

Determinants of Stock Performance among Banking Sector Firms Listed in Nairobi Securities Exchange

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Abstract: The increasing importance of the stock market has motivated the formulation of many theories and models to describe stock market performance globally. However, the volatility of stock market prices has sent mixed reactions to some investors who are especially risk averse. Therefore, the volatility of stock market share prices in Kenya motivated this study to investigate determinants of stock performance in listed firms in NSE. The specific objectives are; (i) to determine effect of share earnings information on stock performance of banking sector firms listed in NSE and (ii) to determine the effect of capital structure on stock performance of banking sector firms listed in NSE. The study was informed by agency theory and Arbitrage Pricing Theory. The study adopted explanatory design and targeted 12 banking sector companies listed on Nairobi Security Exchange with a target population of 126 respondents; then Yamame's formula used to calculate a sample size of 96 respondents, who were sampled through stratified sampling technique and selected using simple random sampling to participate in the study. The study used structured questionnaires to collect primary data. The research instruments were pretested in a selected established firm registered in NSE using 10 respondents from the firm. Content validity was used to check instrument validity while Cronbach's alpha was used to check instrument reliability. Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences (SPSS) version 24 software. Descriptive statistics was used to compute means, percentages, frequencies, standard deviations while inferential statistics was used for variable relationships. From the values of unstandardized regression coefficients with standard errors in parenthesis, all the independent variables were significant predictors of stock performance (dependent variable). The study concluded that one; share earnings significantly influences stock performance, thus companies with stable earnings per share can realize an improvement in its stock performance and two; capital structure is a significant predictor of stock performance, thus trading firms that craft and implement viable capital structure policies can boost their stock performance. The study recommends that one; trading companies on NSE must ensure that they have stable share earnings so as to boost their stock performance and two; trading firms on NSE must engage in profitable capital structuring mechanisms that can eventually enhance their stock performance

Key Words: Capital Structure, Earning per Share, Stock Performance, Banking Sector Firms, NSE

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I. Introduction

Stock performance is an important wheel for economic growth as there is a long-run relation between stock market performance and economic growth (Shahbaz et al., 2018). Stock market performance has the direct impact in corporate finance and economic development. Thus, understanding the origins of stock market stability has long been a topic of considerable interest to both policy makers and market practitioners. For instance, stock price unpredictability is the fluctuation in the price of broad stock market indexes over a defined period Ambrosio (2007). Engle and Rangel (2008) find that high changes in stock performance have both a short-run and long-run component, and suggest that the long-run component is related to the business cycle. Adrian and Rosenberg (2008) show that the short- and long-run components of instability in stock market performance are both priced, cross-sectional. They also relate the long-run component of instability to the business cycle.

Further, Campbell et al. (2001), Bloom (2009), Bloom et al. (2009) and Fornari and Mele (2010) show that stock market uncertainty helps explain future fluctuations in real economic activity. Stock market performance is thus an important risk indicator of stock returns. Investors are hesitant to invest in high stock market volatility, thereby affecting the market. Thus understanding parameters of stock performance is crucial in the equity market as they cause uncertainty that may hinder investors' decision to buy or sell stock. This affects growth of the equity market, and of the economy as a whole. Lack of valid research about the

determinants of stock market performance may cause inaccurate investment strategies, which also affects the formulation of appropriate measures of regulation. Hence, policy makers and investors are therefore interested in the main determinants of stock market performance and in its spillover effects on the risks involved in buying and selling of shares.

Stock market performance is an important determinant of investment decisions in many countries. For instance, earlier research in developed countries such as Germany, United State, France and Canada indicated that higher performance of the stock markets enhances investment efficiency (Healy and Palepu, 2011; Lambert, Leuz, and Verrecchia, 2017). Coherent with this argument, Biddle and Hilary (2006) in Australia found that firms with higher stock performance reveal higher investment efficiency (stock prices changes). Thus the primary objective of financial reporting about several stocks is to provide quality stock market information to capital providers and other stakeholders to support them in making investment decision thus enhancing share price market efficiency (IASB, 2008). According to Dahmashet al. (2012) stock prices are likely response rapidly and simultaneously to any new stock market and may change frequently. In efficient stock markets it is anticipated that the price of a stock issued by a company must financial statements, historical price of stock, information published by journals and other mass media, or any report or analysis (Charles,2012).

Further, ensuring quality financial market information on the stock market is relevant and sufficient to build confidence in business entities and stakeholders. As a result, it positively influences them in making decision like resource allocation thus eliminating market imperfections and improve efficiency (IASB, 2006; IASB, 2008).

In Malaysia, Umoren (2009) laicnanif taht deugraInformation content about stock performance is one of the most important resources of information for both insiders and external parties who are interested in investing in stocks. Insider's parties use this information for share price decision while external parties use them for the decisions of investment, financing and performable appraisal. Financial analysis may provide these parties of statement information to invest (Charles, 2012). Lambert et al; (2007) have exposed that better financial information, agrees to decrease no diversifiable risk by changing the investors' perceptions inherent to the cash flows distribution, and therefore, alleviate the cost of capital. Suijs (2008) illustrated analytically that a better quality of financial information lowers the cost of capital which definitely has a bearing on stock performance.

Further, empirical evidence shows that the capital asset pricing model (CAPM) developed by earlier scholars performed poorly in explaining stock performance (Fama and French 2006). Thereafter, a range of variables have subsequently been identified as having explanatory power for stock performance. For example, Fama and French (2006) included two additional risk factors, book-to-market and size to the CAPM. In asset-pricing theory, it is commonly assumed that all assets are liquid and can be traded quickly. In reality, however, most asset classes which are frequently traded are not perfectly liquid, and investors often incur transaction costs and suffer from possible future price reduction if they want to liquidate their position quickly. This has a strong influence on asset prices and returns as future cash flows are affected by liquidity.

Thus although there is some literature documenting the liquidity-stock performance relationship, results about this relationship are mixed which can be majorly attributed to the different liquidity measures employed by different researchers and different market dynamics and conditions in different markets (Sarr&Lybek, 2012).

In Kenya, as noted by CMA (2010), Nairobi Securities Exchange (NSE) is the single major open capital market in the country. It differs from those developed markets in such characteristics on firm levels as board characteristics and size, asset structure, profitability, firm size and corporate governance standards (CMA, 2010) making it a unique context of this study. For a long time, companies at the Nairobi Securities Exchange operated without clear control and directorship structures, presenting corporate governance concerns among stakeholders because of poor stock performance of some firms listed on NSE.

According to international standards, the Nairobi Securities exchange is smaller in size, has low liquidity levels and high volatility in stock performance with regards to price and returns. Over the recent years, Kenya's liquidity has been increasing with the bid ask spread decreasing and the trading volumes increasing in the last 10 years (CMA, 2015).

Further, the Nairobi Securities Exchange has experienced periods of high and low returns on shareholders' investments since it was constituted in 1954. Among other factors such as prevailing political environments in the economy, the stock market liquidity has been noted to be one of the major causes of variations in stock performance in the NSE. Even though the NSE is in general considered highly liquid market and more active in terms of trades as compared to most of the other markets in East Africa and the sub-Saharan Africa, the low level of securities market performance is still considered a huge challenge facing the Kenyan securities market with decreased level of liquidity specifically experienced in the equity and bonds secondary markets (CMA, 2015). Therefore, arising from low levels of stock market liquidity on NSE, motivated this study to investigate the influence of share earnings, liquidity, dividend policy and capital structure on stock market performance among listed firms in NSE, Kenya.

Statement of the Problem

The performance of the stock market in any country is a strong indicator of general economic performance and is an integral part of the economy of any country. With the introduction of free and open economic policies and advanced technologies, investors are finding easy access to stock markets around the world. The fact that stock market indices have become an indication of the health of the economy of a country indicates the importance of stock markets. This increasing importance of the stock market has motivated the formulation of many theories and models to describe the performance of the stock markets (Gupta, Chevalier & Sayekt, 2008).

Despite high volatility of share price in Kenya, the results of the empirical analysis are still ambiguous due to many factors. From the literature review with scanty empirical evidence it is still not clear on the direction of the relationship between share earnings, liquidity, capital structure, dividend policy and stock performance. Most of the studies done in Kenya have considered two variables for example Sifunjo and Mwasaru (2012) which considered only two variables, exchange rates and share prices. Ngahu (2006) on book value per share issue price and first trading day prices of IPOs at NSE, Cheluget (2008) on investor's demand for IPOs and first day performance: evidence from NSE. Due to this lack of sufficient literature and conclusive empirical evidence to explain various determinants of stock market performance at NSE remain largely unexplained, a gap that will be filled by this study that endeavors to investigate determinants of stock market performance among banking sector firms listed in Nairobi Securities Exchange, Kenya.

Objectives of the study

- I. To determine the influence of share earnings on stock performance among banking sector firms listed in Nairobi Securities Exchange, Kenya.
- II. To determine the influence of capital structure on stock performance among banking sector firms listed in Nairobi Securities Exchange, Kenya.

Research Hypotheses

The study sought to test the following hypotheses

H₀₁: There is no significant influence of share earnings on stock performance among banking sector firms listed in Nairobi Securities Exchange, Kenya.

H₀₂: There is no significant influence of capital structure on stock performance among banking sector firms listed in Nairobi Securities Exchange, Kenya.

II. Literature Review

Theoretical Review

Agency Theory

Agency theory was formulated by Jensen & Meckling (1976) in their seminal paper evaluating the agency cost of free cash flow. The agency theory hypothesizes that managers seek to maximize their own interests, but these interests may not be aligned to the interest of shareholders. Agency theory predicts that the misalignment of interests amongst chiefs and investors could prompt office issues. Managers take part in exercises for their own advantages as opposed to the advantages of the company's investors (Jensen and Meckling, 1976). Agency theory relates to the principal-agent relationship that exists between firm managers and shareholders. The theory states that, with low monitoring level to the organization and low discipline in decision making, managers might decide to put resources into ventures with negative net present value (Jensen and Meckling, 1998). A very much reported organization issue is administrative "domain building". This alludes to managers' inclinations to keep up unutilized assets or to develop the firm past its ideal size with the motivation behind expanding individual utility from control, pay, status and glory (Hope & Thomas 2008).

The agency issue can be mitigated by great corporate administration and control administrators' motivators to promote their own advantages to the detriment of the investors (Shleifer & Vishny 1997). Jensen and Meckling (1976) additionally contend that administrative agency costs increment with the partition of proprietorship and control. Directors as the specialists of investors are prone to squander the corporate assets to fulfill their self-interests. In line with the writing, Chrisman et al. (2004) noticed that organization issues emerge when important specialist connections are described by disparate interests and enlightening asymmetries. Their discoveries demonstrate that agency-related expenses emerge from the costs caused for the exercises and frameworks set up by principals to control operators' conduct and from the outcomes of specialists' practices that are not in light of a legitimate concern for principals. Theory suggests that effective governance enhances financial and operational transparency, which in turn, reduces adverse selection. Facing less adverse selection problems, traders provide more liquidity to stocks of well-governed firms. The main argument is that managers with poor corporate governance maintain excessive cash that will lead to agency cost incensement and ultimately will reduce the firm value. A similar argument also means that companies with strong local

ownership structure and strong board of directors likely have fewer agency problems to take advantage of cash. This makes it important to review the effect of ownership structure and board structure on tax avoidance.

The flaws of agency theory in explaining corporate governance mechanisms, in general, are noted by Professor Victor Brudney (1985) when he argues against the analysis that claims that private bargaining or contract sufficiently restrains management misbehavior. Criticizing agency theory also, Van Essen (2011) looks at the role of ownership in different contexts by taking into account the different formal and informal institutional constellations found in those contexts. He found that who owns the firms matter for the firms' strategies, objectives, and performance; i.e., a crucial factor with respect to the ownership concentration, firm strategy and performance relationships, is owner identity. While Van Essen (2011) has been investigating ownership from institutional perspective, his focus is on the role of ownership and not about how the ownership structure is shaped.

Aguilera et al. (2008) challenged agency perspective and termed it as "closed system." They propose an organizational sociology approach to comparative corporate governance to better capture the patterned variation that results from interdependencies between firms and their environment. Their "open system" perspective view corporate governance in terms of effectiveness in achieving their goals. They adopt a much broader definition of effectiveness as opposed to agency theory and their proposed framework is comprehensive for assessing how institutional context affects the appropriateness of alternative governance process

Information Asymmetry Theory (Pecking Order Theory)

The information asymmetry theory of capital structure assumes that firm managers or insiders possess private information about the characteristics of the firm's return stream or investment opportunities, which is not known to common investors. In an attempt to explain some financing behavior that is not consistent with the prediction of static trade-off theory (such as a negative relationship between profitability and leverage), Myers (1984) emphasizes that internal funds and external funds are used hierarchically. Myers (1984) refers to this as a 'pecking order theory' which states that firms prefer to finance new investment, first internally with retained earnings, then with debt, and finally with an issue of new equity. Bevan and Danbolt (2002) states that the more profitable firms should hold less debt, because high levels of profits provide a high level of internal funds.

It is worth noting that the pecking order theory is criticized on the grounds of its underlying arguments and suggestions. Adedeji (1998) concludes that the suggestion of pecking order theory, that it is only the internal funds shortage that motivates firms to raise funds externally is questioned. This is because it ignores other theories and the effects of institutional factors that might affect the firm's choice of financing instruments such as the level of interest rate, borrower-lender relations and finally, the government intervention. Cull and Xu (2005) argued that sometimes reinvestment of firm's profits in the large scale projects is conditional by its ability to generate funds externally. He concludes that investment is lumpy, since internal and external funds are needed to finance the available profitable projects. Moreover, he argued that the government intervention through the monetary policy during the financial crisis may make the cost of borrowing lower than the cost of internal funds. Consequently, firms use debt before internal funds. Moreover, Fama and French (2005) argue that firms can avoid the information costs or the adverse selection by issuing the equities which are less subject to asymmetric information such as equity issues to employees in their compensation plan or to existing stock holders. They argue that this kind of issues does not change the ownership structure and then the existing balance of control. Furthermore, it does not involve high costs of asymmetric information. If so, the grip of the information asymmetries approach is broken down because firms can issue equity at a low information cost. Hence, the need for issuing debt to finance new investment projects is reduced. However, the stock option plans for employees may be issued for considerations other than the information costs. Graham et al. (2004) examine the stock option plans for employees as a non-debt tax shield. Their evidence about employees' stock options suggests that options deductions work as important non-debt tax shields and firms tend to substitute option deductions for interest deductions. Moreover, stock option plans for employees are also suggested as techniques to mitigate the conflict between managers and stockholders and encourage managers to work for stockholders' interest.

Conceptual Framework

Figure 1 below shows the relationship between the independent variables (share earnings and capital structure and dependent variable (stock market performance). Share earnings assesses how issues such earnings per share, retained earnings, earnings announcements and disclosures affect stock performance among firms listed in NSE. Capital structure parameters included equity capital, retained profits, debt capital, gearing ratio/leverage influence stock performance among firms listed in NSE in Kenya.

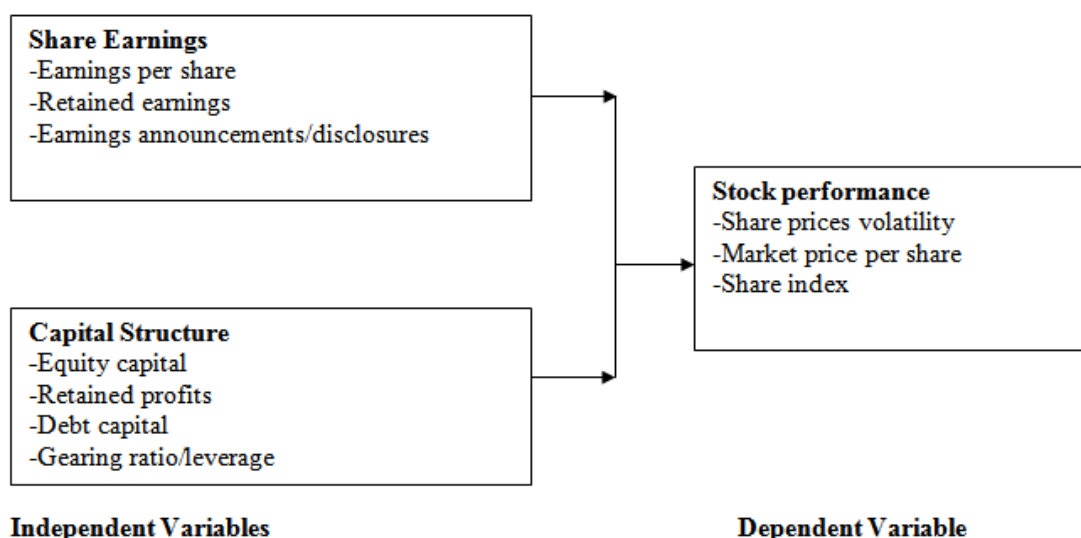


Figure 1: Conceptual Framework

Empirical Studies

Share Earnings and Stock Performance

The information would enable the financial statement users to assess better the size and timing of future profits. In addition, Graves et al. (2010) provided evidence on a potential source of an analyst's superiority that humans could use past earning data to predict future earnings more accurately than can mechanical time series model. It is interesting to note that, many researchers, like Hribar et al. (2006) stated that stock repurchases were widely supported by improved earnings per share. Earnings per share can be used as a performance indicator of the financial standing of the company during the year and it indicates the progress of the company in the near future.

In other words, Earnings per share is a measurement of a business performance as the net income figure takes into account both the results of the company's operations and the effect of financing (Seetharaman& Raj, 2011). There are two arguments regarding the predictive power of earnings per share on stock prices. One group argues that, stock prices go up and down as this can be observed in a situation when there is good news or higher earnings per share reports, the price of the firm goes up, but if there is bad news, the price goes down. This group maintains that stock prices are not directly determined by earnings per share, but it is directly determined by the balance between the demand and supply of firm stock prices and this demand and supply causes the stock prices to fluctuate. In contrast, the other group argues that earnings per share does not determine stock prices (Umar & Musa, 2013).

The future profit of the firm is the most fundamental factor that affects stock prices and the earnings information has been considered to contain the greatest informational content of all the accounting information because it contains the important discussion concerning the relationship between accounting earnings and stock prices (Chang, Yahn-Shir, Chi-Wei, Ya-Wen, 2008). While a company's earnings per share will often influence the market price of its stock, the relationship is rarely inverse, as a company's earnings per share is determined by dividing the earnings by the number of outstanding shares.

A company with strong earnings per share might see the market price of its stock rise, with this; a higher stock price might create a positive impression of the company's products in the minds of investors, resulting in greater demand, increased sales and ultimately higher earnings. The inverse might also occur, as poor earnings per share might depress stock prices resulting in lower consumer confidence, fewer sales and ultimately lower earnings per share, but these relationships are circular and not direct (Islam, Khan, Choudhury& Adnan, 2014).

Capital Structure Information and Stock performance

Share prices and capital structure and are waved in international countries to influence the performance of firms. In a study done by Kheradyar and Ibrahim (2011) on China's stock market, the correlation between investment risk, return of equity and gains in share price in the construction industries and agricultural companies are closer, investment risk and the importance of gains in share price are much lower in comparison, but the financial sector of equity return is far higher than the two industries. Primary and secondary industries in the Chinese stock market have a powerful junction of the listed companies, investment risk and tertiary industry's gains in share price however they are not equivalent to its return on equity. Investors have undervalued as represented by the financial profitability of industries listed and it's better to invest in the

companies in the primary and secondary. In Africa, capital structure has been established to impact the performance and in return profitability of a firm.

Gebhardt et al. (2005), in their study, indicate that bonds and stocks have the same underlying operating cash flows and are affected by the same company fundamentals. In the study, it is shown that over a ninety-day period, any abnormal returns on a company's stock matched by better performance of short term notes with floating interest rates. Therefore, bonds cannot progress separately of equities. According to Barclay and Smith (2005), adding up more debt to an organization's capital structure can provide as a realistic signal of high expected upcoming cash flows. The managers of companies that have lifted their levels of debt are, in effect, signaling to the markets that they are attentive of the states of their companies, which are constructive, and they believe that the companies' performances will enable them to disburse off their debts that are additional. The study shows that there is a positive link between the extent of leverage and the forecast performance of the stock of the firm.

Uwuigbet al. (2012) examined the indicators of share prices in the stock exchange market in Nigeria. Using the sampling technique of judgmental, a total of 30 companies were selected and data (2006 to 2010) collected from the stock exchange and annual reports of the firms. The paper modeled the effects of dividend payout, financial leverage and financial performance on share price of listed firms by using regression analysis. The study concluded that dividend payout and financial performance had a significant optimistic link with share prices while financial leverage (proxies by debt-equity ratio) had significant negative influence on the market value of share prices in Nigeria.

Buigutet al. (2013) on their study on the link between capital structure and share prices in NSE assessed the effect of equity, gearing ratio and debt, equity on share price. Using data pertaining to the energy sector over the period 2006 till 2012 and employing multiple regression analysis, the results indicated that equity, gearing ratio and debt were significant elements of share prices for the sector under investigation. Further, debt and gearing ratio were found to adversely influence share prices while equity inversely affected share prices. In Kenya, studies on the association between bond issue and share prices are scarce. Studies on bonds have been conducted by Mbugua (2003) who examined factors that influenced the development of the corporate bonds market in Kenya and his findings indicated that corporate bonds have high yields since interest payments were taxable. He therefore did not touch on the effect of bonds on share prices.

III. Methodology

This study used explanatory research design. Kumar (2005), states that explanatory is used to refer to a research in which the researcher, rather than creating the treatment, examines the effect of a naturally occurring treatment after it has occurred. The target population comprises of 12 banking sector companies listed in Nairobi stock exchange Nairobi Security Exchange (NSE, 2017); where primary data was collected from 126 targeted respondents who were classified into 7 stratum; CEOs, finance officers, accountants, risk management officers, investment officers, internal auditors and marketing officers who are perceived to have valid information about stock performance. Ninety six (96) respondents formed the sample of the study using Taro Yamane's proportional sampling technique formula. Then stratified sampling technique was used to randomly pick respondents from each stratum.

Primary Data was collected using structured questionnaire. The item in the questionnaire were designed by the researcher and they were measured using 5 point liker scale (1-strongly disagree, 2-disagree, 3-undecided, 4-agree and 5 strongly agreed). Secondary sources were achieved by analyzing the content of financial reports of the 7 firms quoted in NSE. The questionnaires were self-administered through sending hard copies of the questionnaires to the respondents and picking them later. A pilot study was conducted to determine validity and reliability of the research instruments using selected established firm registered in NSE using 10 respondents from the bank. Reliability was established using Cronbach alpha where Share earnings had an alpha value of 0.798, Capital structure value of 0.873 and stock performance value of 0.817. The researcher employed face and content method where all questions were checked for clarity of word and statements relating to study variables.

Both descriptive and inferential statistics was used to analyze data with the aid of specialized Statistical Package for Social Sciences (SPSS) version 24 software. Descriptive measures included mean, standard deviation, frequency and percentages. Inferential statistics are closely tied to the logic of hypothesis testing discussed. Inferential statistics included Pearson Correlation and multiple regression analysis. Pearson correlation assumes the data is linear, and shows the relationship/association between the dependent variable and independent variable. The output of analysis was presented using tables and models to make them reader friendly.

IV. Findings And Discussion

Descriptive Statistics

This assessed the perception of a company’s share earnings and stock performance of banking sector firms listed on NSE. The perceptions were measured using Likert scale with values ranging from 5 to 1; that is; 5=Strongly Agree, 4=Agree, 3= Uncertain, 2=Disagree and 1= Strongly Disagree; and the responses are summarized in table 1.

Table 1: Descriptive Statistics; Share Earnings

Statement	Frequency and Percentage (%)					Mean	Std.Dev
	5	4	3	2	1		
1.Earnings per share really influences share prices	12(13.5)	54(60.7)	2(2.2)	13(14.6)	8 (9.0)	3.55	0.868
2.The firm’s retained earning influences stock market prices	10(11.2)	56(62.8)	9(10.1)	8(9.0)	6(6.7)	3.63	0.827
3.Share earnings public announcements has a bearing on share prices	13(14.5)	57(64)	5(5.6)	10(11.2)	4(4.5)	3.75	0.997
4.The public trust in the contents of the share earnings disclosures influence stock market performance	14(15.7)	58(65.2)	5(5.6)	8(9.0)	4(4.5)	3.79	0.971
5.Generally the earnings per share really influences stock performance	12(13.5)	60(67.3)	3(3.4)	11(12.4)	3(3.4)	3.75	0.957
Valid N (list wise)	89						
Grand mean =	3.69						

From table 1, most respondents agreed (60.7%) and strongly agreed (13.5%) that earnings per share really influences share prices; this implies that the public perception of earnings per share will attract the public in investing in the particular firm with high share earnings which definitely will boost the share prices of the firm. More so, most respondents agreed (62.8%) and strongly agreed (11.2%) that the firm’s retained earning influences stock market prices; meaning that retained earnings are perceived to boost the firm’s share capital which is assumed to assist to make stock prices resilient to volatility.

Further, most respondents agreed (64.0%) and strongly agreed (14.5%) that share earnings public announcements has a bearing on share prices. This implies that share earnings public announcements make investors gain confidence in firms with higher and stable earnings thus attracts public confidence in the perceived well performing firms which definitely positively influence shares prices. Similarly, most respondents agreed (65.2%) and strongly agreed (15.7%) that the public trust in the contents of the share earnings disclosures influence stock market performance. This means public disclosure of share earnings is a marketing strategy to make the public gain confidence in those firms having higher and regular share earnings which then is perceived to translate to an improvement in stock performance.

Lastly, on overall score, most respondents agreed (67.3%) and strongly agreed (13.5%) that generally the earnings per share really influences stock performance; and the grand mean = 3.69; rounded off to 4 which is agree on Likert scale. This is therefore a perception that if an investment firm’s earning per share improves then this is assumed to boost stock market performance. This is supported by Chang, Yahn-Shir, Chi-Wei, Ya-Wen, (2008) assertion that the future profit of the firm is the most fundamental factor that affects stock prices and the earnings information has been considered to contain the greatest informational content of all the accounting information because it contains the important discussion concerning the relationship between accounting earnings and stock prices; and while a company’s earnings per share will often influence the market price of its stock, the relationship is rarely inverse, as a company’s earnings per share is determined by dividing the earnings by the number of outstanding shares (Chang, Yahn-Shir, Chi-Wei, Ya-Wen, 2008).

4.4.4 Capital structure and stock performance.

This assessed the perception of a company’s capital structure and stock performance of banking sector firms listed on NSE. The responses are summarized in table 2.

Table 2: Descriptive Statistics; Capital structure and stock performance

Statement	Frequency and Percentage (%)					Mean	Std.Dev
	5	4	3	2	1		
1.The equity capital has a bearing on share prices	10(11.2)	47(52.9)	10(11.2)	16(18)	6 (6.7)	3.44	0.818
2.Issuing of debt finance influences stock market value	11(12.4)	45(50.6)	10(11.2)	14(15.7)	9(10.1)	3.39	0.893
3.Issuing ordinary shares through initial public offering(IPO) affects stock market performance	13(14.6)	51(57.2)	9(10.1)	10(11.2)	6(6.7)	3.62	0.882

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4. Use of private equity firms, institutional or corporate investors really influences stock market prices	9(10.1)	43(48.3)	13(14.6)	17(19.1)	7(7.9)	3.34	0.838
5. Generally, capital structure significantly influences stock market performance	13(14.6)	54(60.7)	7(7.9)	9(10.1)	6(6.7)	3.66	0.965
Valid N (list wise)	89						
Grand mean =	3.49						

From table 2, most respondents agreed (52.9%) and strongly agreed (11.2%) that the equity capital has a bearing on share prices; this implies that firms with high equity capital really have stable share prices. Similarly, most respondents agreed (50.6%) and strongly agreed (12.4%) that issuing of debt finance influences stock market value. Further, most respondents agreed (57.2%) and strongly agreed (14.6%) that issuing ordinary shares through initial public offering (IPO) affects stock market performance. That is, IPOs attracts low share prices with huge possibility of high share volumes, thus, investors can buy huge volumes of shares from of course reputable company. This is because IPOs with low share prices is not supposed to signal poor stock performance of the company engaged in IPOs. More so, 48.3% and 10.1% of respondents agreed and strongly agreed respectively that use of private equity firms, institutional or corporate investors really influences stock market prices. This implies that institutional investments in the stock market makes the individual investors gain hope in the stock market investment; thus perceives institutional investors as not risky investors who can invest in non-performing stocks.

Lastly, on overall score, most respondents agreed (60.7%) and strongly agreed (14.6%) that generally, capital structure significantly influences stock market performance. This implies that the way a company structures its investment capital can have a bearing on stock market performance. This is supported by Buigutet al. (2013) study on the link between capital structure and share prices in NSE assessed the effect of equity, gearing ratio and debt, equity on share price. Using data pertaining to the energy sector over the period 2006 till 2012 and employing multiple regression analysis, the results indicated that equity, gearing ratio and debt were significant elements of share prices for the sector under investigation. Further, debt and gearing ratio were found to aversely influence share prices while equity inversely affected share prices.

V. Inferential Statistics

Direct influence of share earnings on stock performance

This tested the linear influence of share earnings on stock performance of banking sector companies listed on NSE. The results are shown in table 3.

Table 3: Direct influence of share earnings on stock performance

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.822 ^a	.676	.672	.65953	.676	181.697	1	87	.000
ANOVA ^b									
Model		Sum of Squares	Df	Mean Square	F	Sig.			
1	Regression	79.035	1	79.035	181.697	.000 ^a			
	Residual	37.844	87	.435					
	Total	116.879	88						
Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients					
		B	Std. Error	Beta	t	Sig.			
1	(Constant)	.125	.249		.504	.616			
	Share Earnings	.895	.066		.822 13.480	.000			

a. Dependent Variable: Stock Performance

The model summary in table 3 show $R^2 = 0.676$, which implies that 67.6% variations in stock performance of banking sector companies listed Nairobi Securities Exchange is explained by share earnings while other factors not in the conceptualized study model accounts for 32.4% variation in stock performance of banking sector companies listed Nairobi Securities Exchange. Further, coefficient analysis shows that there exists a significant influence of share earnings on stock performance ($\beta = 0.895$ (0.066); at $p < .01$). This means

that a single increase in earnings per share of banking sector companies listed on NSE will yield 0.895-unit increase in stock performance of banking sector companies listed on Nairobi Securities Exchange. The linear regression equation model is;

$$(i) y = 0.897 + 0.895X_1$$

Where;

y = stock performance

X₁ = share earnings

Hypothesis one stated that there is no significant influence of share earnings on stock performance of banking sector firms listed in Nairobi Securities Exchange. The results indicate that there exists a positive and significant influence of share earnings on stock performance ($\beta = 0.895$ (0.066) at $p < 0.01$). **Hypothesis one is therefore rejected.** The results imply that a single increase in earnings per share of banking sector companies listed on NSE will yield 0.895-unit increase in stock performance of banking sector companies listed on Nairobi Securities Exchange. The results are supported by Graves *et al.* (2010) who provided evidence on the potential use past earning data to predict future earnings more accurately than can mechanical time series model. Hribar *et al.* (2006) also stated that stock repurchases were widely supported by improved earnings per share. Earnings per share can thus be used as a performance indicator of the financial standing of the company during the year and it indicates the progress of the company in the near future.

However, Islam, Khan, Choudhury and Adnan, (2014) asserted that a company with strong earnings per share might see the market price of its stock rise, with this; a higher stock price might create a positive impression of the company's products in the minds of investors, resulting in greater demand, increased sales and ultimately higher earnings. The inverse might also occur, as poor earnings per share might depress stock prices resulting in lower consumer confidence, fewer sales and ultimately lower earnings per share, but these relationships are circular and not direct (Islam, Khan, Choudhury and Adnan, 2014)

Direct influence of capital structure on stock performance

This tested the linear influence of capital structure on stock performance of banking sector companies listed on NSE. The results are shown in table 4

Table 4: Direct influence of capital structure on stock performance

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics				
						F Change	df1	df2	Sig. F Change	
1	.727 ^a	.528	.523	.79603	.528	97.449	1	87	.000	
ANOVA ^b										
Model		Sum of Squares	df	Mean Square	F	Sig.				
1	Regression	61.750	1	61.750	97.449	.000 ^a				
	Residual	55.129	87	.634						
	Total	116.879	88							
Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.			
		B	Std. Error	Beta						
1	(Constant)	.902	.261			3.451	.001			
	Capital Structure	.745	.075	.727		9.872	.000			

a. Dependent Variable: Stock Performance

The model summary in table 4 show $R^2 = 0.528$, which implies that 52.8% variations in stock performance of banking sector companies listed Nairobi Securities Exchange is explained by capital structure while other factors not in the conceptualized study model accounts for 47.2% variation in stock performance of banking sector companies listed Nairobi Securities Exchange. Further, coefficient analysis shows that there exists a significant influence of capital structure on stock performance ($\beta = 0.745$ (0.075); at $p < .01$). This means that a single increase in efficient capital structuring of banking sector companies listed on NSE will yield 0.745-unit increase in stock performance of banking sector companies listed on Nairobi Securities Exchange. The linear regression equation model is;

$$(iv) y = 0.902 + 0.745X_2$$

Where;

y = stock performance
X₂ = capital structure

Hypothesis two stated that there is no significant influence of capital structure on stock performance of banking sector firms listed in Nairobi Securities Exchange. The results indicate that there exists a positive and significant influence of capital structure on stock performance ($\beta = 0.745$ (0.075) at $p < 0.01$). **Hypothesis two is therefore rejected.** The results imply that a single increase in the capital structuring of banking sector companies listed on NSE will yield 0.745-unit increase in stock performance of banking sector companies listed on Nairobi Securities Exchange. The results are supported by Barclay and Smith (2005), who assert that adding up more debt to an organization's capital structure can provide as a realistic signal of high expected upcoming cash flows. The managers of companies that have lifted their levels of debt are, in effect, signaling to the markets that they are attentive of the states of their companies, which are constructive, and they believe that the companies' performances will enable them to disburse off their debts that are additional. The study shows that there is a positive link between the extent of leverage and the forecast performance of the stock of the firm (Barclay and Smith (2005).

Further, Buigutet al. (2013) on their study on the link between capital structure and share prices in NSE assessed the effect of equity, gearing ratio and debt, equity on share price found that equity, gearing ratio and debt were significant elements of share prices for the sector under investigation; and that debt and gearing ratio were found to aversely influence share prices while equity inversely affected share prices.

VI. Conclusion and Recommendation

The study concludes that share earnings significantly influences stock performance, thus companies with stable earnings per share can realize an improvement in its stock performance. This is therefore a perception that if an investment firm's earning per share improves then this is assumed to boost stock market performance. The study also concludes that capital structure has a vital role on stock performance; therefore, trading firms that engage in prudent capital structuring can realize a positive index in their stock performance. Generally, capital structure significantly influences stock market performance. This implies that the way a company structures its investment capital can have a bearing on stock market performance

The study recommended that trading companies on NSE must ensure that they have stable share earnings so as to boost their stock performance. Lastly, trading firms on NSE must engage in profitable capital structuring mechanisms that can eventually enhance their stock performance.

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