains as well as any income received by the investor from the stock (Ward, 2008).

Share returns can be used to predict output and investment since they are forward-looking variable which outlines future discount rates and cash flow expectations. The availability of adequate market information and the effectiveness and efficiency of stock in the allocation of shares and equities is determined by Stock returns. Changes in stock prices create some form of uncertainty for the investors which influence the shares' demand and supply (Taofik & Omosola, 2013). Shares markets react to any prize-shaping information, relevant for future market development. Firms with higher stock returns are more profitable and thus they generally contribute to economic growth. Therefore, stock markets returns' uncertainty is a fundamental aspect of the aggregate economy since unstable economic growth trends makes consumption and investment difficult (Khan, 2012).

Share return is the return of a single share of a number of saleable stocks of a company. Share returns can be classified into two; dividend and capital gain. Dividend is the return that distributed to shareholders when a firm makes profits, while capital gain is the return earned by investors trading in the secondary market after selling their shares at a premium. The return on shares is measured using the capital gain and dividend earned at time *t*.

1.1.2 Determinants of Share Returns

The change in the return of share of commercial banks are said to be due to change in certain fundamental factors, this include the overall financial performance, dividend paid by the firm, capital structure, macroeconomic variables (such as inflation rate). There are other factors however that are responsible for the change in share return such as corporate governance and size of the firm. According to Akhmedjonov and Izgi (2014) capital structure as often stipulated by banking sector regulators is an effective measure of bank stability and soundness. Dividend policy is a term used to explain the procedure showing

the percentage of firms' profit distributed to the shareholders of the firm. (Adam & Mehran, 2003) described corporate governance as the mechanism where the stakeholders of an organization namely; creditors, employees, shareholders, society and the government oversight the insiders and management to ensure that their interests are safeguarded. Inflation refers to a change of prices and lending interest rate in the market (Masum, 2014).

Share returns are an important source of information on investment and the overall economy in general. Therefore, increasing share returns may increase the ability of firms to secure loans because the lenders are convinced that their liabilities was met. High inflation causes high interest rates that usually lead to a shift of investors to interest earning investments in order to ride with the interest wave. However, there is decrease in loan demand because it becomes expensive to borrow loans. When demand decreases this leads to a decrease in loan portfolio and automatically a decrease in share return (Ramadan, 2013).

According to Fisher (1930) the expected return of financial assets should reflect the real rate of interest and the expected inflation rate. Therefore, common stock returns should reflect real stock returns and the expected inflation rate. The size of the firm According to Pandey (2010) is determined through the total assets held by the firm. The firm financial performance was measured using the return on asset (ROA). Corporate Governance was measured as board composition (ratio in terms of non-executive directors to total directors). Capital structure is measured as debt to equity ratio.

Share return is a factor of capital gains and dividends declared. When the market value of a share or is share price rises, the appreciation is a form of return known as capital gains.

On the other hand dividend declared is that proposition of profit allocated to shareholders of the company. The combination of capital gain and dividend generate the share return. Some of the factors that affect share return include; Economic factors, dividend policy, firms' news and financial performance, firm size, capital structure and corporate governance (Funke & Matsuda, 2006). This study will focus on inflation, dividend policy, financial performance ,firm size, capital adequacy and board structure

Inflation

The prevailing economic environment in a country will affect the general movement of prices in the stock market. A stable and favorable economic climate characterized by stable interest rates regimes will lead to a general increase in prices of securities in the market. When the economic climate is unstable, it is characterized by high interest rates caused by high inflation and devaluation of local currency against international currencies (Ramadan, 2013). This usually affects the import and export business in the country. High interest rate usually leads to a shift of investors from the securities exchange to interest earning investments in order to ride with the interest wave. This leads to reduction in in the demand of shares in the stock market and an increase in the demand of interest bearing assets. When demand decreases this leads to a decrease in share price and automatically a decrease on return (Masum, 2014).

Dividend Policy

Dividend policy is a term used to explain the procedure showing the percentage of firms' profit distributed to the shareholders of the firm Khorsandi et al. (2014). The signaling theory argues that companies pays dividends as an indication of positive information that

may be only with the insiders of the firm. It is like a conveyance of private information by the managers to external parties on the positive aspects of a company. This in turn have an effect of attracting more buyers to demand for shares of the company in the securities exchange and these forces of demand and supply will lead to an increase in the value of the firm. This increase in value directly translates to increased capital gains for investors who sell the shares at higher prices than what they were bought at.

Firm Size

The size of the firm According to Pandey (2010) is determined through the total assets held by the firm. Large size favor the firm because of the large pool of resources that improve the financial structure of the firm compared to small firms. It is therefore, logical for large cap returns to be less volatile compared small cap returns. There are theories that clarify the link between size and returns. For instance, Capital Asset Pricing Model (CAPM) by Sharpe (1964) takes in to account the risk free rate and risk premium in the computation of the expected return. The risk free rate is a certain return on an asset that a shareholder earns while; the risk premium is the supplementary return the shareholder earns for a higher risk in comparison to investing in risk free assets. Abdullahi (2011) analyzed the effect of firm size on share return and found that the small firms stocks obtained higher returns than the large firms stocks and the size of a firm effect was momentous when returns with adjusted risks were controlled for variance in earnings to ratio in prices.

Financial Performance

According to Dehuan and Jin (2008), firms' performance affects share returns at the stock exchange. In a study to investigate association between company performance (Yield on

Equity, return on asset, profit margin, earning per share, changes in sales, as well as total asset turnover and stock revenues of the top accomplishing stocks registered on Shanghai stock exchange, Dehuan and Jin (2008) discovered that each of the variables is expressively linked with prices of the shares in the year prior to the disaster. But, in the crisis period the company performance have no descriptive authority toward share price program. Uddin (2009) examined the association of microeconomic aspects with the price of stock by using multiple regression equations. This study discovered a noteworthy linear connection among market yield as well as certain microeconomic aspects like net asset price per share, dividend proportion and earnings per share of bank renting, as well as insurance businesses. He also discovered that non-linear association amongst the variables is unimportant at ninety five percentage level of connotation.

Capital Adequacy

In the recent years, commercial bank regulators have shown a lot of interest on the capital adequacy of the commercial bank as an approach of promoting competition and stability among banks. Capital adequacy refers to a banking regulation that determines a framework on how the commercial banks should to manage their core capital (Nzioki, 2011). Common stock constitutes a major portion of a banks of core capital (especially tier one capital). The implication of this is that a bank's policy on its stock price greatly influences the banks' capital structure. Empirical literature has established both negative and positive impacts of capital adequacy on stock prices. For instance, a study by Dodwell, Govindraj and Chain (1992) on the effect of stringent packaging regulation on share prices of pharmaceutical firms established that stringent packaging regulation leads to negative abnormal returns among pharmaceutical firms.

Berger and Bouwman (2012) sought to examine the correlation between the capital and bank performance in regard market share and survival. The study also explored the capital levels of the banks under various circumstances such as economic turbulence, financial crisis and under normal times in the U.S.A. The results of the study indicated that the capital level of the bank significantly improves the performance of a smaller bank in any circumstance. However, the capital level of the bigger banks only improves the bank performance under financial crisis. Numerous studies have provided mixed results in regard to how capital adequacy influences stock prices. Chia, Yahya & Muhammad (2015) established that commercial banks stock price reacted negatively to first announcement of Basel Accord Capital Adequate Framework while a few stock prices reacted positively. On the other hand, Chen (2010) reported that the market-valued capital ratios are negatively correlated to stock prices. These mixed results imply that a capital adequacy ratio affects the stock prices of commercial banks.

 Corporate Governance

Another factor affecting share returns is corporate governance. This generally refers to a set or framework of rules, practices and policies by which board of directors and management teams run an organization (Brown & Caylor, 2009). Good corporate governance plays a key role in mitigating information asymmetry amongst stakeholders of the firm. This helps to improve the confidence level of investors in the performance of an organization and hence the share price of organization, as demand for its shares varies. According to various research studies, it has been established that creditors may be unwilling to offer financing to firms with week corporate governance or charges greater interest to obtain a suitable rate of return. This therefore implies that a firm with perceived

poor corporate governance may incur high cost, which may reduce profitability of the firm and subsequently affect share returns negatively (Masulis et al, 2007).

1.1.3 Commercial Banks Listed at the Nairobi Securities Exchange

Each country all over the world has a central bank which regulates Commercial banks operations. According to CBK's directory, there are forty-three commercial banks in the country some of which are internationally based. The headquarters of these banks are in Nairobi and they serve both retail and corporate customers. The banks in the country perform the following function: creation of money, community savings, ensure smooth support of payment mechanisms, ensure smooth flow of international transactions, storage of valuable goods and provision of credit services. The Central Banks of Kenya falls under Treasury docket, is accountable for the formulation and execution of monetary policy and foster of liquidity and proper operations of Kenyan commercial banks. This policy formulation and implementation also include commercial banks financial risk management and financial performance (Central bank of Kenya, 2017).

The performance of the general economy to some extent depends on the wellbeing of the banking sector and their ability to operate efficiently. There are forty two commercial banks in Kenya (CBK, 2017). Out of the forty two licensed banks in Kenya, there are 11 listed banks on the security exchange namely: KCB Bank Group, Equity Bank, Co-operative Bank, I&M Bank, DTB, National Bank of Kenya, CFC Stanbic, HF Group, Standard Chartered Bank, NIC Bank & Barclays Bank Kenya (nse.co.ke). Listed commercial banks in Kenya have seen a slow growth in earning per share (EPS) of 8.2% in 2017 a decline of about 6% in comparison to year 2016. This decline is attributed to

interest capping and a further decrease in rates (CBK, 2017). Interest rate affects the banks overall financial performance which is important in determining the share returns. However, there have been increases in gross loans, advances and deposits which can enhance the bank financial performance over time (CBK, 2017).

1.2 Research Problem

Share returns and factors affecting it in banking industry has faced unresolvable debate among different researchers. It is believed that the share returns of commercial banks can be determined both by internal and external factors (Al-Tamimi & Hussein, 2010). According to the authors, the main internal determinants of stock returns include bank size, liquidity and industry's concentration. In addition, Tarazi and Gallato (2012) found that the external factors such as annual changes in GDP, inflation rates, exchange rates and interest rates are the major external determinants of commercial banks share returns. However, according to Murhadi (2008) there is a positive relationship between dividend policy and share returns. While dividend irrelevance theory argues that issuing out of dividend has little or no effect on stock returns therefore shareholders do not bother much on the company's dividend policy since they can sell out a portion of their equity portfolio (Miller & Modigliani, 1961).

Kenya listed banks enjoy the advantage of increased funds through the trade of securities. These banks have an obligation in guaranteeing the shareholder a fair return for the funds they invest in securities (Alkhazaleh & Almsafir, 2014). The impact of monetary policy, such as the central bank interest rate sensitivity, on banks' stock market returns has been a main concern for bank managers, regulatory authorities, academic communities and investors to meet this obligation. The failure of most commercial banks has been

particularly linked to the adverse impacts of fluctuations in interest rates and corporate governance among other factors which influence share returns (Kasman, Vardar, & Tunç, 2011). In this view, this show there is still lays a gap that could be strengthened if proper research work is done in the area of the topic.

Extensive studies have been conducted in the international and local stock markets to investigate the factors affecting share returns. Globally, Almumani (2014) studied on factors that influence share prices for the listed banks in Amman Stock Exchange and found that that there was a positive correlation between predictor variables and responsive variable. Samih (2014) researched on determinants of stock market returns in the US. He used two variables; inflation rate and the fluctuation of dollar value and found that inflation rate had no impact on stock market returns while a relationship existed between S & P 500 and the USD. Olowoniyi and Ojenike (2012) researched on determinants of stock return of firms' quoted in the Nigerian Securities Exchange and found that firm size and expected growth positively affected stock return. Khan and Amanulllah (2012) researched on the relationship between determinants and share prices of a 100 index firms listed in Karachi. Donker and Church (2010) in their research argue that negative stock returns following profit warning announcements can be reversed if companies issue detailed qualitative and quantitative information.

Several studies have been conducted in Kenya on the sensitivity of share retuns, mostly to identify the determinants of share returns. Otieno (2017) researched on macroeconomic determinants of stock market returns in Kenya and found that macroeconomic variables were jointly co-integrated to stock market returns and also positively related to stock returns in the long-run. Wambui (2017) researched on the effect of dividend policy on share

returns of companies listed at Nairobi Stock Exchange and found that firm size and inflation had positive influence to share return and it was statistically significant. Gitonga (2016) researched on effects of profit warnings on stock returns of companies listed in East Africa and established that profit warning announcements generally result in decrease in actual returns and expected returns of the companies making profit warning announcements.

Dima (2015) investigated the sensitivity of central bank interest rate changes on share returns of listed commercial banks in Kenya and found there is a significant strong negative sensitivity of average monthly changes in central bank interest rates (CBR) on the share return of banks in Kenya. Others such as Wacike (2015) researched on effects of dividend announcement on share returns of firms listed in NSE. This study established that the events of dividend announcement cause a general increase in share. Few or no studies have been done in Kenya to determine the factors affecting the stock returns of listed commercial banks. This study therefore, made an effort to bridge the literature gap by answering the following research questions: which are the determinants of share returns of listed commercial banks in Kenya?

1.3 Objective of the Study

The objective of the study is to establish the determinants of share returns of the commercial banks listed at the Nairobi Securities Exchange.

1.4 Value of the Study

The research is of great benefit to the following stakeholders: Companies' managers, investors, researchers and academicians, regulatory body, financial analysts and fund managers. The management personnel of the listed commercial banks are in a key position

to understand the determinants of share returns which in turn can play a bigger role in determining their operations. They will find the study valuable in making decisions regarding capital sourcing through equity as well as how to increase investor confidence generally through increasing share returns.

Researchers and academic community will use the findings of this study as a reference for further studies and as a basis for discussions on listed companies in the Nairobi Securities Exchange. It also forms a reference material for study and analysis. It also documents and makes available literature used by other scholars and researchers in assessing whether the findings are consistent with those in developing markets or not thus proving ground for further research.

Listed companies are subject to various regulatory requirements. The regulators are interested with the level of compliance by these firms to the regulations. The securities industry and capital markets practitioners can get an insight on the determinants of share price movement and returns of listed companies in the Nairobi Securities Exchange. This should help them develop strategies and policies on how to deal with these effects and mitigate the challenges.

The ordinary investors find this study useful in formulating, selecting and implementing investment decisions despite of the market inefficiencies and anomalies. Dealers know which stocks to buy and which ones to sell while brokers on the other hand are able to know how to approach different buyers and sellers when they are buying and selling their stock.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical framework applied in the study and reviews previous studies done on determinants of share returns. It contains the theoretical review, empirical review, conceptual framework and summary of literature review.

2.2 Theoretical Review

This usually gives a review of the existing theories that explains the associations between share returns and factors affecting share returns. This study is anchored by the following theories; signaling theory, Agency theory and Behavioral finance theory.

2.2.1 Signaling Theory

Signaling theory was advanced in early 1970s and is centered on two major research contributions of Arrow (1972) and Spence (1973). Spence (1973), with the purpose of

coming up with general conclusions about information economics, studies the workforce market. According to Connelly et al. (2011), signaling theory is used to explain how parties with varied information react to market actions and information. The sender (company) chooses how to relay information to the market which consists of the investors as the recipients and they choose how to interpret the signal.

Merton and Rock (1985), suggested that announcement of dividend relays information to investors on the company's future prospects where an increase in dividend pay-out acts as an indicator of the firm possessing strong future prospects. Signaling theory forms an important framework for our study since this study is aimed at revealing the effects of the signal (profit warning) to the market just before and after it is released which is revealed in the stock returns of the company that issues the profit warning.

2.2.2 Agency Theory

The theory is credited to the work of Jensen and Meckling (1976). According to the theory, an agency relationship exists when two parties , one referred to as the agent acts on behalf of the other party referred to as the principal in matters requiring decision making. Agency problem arises when the agent acts in a manner not in conformity with the expectations of the principal. The existence of conflict of interest prompted the need to segregate ownership and control of the firm. There are several justifications for the existence of principal-agency relationship. First, the principal could be too many and spread geographically thus they may not be able to take part in active management of the firm. Secondly, the shareholders may not have the requisite skills for effective operation of the firm and may therefore need to engage specialized personnel to manage the firm.

In order to mitigate the risk of agency problem, Jensen and Meckling (1976) stated that firms must be willing to incur agency costs. Agency costs can mean the aggregate costs of preventing firm's agents from pursuing their own personal goals or interests at the expense of their principals. The activities that a firm engages in have a direct effect on its stock returns because these activities can either lead to increase or decrease in the company's earnings expected by the investors. When investors engage agents, they expect that the agents will engage in activities that are consistent with the wealth maximization goal.

According to Gitonga (2016) in an effort to ensure that agents fulfill their duties without putting the interests of investors into jeopardy, the Kenyan Capital Markets Authority requires all agents to inform the shareholders and the general market of any substantial changes in the firm that can potentially affect the returns expected. For instance, management is required to make a profit warnings and announcements in fulfillment of their agency role and also in consistency with the principles of good corporate governance. These warning and announcement affect share returns.

2.2.3 Behavioral Finance Theory

The theory was developed by two psychologists, Kahneman and Tversky in 1979. It aims to show that while making financial decisions, market participants will follow their risk appetites. The theory expounds the concept stock market price volatility. The behavioral finance theory further explains that information structure and peculiarity of market participants displays the important role on the decision making as well as the market overall outcome. Proponents of this theory believe that numerous factors influence an investor's behavior irrationally as well as rationally.

Behavioral scholars argue that investors will decide irrationally and that the market price does not estimate fairly a stocks underlying fundamental value. Therefore, behaviorists' are convinced that an investor risk appetite can drive market prices and fundamental value differently. According to De Bondt and Thaler (1985) people systematically overreact to unexpected news and events there-by this exhibit weak form inefficiency in the securities market. This theory is of importance to the study because most investors in the NSE are irrational and unexpected news and events greatly affect the share prices.

2.3 Empirical Review

Share returns are great issue for many investors in developing and developed nations and therefore, this matter has attracted the attention of researcher in the recent past. There are several empirical studies on factors that affect share returns, but these studies have outlined mixed results. This section covers various studies conducted both globally and locally.

Otieno (2017) researched on macroeconomic determinants of stock market returns in Kenya. The study used secondary data from NSE, CBK and KNBS. The study used Auto-Regressive Fractionally Integrated Moving Average and Auto-Regressive Distributed Lag Cointegration tests for data analysis. The study found that macroeconomic variables were jointly cointegrated to stock market returns and also positively related to stock returns in the long-run. This research creates a conceptual knowledge gap because it only focused on macroeconomic factors.

Wambui (2017) researched on the effect of dividend policy on share returns of companies listed at Nairobi Stock Exchange. The study employed a descriptive research design. The focus on all the listed organizations listed at NSE. During the period there were 31

companies that had given out dividends. The research used quantitative secondary data and used inferential and descriptive statistics to analyze the data collected. The study established that although dividend payout ratio and capital structure positively contributed to share returns for listed firms at NSE in 2011-2015 periods, this contribution was not statistically significant. However firm size and inflation had positive influence to share return and it was statistically significant. This study creates a conceptual knowledge gap because it focused only on one determinant of stock returns. This study will focus on dividend policy among others factors affecting share return of commercial banks in Kenya.

Gitonga (2016) researched on effects of profit warnings on stock returns of companies listed in East Africa. For the purpose of analysis, the study used a population of 35 companies that issued profit warnings between the year 2011 and 2015. The study depended on secondary data that was obtained from the various East African Securities Exchange and Capital Market Authority reports. The data collected included particulars of profit warning announcements namely; the issuing company, the date of the warning, and the daily average share prices within a timeline of 15 days before the warning and 15 days after the warning. Event study methodology was used to analysis the data. The findings of the study established that profit warning announcements generally result in decrease in actual returns and expected returns of the companies making profit warning announcements. This study creates a conceptual knowledge gap because it focused on only one determinant of stock returns.

Dima (2015) investigated the sensitivity of central bank interest rate changes on share returns of listed commercial banks in Kenya for nine year period, from 2006 to 2014. The study used a hybrid of cross sectional and longitudinal quantitative surveys method,

applying regression model on the secondary data from the 11 listed commercial banks in Kenya. The study then applied the monthly figures in the regression model, with the stock returns as the dependent variable and changes in central bank interest rates (CBR) as the main independent variable. Based on the findings of the study found there is a significant strong negative sensitivity of average monthly changes in central bank interest rates (CBR) on the share return of banks in Kenya. The study presents conceptual knowledge gap since the focus is on central bank interest rate and share returns of listed commercial banks in Kenya. This study will focus on interest rates among others factors affecting share return of commercial banks in Kenya.

Wacike (2015) researched on effects of dividend announcement on share returns of firms listed in NSE. This study employed an event study methodology for a period of 61 days in pre and post dividend announcement date. The study covered the period between 2010 and 2014 with a sample size of 5 companies. Secondary data collected from NSE on the daily stock prices of the 5 companies and the NSE 20-Shareprice index for 30 day pre and 30 day post dividend announcement date was used. This study established that the events of dividend announcement cause a general increase in share return, the companies' share returns exhibits erratic positive returns before and after the dividend announcement and that in terms of regression, the test of significance revealed that in overall dividend announcement has significant effect on stock returns of firms listed at the Nairobi Securities Exchange. The study presents conceptual knowledge gap since the focus is on dividend announcement on share returns of listed financial firm. This study will focus on others factors affecting share return of commercial banks in Kenya

Almumani (2014) studied on factors that influence share prices for the listed banks in Amman Stock Exchange. Data analysis was done through correlation and a linear multiple regression models. The study findings showed that there was a positive correlation between predictor variables and responsive variable. This study creates a conceptual gap because it focused only on share prices. It also presents a contextual gap because it focused on banking sectors in Amman.

Samih (2014) researched on determinants of stock market returns in the US. He used two variables; inflation rate and the fluctuation of dollar value. S & P 500 was the measure of the stock market index while weighted foreign exchange rate index was the measure of the dollar fluctuation. Data was analyzed GARCH and least square regression models. The study found that inflation rate had no impact on stock market returns while a relationship existed between S & P 500 and the USD. The study presents contextual knowledge gap since the conditions of USA, (developed economy) cannot be compared to Kenya hence the findings cannot be generalized to Kenya condition.

Olowoniyi and Ojenike (2012) researched on the relationship between determinants and stock returns of a firms listed at Stock Exchange, Nigeria. Random sampling technique was used and a sample of 70 firms drawn for a period of 10 years (2000-2009). Multiple regression and correlation analysis were used in data analysis. The findings indicated that predictor variables (firm size and expected growth) had a positive significant relationship on stock returns. However the study found a negative relationship between stock return and asset tangibility. The study presents contextual knowledge gap since the conditions of Nigeria, (developing economy) cannot be compared to Kenya hence the findings cannot be generalized to Kenya.

Khan and Amanulllah (2012) researched on the relationship between determinants and share prices of a 100 index firms listed in Karachi Securities Exchange, Pakistan. Random sampling technique was used and a sample of 34 firms drawn. Multiple regression and correlation analysis were used in data analysis. The findings indicated that predictor variables had a positive significant relationship on share prices. The study presents contextual knowledge gap since the conditions of Pakistan, (developed economy) cannot be compared to Kenya hence the findings cannot be generalized to Kenya.

2.4 Conceptual Framework

The conceptual framework gives a portrayal of how the variables identified are related to each other. Share return is the dependent variable which is affected by the independent variables; such as, inflation, dividend policy, firm size, financial performance, capital adequacy and corporate governance.

Independent Variables   **Dependent Variables**

Inflation
• Consumer Price Index

Dividend Policy
• Dividend Payout Ratio

Firm Size
• Asset Turnover Ratio

Financial Performance
• ROA

Share Returns
• Total Stock Returns

Capital Adequacy
• Equity/ Total Assets ratio

Corporate Governance
• Board composition

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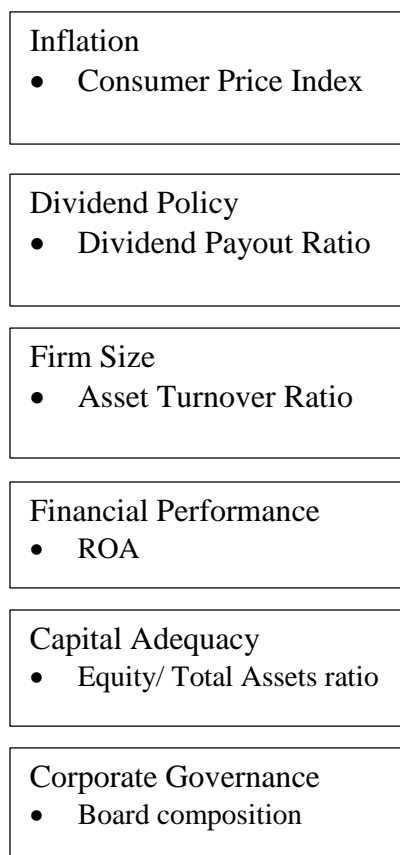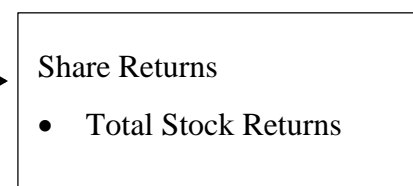
Figure 2.1: Conceptual Model

Source: Research (2018)

2.5 Summary of Literature

Despite the many theoretical and empirical studies, share returns has remained a source of controversy especially determinants of share returns. There are various theoretical arguments that have been developed to explain various aspects on share returns. Signaling theory suggest that profit warnings serve as signals to the market that stock returns shall be lower in the coming days and they influence the decisions of the investors (Arrow; 1972 and Spence; 1973). The agency theory supports that management is required to make a profit warnings and announcements in fulfillment of their agency role and also in consistency with the principles of good corporate governance (Jensen and Meckling, 1976). On the other hand, behavioral scholars argue that investors will decide irrationally and that the market price does not estimate fairly a stocks underlying fundamental value. Therefore, behaviorists' are convinced that an investor risk appetite can drive market prices and fundamental value differently (Kahneman and Tversky, 1979).

According to some studies information contents of factors affecting share returns is important. According to Gitonga (2016) in an effort to ensure that agents fulfill their duties without putting the interests of investors into jeopardy, the Kenyan Capital Markets Authority requires all agents to inform the shareholders and the general market of any substantial changes in the firm that can potentially affect the returns expected. According to Wacike (2015) the announcement of dividends provides information that could have been missing on the firm and also allows the estimation of the firm's current share returns by the market. Wambui (2017) also argues that, firms that have low dividend payout and

yield can be valued in better terms in regard to investment opportunities in the future. Therefore prices of shares for such firm might be more sensitive to the overall share returns estimates given distance time periods. The local studies are found to be shy away from discussing relationships between various determinants and share returns. A research gap therefore exists on the determinants of share returns of banks listed at the Nairobi security exchange in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter states the methods that were used during the study to realize it set objective. It starts with research design, a description of the population, sample design, data collection, and analytical model.

3.2 Research Design

Research design can be defined as an outline of the actual measures, adopted by an investigator for testing the correlation involving dependent variables as well as independent variables (Kothari, 2008). The study adopted descriptive research design. The methodology allowed for the collection of data, summarizing, presentation, interpretations of data to observe trends and relationship between the variables under study thereby allowing generalization of the outcomes to a larger population.

3.3 Population

According to Mugenda and Mugenda (2003) target population refers to the total element which the research findings are generalized. The study focused on listed commercial banks in Kenya. According to CBK Annual Report 2017 there are 11 listed commercial banks as illustrated in Appendix 1. The study involved these 11 banks that comprise a time series study of financial data over 8 years period starting from 1st January, 2010 to 31st December, 2017.

3.4 Data Collection

The research relied on secondary data. Secondary data was obtained from financial statements from the firm annual reports and the capital markets authority. CBK data was also useful in obtaining secondary data for analysis from their annual report on Bank Supervision. This type of data is mainly quantitative and has been subjected to oversight and evaluation by audit firms and the regulators, CBK and CMA. The financial performance was obtained from year end statements including statements of income, statements of financial position and cash flow statements for period of our study

3.5 Data Analysis

Typically involves application of statistical measures and logical methods to evaluate and establish a relationship between data (Tully, 2014). Data collected was analyzed through use of Microsoft Excel (MS Excel) and Statistical Software for Social Scientists (SPSS) Version 21. SPSS and MS Excel are preferred as they produced output that found adequate statistical inference and generally easy to use. The output of the data analysis was reported in various tables highlighting the relevant statistics.

3.5.1 Diagnostic Tests

The nature and strength of the relationship between the dependent and independent variables in linear regression model was measured through various diagnostic tests such as tests for Multicollinearity, normality, test of independence of observation and the test of homogeneity of variances. The Durbin Watson statistic was used to test for serial correlation or autocorrelation while the variance of inflation was used to test

multicollinearity. Skewness and kurtosis was used to check whether the data is normally distributed. In addition a residual plot was used to test for homogeneity of variances.

3.5.2 Analytical Model

The analytical model was used in analyzing the interrelation of the predictor variables on the response variable is:

$$Y_t = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

Where;

Y_t = Share Returns - Measured using capital gains and dividends earned; where

$$Y_t = \frac{(P_{it} - P_{it-1}) + D_1}{P_{it-1}}$$

Where; P_{it} is the price of the stock i on day t and P_{it-1} is the price of stock i on day t-1

D_1 = current dividend per share

X_1 = Inflation (Measured by consumer price index (CPI).

X_2 = Dividend policy measured by dividend pay-out ratio in the period t (Dividends/ Net income)

X_3 = Financial Performance (measured by Return on Asset ratio)

X_4 = Capital Adequacy (measured by Total Capital/Total Assets ratio)

X_5 = Size of the firm (measured by asset turnover ratio)

X_6 = Corporate Governance measured as board composition (ratio in terms of non-executive directors to total directors).

α = Constant; y intercept that is, the value of y when x is equal to zero

β = Coefficients of the model

ϵ = Error term

3.5.3 Test of Significance

The F test and T test was used to test the significance of the regression equation and variables used in the study respectively.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter "discusses and interprets the results of the data analysis in regard to the determinants of share returns of the commercial banks listed at the Nairobi Securities Exchange. The secondary data used in this study was gotten from various sources. Data on share returns was sourced from the NSE. Data on Inflation was sourced from the Kenya National Bureau of Statistics while data on dividend policy, financial performance, capital adequacy, firm size and corporate governance was extracted from audited financial reports of commercial banks listed at the NSE. The study period was nine years (2012-2017). The collected data was analyzed by use of both descriptive statistics (means and standard deviations) and inferential statistics (correlation and regression) with the aid of Statistical Package for Social Sciences (SPSS)."

4.2 Diagnostic Tests

4.2.1 Test of Normality

Test of normality "was done to establish whether the data used in the analysis was gotten from a normally distributed population. If a variable recorded a p-value greater than or equal to 0.05, it would then be inferred that data used was sourced from a normally distributed population. The stud used both Shapiro-Wilk and Kolmogorov-Smirnov tests of normality. The results of the test are as shown in Table 4.1."

Table 4.1: Test of Normality

	Tests of Normality					
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Share Returns (Kshs.)	.066	80	.200[*]	.963	80	.120
Inflation (% change in CPI)	.061	80	.200[*]	.955	80	.134
Dividend policy (Kshs.)	.072	80	.200[*]	.934	80	.106
Financial Performance (ROA Ratio)	.089	80	.200[*]	.935	80	.201
Capital Adequacy (Total Capital to Total Assets Ratio)	.079	80	.200[*]	.887	80	.119
Size of the firm - Log10 (Millions)	.078	80	.200[*]	.947	80	.102
Corporate Governance (Executive Directors to Total Directors Ratio)	.063	80	.200[*]	.882	80	.123

Source: Research Findings (2018).

The results "above indicates that both Kolmogorov-Smirnov and Shapiro-Wilk tests recorded p-values that were greater than 0.05. The implication of this was that the study used secondary data that was sourced from a normally distributed population. The data could therefore be used to carry out inferential analysis such as regression and Pearson correlation."

4.2.2 Test of Multi-collinearity

The study further carried out multi-collinearity tests Tolerance and Variance Inflation Factor (VIF) statistics. VIF values greater than 3 would indicate that the variables being used have multi-collinearity issues. The results of the test are as shown in Table 4.2.

Table 4.2: Test of Multi-collinearity

	Collinearity Statistics	
Multi-collinearity Coefficients[a]		
	Tolerance	**VIF**
Inflation	.970	1.031
Dividend policy	.583	1.716
Financial Performance	.377	2.656
Capital Adequacy	.365	2.742
Size of the firm	.782	1.278
Corporate Governance	.793	1.261

a. Dependent Variable: Share Returns

Source: Research Findings (2018).

The results above indicate that multi-collinearity tests recorded VIF values of less than 3. This implies that no multi-collinearity exists among the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). This implies that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance can be used as determinants of commercial banks share returns.

4.3 Descriptive Analysis

In this section, the study sought to establish the descriptive statistics (minimum, maximum, mean and standard deviation) of share returns, inflation, dividend policy, financial performance, capital adequacy, firm size and corporate governance. The results of the study are as tabulated in Table 4.3.

Table 4.3: Descriptive Analysis

	N	Min	Max	Mean	Stdev
Share Returns	80	-0.071	.2510	0.0439	0.0512
Inflation	80	5.560	14.280	7.6300	2.655
Dividend policy (Log10)	80	-7.724	0.000	-6.1718	1.674
Financial Performance	80	-0.0096	0.282	0.0359	0.0405
Capital Adequacy	80	.088	1.000	0.1965	0.1789
Size of the firm	80	7.308	8.745	8.2152	0.3215
Corporate Governance	80	0.444	0.917	0.7767	0.1229

Source: Research Findings (2018).

The results above indicates that share returns recorded a minimum of -0.071, a maximum of 0.2510 and a mean score of 0.0439 (SD= 0.0512). Inflation rate recorded a minimum of 5.560, a maximum of 14.280 and a mean score of 7.63 (SD= 2.655). Dividend policy (Log10) recorded a minimum of -7.724, a maximum of 0.000 and a mean score of -6.1718 (SD= 1.674). Further, financial performance recorded a minimum ROA of -0.0096, a maximum ROA of 0.282 and a mean score of 0.0359 (SD= 0.0405). Capital Adequacy minimum and maximum values were 0.088 and 1.000 respectively while the mean was 0.1965 (SD= 0.1789). Size of the firm and Corporate Governance recorded minimum values of 7.308 and 0.444 and maximum values of 8.745 and 0.917 respectively. Size of the firm and Corporate Governance also recorded mean scores of 8.2152 (SD= 0.3215) and 0.7767 (SD= 0.1229) respectively.

4.4 Correlation Analysis

The researcher carried out Pearson product-moment correlation analysis to test whether the study variables were correlated. A p-value of 0.05 or less was used to indicate significant correlations. The results of the study are as shown in Table 4.4.

Table 4.4: Correlation Analysis

		Y	X_1	X_2	X_3	X_4	X_5	X_6
Share Returns (Y)	Pearson	1						
	Sig. (2-tailed)							
Inflation (X_1)	Pearson	-.054	1					
	Sig. (2-tailed)	.633						
Dividend policy (X_2)	Pearson	-.243*	.041	1				
	Sig. (2-tailed)	.030	.720					
Financial Performance (X_3)	Pearson	.058	.006	-.122	1			
	Sig. (2-tailed)	.607	.960	.280				
Capital Adequacy (X_4)	Pearson	-.106	-.052	.400	.629	1		
	Sig. (2-tailed)	.351	.644	101	.120			
Size of the firm (X_5)	Pearson	.331**	-.057	-.208	-.301	-.340	1	
	Sig. (2-tailed)	.003	.653	.064	.067	.102		
Corporate Governance (X_6)	Pearson	-.149	-.084	.192	-.331	-.089	-.167	1
	Sig. (2-tailed)	.187	.458	.088	.103	.431	.139	

Source: Research Findings (2018).

Correlation analysis established that there was a negative correlation between share returns and inflation (r = -.054, p = .633), share returns and dividend policy (r = -.243, p = .030), share returns and capital adequacy (r = -.106, p = .351) and share returns and corporate governance (r = -.149, p = .187). The correlation was only significant between share returns and dividend policy. The correlation between share returns and financial performance (r = .058, p = .607) and share returns and size of the firm (r = .331, p = .003) was positive.

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However, only the correlation between share returns and size of the firm was statistically significant.

4.5 Multiple Regression Analysis

In order to determine the determinants of share return, the researchers carried out regression analysis where share return was regressed against determinants of share returns. Bank Size and bank liquidity were used as control variables.

4.5.1 Model Summary

Table 4.5: **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.402[a]	.162	.093	.0487294

a. Predictors: (Constant), Corporate Governance , Inflation , Capital Adequacy , Size of the firm , Dividend policy , Financial Performance

Source: Research Findings (2018).

The "model summary results indicates that there was a relationship (R= 0.402) share returns and the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). The study also recorded an R-Square value of 0.162. This indicates that the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance) can explain 16.2% of the total variance in the share returns of the commercial banks listed at the NSE."

4.5.2 Analysis of Variance

The study "sought to verify goodness of fit of the regression model through the Analysis of Variance (ANOVA) statistics. The results of the study are as shown in Table 4.6."

Table 4.6: **Analysis of Variance (ANOVA)**

ANOVAᵃ					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.033	6	.006	2.348	.040ᵇ
Residual	.173	73	.002		
Total	.207	79			

a. Dependent Variable: Share Returns

b. Predictors: (Constant), Corporate Governance , Inflation , Capital Adequacy , Size of the firm , Dividend policy , Financial Performance

F Critical Value = 2.226

Source: Research Findings (2018).

The results "of the study revealed that there was a significance level of 4% and an F-value bigger than the critical value (2.348>2.226). This implies that the regression equation generated used suitable for predicting the predicting share returns of listed commercial banks given corporate governance, inflation, capital adequacy, size of the firm, dividend policy and financial performance."

4.5.3 Coefficients of Determination

In order to "establish the direction of the relationship between share returns and the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance), the researcher computed regression co-

efficients at 95% confidence interval. The regression co-efficients are as tabulated in Table 4.7."

Table 4.7: Coefficients of Determination

	Coefficients[a]				
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	-.408	.177		-2.299	.024
Inflation	-.001	.002	-.037	-.344	.732
Dividend policy	-.004	.004	-.127	-.908	.367
Financial Performance	.213	.221	.169	.965	.338
Capital Adequacy	-.015	.051	-.051	-.290	.773
Size of the firm	.053	.019	.333	2.747	.008
Corporate Governance	-.009	.050	-.021	-.174	.862

a. Dependent Variable: Share Returns

Source: Research Findings (2018).

The study "established that inflation (t= -0.344, p= 0.732), dividend policy (t= -0.908, p= 0.367), capital adequacy (t= -0.290, p= .773) and corporate governance (t= -0.174, p= 0.862) influences share returns of listed commercial banks negatively. Further, the study established that financial performance (t= 0.965, p= 0.338) and size of the firm (t= -2.747, p= 0.008) influences share returns of listed commercial banks positively. Only firm size influences share returns in a statistically significant manner.

The regression equation generated is stated as follows:

$$Y_i = -0.408 + 0.053X_5$$

Where;

Y_t = Share Returns; X_5= Size of the firm

If size of the firm was assumed to be zero, the share returns of listed commercial banks would be -0.408 as indicated by the constant value of -0.408. Increasing size of the firm listed commercial banks by one unit would lead to decrease in share returns by 0.053. The researcher assumed that the error estimate was zero."

4.6 Discussion of Findings

The objective of "the study was to establish the determinants of share returns of the listed commercial banks in Kenya. The determinants of commercial banks share returns considered in the study included inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance.

The study established that there was a relationship (R= 0.402) share returns and the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). The study also established that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance explains 16.2% of the total variance in the share returns of the commercial banks listed at the NSE.

The regression equation generated had a significance level of 4% implying that it was suitable for predicting the future share returns of listed commercial banks given corporate governance, inflation, capital adequacy, size of the firm, dividend policy and financial performance. Inflation, dividend policy, capital adequacy and corporate governance influences share returns of listed commercial banks negatively while financial performance and size of the firm influences share returns positively. Only firm size was found to influence share returns in a statistically significant manner."

The results of this study "support existing literature. For instance, Otieno (2017) researched on macroeconomic determinants of stock market returns in Kenya and found that macroeconomic variables were jointly cointegrated to stock market returns and also positively related to stock returns in the long-run. Wambui (2017) researched on the effect of dividend policy on share returns of companies listed at Nairobi Stock Exchange established that although dividend payout ratio and capital structure positively contributed to share returns for listed firms at NSE in 2011-2015 periods, this contribution was not statistically significant. However firm size and inflation had positive influence to share return and it was statistically significant. Gitonga (2016) researched on effects of profit warnings on stock returns of companies listed in East Africa and established that profit warning announcements generally result in decrease in actual returns and expected returns of the companies making profit warning announcements. This study creates a conceptual knowledge gap because it focused on only one determinant of stock returns.

Wacike (2015) researched on effects of dividend announcement on share returns of firms listed in NSE and established that the events of dividend announcement cause a general increase in share return. Dima (2015) investigated the sensitivity of central bank interest rate changes on share returns of listed commercial banks in Kenya for nine year period, from 2006 to 2014 and study found out that there is a significant strong negative sensitivity of average monthly changes in central bank interest rates (CBR) on the share return of banks in Kenya. Almumani (2014) studied on factors that influence share prices for the listed banks in Amman Stock Exchange established that there was a positive correlation between predictor variables and responsive variable.

Further, Samih (2014) researched on determinants of stock market returns in the US and found that inflation rate had no impact on stock market returns while a relationship existed between S & P 500 and the USD. Olowoniyi and Ojenike (2012) researched on determinants of stock return of firms' quoted in the Nigerian Securities Exchange and found out that firm size and expected growth positively affected stock return. Khan and Amanulllah (2012) researched on the relationship between determinants and share prices of a 100 index firms listed in Karachi Securities Exchange, Pakistan and found out that predictor variables had a positive significant relationship on share prices.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter shows the summary of the results of the prior chapters, the conclusions drawn from the study findings and the encountered shortcomings during the course of the study. The chapter makes also policy recommendations, which can be executed to understand better the drivers' of share returns. Finally, the chapter shows suggestions for future research studies, which can be helpful to future scholars.

5.2 Summary of Findings

The objective of the "study was to establish the determinants of share returns of the listed commercial banks in Kenya. The study period was nine years (2012-2017). The data collected was analyzed using both descriptive statistics (means and standard deviations) and inferential statistics (correlation and regression) with the aid of Statistical Package for Social Sciences (SPSS). Both Kolmogorov-Smirnov and Shapiro-Wilk tests recorded p-values that were greater than 0.05. The implication of this was that the study used secondary data that was sourced from a normally distributed population. The data could therefore be used to carry out inferential analysis such as regression and Pearson correlation. Multi-collinearity tests recorded VIF values of less than 3 implying that there was no multi-collinearity among the independent variables. This implied that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance could be used as determinants of commercial banks share returns."

The study "established that there was a relationship (R= 0.402) share returns and the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). The study also established that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance explains 16.2% of the total variance in the share returns of the commercial banks listed at the NSE.

The regression equation generated had a significance level of 4% implying that it was suitable for predicting the future share returns of listed commercial banks given corporate governance, inflation, capital adequacy, size of the firm, dividend policy and financial performance. Inflation, dividend policy, capital adequacy and corporate governance influences share returns of listed commercial banks negatively while financial performance and size of the firm influences share returns positively. Only firm size was found to influence share returns in a statistically significant manner."

5.3 Conclusion

The study "concluded that secondary data that used in the study was sourced from a normally distributed population and could therefore be used to carry out inferential analysis such as regression and Pearson correlation. This was evidenced by the Kolmogorov-Smirnov and Shapiro-Wilk tests of normality which recorded p-values that were greater than 0.05. The study also concluded that the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance) used in this study could be used as determinants of commercial banks share returns since they recorded VIF values of less than 3 implying they didn't have multi-collinearity issues.

In order to determine the determinants of share return of listed commercial banks in Kenya, the researchers carried out regression analysis where share return was regressed against (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). The study concludes that there is a relationship between share returns of commercial banks listed at the NSE and the independent variables (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance). The study also concludes that inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance explains 16.2% of the total variance in the share returns of the commercial banks listed at the NSE.

The study also concludes that inflation, dividend policy, capital adequacy and corporate governance affects share returns of listed commercial banks negatively while financial performance and firm size affects share returns positively. The effect of firm size was found to influence share returns in a statistically significant manner. This implies that the regression equation generated used suitable for predicting the predicting share returns of listed commercial banks given corporate governance, inflation, capital adequacy, size of the firm, dividend policy and financial performance.

The study also concluded that the findings of this study support existing literature. For instance, Wambui (2017) established that dividend payout ratio and capital structure positively but insignificantly share returns. Gitonga (2016) established that profit warning announcements generally result in decrease in actual returns and expected returns. Wacike (2015) established that the events of dividend announcement cause a general increase in share return. Almumani (2014) established that there was a positive correlation between predictor variables and responsive variable. Olowoniyi and Ojenike (2012) researched on

determinants of stock return of firms' quoted in the Nigerian Securities Exchange and found out that firm size and expected growth positively affected stock return. Khan and Amanulllah (2012) found out that predictor variables had a positive significant relationship on share prices. Olowoniyi and Ojenike (2012) found that expected growth and size positively influenced stock return."

5.4 Policy Recommendations

The study "established that inflation, dividend policy, capital adequacy and corporate governance affects share returns of listed commercial banks negatively. The study recommends that the government should come up with appropriate fiscal policies for cushioning investors from making losses due to high cost of living as was measured using inflation rate. The management of commercial banks should carry out more extensive studies to establish the actual impact of dividend policy, capital adequacy and corporate governance affects as they were found to influence share returns negatively.

Financial performance and firm size was found to influence share returns positively. The effect of firm size was found to influence share returns in a statistically significant manner. The management and shareholders of the commercial banks should be steadfast in improving the financial performance of their banks as well as increasing the size of banks in terms of assets. This will allow investors to profit from investing in the banks stocks.

This study further recommends that the government should regulate the financial sector through various monetary and fiscal policies in order to reduce the cost of living given that inflation has a negative impact on the share returns of the commercial banks listed at the

Nairobi Securities Exchange. This will increase the disposable income of the investors' hence making them to invest more in shares of various companies."

5.5 Limitations of the Study

The study was limited to listed commercial banks only hence this study finding cannot be generalized to non-listed commercial banks. Incomplete data posed a challenge in analysis. Some listed firms were found to have incomplete data hence excluded for the study. Inclusion of firms with incomplete data could lead to inaccurate inferences hence the decision to exclude firms without complete data for the period under investigation. Availability of data and incomplete data were therefore limitations for this study.

The study could not focus on all the determinants of the share returns of commercial banks listed at the NSE. The study was limited to determinants that included inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance.

Financial resources were also a limiting factor for this study. A lot of resources were consumed in purchasing data from the NSE and in downloading audited financial statements from the individual companies.

5.6 Suggestions for further research

This study could not exhaust all the determinants of share returns of commercial banks quoted at the NSE. The ones considered (inflation, dividend policy, financial performance, capital adequacy, size of the firm and corporate governance) could only explain 16.2% of the total variance in share returns. Further studies can try to establish the other key

determinants of share returns of the commercial banks listed at the Nairobi Securities Exchange.

The results of the study could only be generalized to the listed commercial banks. Further studies on the determinants of share returns for other sectors of the economy should be done to ascertain whether they will yield the same results.

This study also established that corporate governance has a negative impact on share returns although the impact is not but statistically significant. Further studies should focus on the relationship between share returns of firms listed the NSE and the various mechanisms of corporate governance such as board composition, CEO duality, block ownership and number of meetings."

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APPENDIX I: COMMERCIAL BANKS LISTED AT THE NAIROBI

SECURITIES EXCHANGE

1. Barclays Bank Of Kenya Ltd
2. Cfc Stanbic Bank Ltd
3. Co-Operative Bank Of Kenya
4. Diamond Trust Bank Ltd
5. Equity Bank Ltd
6. I& M Bank Ltd
7. Kenya Commercial Bank Ltd
8. National Bank Of Kenya
9. National Housing Corporation
10. Nic Bank Ltd
11. Standard Chartered Bank

Source: CBK (2017).

APPENDIX IV: DATA SUMMARY

Y	X1	X2	X3	X4	X5	X6
Share Return (Ksh)	**Inflation** (% change in CPI)	**Dividend policy** (Kshs.)	**Financial Performance** (ROA Ratio)	**Capital Adequacy** (Total Capital to Total Assets Ratio)	**Size of the firm** Log10 (Millions)	**Corporate Governance** (Executive Directors to Total Directors Ratio)
0.099	5.61	-6.842	0.0346	0.1557	8.400	0.818
0.029	7.99	-6.615	0.0231	0.1341	8.519	0.818
0.016	14.28	-	0.0401	0.1754	8.483	0.818
0.153	5.56	-6.846	0.0359	0.1621	8.592	0.818
0.085	6.81	-6.946	0.0360	0.1542	8.690	0.818
0.012	6.54	-6.896	0.0336	0.1737	8.670	0.750
0.125	6.58	-6.813	0.0386	0.1913	8.703	0.750
0.251	7.67	-6.833	0.0367	0.1907	8.745	0.750
0.030	5.61	-7.724	0.0614	0.1822	8.237	0.667
-0.071	7.99	-7.606	0.0483	0.1747	8.224	0.545
0.039	14.28	-7.575	0.0610	0.1601	8.267	0.600
0.055	5.56	-7.026	0.0359	0.1564	8.316	0.500
0.055	6.81	-6.928	0.0375	0.1689	8.354	0.600
0.048	6.54	-6.889	0.0321	0.1647	8.382	0.727
0.069	6.58	-6.899	0.0305	0.1633	8.414	0.818
0.115	7.67	-6.850	0.0261	0.1623	8.434	0.667
0.097	5.61	-7.059	0.0297	0.1309	8.188	0.917

-0.011	7.99	-7.127	0.0319	0.1246	8.226	0.917
0.042	14.28	-7.293	0.0491	0.1493	8.300	0.917
0.066	5.56	-7.253	0.0387	0.1590	8.364	0.917
0.033	6.81	-7.230	0.0298	0.1484	8.455	0.917
0.035	6.54	-7.041	0.0257	0.1440	8.535	0.846
0.032	6.58	-7.304	0.0458	0.1743	8.546	0.846
0.070	7.67	-7.171	0.0307	0.1798	8.588	0.846
0.074	5.61	-6.176	0.0278	0.1069	7.922	0.900
-0.014	7.99	-6.278	0.0299	0.1076	8.032	0.900
0.041	14.28	-6.331	0.0300	0.1220	8.132	0.889
0.057	5.56	-6.421	0.0333	0.1258	8.221	0.900
0.031	6.81	-6.359	0.0259	0.1369	8.325	0.909
-0.006	6.54	-6.411	0.0237	0.1257	8.434	0.800
-0.021	6.58	-6.496	0.0248	0.1224	8.516	0.800
0.060	7.67	-6.437	0.0196	0.1182	8.560	0.800
0.096	5.61	-6.950	0.0499	0.1902	8.155	0.750
0.010	7.99	-7.014	0.0526	0.1747	8.293	0.643
0.090	14.28	-6.987	0.0499	0.1765	8.386	0.714
0.078	5.56	-6.947	0.0478	0.1856	8.444	0.643
0.082	6.81	-6.995	0.0516	0.1851	8.537	0.692
0.026	6.54	-6.937	0.0404	0.1685	8.632	0.818
0.032	6.58	-6.918	0.0349	0.1731	8.676	0.800
0.089	7.67	-6.900	0.0420	0.2459	8.578	0.667

0.063	5.61	-5.880	0.0130	0.1454	7.467	0.857
-0.033	7.99	-6.115	0.0204	0.1500	7.503	0.857
0.065	14.28	-6.026	0.0181	0.1256	7.612	0.857
0.097	5.56	-6.147	0.0222	0.1236	7.676	0.875
0.052	6.81	-6.166	0.0180	0.1076	7.785	0.889
-0.035	6.54	-6.305	0.0191	0.1544	7.838	0.857
-0.002	6.58	-6.181	0.0145	0.1658	7.833	0.889
0.025	7.67	-6.195	0.0116	0.1695	7.830	0.889
0.0071	5.61	-	0.0337	0.1654	7.778	0.900
-0.0315	7.99	-6.411	0.0225	0.1524	7.837	0.818
0.0101	14.28	-6.261	0.0109	0.1770	7.827	0.750
0.0509	5.56	-6.946	0.0191	0.1285	7.966	0.750
0.0069	6.81	-6.394	0.0067	0.0995	8.089	0.778
-0.0392	6.54	-	-0.0096	0.0882	8.098	0.889
-0.0531	6.58	-	0.0007	0.9137	8.061	0.900
0.0278	7.67	-	0.0027	0.9342	8.041	0.900
0.0434	5.61	-6.872	0.0316	0.1345	7.771	0.778
-0.0438	7.99	-7.035	0.0343	0.1273	7.898	0.800
0.0705	14.28	-6.493	0.0287	0.1429	8.035	0.800
0.0551	5.56	-6.599	0.0246	0.1451	8.083	0.818
0.0202	6.81	-6.611	0.0280	0.1602	8.164	0.769
-0.0088	6.54	-6.583	0.0231	0.1589	8.220	0.769
-0.0015	6.58	-6.584	0.0283	0.1791	8.229	0.833

0.0575	7.67	-6.615	0.0213	0.1800	8.285	0.800
0.0632	5.61	-6.349	0.0128	0.1768	8.146	0.875
-0.0408	7.99	-6.465	0.0122	0.1287	8.177	0.889
0.0205	14.28	-6.756	0.0291	0.1902	8.156	0.700
0.1032	5.56	-6.387	0.0307	0.1309	8.232	0.875
0.1293	6.81	-5.658	0.0298	0.1555	8.234	0.750
0.0738	6.54	-5.636	0.0235	0.1840	8.319	0.800
0.0521	6.58	-5.943	0.0217	0.1890	8.327	0.778
0.0869	7.67	-5.950	0.0188	0.1727	8.396	0.900
0.0693	5.61	-6.032	0.2644	1.0000	7.308	0.600
-0.0038	7.99	-5.837	0.2820	1.0000	7.316	0.667
0.0946	14.28	-5.972	0.0528	0.1573	8.291	0.444
0.0649	5.56	-5.880	0.0430	0.1643	8.343	0.444
0.0577	6.81	-5.862	0.0475	0.1827	8.347	0.667
0.0050	6.54	-5.685	0.0259	0.1763	8.369	0.600
0.0574	6.58	-5.878	0.0377	0.1781	8.399	0.455
0.0784	7.67	-5.710	0.0252	0.1602	8.455	0.455