INFLUENCE OF MARKET CAPITALIZATION OF NAIROBI STOCK EXCHANGE LISTED COMPANIES ON KENYA'S ECONOMIC GROWTH

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Influence of market
capitalization of

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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DEDICATION

To my brothers, Anthony, Fredrick and Sister Gladys. All my friends at Kenyatta University.
ACKNOWLEDGEMENTS

My gratitude goes to my supervisor Mr. Maganjo who gave me useful guidelines. I am particularly grateful for his commitment and cooperation that he offered me throughout the research to make it a success.

I am grateful to all the members of the listed companies who provided me with the necessary information that I needed. Special gratitude goes to the capital market Authority and the Nairobi Stock Exchange for their continued support that enabled me to complete this research work.

I sincerely extend my vote of thanks to all my lecturers at Kenyatta University who enriched me with knowledge particularly Dr Ombuki who offered me the basics of conducting research study. Mr A.D Bojana deserves special gratitude for editing the final work.

I am grateful to God who has enabled me to accomplish this by his grace.
ABSTRACT

This study sought to investigate the influence of market capitalization of Nairobi Stock Exchange listed companies on Kenya’s economic growth. The need to carry out this study arose from the fact that listing of companies by market capitalization is taking place but economic growth is only seen to be increasing at a decreasing rate and some fluctuations are also prevalent. The Nairobi stock exchange is aimed at promoting economic growth through mobilizing savings to investment but this has not proved to be adequately achieved.

The population consisted of 54 listed companies from which a sample of 48 companies was selected by stratifying the population and randomly selecting companies from all the sectors. This sample was based on 5% sampling error and therefore it was a representative of the population as a whole. The sample comprised of three companies from agricultural sector, nine from commercial and services sector, twelve from finance and investment, sixteen from industrial and allied sector and eight from alternative investment segment. Data was analyzed through tabular presentations pie charts and graphs. The analysis touched all the research questions.

Findings from the study revealed that the Nairobi stock exchange has not done enough to promote economic growth and that the government if also failing in the same area. The government was particularly found to have very strict requirements for companies to go public. It also emerged that the number of listed companies has remained below 60 for a long time and among the companies listed in the stock exchange, only a few are actively traded.

The findings also revealed that not many stakeholders are well informed about investment in the stock market. The market capitalization of equities was seen to be closely linked to other factors that promote economic growth that is investment in human capital, investment in physical capital. Growth in labour force and technological advancement. Recommendations touched on the need for the government to provide more incentives and to reduce the requirements in order to encourage more companies to go public. The study further recommends that a similar study should be done on the economic strategies that can be adopted by the government to boost economic growth.

The study concludes that capital markets are an essential part of modern economies that provide alternative tools to savers and non-bank sources of finance for enterprises. The listing of companies enables them to expand their basis and in the long run economic growth goes up.
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ABBREVIATIONS

NSE- Nairobi stock exchange

CDS - Central Depository system

CDSC - Central Depository and Settlement Corporation.

GDP - Gross Domestic Product.

CMA - Capital market Authority

IPO - Initial Public offer

AIMS - Alternative investment market segment

MIMS - Main investment market segment

FISMS - Fixed income securities market segment

FOMS - Futures and options market segment
DEFINITION OF KEY TERMS

Nairobi Stock exchange (NSE)
This is an organized capital market for securities which deals with purchases of shares and bonds. Shares and bonds are money financial products.

Capital Market
This is a market for long-term funds, i.e. finance that will be available for a period of seven years and above. This market is a bit more developed in Kenya because the central bank has stimulated its development through licensing of financial institutions such as trust companies, building societies, mortgage financial institutions all of which avail finance on long-term basis.

Market Capitalization
A measurement of corporate or economic size equal to the share price multiplied by the number of shares outstanding of a public company. Since owning stock represents owning the company, including all its assets, capitalization represents the public opinion of a company's net worth and is a determining factor in stock valuation.

Central Depository System [CDS]
This is a computer system that facilitates holding of securities in electronic accounts and facilitate faster and easier processing of transactions for NSE securities (shares and bonds). It is an electronic account in which investors' information is held.
Central Depository and Settlement Corporation (CDSC) Limited

The CDSC is a limited liability company incorporated under the companies Act and authorized, as well as regulated by the capital market authority to provide central depository services in Kenya. The main objective of CDSC Limited is to establish and oversee the working of CDS.

Central Depository Agent (CDA)

A stockbroker or a custodian bank, who has been authorized by CDSC to open accounts in CDS on behalf of investors.

Listing

This is the admission of a security for trading on an organized exchange. A security so admitted is referred to as a security.

Economic Growth

This is the increase in value of goods and services produced by an economy. It is measured as the percent rate of increase in real gross domestic product. Growth is usually calculated in real terms, i.e. inflation adjusted terms, in order to net out the effect of inflation on the price of the goods and services produced. In economics, "economic growth" typically refers to growth of potential output, i.e. production at full employment which is caused by growth in aggregate demand of observed output.

Gross Domestic Product (GDP)

GDP of a country is the market value of all the final goods and services produced within a country in a given period of time. It is also considered the sum of value
added at every stage of production on all final goods and services produced within a
country in a given period of time.

**Real Gross Domestic Product**

This is the real value of aggregate or total output that an economy actually produces,
with output valued using a base period price level to eliminate the effects of inflation
or deflation.

**Economic Model**

This is a representation of a theory or a part of a theory, often used to gain insight
into cause and effect.
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CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The capital markets are an essential part of the financial sectors of modern economies. Providing alternative saving tools to savers and non-bank sources of financing for enterprises, the markets promote economic growth through enhanced savings mobilization.

The Nairobi Stock Exchange was initiated in 1910 by the former colonial administrators. It was aimed at serving colonial interests and only colonial owned companies were allowed to be members of this stock exchange. By that time the stock exchange did not have any formal brokers and anyone was allowed to buy and sell shares, acting as a broker.

In Kenya, dealing in shares and stocks started in the 1920s when the country was still a British colony. There was no formal market, no rules and regulations to govern stock broking activities. Trading took place informally in which standard commissions were charged with clients being obligated to honour their contractual commitments of making good delivery and setting relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because these firms were engaged in other areas of specialization, the need for association did not arise.

Drummond, an Estate Agent established the first professional stock broking firm in 1951. He also approached the then finance minister of Kenya Sir Ernest Vasey and impressed
upon him the idea of setting up a stock exchange in East Africa. The two approached London Stock Exchange officials in July, 1953 and the London officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange.

In 1954, the Nairobi Stock Exchange was constituted as a voluntary association of stockbrokers registered under the Societies Act. The business of dealing in shares was then confined to the resident European community since Africans and Asians were not permitted to trade in securities until after the attainment of independence in 1963. At the dawn of independence, stock market activity slumped due to uncertainty about the future of independent Kenya. The first three years of independence were marked by steady economic growth, confidence in the market was once again rekindled, and the exchange handled a number of highly oversubscribed public issues. In 1972, the growth was halted when the oil crisis introduced inflationary pressures in the economy, which depressed share prices. In 1975, a 35% capital gains tax was introduced inflicting further losses to the exchange which at the same time lost its regional character following the nationalizations, exchange controls and other inter-territorial restrictions introduced in neighboring Tanzania and Uganda.

The Kenya Government later realized the need to design and implement policy reforms to foster sustainable economic development with an efficient and stable financial system. In 1980, it set out to enhance the role of the private sector in the economy, reduce the demands of public enterprises on the exchequer, rationalize the operations of the public enterprise sector to broaden the base of ownership and enhance capital market development.

A Central Bank of Kenya study, "Development of Money and Capital Markets in Kenya" became a blueprint for structural reforms in the financial markets which culminated in the formation of a regulatory body 'The Capital Markets Authority' (CMA) in 1989, to assist in the creation of a conducive environment for growth and development of the country's
capital markets In 1988, the first privatization through the NSE became successful with the government selling 20% stake in Kenya Commercial Bank.NSE was registered under the Companies Act in 1991 and phased out the "Call Over" trading system in favour of the floor based Open Outcry System.

The NSE 20-Share Index recorded 5030 points on Feb 18, 1994. The NSE was rated by the International Finance Corporation as the best performing market in the world with a return of 179% in dollar terms. In 1996, the largest share issue in the history of NSE, the privatization of Kenya Airways, comes to the market through which the stock exchange enabled more than 110,000 shareholders to acquire a stake in the airline. The Kenya Airways Privatization team was awarded the World Bank Award for Excellence for 1996 for being a model success story in divestiture of state-owned enterprises In 1998 the government expanded the scope for foreign investment by introducing incentives for capital markets growth including the setting up of tax-free venture capital funds, removal of capital gains tax in details of the surface companies' investments, allowance of beneficial ownership by foreigners in local stockbrokers and fund managers and the envisaged licensing of dealing firms to improve market liquidity. The enactment of the CDS Act was also expected to clear the way for the setting up of the long overdue Central Depository System. In 1999, Kenya adopted the International Accounting Standards (IAS) as the local Accounting Standards with effect from January 1, 1999. The budget for the financial year 2000/2001 was marked with the government providing the following additional incentives to capital markets investments: "Withholding tax on dividend income has been reduced from a high of 15% to 7.5% (for foreign investors) and 5% (for local investors). It has also been made the final tax. New and expanded share capital by listed companies or those seeking listing will now be exempt from stamp duty." Transfers of assets to a special purpose vehicle for the purposes of issuing asset backed securities will be exempt from stamp duty and VAT expenses incurred by companies in having their financial instruments rated by an independent rating agency are tax deductible."
Licensed dealers enjoy tax benefits, as long as they turn their portfolios according to laid down guidelines.

In July 2000, the Central Depository System (CDS) Act was passed by Parliament and assented to by the President in August 2000. The Capital Markets Authority Act was amended and renamed the Capital Markets Act. In August of the same year, CFC Financial Services the first institution to be a licensed dealer on the Nairobi Stock Exchange commenced operations. There was a fundamental reorganization of Kenya's capital markets into four independent market segments in February 2001: the Main Investments Market Segment (MIMS), the Alternative Investments Market Segment (AIMS), and the Fixed Income Securities Market Segment (FISMS) and at a later stage a Futures and Options Market Segment (FOMS). In the budget for the financial year 2001/2002, the government provided the following additional incentives to capital markets investments: “To encourage more listings on the Nairobi Stock Exchange, newly listed companies approved under the Capital Markets Act will be taxed at reduced corporation tax rate of 27% as compared to the standard rate of 30%. This will be for of three years following the date of listing. However, such companies should offer at least 20% of their share capital to the public; and The companies that apply and are listed shall get a tax amnesty on their past omitted profits subject to them making a full disclosure of their incomes and assets and liabilities during the year commencing at the date of listing and undertaking to, henceforth, pay their due taxes in full”. As of November 2006, reduced corporate tax is 25% as compared to 30% standard rate. This is for 5 years following the date of listing. Such companies should offer 25% or more of their share capital to the public.

On 17th April 2002, the CMA announced the approval of the new NSE trading and settlement rules with amendments: Block Trades: Revised upwards from Ksh. 3 million to Ksh. 50 - 200 million. The block trades rules now apply to trade values of above Ksh. 50 million but less than Ksh. 200 million. In July 2002, the new Foreign Investor Regulations were introduced as follows: There is a 25% minimum reserve of the issued
share capital for locals while the balance of the 75% becomes a free float for all classes of investors. The 25% minimum reserve also applies during initial public offerings (IPOs) and the government of Kenya privatizations. On the capital markets, there are now three categories of investor: local, East African and foreign. On 5th August 2002, there was a shareholder Agreement for the Central Depository and Settlement Corporation (CDSC)

The Nairobi Stock Exchange, the Capital Markets Authority of Kenya, the Association of Kenya Stockbrokers, the CMA Investor Compensation Fund, and 9 institutional investors through the Capital Markets Challenge Fund have come together as investors in the Central Depository and Settlement Corporation (CDSC). The CDSC being the legal entity that will own the clearing, settlement, depository and registry system of the capital markets will be automated and operated. Companies which need to sell their shares in the Nairobi stock exchange must arrange with the Nairobi Stock Exchange council to obtain a quotation- (a process by which a company’s name will appear on the stock exchange list whereby its shares are said to be listed) and thus dealt in – (a process by which a company will have permission to have its shares bought and sold in the stock exchange).

A company needing quotation must have been registered with the registrar of companies as a Limited company within the terms and provisions of the companies Act Cap 486 (1948) and for this reason it must submit a certificate of registration (as per the terms of this Act) to the stock exchange council. Such a company must at present have a fully paid up capital of not less than Kshs 2,000000 and this capital must be in the nominal value of between shs 5 and shs 10 so as to enable most Kenyans to afford these shares as they are usually sold in bundles of 100 shares. The company applying for quotation must be ready to offer for sale to the public the lower of K£ 50,000 or 20% of the share capital to be raised. Such a company must provide to the Nairobi Stock Exchange Council details of its current directors, its legal advisors, the company secretary and the company’s auditors.
The company must submit to the Nairobi stock exchange council the following documents:

a) 7 copies of the company’s audited balance sheet for the previous 5 years and

b) 7 copies of the company’s articles and memorandum of association.

A number of qualifying companies are not listed. First, this has been attributed to the fact that most companies operating in Kenya are owned by families who value their control and as such cannot go public as this will entail dilution of their control by incoming shareholders who may in most cases introduce new policies into such companies which could be against the wishes of family members. Second, going public entails a lot of formalities on the part of the company concerned which include getting permission from the stock exchange council, arranging to get underwriters and preparing a prospectus. Third, going public entails a loss of secrecy to the public because such a company is required to publish the annual accounts and also allow the shareholders to inspect corporate books all of which may serve to leak information to competitors which they can use to out-compete the company that has gone public.

Fourth, going public or being listed is an expensive means of raising finance because such a company will have to pay floatation costs which include, underwriting commissions, brokerage commissions, costs of printing a prospectus, advertising costs, legal fees, audit fees among others. Most companies in Kenya may not maintain proper books of accounts and as such cannot convince the public to buy their shares if their performance is questionable. The nature of most businesses in Kenya may be in high risk areas affected by among other things weather conditions, unstable producer prices and such companies may not attract potential investors if their shares were quoted.
Kenya’s economic performance during the last two decades has been far below its imputed potential. In year 2000, the real gross domestic product (GDP) was -0.3%. The economy recorded a slow growth of 1.1% in 2002 as compared to 1.2% in 2001, due to low demand for imports and credits and delayed action by donors as they waited to assess the outcome of the 2002 general elections. Economic growth increased from 1.1% to SW1.8% in 2003 (CBS, 2004-Economic Survey). The economic growth stood at 4.3% in 2004, 5.8 in 2005 and 6% in 2006.

The Kenya’s economic growth recorded fluctuations between the year 2000 and 2002. The Kenyan economy has been on an upward trend since President Mwai Kibaki took office in the late 2002. As shown in the background in June 2001, the government provided incentives to encourage more listings. However, with much introduction of incentives and with companies taking advantage of these incentives, Kenya’s economic growth has been increasing but at a decreasing rate. Economic growth in Kenya is a function of the growth of capital stock (Market Capitalization), technical progress and growth in the labour force. An expansion in capital stock through net investment, just like the expansion in its labour force, increases stock of productive resources and hence it is a source of economic growth. Investment (which enables more consumer goods to be produced in future) requires refraining from some current consumption so that resources can be channeled into the production of the various forms of capital. In other words, savings are required for investment to take place (Hardwick et al; 1999). Even with increasing market capitalization of equities Kenya, economic growth has recorded fluctuations and has increased at a decreasing rate.

1.2 Statement of the Problem

A current analysis shows that out of about 54 listed companies, less than 20 are actively traded at the stock exchange and therefore in as much as listing of new companies takes
place year after year, economic growth has not been adequately realized. To worsen the equity supply problem, 97 per cent of the total issued capital is under lock and key by ignorant retail investors, rigid trusts and companies. As a result, the mean market capitalization of $1.8 billion in the NSE is estimated as just 16 per cent of the Gross Domestic Product (GDP).

The NSE has failed as a vehicle for mobilizing capital for development since the important players have not adopted the right market approaches. The stock market has not played an education role; the CMA as a regulatory agency has sometimes engaged in heavy-handed type of control instead of adopting a more proactive, creative and supportive role in order to assist in the creation of a more vibrant and forward looking capital market development.

The equity for debt substitution as a motive for listing in the Nairobi Stock Exchange seems to be altered in Kenya as a developing economy. Stock market development seems to offer greater room not just for the substitution but also for diversification of risk. Firms have seemed to increase borrowing after listing (CBS, 2004-Economic survey). Economic growth is a function of capital stock, technical progress, and growth in labour force (Hardwick et al; 1999). What is the effect of market capitalization of NSE listed companies to the Kenya’s economic growth? This study seeks to investigate the relationship between market capitalization and Kenya’s economic growth and the effects thereon. The study will capture the trends in economic growth since the year 2000.

1.3 Objectives of the Study

The study was guided by the following objectives:
1.3.1 General Objective

To find the influence of market capitalization of Nairobi Stock Exchange listed companies to the Kenya’s economic growth.

1.3.2 Specific Objectives

1. To assess the relationship between markets capitalization of NSE listed companies and Kenya’s economic growth.

2 To compute the correlation coefficient between the markets capitalization of NSE listed companies and Kenya’s economic growth.

3 To determine the amount of variance in Kenya’s economic growth as explained by market capitalization.

1.4 Research Questions

The following research questions were used as a basis for the study:

1. What is the influence of market capitalization of the Nairobi stock exchange listed Companies on the Kenya’s economic growth?

2 What is the relationship between market capitalization of NSE listed companies and Kenya’s economic growth

3 What is the correlation coefficient between market capitalization of NSE listed companies and Kenya’s economic growth

4 What is the amount of variance in Kenya’s economic growth as explained by market capitalization
1.5 Significance of the Study

The study helped the researcher find out how market capitalization of NSE listed companies influences Kenya’s economic growth. The researcher was also able to determine why Kenya’s Economic growth has not been increasing at an increasing rate.

This study will serve as a reference to other researchers who may wish to carry out further research in a related area.

It will also serve as a guide to any firms planning to be quoted in the Nairobi Stock Exchange to enable them come realize how the may impact on the economic growth upon increasing their market capitalization. The study will be importance to the government in that it will guide the government on the matters pertaining to making policies relating to increasing market capitalization and even amending the existing policies.

1.6 Justification of the Study

For large listed companies in Kenya, debt-equity ratio seems to rise and the stock market development seems to offer a greater room not just for substitution but also for diversification of risk. Firms seem to increase borrowing even after their market capitalization has increased. On the other hand, many firms are listed in The Nairobi Stock Exchange but only a few are actively traded.

1.7 Scope of the Study

The study covered employees and employers working in companies listed in the Nairobi Stock Exchange as per the market segments, who completed the questionnaires. The target population of 54 listed companies was considered. A population sample of 48
companies was selected from various sectors. Secondary data were also used, which was obtained from Nairobi Stock Exchange, Central Bank of Kenya Economic review journals and the internet. This was done to find out the influence of market capitalization of NSE listed companies on Kenya’s economic growth.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction to Literature Review

Stock exchanges are formally organized secondary markets for financial assets that have already been issued in primary capital markets. Stock markets have become the hallmark of successful modern capitalist economies, despite the frequency of volatile price movements that lead to excessive speculation followed by panics and despite repeated scandals. They play an important role, for both the primary capital market and the mobilization of bank credit within any economy, basically by providing liquidity for the initial investors in government or corporate debt or in corporation stock. The assurance that a ready market exists for the sale of an investor's holdings in case of second thoughts, emergencies, or better alternatives for investment makes it easier to place debt or equity in the first place on the primary capital market. The daily pricing of all such financial products on a stock exchange also makes them ideal instruments as collateral for loans. In sum, stock exchanges are important complements to the efficient operation of the rest of an economy's financial sector.

The historical development of worldwide stock exchanges shows that three features are essential for their long-term success: a large stock of homogeneous, readily identified financial assets available to the public; a numerous and diverse customer base that is aware of the financial assets available; and a set of trustworthy intermediaries to handle trades of the various financial products among the customers. Economic growth is a prime objective for most countries. Even a small percentage difference in current rates of growth will produce wide differences in the income of countries over a few decades (Beardshaw, 2001).
2.2 Meaning and Importance of Economic Growth

When we speak of economic growth, we mean an increase in the real Gross Domestic Product (GDP) of a nation, that is, the money GDP adjusted for inflation. It is the increase in wealth of overall economy. It is the real GDP that is relevant for this study. The goal of monetary policy are to promote economic growth, full employment and low inflation. Miles (1996) argues that on a per capita basis, wealth can be increased if the average worker produces more or if productivity increases. Productivity can be improved by increasing the amount of equipment available to workers and/or making better use of that equipment.

Economic growth is a consequence of an increase in the quantity of the factors of production and/or an increase in the productive capacity of these various factors. It is a more fundamental goal than either price stability or full employment. It is facilitated by both the full employment of resources and the appropriate degree of price change, but although these conditions are necessary for maximum rate of economic growth, they are not sufficient. Roland, (1980) argues that the desire and capacity of people to save, invest, innovate and simply “work hard” are basic determinants of economic growth. An efficient financial system and a rational tax system can contribute to capital formation, but the necessary ingredients include social, cultural and political factors as well as economic conditions (Cooper et al; 1983)

Economic growth enables people in a country to enjoy better standard of living. People are acquisitive, wishing to acquire more goods, more leisure, more entertainment etc. All of these acquisitions are made possible by economic growth, as are better education, health-care and so on. Thus, while there are many who condemn the materialistic society, there are few who would deny that they would like a better standard of life

A family often finds that a big increase in its income can lead to a major change in the
pattern of its consumption. Lipsey and Crystal, 2004, argue that in the same way, members of society as a whole may change their consumption patterns as their average income rises. Not only do markets in a country that are growing rapidly make it profitable to produce more cars, but also the government is led to construct more roads and provide more recreational areas for its newly affluent and mobile citizens.

Stock prices are sometimes said to be a symptom or a reaction, to either past conditions or expected future conditions in the economy. A huge amount of wealth is held in the form of stocks that can be traded on the Nairobi Stock Exchange.

2.3 Factors Influencing Economic Growth

2.3.1 Stages and Theories of Economic Growth

Many attempts have been made to classify the pattern of economic growth as a passage through a number of definable stages. The most famous of these is Marx’s classification. He saw societies as passing through the following stages: Primitive, communism, slavery, feudalism, capitalism and finally socialism. Recent historical experience suggests that this sequence does not apply and countries may go from feudalism to socialism and then to capitalism.

Another famous classification is that which appears in W.W Rostow’s stages of economic growth, which envisages a development of an economy up to the time when there is a ‘take-off into self-sustaining growth’. In Rostow’s view, the development of markets and the accumulation of capital are necessary for growth.
In Hardwick Philip et al; (1999) Adam Smith pointed out the importance of resources and pointed to the quality and quantity of the factors of production- land, labor and capital- in generating economic growth. Harrod- Domar model extended Smith's approach by emphasizing the importance of savings and efficiency. The model depicts that economic growth depends on three things;

- The savings rate- without savings, capital accumulation is not possible, so the higher the savings, the higher the potential growth rate.
- The capital output ratio- the lower this is, the higher the growth rate as the available capital is being used efficiently.
- The depreciation rate- the higher this is, the lower the growth rate. If savings are being used to replace worn-out capital, they will not be available to increase the total stock of capital goods necessary for growth.

2.3.2 Investment

It is undoubtedly true that investment has influence on the rate of growth. Many retail investors in Kenya are investing with the wrong motives; being misled by speculations and therefore, economic growth is not being adequately boosted. Increasing the rate of investment reduces consumption of goods and services initially as resources are diverted to the investment industries, but the increased growth rate results in a higher consumption of goods and services in the future which should increase the rate of growth (Beardshaw et al; 1994). There appears to be no simpler relationship between the rate of investment and the rate of growth.

2.3.3 Difficulties of Comparison

The relationship between investment and growth will also be affected by our old friend "the law of diminishing returns". Other things being equal, the principle of marginal productivity tells us that as we apply more and more investment to an already large stock of capital, the extra output achieved should diminish.
2.3.4 Education and Training

It is often said that the wealth of a country lies in the skill of its population. This being the case, the education, training, and attitude of a country's population must be a significant factor in determining its rate of growth. A nation should ensure that it has adequate skills it needs to advance its income. That is why an investment in people, or more precisely an investment in human capital, is considered a priority for the economic wellbeing of a country. If productive inputs such as labour and capital available to an economy increase, the economy will grow (James, 1999).

2.4 Nairobi Stock Exchange

The Nairobi Stock Exchange was started in 1920s by the British as an informal market for Europeans only. In 1954, the market was formalized through incorporation into a company. Because under the colonial regime Africans and Asians were restricted from trading, it was difficult to convince native Kenyans of the importance of the exchange after independence. In 1963, Africans were allowed to join and trade in the market. For many years, the market operated through the telephone with a weekly meeting at the Stanley hotel. In 1991, this market moved to IPS building and was opened to the public. In 1994, the market moved to its current location on the first floor of the nation centre. Since its establishment in 1954, the Nairobi Stock Exchange has been using a manual system (paper transaction system) for settlement of transactions of quoted securities. This system has over time proved to be inefficient due to the time taken to process the paperwork with resultant delays in registering transactions. With a view to addressing the shortcomings of manual trading system, the central depository system (CDS) has been introduced. With the introduction of CDS investors will open shares and bonds accounts, in electronic accounts similar to their bank accounts. Buying and selling of shares and bonds will be made much easier and quicker. The CDS is a computer system that facilitates holding of securities in electronic accounts opened by shareholders as well as the process of transferring traded shares (KASNEB newsline, 2006).
Computer literacy is a pre-requisite to operate a CDS account. There have been cases of ignorance of the investors on the availability of CDS account as well as poor methods of information dissemination regarding the CDS account. The CDS has heralded a new era in securities trading in Kenya, with significant milestones attained in areas of liquidity and efficiency. However, a number of implementation challenges continue to arise including:

- Concerns on security: Investors are still unsure of the implications of rendering paper certificates valueless and relying exclusively on electronic certificates.
- Concerns on confidentiality: These relate to the inherent risk in information system where other persons can access an investor’s personal details.
- Dealing with cross-listed securities particularly where stock exchanges in the other stock markets are not fully developed as the one on Kenya.
- Lack of trust for thinly capitalized central depository agents.

Although the Nairobi Stock Exchange has been around for almost half a century, it is quite clear that many Kenyans of all walks of life have limited knowledge about the exchange. For this reason, very few investors participate in the activities of the exchange and many of them are not quite sure how to invest profitably in the shares of companies quoted at the Exchange. (KASNEB News line, 1999).

2.5 The Role of the Nairobi Stock Exchange in the Economy

The stock Exchange is a market that deals in the exchange of securities issued by publicly quoted companies, corporate bodies and the government. The methods of long term financing that are available to a firm are diverse and constantly changing. At times, there appears to be a battleground in which the government, large corporations and small businesses are fighting for a shrinking amount of available funds.
The major role that the stock exchange has played, and continues to play in many economies is that it promotes a culture of thrift, or saving. The very fact that institutions exist where savers can safely invest their money and in addition earn a return is an incentive to people to consume less and save more.

The stock exchange assists in the transfer of savings to investment in productive enterprises as an alternative to keeping the savings idle. It should be appreciated that in as much as an economy can have savings, the lack of established mechanisms for channeling those savings into activities that create wealth would lead to misallocation or waste of those savings. When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in a stronger economic growth and higher productivity levels. Money contributes to economic growth. It does this by stimulating both savings and investments and facilitating transfers of funds out of the hoards of savers and into the hands of borrowers, who want to undertake investment projects but do not have enough of their own money to do so. NSE gives savers a variety of ways to lend to borrowers, thereby increasing the volume of both savings and investments and encouraging economic growth (Lawrence et al., 1996).

In the Kenyan economy, this channeling of funds from savers to borrowers through financial markets reaches highly complex dimensions. A wide variety of financial instruments such as stocks, bonds and mortgages, are utilized as devices through which borrowers can gain access to the surplus funds of savers. Various markets specialize in trading one or another of these financial instruments.
Even if a culture of saving were to be encouraged, the lack of developed financial markets may lead to economic stagnation. As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small stock investors because a person buys the number of shares he/she can afford. Therefore, the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors, and to enjoy similar rates of return.

The Nairobi Stock Exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public. This is far much supported by the advancement in capital intensive technology (trading through CDS). Without financial markets, corporations and government units would not be able to raise the large amounts of capital necessary for economic growth. (Stanley, 1996). A robust stock market assists in the rational and efficient allocation of capital, which is a scarce resource. The fact that capital is scarce means systems have to be developed where capital goes to the most deserving user.

An efficient stock market sector will have the expertise, the institutions and the means to prioritize access to capital by competing users so that an economy manages to realize maximum output at least cost. This is what economists refer to as the optimum production level. If an economy does not have efficient financial markets, there is always the risk that scarce capital could be channeled to non-productive investments as opposed to productive ones, leading to wastage of resources and economic decline.

The stock market promotes higher standards of accounting, resource management, and transparency in the management of business. This is because financial markets encourage the separation of owners of capital, on the one hand, from managers of capital, on the other. This separation is important because we recognize that people who have the
money may not necessarily have the best business ideas, and people with the best ideas may not have the money.

And because the two need each other, the stock exchange becomes the all-important link. A financial manager should be interested in the competition for funds available in the primary markets (Burton, 1988) To give a practical example, if an entrepreneur has a bright business idea and lacks the money, he can approach the Nairobi Stock Exchange, float shares and raise the capital he needs to turn his ideal into a business. The shareholders will then appoint directors and management to run the company on their behalf. This arrangement benefits both parties because the manager of capital, who is the entrepreneur, gets access to capital to turn his idea into a reality, while the owners of capital, who are the shareholders, get a return on their investment without having to report for work at that company. Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, hedge against volatility, increase its market share, or acquire other necessary business assets.

A take-over bid or a merger agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition or fusion. The stock exchange also improves the access to finance of different types of users by providing the flexibility for customization. This is made possible as the financial sector allows the different users of capital to raise capital in ways that are suited to meeting their specific needs. For example, established companies can raise short-term finance through commercial paper; small companies can raise long-term capital by selling shares; the government and even municipal councils can raise funds by floating various types of bonds as an alternative to foreign borrowing.
The NSE provides investors with an efficient mechanism to liquidate their investments in securities. The very fact that investors are certain of the possibility of selling out what they hold, as and when they want, is a major incentive for investment as it guarantees mobility of capital in the purchase of assets. (Mclaney, 2000) argues that potential investors will not only require the existence of the opportunity to liquidate their securities as and when they wish; they will also be interested in whether their investment is efficiently priced. Efficiency in the context of pricing implies that, at all times, available information about a firm’s prospects is fully and rationally reflected in that firm’s security prices.

Governments at various levels may decide to borrow money in order to finance infrastructure projects such as sewage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the Stock Exchange whereby members of the public buy them, thus loaning money to the government.

The issuance of such municipal bonds can obviate the need to directly tax the citizens in order to finance development, although by securing such bonds with the full faith and credit of the government instead of with collateral, the result is that the government must tax the citizens or otherwise raise additional funds to make any regular coupon payments and refund the principal when the bonds mature.

At the stock exchange, share prices rise and fall depending, largely, on market forces. Share prices tend to rise or remain stable when companies and the economy in general show signs of stability and growth. An economic recession, depression, or financial crisis could eventually lead to a stock market crash. Therefore the movement of share prices and in general of the stock indexes can be an indicator of the general trend in the
There are many other less general benefits which stock exchanges afford individuals, corporations and even the Government:

1. The growth of related financial services sector e.g. insurance, pension and provident fund schemes, which nurture the spirit of savings.

2. The check against flight of capital which takes place because of local inflation and currency depreciation.

3. Encouragement of the divorcement of the owners of capital from the managers of capital, a very important process because owners may not necessarily have the expertise to manage capital investment efficiently.

4. Encouragement of higher standards of accounting, resource management, and public disclosure which in turn affords greater efficiency in the process of capital growth.

5. Facilitation of equity financing as opposed to debt financing. Debt financing has been the undoing of many enterprises in both developed and developing countries especially in recessionary periods.

6. Improvement of access to finance for new and smaller companies. This is now possible on the Alternative Investment Markets (AIMS). This can also be realized through Venture Capital Institutions, which are fast becoming key players in financing small businesses.

7. Encouragement of public floatation of private companies which in turn allows greater growth and increase of the supply of assets available for long-term investment.

The establishment of an efficient stock market is, therefore, indispensable for any economy that is keen on using scarce capital resources to achieve economic growth. Their management standards and efficiency should satisfy the demands of these shareholders and the more stringent rules for public corporations imposed by public stock exchanges and the government. Consequently, it is alleged that public companies (companies that are owned by shareholders who are members of the general public and
trade shares on public exchanges) tend to have better management records than privately-held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors).

The goal of steady economic growth is closely related to the high employment goal because businesses are more likely to invest in capital equipment to increase productivity and economic growth when unemployment is low (Fredrick, et al; 1997). Conversely, if unemployment is high and factories are idle, it does not pay for a firm to invest in additional plants and equipment. Although the two goals are closely related, policies can be specifically aimed at promoting economic growth by directly encouraging firms to invest or by encouraging people to save, which provides more funds for firms to invest.

2.6 Past Studies Done in Kenya

Extensive empirical study has been conducted in the area of Nairobi Stock Exchange and economic growth. Munga (1974) did a case study on NSE, its history and role in the Kenyan economy. He found out that NSE has failed to take any positive initiative to respond to the Kenyan situation which has resulted not only to its failure to perform successfully the classical functions of a stock exchange, but also those functions that are uniquely incidental to a stock exchange in a developing country like Kenya mainly because of its retention of outdated London imported traditions that have even been discarded by the London Stock Exchange. He adds that the NSE is handicapped in its endeavors to perform its functions successfully by the existence in the economy of:

♦ Many foreign subsidiary companies.
♦ Predominance of unquoted local companies.
Lack of financial investment understanding amongst most members of the community.

High propensity to consume by the well-off members of the community because of the effects of developed countries.

Munga adds that the NSE fails to provide means of determining investment value of most company securities because prices of quoted companies do not reflect the price at which one can sell if he decided to do so particularly if a large number of shares is involved. Having established that NSE does not improve the marketability of government securities, and that most investors in government stocks are large institutions who can be contacted directly by any appointed government agency, NSE does not do much to mobilize savings for investment in government securities.

(Pascal, 2005) conducted a study on gearing levels and company size of firms quoted at the Nairobi Stock Exchange. He found that large companies, most of which are listed, emerged most geared between 2000 and 2004. This is attributed to the fact that the performance of the economy during the period was mostly dismal coupled with high interest rates. However, the economy started recording positive growth while interest rates reduced and stabilized. This, therefore, created demand for goods and services which compelled large firms to acquire more financing in form of debt to enable them to operate at a higher capacity so as to meet new demand.

(Susan, 2001) conducted a study on strategy practices of stockbrokers in Kenya. He found that 38% of the stockbrokers who were interviewed had no mission statements. All stockbrokers who were interviewed had some sort of plans, which were short-term. The market volatility was said to be too high to warrant long term plans. The plans were mostly informal. Planning meetings were held when deemed necessary, particularly if
there was a change in legislature which affected their operations. Susan found that most stockbrokers did not have formal arrangements for investor education, and this indirectly contributed to sluggish economic growth. NSE operates in the developing economies where the stock market is inefficient, as much as, values assigned to stocks reflect historical information which may be completely different from the current state of affairs.

Anne (2004) did a study on evaluating the information content of stock dividend announcements of companies quoted at NSE. She found that there is higher insider trading because some companies share prices increase some days before the announcement of dividends. This has a strong implication by increasing the market capitalization of equities. Investors who are not well-informed may buy stocks at this time probably because they have some cash meant for investment, when they later realize that the stock prices have begun to go down, they sell of their shares to reduce further losses. Thus, they will not reap any returns on their investments.

Mwambiriro (2005) did a study on the challenges and risks encountered in the management of electronic records for companies quoted at NSE. He concluded that a record generated electronically is found vital if it is printed and hard copy filed for future use. This practice is time consuming and costly. Consequently, it compromises the efficiency of information management system put in place. This waters down the benefits of computerization that could be enjoyed by many organizations. One of the determinants of economic growth is the advancement in technology which in the Nairobi Stock Exchange is supposed to have been realized by automating the operations through the central depository system, but this benefit has been compromised.
2.7 Conceptual Framework

Economic growth is influenced by growth in labour force, investment in human capital, investment in physical capital, technological change and market capitalization. The conceptual framework shows the relationship between market capitalization of listed companies and economic growth. The framework was developed by the researcher from the reviewed literature related to the study.

Figure 2.1: Relationship between market capitalization and economic growth.

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market capitalization</td>
<td>Economic growth</td>
</tr>
</tbody>
</table>

Source: Researcher (2008)

**Economic growth**

This is the increase in value of goods and services produced by an economy in a given period of time, which is measured in terms of the gross domestic product. The economic model used for the purpose of this study is the Harrod-Domar Growth Model which extends the simple short run Keynesian model into the long run. This model assumes that there are two factors of production, labour and capital. There are constant returns to scale in that if both labour and capital are increased by a given proportion, output will also increase by that proportion thus:

\[ K = VYp \]
\[ L = UYp \]
Where $K$ is capital
$L$ is labor
$V$ is a constant capital-output ratio and $U$ is a constant labor-output ratio.
$Y$ is output

When people acquire new knowledge and skills, they can contribute towards economic growth since they boost the measures of performance such as quality and speed; they become more productive. The basis of growth in labour force is going public which encourages training and development of employees. Harrod-Domar growth model emphasizes on the economic growth depending on savings rate and capital output ratio. Investment in human capital depends on market capitalization. Companies, which go public, can raise capital through which they can employ more skilled people and thus the value of goods and services produced in an economy will be boosted. On the other hand, when organizations have adequate capital, they can invest in more valuable and high quality assets such as computers and production machinery which will essentially translate into increasing productivity and thus economic growth.

Advancement in technology increases competition among firms in the industry which forces them to invest in more updated systems so as to remain competitive. Particularly, this is achieved by firms which have been able to raise more capital. Listing of companies in the stock exchange leads to increase in market capitalization. This gives individuals and companies opportunities to mobilize their savings into investments thus promoting economic growth.

2.8 Summary

From the above literature, it is clear that the Nairobi Stock Exchange enables individuals to transfer their savings into investments, promoting higher standards of accounting, resource management and transparency in the management of business. Economic growth is an objective of many countries and this is particularly influenced by the theories in economic growth, investment, difficulties in comparison, education and
training among others. The establishment of efficient market is, therefore indispensable for any economy that is keen on using scarce capital resources to achieve economic growth.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
The main aim of this chapter was to outline the research design, target population the sampling design adopted, data collection procedures, data analysis and expected output.

3.2 Research Design
The researcher used descriptive research design which included survey and fact finding enquiries. This design was preferred since it was useful in clarifying facts and was not subjective. Descriptive research is aimed at reporting on exactly what is happening, using facts, or information already available to analyze and make a critical evaluation of the phenomena. This design enabled the researcher to examine the effects of listing of companies in the Nairobi Stock Exchange to the Kenya’s economic growth.

3.3 Target Population
The population of interest in this study consisted of the 54 listed companies as at December 2006.

3.4 Sampling Design
Stratified sampling design which is a modification of random sampling was adopted. The population was subdivided into strata from which a sample was selected from every sector of the economy, agricultural, commercial and services, finance and investment,
industrial, allied, and alternative investment market segment. A sample of 48 companies was obtained; four from the agricultural sector, twelve from commercial and services sector, twenty two from finance and investment, ten from industrial and allied sector and five from alternative investment market segment. This sample is 56% of the population. Based of Z test, since the population was greater than 48, the sample of 48 is a representative of the population.

Table 3.1: Population

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of companies</th>
<th>Market capitalization (KSHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>4</td>
<td>43,676.08</td>
</tr>
<tr>
<td>Commercial and services</td>
<td>11</td>
<td>239,589.65</td>
</tr>
<tr>
<td>Finance and investment</td>
<td>12</td>
<td>820,878.47</td>
</tr>
<tr>
<td>Industrial and allied</td>
<td>18</td>
<td>983,422.2</td>
</tr>
<tr>
<td>Alternative investment market</td>
<td>9</td>
<td>28,037.7</td>
</tr>
<tr>
<td>segment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>54</td>
<td>2,115,604.1</td>
</tr>
</tbody>
</table>

Source: NSE (2007)
Table 3.2: Sample of listed companies with their market capitalization

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Companies</th>
<th>Market Capitalization(kshs)</th>
<th>Percentage Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>4</td>
<td>34,556.74</td>
<td>8</td>
</tr>
<tr>
<td>Commercial and services</td>
<td>12</td>
<td>217,549.89</td>
<td>25</td>
</tr>
<tr>
<td>Finance and investment</td>
<td>22</td>
<td>766,904.54</td>
<td>46</td>
</tr>
<tr>
<td>Industrial and allied</td>
<td>10</td>
<td>855,582.01</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>189,868.931</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: NSE (2007)

3.5 Data Collection Procedures and Instruments

The study was facilitated by use of secondary data. GDP data were extracted from economic review published by the Central Bureau of Statistics from journals and the internet. Data on listing of market by market capitalization were obtained from NSE. Questionnaires for the purpose of this study constituted of brief questions which encouraged the respondents to freely express their opinions. Informal interviews were conducted to supplement questionnaires and to increase the reliability of information.
3.6 Data Analysis

The data collected were analyzed using quantitative and qualitative approaches. Quantitative approach entailed using general descriptive statistics. Correlation analysis was also used to establish the relationship between market capitalization and economic growth. Information on economic growth as depicted by GDP will be analyzed for different sectors of the economy and presented using graphs, pie charts and tables. The qualitative approach entailed analysis of data collected through description and discussion in relation to the failure of NSE in fostering increasing trends in economic growth.

3.7 Expected Output

The study is expected to equip the investors and firms seeking to issue shares to the public on how listing will impact on economic growth. It will also enable the Nairobi Stock Exchange and capital market authority to make concrete decisions relating to enhancing the Kenya’s economic growth. The stockbrokers will also be able to offer creative advice to potential investors to enable them to make positive investment decisions instead of just relying on speculations. Other academicians will be in apposition to understand the relationship between listing and economic growth and they can come up with other related studies in this area; they can develop more variables affecting economic growth.
3.8 Pilot Study

Research instruments were first piloted for reliability and validity. The researcher consulted the university supervisor and two colleagues to comment on draft questionnaire before actual administration. After pre-testing the instruments, the researcher corrected ambiguities in the questionnaires. The corrected questionnaires were personally administered to respondents.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

In this chapter, the data collected have been analyzed to get a clear picture of the results and to compare them with the expectations. The chapter captures the background information of the study population and the relationship between independent variable and the independent variables. The analyzed results were used as a guideline for future studies and also as reference to the Nairobi Stock exchange and capital market authority to make concrete decisions relating to enhancing the Kenya’s economic growth. This chapter consists of two sessions. The first session focuses on quantitative analysis while the second session focuses on qualitative analysis.

4.2 Quantitative Analysis

The data collected from the research were analyzed to filter and interpret findings that have come up. This is due to the fact that data obtained was raw and required processing for it to be of value to the users of the research findings. Analysis was done to compare the findings from the different sources and to come up with results; which could lead to the recommendations and conclusions. Through analysis, the findings were easy to follow and draw conclusions and recommendations from these data that is refined and straightforward. The researcher sent out forty eight (48) questionnaires and 39 were returned and analyzed.
Table 4.1 Distribution of response rate

<table>
<thead>
<tr>
<th>Expected Response</th>
<th>Actual Response</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>39 Respondents</td>
<td>81</td>
</tr>
<tr>
<td>Non-respondents</td>
<td>9 Respondents</td>
<td>19</td>
</tr>
<tr>
<td>Totals</td>
<td>48</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.1 Distribution of response rate

Source: Researcher
The response rate was anticipated to be higher than the above figure but due to problems within money market, it was hard to distribute many questionnaires to all stakeholders, as they did not favour my idea of using their business venture as my area of study.

Table 4.2 Position in the organization

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisor</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Clerk</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Risk Analyst</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Public relation</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Customer Service</td>
<td>18</td>
<td>46</td>
</tr>
<tr>
<td>Human Resource</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>39</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: Field data
From the findings, it was revealed that most respondents were from customer service sections with 46%, followed by public relations section which had 20% while the rest followed as human resource at 13%. Risk analysts and supervisors were at 13% and 5% respectively while clerk ranked low with 3% only.
### Table 4.3 Number of years worked

<table>
<thead>
<tr>
<th>Age bracket</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 years</td>
<td>17</td>
<td>44</td>
</tr>
<tr>
<td>3-4 years</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td>5-6 years</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Above 7 years</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>39</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: Field data

---

**Figure 4.3 Number of years worked**

![Bar chart showing years worked](chart)

- **Source:** Researcher
Response from the questionnaire in terms of number of years worked indicated that; majority of the respondents have worked only for between 1-2 years which is represented by 44%, followed by 3-4 years which is represented by 33%. 5-6 years was represented by 15% and above seven years was represented by 8%.

Table 4.4 Money market

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local/ Foreign</td>
<td>28</td>
<td>72</td>
</tr>
<tr>
<td>Foreign</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Local</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.4 Money market

Source: Researcher
The study findings revealed that most companies trade concentrates in both Local and Foreign Markets as is represented by 72%. Rest trade in Local Money Markets and is represented by 28%. While 0% company deal with pure Foreign Money Market.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>18</td>
<td>46</td>
</tr>
<tr>
<td>Industrial and allied</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Commercial</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Agricultural</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>39</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: Field data

**Figure 4.5 Products dealt with**

Source: Researcher
The data analyzed indicate that most respondents were from financial sector and are represented by 46%, this was followed by commercial sector which is represented by 23%. Industrial and allied sector was ranking third with 21% while agricultural sector was the least with 10%.

Table 4.6 Period of listing

<table>
<thead>
<tr>
<th>Level of effect</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1-5 years</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>6-10 years</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>23</td>
<td>59</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field data
From the above figures it's clear that most companies have been listed for a period exceeding 10 years and this supported by 59%. Other respondents with 26% said their companies have been listed for a period between 6-10 years while only 15% of the respondents said their companies have been listed for a period less than five years and no company had been listed for less than one year.
Table 4.7  Major shareholders of the company

<table>
<thead>
<tr>
<th>Type of Shareholder</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Body Corporate</td>
<td>30</td>
<td>77</td>
</tr>
<tr>
<td>Insurance Company</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retail Investor</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Employees</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.7 Major shareholders

Source: Researcher
Responses from the questionnaire indicated that 73% of the respondents felt that body corporate are the major shareholder of most listed companies in the money market in Kenya while 27% maintained that some shares are held by retail investors. One of the respondents said either Insurance companies or employee hold shares of companies whose staff were interviewed through questionnaire.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Gain</td>
<td>31</td>
<td>79</td>
</tr>
<tr>
<td>Dividend Pay Outs</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: Field data
From the above table and a pie chart, it is observed that motivating factor in money market investment is capital gains and is supported by the 80% of the respondents, 16% of the respondents felt that dividend pay outs is a motivating factor while only 4% of the respondents were of the feeling that there are other factors other than the first two.
Table 4.9 Mean market capitalization trends

<table>
<thead>
<tr>
<th>Level</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing trend</td>
<td>30</td>
<td>77</td>
</tr>
<tr>
<td>Fluctuating trend</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Decreasing trend</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.9: Mean market capitalization trends

From the table and bar chart above, it is clear that mean market capitalization for the past six years has been in the increasing trend and this fact has been supported by 75% of the
respondents, 21% of the respondents felt that the trend has been fluctuating while 4% felt that the trend has been decreasing.

Table 4.10 Company engagement in borrowing after listing

<table>
<thead>
<tr>
<th>Company engagement in borrowing</th>
<th>Actual Response</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>31</td>
<td>79</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.10 Company engagement in borrowing after listing

From the above table and pie chart, it is evident that most respondents support the fact that most companies engaged in borrowing after listing in the money market and is represented by 71% while the rest said their companies never engaged in any borrowings after listing and is represented by 29%.
Table 4.11 Agreement on adequate advice by brokers to investors

<table>
<thead>
<tr>
<th>Respondents Agreement</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>20</td>
<td>51</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.11 Agreement on adequate advice by brokers to investors

Source: Researcher

From figure 4.11 most respondents strongly disagree that Kenyan stockbrokers offer adequate advice to investors prior to their investment and is supported by 52% of the
respondents. Twenty five percent of the respondents disagreed whereas 17% of the respondents agreed that there is adequate advice to investors. Only 6% of the respondents strongly supported the fact that there is adequate advice to investors before they invest.

Table 4.12 Level of knowledge of the Kenyan investors in the stock Market

<table>
<thead>
<tr>
<th>Level of Knowledge Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well informed</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>Relatively informed</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Not informed</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Totals</td>
<td>39</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field data

Figure 4.12 Level of knowledge of Kenyan investors in the stock market

Source: Researcher
From the above data, it is evident that most investors in the stock market are well informed and is supported by 66% of the respondents. Twenty one percent of the investors are said to be relatively informed while 13% are said to be not informed about the stock market.

4.3 Qualitative Analysis

Qualitative data analysis allows the researcher to rearrange and analyze data systematically and rigorously. It also helps the researcher comprehend and manage data, merge related data drawn from different sources, identify the key patterns and themes, draw and verify conclusions.

Qualitative data analysis also involves categorization, identifying units for data collected and recognizing relationships and their categories. Respondents' views and opinions concerning issues raised in the topic are analyzed into themes and important factors contributing to certain issues are identified. The reasons for the occurrence of certain events and activities are also analyzed.

From the research conducted, it has shown that most of the respondents raised a number of factors ranging from investment in human capital, technological change, listing in the stock exchange and investment in physical capital. When people acquire new knowledge and skills through stockbrokers advice, they contribute towards economic growth since they boost the measures of performance such as quality and speed; they become more productive. The basis of growth in labour force is going public which encourages training and development of employees. According to majority of respondents, growth in investment depends on savings habits and proper advice by stockbrokers in the money market.
4.3.1 Government Role in Market Capitalization and Provision of Incentives.
From the responses, it emerged that most people were of the view that the government has played a major role to increase market capitalization by offering incentives to encourage companies to go public. Most respondents argued that the Kenya government has constantly encouraged companies to go public by leading examples through sale of most parastatals to public through public offers and best examples being Kenya Reinsurance, KenGen and the recently concluded Safaricom IPO. In the recent, the Government offloaded shares to the general public and was fully backed by Treasury.

4.3.2 Whether market capitalization has promoted economic growth perfectly
It came out strongly that market capitalization has not promoted economic growth perfectly. Some respondents argued that many companies have been listed in the stock exchange but only a few are actively traded.

4.3.3 How Market Capitalization Contributes to Economic Growth
The responses revealed that market capitalization has led to increase in economic growth. Most respondents said that investment in human capital also depends on Market Capitalizations of the companies. Companies which go public can raise capital through which they can employ more skilled people and thus the value of goods and services produced in an economy will be boosted.

Others said that when investors have adequate capital, they invest in more valuable and high quality assets such as financial and commercial sectors which essentially translate into market capitalizations hence increasing profitability to investors. Advancement in technology was also cited where competition among investors in the industry forces them to invest in more updated systems so as to remain competitive. Particularly, this is achieved by firms which have been able to raise more capital in market capitalizations process. From the above findings most respondents are of the opinion that CDS has eased the trading and has made it faster and efficient. Most respondents said CDS has actually
improved Nairobi Stock Exchange through enhanced advisory efforts to long and short-term investors. Investors are empowered through training efforts by stockbrokers whenever they visit their offices for advice and all this enhances market capitalization thus promoting economic growth.

4.3.4 What the Government Should do to Facilitate Growth at an Increasing Rate

A significant number of respondents were of the view that the governments' requirements for companies to go public which is the basis of market capitalization are so strict and numerous. They said that such restrictions should be minimized and that many companies qualify and yet they are not listed due to the requirements. They also mentioned about the need for the Capital Market Authority to regulate the functioning of the stockbrokers to reduce the recent incidences of their collapse such as the recent incidences of Nyaga Stockbrokers and Discount securities.

From the qualitative analysis, market capitalization promotes economic growth. The researcher undertook further statistical analysis using correlation analysis in order to establish the relationship between the two variables, market capitalization and economic growth, in addition to analysis of variance.
Table 4.13 The correlation table to determine the relationship between market capitalization and economic growth

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>Market capitalization(X)</th>
<th>Economic Growth(GDP%) (Y)</th>
<th>X-X</th>
<th>Y-Y</th>
<th>(X-X)^2</th>
<th>(Y-Y)^2</th>
<th>XY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>42.16</td>
<td>0.15</td>
<td>-</td>
<td>108.055</td>
<td>11.676</td>
<td>1.8225</td>
<td>6.324</td>
</tr>
<tr>
<td>2</td>
<td>46.167</td>
<td>0.15</td>
<td>-</td>
<td>104.048</td>
<td>10.826</td>
<td>1.8225</td>
<td>6.92505</td>
</tr>
<tr>
<td>3</td>
<td>36.6</td>
<td>0.5</td>
<td>-</td>
<td>113.615</td>
<td>12.908</td>
<td>1</td>
<td>18.3</td>
</tr>
<tr>
<td>4</td>
<td>40.617</td>
<td>0.7</td>
<td>-</td>
<td>110.048</td>
<td>12.111</td>
<td>0.64</td>
<td>28.4319</td>
</tr>
<tr>
<td>5</td>
<td>57.617</td>
<td>0.5</td>
<td>-92.598</td>
<td>1</td>
<td>8574</td>
<td>1</td>
<td>28.8085</td>
</tr>
<tr>
<td>6</td>
<td>55.618</td>
<td>0.6</td>
<td>-95.215</td>
<td>-0.9</td>
<td>9066</td>
<td>0.81</td>
<td>33.37</td>
</tr>
<tr>
<td>7</td>
<td>132.1</td>
<td>0.8</td>
<td>-18.115</td>
<td>-0.7</td>
<td>328</td>
<td>0.49</td>
<td>105.68</td>
</tr>
<tr>
<td>8</td>
<td>134.16</td>
<td>1</td>
<td>-16.055</td>
<td>-0.5</td>
<td>258</td>
<td>0.25</td>
<td>134.16</td>
</tr>
<tr>
<td>9</td>
<td>156.25</td>
<td>2</td>
<td>6.305</td>
<td>0.5</td>
<td>36</td>
<td>0.25</td>
<td>312.5</td>
</tr>
<tr>
<td>10</td>
<td>158.272</td>
<td>2.3</td>
<td>8.057</td>
<td>0.8</td>
<td>65</td>
<td>0.64</td>
<td>364.0256</td>
</tr>
<tr>
<td>11</td>
<td>231</td>
<td>2.3</td>
<td>80.785</td>
<td>0.8</td>
<td>6,526</td>
<td>0.64</td>
<td>5313</td>
</tr>
<tr>
<td>12</td>
<td>231.423</td>
<td>3.5</td>
<td>81.208</td>
<td>2</td>
<td>6,595</td>
<td>4</td>
<td>462.846</td>
</tr>
<tr>
<td>13</td>
<td>389.502</td>
<td>2</td>
<td>239.287</td>
<td>0.5</td>
<td>57,258</td>
<td>0.25</td>
<td>779.004</td>
</tr>
<tr>
<td>14</td>
<td>391.527</td>
<td>4</td>
<td>241.312</td>
<td>2.5</td>
<td>58,231</td>
<td>6.25</td>
<td>1566.108</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2103.01</td>
<td><strong>20.5%</strong></td>
<td><strong>233.47</strong></td>
<td><strong>-0.5</strong></td>
<td><strong>194,458</strong></td>
<td><strong>19.865</strong></td>
<td><strong>9159.483</strong></td>
</tr>
</tbody>
</table>
The periods represent results for six months from year 2000 to year 2006 respectively.

\[ r = \frac{1}{n} \sum \frac{(x - \bar{x})(y - \bar{y})}{\hat{o}_x \hat{o}_y} \]

\[ \frac{91.59483}{\sqrt{94458} \sqrt{0.19865}} \]

\[ r = 0.67 \]

The correlation coefficient \( R = 0.67 \) which indicates a high degree of association and positive relationship between market capitalization and economic growth. Thus, the higher the market capitalization, the higher the economic growth.

The amount of variance between the two variables was determined using the following formula:

\[ \hat{o}^2 = \frac{\sum (x - \bar{x})^2}{n} \]

Where \( n \) is the sample size

\[ \sqrt{194458/48} = 63.65 \]

4.3.5 Summary of data analysis

Quantitative data were analyzed through the use of pie charts, bar graphs and frequency tables. These tools of data analysis enabled the researcher to identify and present the significant characteristics of the sample. Qualitative data were analyzed through correlation analysis which helped the researcher to determine the relationship between market capitalization and economic growth and analysis of variance (ANOVA) to determine the amount of variance between the two variables. The analysis of variance showed that increase in market capitalization has significant influence on economic growth.
From the research carried out, it has been noted that effects of listing companies in the Nairobi Stock Exchange to the Kenya’s economy has been positive for trade has expanded, many Kenyans have cultivated investing culture, employment has been generated as a result of company having expanded operations, Tax has also gone up and general economic development has been felt even at grassroots level. Market capitalization efforts have achieved economic growth though not perfectly as it ought to be.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The chapter discusses the summary of findings, answers to research questions, recommendations for listing companies in the Nairobi Stock of Exchange to enhance cultivation of investment among Kenya’s rapid spread of economic development; and a conclusion is provided at the end including suggestions for further research.

5.2 Summary of Findings
The following are major findings of the study:
Increase in market capitalization enables companies to expand their capital bases and in the long run the volume of trade goes up. It also cultivates investing culture in the general public, and as a result those who invest reap returns that are capable of raising their living standard and economic growth in general. The study also revealed that Kenya Government has constantly encouraged companies to go public by leading examples through sale of most parastatals to public through Initial Public Offers (IPOS) and best examples being the Safaricom Ltd Kenya Commercial Bank Ltd. in the recent past where government offloaded shares to the general public and was fully backed by the Treasury.

The research established that most respondents were of the opinion that (CDS) has eased the trading and has made it faster and efficient. Most respondents said CDS has actually improved Nairobi Stock Exchange through enhanced advisory efforts to long and short-term investors. Investors are empowered through training efforts by stockbrokers whenever they visit their offices for advice.
The study also exposed the fact that employment opportunities can be generated as a result of listing companies since they expand and diversify thus creating room for employment as is the case with Safaricom Ltd apart from providing mere cell phone facilities, it successfully competes with banks through M-pesa facility which has given so many Kenyans jobs, and government revenue is up and there is economic growth.

5.3 Answers to Research Questions

On the question of the effects of market capitalization of NSE listed companies on Kenya’s economic growth, the researcher answered the research questions as below:

5.3.1 What is the influence of market capitalization of the Nairobi stock exchange listed companies on the Kenya’s economic growth?

Market capitalization of the Nairobi Stock Exchange Listed companies enables companies to expand their capital bases and in the long run hence volume of trade goes up. It also cultivates investing culture in the general public, and as a result those who invest rip returns that are capable of raising their living standard hence economic growth in general.

5.3.2 What is the relationship between Market capitalization of NSE listed companies and Kenya’s economic growth?

In 1998, the government expanded the scope for foreign investment by introducing incentives for capital markets growth including the setting up of tax-free Venture Capital Funds, removal of Capital Gains Tax on insurance companies' investments, allowance of beneficial ownership by foreigners in local stockbrokers and fund managers and the envisaged licensing of Dealing Firms to improve market liquidity. The enactment of the CDS Act was also expected to clear the way for the setting up of the long overdue Central Depository System. In 1999, Kenya adopted the International Accounting
Standards (IAS) as the local Accounting Standards with effect from January 1, 1999. When investors have adequate capital, and they invest in more valuable and high quality assets such as financial and commercial sectors this essentially translates into increasing profitability. Nairobi Stock Exchange (NSE), therefore can initiate trading environment that attracts encourages long and short-term investors both locally and internationally hence economic growth can be felt globally as a result of enhanced market capitalization. There is a positive relationship between market capitalization and economic growth as depicted by the Gross Domestic Product.

5.3.3 What is the correlation coefficient between market capitalizations of NSE listed companies and Kenya’s economic growth?

The correlation coefficient between market capitalization of NSE listed companies and economic growth was established to be 0.67 which depicts a strong association between the two variables. In this regard, it is concluded that there is a positive correlation between market capitalization of NSE listed companies and Kenya’s economic growth.

5.3.4 What is the amount of variance in Kenya’s economic growth as explained by market capitalization?

The amount of variance between market capitalization was determined using the standard deviation as 63.65. This is a high variance which depicts that economic growth has not been increasing at an increasing rate.

5.4 Conclusion

The capital markets are an essential part of the financial sectors of modern economies that provides alternative savings tools to savers and non bank sources of financing for enterprises, the markets promote economic growth through enhanced savings mobilization. It is, therefore, concluded that listing of a companies enables them to
expand their capital bases and in the long run, the volume of trade goes up. It also cultivates investing culture in the general public, and as a result, those who invest rip returns that are capable of raising their living standard hence economic growth in general. Listing of companies in the stock exchange gives individuals and companies an opportunity to mobilize their savings into investments thus promoting economic growth. The Nairobi Stock Exchange (NSE) therefore, can initiate trading environment that attracts and encourages long and short-term investors both locally, and internationally hence economic growth can be felt globally. Central Depository System (CDS) which is an initiative of Capital Market Authority (CMA) has eased the trading and has made it faster and efficient. Most respondents said CDS has actually improved Nairobi Stock Exchange through enhanced advisory efforts to long and short-term investors. Investors are empowered through training efforts by stockbrokers whenever they visit their offices for advice.

Licensed dealers enjoy tax benefits, as long as they turn their portfolios according to laid down guidelines. In July 2000, the Central Depository System (CDS) Act was passed by Parliament and assented to by the President in August 2000. The Capital Markets Authority Act was amended and renamed the Capital Markets Act. In August 2000, CFC Financial Services, the first institution to be a licensed dealer on the Nairobi Stock Exchange commenced operations. This also depends on how NSE set human capital standard among the listed companies. Companies which go public must raise capital through which they can train and employ more skilled people and thus the value of goods and services produced in an economy will be boosted, and quality services will be felt and prospective investor will open up and invest thus expansion in operational level.

When people acquire new knowledge and skills, they can contribute towards economic growth since they boost the measures of performance such as quality and speed, they become more productive. The basis of growth in labour force is going public which encourages training and development of employees. Harrod-Domar growth model
emphasizes on the economic growth depending on savings rate and capital output ratio. Nairobi Stock Exchange (NSE), therefore, can initiate trading environment that attracts and encourages long and short term investors both locally and internationally hence economic growth can be felt globally.

5.5 Recommendations

The Capital Market Authority and the stockbrokers should embark on educating investors on the matters pertaining to investment in the stock market. It is prevalent that a number of investors are not well-informed about the investment. Investors need to invest in a number of different counters to minimize risk. The establishment of collective investment vehicles, namely unit trusts, mutual funds and other formal investment clubs will allow the 'mwananchi' access to a fully diversified investment in a single unit, greatly enhancing their ease of access to the market, diversifying their investment and minimizing risk.

One of the challenges that the Nairobi Stock Exchange has is to attract new listings which is the basis of increase in market capitalization. The number of listed companies has remained below 60 for a long time. NSE should embark on consultations with stakeholders in the capital market industry to undertake fundamental reform of the current market structure. The reforms should focus on the need to create alternative markets to cater for the specific needs of different issuers and investors. For the constituency to have more rural electrification projects, have entrepreneurial development activities and enjoy other social amenities, it must be able to find new ways and strategies of enhancing rural electrification to enhance entrepreneurial developments. Some of the recommendations for entrepreneurial development as a result of rural electrification are as below.
5.6 Recommendations for Further Studies

It's evident that capital markets are an essential part of the financial sectors of modern economies that provides alternative savings tools to savers and non bank sources of financing for enterprises, the markets promote economic growth through enhanced savings mobilization. Hence an emerging need to carry out a number of studies in Kenya in this sensitive area of investing in stock for economic development remain a challenge as so many people are still ignorance about stock market. It would be beneficial for all the concerned parties who are the government agencies NSE, CMA, the stockbrokers and their workers to understand the difference between internal and external factors affecting stock market development directly as much as the country’s general economy is at stake. Therefore such a study should be carried out on a wider scale to confirm these results. Further research may be carried to examine the role of Capital Market Authority in the Capital Market.
Dear sir/Madam

RE: QUESTIONNAIRE

Thank you very much for agreeing to participate in this study.

The researcher is an MBA student at Kenyatta University studying influence of market capitalization of NSE listed companies to the Kenya’s economic growth.

The questions are meant to assist the researcher obtain information that will enable her to conduct the study.

Kindly respond to the issues in questions as honestly as possible. All the information collected will be treated with utmost confidentiality.

Thank you for your cooperation.

Ann W Njehu
APPENDIX TWO: QUESTIONNAIRE

Please respond to the following questions as appropriate.

1. What is your position in the organization?

2. For how long have you worked in the organization

   Less than 1 year ( )
   1-5 years ( )
   6-10 years ( )
   Over 10 Years ( )

3. What kind of product or service do you deal with?

   (a) ......................................................
   (b) ......................................................
   (c) ......................................................

4. What kind of market do you serve?

   (a) Local ( )
   (b) Foreign ( )
   (c) Local and foreign ( )

5. For how long has your company been listed in the Nairobi stock exchange?

   (a) 1-5 years ( )
   (b) 5-10 years ( )
   (c) Over 10 years ( )

6. Please tick the trading category of your organization from the list below:

   Main investment market segment ( )
   Commercial and services sector ( )
   Finance and investment segment ( )
   Industrial and allied sector ( )
   Alternative investment segment ( )
   Other (please specify) ____________________________

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7. Who are the major shareholders in your company?
   (a) Body corporate ( )
   (b) Insurance companies ( )
   (c) Retail investors ( )
   (d) Employees ( )

8. What is the key motivating factor for the key investors?
   (a) Capital gain ( )
   (b) Dividend payout. ( )
   (c) Other (Please specify) ( )

9. What has been the trend of mean market capitalization in the past six years?
   (a) Increasing trend ( )
   (b) Fluctuating trend ( )
   (c) Decreasing trend ( )

10. The company been engaged in borrowing after their market capitalization has increased
   Strongly agree ( )
   Agree ( )
   Disagree ( )
   Strongly disagree ( )

11. The government has provided incentives to promote increase in market capitalization of NSE listed companies. Please tick as appropriate
   Strongly agree ( )
   Agree ( )
   Disagree ( )
   Strongly disagree ( )

12. Increase in market capitalization has promoted Kenya’s economic growth perfectly. Please tick as appropriate.
| Strongly agree | ( ) |
| Agree | ( ) |
| Disagree | ( ) |
| Strongly disagree | ( ) |

13. Do you think that the Government played a major role to promote increase in market Capitalization? Briefly explain

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14. Please indicate the extent to which you agree on the following statement:
The Kenyan stockbrokers have offered adequate advice to the investors prior to Investing in a company.

(a) Strongly agree ( )
(b) Agree ( )
(c) Disagree ( )
(d) Strongly disagree ( )

15. In your own view, what is the level of knowledge of the Kenyan investors in the stock market?

(a) Well informed ( )
(b) Relatively informed ( )
(c) Not informed ( )

16. How do think market capitalization contributes to the Kenya’s economic growth?

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17. Do you think that the Nairobi stock exchange has promoted Kenya's economic growth perfectly? If yes, how effectively? If no, how ineffectively?
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18. What do you think the government should do in order to facilitate increased economic growth at an increasing rate?
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Thank you for your cooperation.
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