



Effects of Initial Public Offerings on the Long Run Performance of Stocks Listed At Nairobi Stock Exchange Market

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ABSTRACT: The phenomenon of IPO pricing has long existed in the global stock market, although the magnitude of underpricing varies from country to country. The objective of this study was to investigate the effect of IPO pricing on the long run stock returns of companies listed at Nairobi Securities Exchange (NSE), Kenya. This study used descriptive research design. The target population of this study was all firms listed at the NSE in Kenya. From the listed companies in NSE, the researcher studied all the firms that have issued IPO from 2000-2013. This study used secondary data collected from the NSE, the Capital Market Authority (CMA), annual reports of the firms, and other research material on share prices. The data was analyzed using descriptive analysis and inferential analysis technique. Statistical Package for Social Services (SPSS) software aided in data analysis. Further, the study used multivariate regression was used to test the influence of the explanatory variables on the long-run performance, measured by market adjusted buy —and hold abnormal (BHAR). From the regression analysis, the study revealed that 51.5% of the variation in long run performance of shares was explained jointly by 1st Day pricing differential between the offer price and closing day one price, age in years of firm is the difference the between the offer firm's IPO year and the founding year, size of the firm as measured by total assets, number of shares issued and the percentage subscription as the obtained coefficient of determination (R²) from the model summary was 0.515. The study further revealed that the regression model predicting the relationship between the long run performance of shares and independent variables was significant. The study deduces that holding all the other factors constant, long run performance of shares would be 8.736. A unit change in the difference between offer price and closing day one price holding the other factors constant would lead to change in long run performance of shares by 0.068. For the case of firm age, Size of the firm, number of shares issued, and percentage, the effect they had on long run performance of shares was -0.371, 7.14710-8, 1.524*10⁹ and 0.008 respectively. The firms should put good strategic measures in place to ensure continued performance of their shares in the long run.

Keywords: initial public offer, performance

I. INTRODUCTION

In order to gain greater liquidity and better access to capital, companies sell their equity to the public through Initial Public Offerings (IPOs) and Secondary Equity Offerings (SEOs). In latter, preferential allotment and cash offer are the main SEOs while in former: firms adopt either the traditional set-up or recent innovations such as auction IPO and Best- Efforts Basis to sell their shares (Berk, Demarzo and Jarrad, 2013).Initial Public Offerings (IPO) is when a company issues common stock or shares to the public for the first time (Gregoriou, 2006).They are often issued by small, younger companies seeking to become publicly traded.

Going public marks an important watershed in the life of a start-up company. It provides access to public equity capital and as such might lower the cost of funding the company's operations and investments (Motley Fool,

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2006). It also offers an avenue for trading the company's shares, enabling its existing shareholders to diversify their investments and to crystallize their capital gains from backing the company. This is an important consideration for investors and venture capitalists. The act of going public itself shines a spotlight on the company, and the attendant publicity may bring indirect benefits, such as attracting a different caliber of management. Meanwhile, the company acquires new obligations in the form of transparency and disclosure requirements, and becomes accountable to a larger group of relatively anonymous shareholders, gaining of publicity and status, employee ownership and liquidity of shares (Gnindvall, Melin-Jakobsson and Thorell, 2004). Despite the benefits that accrue with IPOs, firms normally incur costs which may be direct or indirect (Ritter, 2006). Directly, firms incur cost such as underwriting fees, auditors and lawyer's fees for consultancy, and publication cost. Indirectly, management's time and effort is devoted to the process of conducting the offer. However, it has been observed that immediately the company is listed in the securities exchange, there follows the first day under-pricing followed by long term period of under-performance in terms of pricing. Researchers have noticed these intrigues of IPO subsequent under-pricing and the uniqueness of the long term underperformance of IPO (Bray and Gompers, 1997). Hence, there has been a significant interest from investors and academics to understand the decisions of why companies go public and the short- and long-run performance of newly issued equities. In particular, empirical research has investigated the under-pricing and long-run performance of Initial Public Offerings (IPOs) in the U.S and in other countries (Loughran and Rifler, 1995). As a result, a relatively consistent pattern of under-pricing, initial returns, and long-run performance of IPOs has emerged. Studies have shown that underwriters do not incorporate all available information, the purpose being to underprice the IPO so as to keep it within the popular trading range of share prices of companies in the particular economic sector (Lowry and Schwert, 2004).

Pricing of new instrument in corporate finance is a critical decision. Koop and Li (2001) identified three roles played by valuation, including its significance in corporate control transactions; the need for firms going public to value their stocks; and its significance in determining capital structure of the firm.' Where one party to a transaction has quality information more than the other party, a market for lemon arises (Akerlof, 1970). Further, Akerlof argues that this problem leads to a situation where quality assets are driven out of the market because the owners of quality assets are not willing to sell at lower price demanded by buyers. Buyers will seek risk premium to compensate them for taking risk. Most of the literature on IPO defines the long run as typically being in the region of three years and above (Ritter and Welch 2002).. Studies have shown that most IPOs long run underperformance as measured by their respective subsequent market prices in developed economies is as a result of a time-varying phenomenon. This adverse under performance have caused considerable uncertainty to researchers as well as academicians bearing in mind that under IPO, firms use their prospectus to invest heavily in their companies.

All of these studies find that newly public firms exhibit a decline in return on assets relative to their pre-issue levels. There are three common threads running through explanations of post- issue operating "underperformance", which are identified as; decreasing in management ownership after going public leads to increase agency costs (Jensen and Meckling, 1976) and to reduce the managers' incentives for value maximization, two, managers take advantage of temporary improvements in performance (windows of opportunity) to issue new shares when investors have overly optimistic expectations about firms' future prospects (Loughran and Ritter, 2002) and third, Window-dressing of accounting earnings prior to the IPO, when cannot be sustained, disappointed investors revalue the firm down to a level justified by the fundamentals (Teoh et al, 1998). The Nairobi Securities Exchange (NSE) market was started in Kenya in the 1920's by the British as an informal market for Europeans only. In 1954, Nairobi Stock Exchange (now Nairobi Securities Exchange) was constituted as a voluntary association of stockbrokers registered under the Societies Act (NSE Website). Nairobi Securities Exchange (NSE) is a market where securities are traded in Kenya. Capital Market Authority (CMA) is the regulatory body that formulates laws that regulate both the financial and the securities market traded at the NSE. The NSE is one of the most vibrant markets in Africa which has attracted investors from all over the world, and has grown considerably over the period. The NSE is, characterized by liquidity, market capitalization and turnover; hence, it may be classified as both an emerging market and a frontier market. Whereas the subscription rates to IPOs have been high in the past, studies by Jumba (2002) indicated that in the long run the average daily return for a sample of nine IPOs for the period 1992- 2000 was 0.06% in three years after going public, compared to the market return of 0.3%. Njoroge (2004) while studying 1984-2001 using a sample of 14 IPOs observed that all the IPOs recorded an overall negative cumulative growth of -68.46%. Ndatimana (2008), using a sample of 15 covering the period 1992-2007 employing MABHR model produced mixed support. He found out that cumulative returns fall to -11% after 3 months, down further to - 6.17% at the end of the first year. -1.92%, 0.68%, -1.72% and 8.66% at the end of 2, 3rd, 4th and 5th year respectively.

1.1 Statement Of The Problem

Initial public offerings (IPO) involve problems regarding price discovery due to uncertainties regarding aggregate demand and the quality of the issuer (Jumba, 2002). This concept of uncertainty suggests that investors will differ in their forecasts. Hence, some investors will invest in the short-term and others in the long-term. This leads to investors making differing returns from IPOs (Ritter, 2006). It is argued that the longer the investor holds to an investment, the larger should be the return. For instance, according to Nairobi Security Exchange (NSE) Annual report June 2008 Safaricom shares were floated at Ksh 5 per share (NSE 2008). The report also revealed that the first day closing price of the Safaricom share was Ksh 7.35. This is an indication that the offer price of Safaricom share was underpriced by 47%. According to Nairobi Security Exchange (NSE) Annual report June 2006 Kengen shares were floated at Ksh 11.90 per share (NSE 2006). The annual report also revealed that the first day closing price of Kengen share was Ksh 40. This is an indication that the offer price of Kengen share was underpriced by 236%. According to Nairobi Security Exchange (NSE) Annual report June 2009 (NSE 2009) Cooperative bank of Kenya share was floated at 9.50 per share (NSE 2009). The annual report revealed that the first day closing price of the Cooperative Bank of Kenya share was Ksh 10.45. This is an indication that the share price of the Cooperative bank of Kenya was underpriced by 10%. Given that only few studies of this nature have been done in Kenya, the present study sought to fill the knowledge gap by establishing the impact of initial public offers on the long run stock performance in emerging markets, with reference to NSE hence this study sought to demonstrate that long non stock underperformance is a reality at Nairobi Securities Exchange.

II. LITERATURE REVIEW

2.1 Windows Of Opportunity Theory

Lucas and McDonald (1990) developed an asymmetric information model where firms postpone their equity issue if they know they are currently undervalued. In their model, if a bear market places a low value on the firm, given the knowledge of entrepreneurs, then they will delay their IPOs until a bull market offers more favorable pricing. Choe, Masulis and Nanda (1993) found that firms avoid issuing in periods where few other good-quality firms issue. Other theories have argued that markets provide valuable information to entrepreneurs ("information spillovers"). Managers take advantage of temporary improvement in performance to issue new shares when investors have overly optimistic expectations about firm's future prospects (Loughran and Ritter, 2002). Ritter (1991) and Loughran and Ritter (1995) argue that the firms that successfully time out their security issues during the high valuation period, yield low returns for the investors in the long run. The studies indicate that taking the advantage of strong demand in the primary market overpricing of offered stocks sometimes even start-up firms without having substantial growth prospects are able to raise capital from the market at exorbitant prices. However, as the market adjusts with real valuation, the excessive high stock prices drop substantially. Welch and Rifler (2002) suggested that in addition to rational theories for IPO volume fluctuations, a plausible semi-rational theory without asymmetric information can also explain cycles in issuing activity. They argued that entrepreneurs' sense of enterprise value derives more from their internal perspective, their day-to-day involvement with the underlying business fundamentals, and from the public stock market. They further stated that sudden changes in the value of publicly traded firms are not as quickly absorbed into the private sense of value held by entrepreneurs, thus entrepreneurs adjust their valuation with a lag. As a result, even if the market price is driven by irrational public sentiment or the entrepreneur's price is driven by irrational private sentiment, entrepreneurs are more inclined to sell shares after valuations in the public markets have increased. The motive therefore for going public primarily is to benefit the issuers (entrepreneurs) and not the investors. Investors need to know how and when new issues can be of benefit to them.

2.2 Empirical Review On The Effect Of Ipo On The Long Run Performance Of Shares Of Listed Companies

There exists a large body of empirical research examining the impact of initial public offerings (Rifler, 1991; Kunz & Aggarwal, 1994; Loughran & Rifler, 1995; Sapusek, 2000; Drobetz et al., 2005). For instance, Rifler (1991) pointed out that buying shares of a firm that has just gone public may result in abnormal negative risk adjusted returns. Further, Rifler (1998) finds that the new issue underpricing phenomenon exists in every developed nation with a stock market, although the amount of underpricing varies from country to country. Researchers have labeled this phenomenon as "new issues puzzle" because it has defied arbitrage forces even after being so well and so long publicized.

Rifler (1984) analysis shows an average underpricing of 26.5%, Welch (1989), conducted a study on 1028 IPOs in the USA and reported an average underpricing of 26%, Kelohargu (1993) cites an average underpricing of 8.7% for Finnish IPOs and Booth and Chua (1996) find an average underpricing of 13.1%. Further, Krigman et al, (1999) in their study concluded that first day winners continue to be winners over the first year, and first day losers continue to be losers except for extra hot IPOs, which are seriously underpriced. Using a sample of more than 2000 IPO during the period dated 1980-1997, Purnanandam and Swaminathan

(2004), find that on average, the offer price substantially exceeds the corresponding intrinsic values computed from similar firms in the peer group of the issuing firm. They posit that, overvalued IPOs have large first day returns but low long run risk adjusted returns.

However, the results concerning long-run IPO performance are inconclusive. For the Swiss market, Kunz and Aggarwal (1994) suggest that there is no evidence for long-run underperformance of Swiss IPOs for up to three years after the initial offering.

Bray and Gompers (1997) also challenge the view that IPO firms underperform in the long run. They used a sample of U.S. IPOs from 1972-1992 and found no evidence that IPO firms underperform the benchmarks. They provide evidence that underperformance is typical of small firms with low book-to-market ratios and find that when returns are weighted equally, firms backed by venture capitalists outperformed, non-venture backed firms. Further, Bray and Gompers (1997) argue that firms are more likely to underperform regardless of whether they are IPOs firms or not. Hence, they conclude that underperformance is not an IPO effect. In addition, Drobetz et al. (2005) also find no evidence for long-run underperformance of Swiss IPOs after going public.

Most of empirical research on the IPOs is based on US data and to a lesser extent on data from other large developed countries (Germany, United Kingdom). There have been other studies in other emerging markets economies but with varying results. The overall conclusion of the literature is that IPOs are underpriced; i.e., the offer price of IPOs is on average lower than the corresponding first-day market closing price and exhibit long-run underperformance (Ritter, 2003).

III. RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions. The plan is the overall scheme or program of research. It includes an outline of what the researcher would do from writing the hypotheses and their operational implications to the final analysis of the data. Descriptive research involves collecting and examining data in order to answer questions concerning the status or condition of the research subject at some point of time. Thus, descriptive research seeks to determine the answers to who, what, when, where and how questions. Its major purpose, as designed, is to describe characteristics of a population or a phenomenon (Zikmund, 2003).

In this research, secondary data method will be used. This research problem was best studied through the use of descriptive survey design. It allows the collection of large amount of data from a sizeable population in an economical manner. Further, it allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders et al, 2007). Since the researcher used quantitative data to answer the research question, the descriptive survey method was more suitable for this study. The data was collected, coded and analyzed using SPSS software.

3.2 Population Of The Study

The target population of this study was all firms listed at the NSE in Kenya. From the listed companies in NSE, the researcher studied all the firms that have issued IPO from 2000-2013, so as to cover a minimum of three year period. There were sixty one firms listed at NSE as at end of year 2013. The sample was the number of firms that had issued IPOs in the period under study which are ten and of which two were delisted (CMA).

3.3 Data Collection

There are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. Data used in this study was secondary. The secondary data was collected from the NSE, the Capital Market Authority (CMA), annual reports of the firms, and other research material on share prices. Secondary data are data gathered and recorded by someone else prior to the current needs of the researcher (Zikmund, 2003). Specifically, stock prices for the companies were collected for period under study. This include the offer price and after market prices, as well as the prices up to five years after the IPO. The prospectuses of issuing firms provided provide vital information on the offer price and number of shares offered and the background information on these firms. The data was coded and analyzed through the use of analysis software, Statistical Package for Social Services (SPSS), and then statistical computations were used to draw conclusions.

3.4 Data Analysts

Data analysis as related to this research work involved statistically presenting the data collected to form a basis of accepting or rejecting the hypothesis. Descriptive statistics will be the main method of data analysis that is suitable for this study. The research was empirical in nature and was presented using descriptive statistics

such as charts, graphs, mean, and standard deviation, quartiles and regression analysis. Zikmund (2003) defined an independent variable as a variable that is expected to influence the dependent variable and the dependent variable as a criterion or a variable that is to be expected or explained.

3.4.1 Analytical Model

For purposes of this study a multivariate regression will be used to test the influence of the explanatory variables on the long-run performance, measured by market adjusted buy — and hold abnormal (BUAR). This study will use the following model as applied by Riter (1991) who did a study on the long-nm performance of initial public offerings in USA and Bhabra and Pettway (2003) who did a study on the IPO prospectus information and subsequent performance in USA. A typical multivariate regression model is of the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Hence:

$$BHAR(Y) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:

Y= Long run performance of shares measured by BHAR Selected as follows:

X1= 1st Day pricing differential between the offer price and closing day one price.

X2 Age in years of firm is the difference the between the offer firm's IPO year and the founding year

X3 = Size of the firm as measured by total assets

X4 = Number of shares issued

X5 = the percentage subscription

β_0 = is the intercept; and reflects the constant of the equation.

β_i = is the sensitive coefficient of each independent variable (i = 1, 2, 3, 4, 5).

e= is the error term. The intercorrelation matrix was used to check the suitability of the independent variables in the multiple regression equation. This was necessary to avoid the effect of Multicollinearity.

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Findings

4.1.1 Age Of The Firms

The study sought to establish the age firms under study which was computed by establishing the difference the between the offer firm's IPO year and the founding year. From the data findings, based on the difference between the year of firm s IPO and the founding year, Kengen had the greatest age with 52 year followed by Co-operative Bank with age of 40 years then Mumias Sugar with age of 40 years. Eveready had an age of 39 years followed by Kenya Re with an age of 37 years then Scangroup with an age of 24 years. British American Investment had an age of 16 years while Safaricom was has the least age of 6 Years. This is an implication that Kengen was the oldest company of all the companies incorporated in this study followed by Co-operative Bank then Mumias Sugar Company.

4.1.2 Size Of The Firm As Measured By Total Assets

The study sought to establish the size in the total assets of the firms in the year of listing. The assets were expresses in thousand Ksh. According to the study findings, the long run performance of shares as revealed by the obtained BHAR values was negative for majority of the companies. Mumias Sugar had a negative BHAR value of -518% same as Kengen which had a BHAR value of -2A2%. Eveready had a BHAR of -2.96% while Kenya Re had a BHAR of -0.10%. British American Investments had a BHAR of -0.3 3%. This was an indication that market returns were higher. The study findings further revealed that Scangroup had a BHAR 10.79% while Co-op Bank had a BHAR of 0.88%. Safaricom had a BHAR of 0.

4.1.3 regression Analysis

In this study, multivariate regression was done to establish the relationship between explanatory variables and the long-run performance of shares. The analysis was undertaken at 95% confidence level and 5% significance level. Initially, the study sought to establish variation in the dependent variable which was explained by the independent variables under study by use of coefficient of multiple determinations (R²). The table below presents the data findings.

Table 4.1: Model summary

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.717a	.515	-.698	6.20525

The R2 was used to establish the predictive power of the study model. The R2, called the coefficient of multiple determinations, is the percentage of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average coefficient of determination (R2) of 0.515 and which implied that 51.5% of the variation in Long run performance of shares was explained by the independent variables understudy (Percentage Subscription, 1st Day pricing differential between the offer price and closing day one price., Number of shares issued, Size of the firm as measured by total assets, and Age in years of firm).

Table 4.2: ANOVA

Model	Squares	DF	Square	F	Sig.
Regression	81.700	5	16.340	20.296	.047 ^b
Residual	1.610	2	0.805		
Total	83.310	7			
a. Dependent Variable: Long run performance of shares					

From the ANOVA table above, the regression model predicting the relationship between the dependent and independent variables was significant as the probability-value obtained was 0.043 which was less than 0.05, the significance level. The F calculated at 5% level of significance was 20.296 which was greater than F (5,2) critical = 19.30 which implies that the model was significant.

Table 4.25: Coefficient of Estimate

	Unstandardized Coefficients		Standardized Coefficients				
	B	Std. Error	Beta	t	Sig.		
(Constant)	8.736	9.882		.884	.470		
1 st Day pricing differential between the offer price and closing day one price (X ₁)	.068	.404	.135	3.169	.017		
1. Age in years of firm (X ₂)	-.371	.289	-1.176	-2.484	.028		
Size of the Firm as measured by Total Assets (X ₃)	7.147 * 10 ⁻⁸	.000	.465	2.682	0.023		
Number of Shares issued (X ₄)	-1.524*10 ⁻⁹	.000	-1.091	-2.106	.041		
Percentage subscriptions (X ₅)	.008	.011	.499	3.348	.012		
a Dependent Variable: Long run performance of shares							

The established model for the study was:

$$Y = 8.736 + 0.068X_1 - 0.371X_2 + 7.147 \times 10^{-8} X_3 - 1.524 \times 10^{-9} X_4 + 0.008X_5$$

From the regression model obtained above, holding all the other factors constant, long run performance of shares would be 8.736. A unit change in the difference between offer price and closing day one price holding the other factors constant would lead to change in long run performance of shares by 0.068; a unit change in Age in years of firm holding the other factors constant would change long run performance of shares by -0.371. A unit change in Size of the firm holding the other factors constant would change the long run performance of shares by 7.147×10^{-8} . A unit change in number of shares issued holding the other factors constant would change the long run performance of shares by 1.524×10^{-9} while a unit changes in Percentage Subscription holding the other factors constant would change long run performance of shares by 0.008 units. Based on the stipulated criteria for testing for significance, the study found out that at 5% level of significance all the predictor variables were significant since their corresponding probability values were less than significance level ($\alpha=0.05$).

4.2 Interpretation of The Findings

The findings of the regression analysis imply that shares of a firm would underperform in the long run holding other factor constant as shown by a constant of 8.736. Age in years of firm and number of shares issued by a firm of shares have negative impact on the long run performance of shares whereas 1st Day pricing differential between the offer price and closing day one price, Size of the firm and Percentage Subscription positively affect the long run performance of shares. The findings are in agreement with Teker and Ekit (2003) who found out that firm with larger amount of total assets experience less uncertainty regarding its perpetuity, and hence commanding less underpricing and increased long run performance of shares.

The findings however contradict with Carter (1998) argument that older firms have longer operating histories and thus face less uncertainty hence guaranteeing better long run performance of shares. From the study findings, based on the obtained coefficients, 1st Day pricing differential between the offer price and closing day one price has the highest influence on the long run performance of shares of a firm. The more the 1st Day pricing differential between the offer price and closing day one price, the higher the long run performance. Increase in the number of shares issued by a firm decreases the performance of shares in the long run. The findings conform to Baker and Wurgler (2000) assertion that if the IPO market is very attractive to investors, they take advantage of the situation and this results in short run good performance by the company's shares which cannot be sustained in the long run. According to the regression analysis, the magnitude of the effect of the firm size and the number of shares issued on the long run performance of shares is low as shown by coefficients of 7.147×10^8 and 1.524×10^9 respectively. These findings concur with Dalton (2003) that the size of the IPO firm has important implication for pricing as it is an important determinant of stability of the firm.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study findings established that the shares of the companies under study were underperforming. On average, over the study period, the study established that Safaricom Company had issued the highest number of shares. The study revealed that the closing day one prices of shares for all companies under study were higher as compared to the offer prices of the shares with an exception of British American Investment while the difference for Mumias sugar was zero. Further, the study revealed that there was over subscription for shares in Eveready and Scangroup, Safaricom, Kenya Re and kenGen and under subscription of shares in Co-op Bank recorded, British American Investment and Mumias Sugar.

From the regression analysis, the study revealed that 51.5% of the variation in long run performance of shares was explained jointly by the independent variables under study as the obtained coefficient of determination (R^2) from the model summary was 0.515. The study further revealed that the regression model predicting the relationship between the long run performance of shares and independent variables was significant. The study deduces that holding all the other factors constant, long run performance of shares would be 8.736 units. A unit change in the difference between offer price and closing day one price holding the other factors constant would lead to change in long run performance of shares by 0.068. For the case of firm age, Size of the firm, number of shares issued, and percentage, the effect they had on long run performance of shares was -0.371 , 7.147×10^8 , -1.524×10^9 and $0.008X5$ respectively.

IV. CONCLUSION

This study concludes that the difference between 1st Day offer price and closing day one price can affect the long run performance of shares whereby an increase in the difference positively affects the long performance of shares of firms and vice versa. From the findings, the study deduces that age of the firm i.e. the difference, in years of firm is the difference between the offer firm's IPO year and the founding year affects the long run performance of the shares. The more aged a firm is, the lower performance of its shares in long run. The study further concludes that size of a firm affects the performance of shares of that firm in the long run. Increased firm size increase the performance of shares in the long run while decrease in firm size reduces the performance of performance of shares in the long run. Teker and Ekit (2003) posit that a firm with larger amount of total assets experience less uncertainty regarding its perpetuity, and hence commanding less underpricing, and hence higher offer price hence in agreement with this conclusion. The study concludes that the number of shares issued influences the long run performance of shares in the long run, whereby increase in the number of shares issued reduce the performance of shares in the long run while a decrease in the number of shares issued increase the performance of shares. The study finally concludes that the percentage subscription affects the performance of shares of a company in the long run. Increased percentage of subscription increase the performance of shares in the long run while decreased in subscription rate reduces the performance of shares in the long run.

5.3 Recommendations For Policy

This study found out there was under performance of the IPOs of the firms under study in the long run. Based on these findings, the study recommends for the implementation of policies by the NSE management so as to revert the situation. The firms should also put in place measures to ensure continued performance of their shares in the long run. The study found out that increase in the number of shares issued negatively affects the long run performance of shares of a firm. Hence, this study recommends for policies to be enacted regulating the number of shares being issued by firms.. The study findings established that that size of a firm affects the performance of shares of that firm in the long run. Based on this finding, this study recommends that firms listed

at the NSF need to put in place strategies that will ensure their continued expansion as this is important for ensuring enhanced performance of shares in the long run.

5.4 Recommendations For Further Studies

Given economic changes in developing countries which affect the performance of shares, this study recommends for further research into the effect in variation of economic stability on the long run stock return of shares the firms under study.

Further studies need to be done on the perception of investors (IPO shareholders) on the performance of share of the companies. This would be of importance in enhancing the long run stock return. A further research can be done to investigate whether IPOs of certain segments at the Nairobi Securities Exchange perform better than others.

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