



Quality of Listing Firms in Equity Primary Market in Kenya

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ABSTRACT

Purpose: Kenya has experienced a drought in initial public offerings (IPOs) since 2014. Among varied causes of IPO Drought is decline in demand of IPO shares by retail investors. This paper assert decline in demand is partially attributed to low-quality listings in the past that underperformed in both short- and long-run. **Design:** The paper investigated quality of listing firms at the time of listing on all IPOs made between 2000 to 2014 in Nairobi Securities Exchange using various dimensions.

Findings: The results revealed most of listing firms lacked growth opportunities, reported weak financial performances and engaged in earnings managements. Liberal listing guidelines aiming at attracting firms to list in numbers led to low-quality offerings. **Implication:** Strategy of liberal listing requirements is counterproductive as demand for the listings keep shrinking due to low-quality of listed firms that underperform in long-run. The study recommends reviewing of listing requirements so that only high-quality firms are allowed to list to keep the market vibrant. As long as low quality offerings are allowed, retail IPO investors will keep off the market as they suffer adverse selection costs.



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Introduction

The quality of a firm making an initial public offer (IPO) influences the level of investors' participation and has lasting effects on the primary market attractiveness. High quality IPO listings gratify investors psychological desire of having made good investment decision and financially reward them with positive price returns (Adams et al., 2008). They boost investor confidence and trust, and sustain motivation to participate in future IPO markets. Investors of low-quality listings are often left with a sour taste when shares report negative price returns, experience high opportunity costs on their committed resources and are forced to hold shares for longer than desired investment horizon (Ping, 2007). This discourages them from future participation in IPOs.

IPO is a key primary source of equity fund to many enterprises seeking to fund their growth,

expansion and development projects. The strategic and financial benefits of having an IPO to listing firms are enormous; raising funds, unlocking and diversifying wealth of entrepreneurs, enhancing reputation and credibility, and creating financial flexibility (Adamson, 2011; Bancel & Mittoo, 2009; Pástor et al., 2009; Santos, 2017). However, in Kenya, IPO drought has now lasted more than a decade.

Capital Market Authority (CMA) and Nairobi Securities Exchange (NSE) are the two institutions entrusted through government Acts and regulations to grow capital markets in Kenya. Both have made efforts to attract investors and new firms into the markets. CMA has been researching on how to bring back huge numbers of equity investors observed in the late 2000s and early 2010s (CMA, 2017). NSE initiated the Ibuka program that targets small and medium-sized enterprises to prepare them for future listing. These enterprises are taken through a 10 months incubation period where experts in finance, strategy and operations guide them to develop their capabilities and operations in readiness to have IPOs (NSE, 2020). Though a good number of firms have completed the structured Ibuka program, none has been listed so far. NSE has introduced a growth and enterprise market segment (GEMS) that has lighter listing requirements (such as no minimum assets and listing firm need not be profitable) to attract listings from growing enterprises. However the few listings observed having been through introduction (NSE, 2020).

IPO drought in NSE has aroused interest to researchers and practitioners about its causes and how to be ended. Though a variety of causes have been proposed, this study put forth a proposition that low-quality listings that yielded to negative price returns resulted to retail investors refraining from IPO market. These listings were largely allotted to not-well informed retail investors who suffered adverse selection costs and post-purchase cognitive dissonance. Refraining from the market has resulted to low demand for IPOs shares and potential listing firms intending are shelving they plans to risk than risk an unsuccessful offer.

In IPOs, not-well informed retail investors get huge allocation of low-quality listings (Rock, 1986) that underperforms and yield negative returns (Barber et al., 2007). They react to this dissonance by avoiding future IPO markets and seek cognitive balance in other markets. When they refrain from IPO market, the demand of listing diminishes and even quality firms seeking an IPO won't risk a fail subscription.

Cognitive dissonance resulting from investing in low-quality offerings affects investors' psychology, finances and behavior in IPO market. Psychologically, investors lose trust and confidence in IPO market and a time feel remorseful and deceived to have joined the market. In picking low-quality listings, investors suffer losses from negative price return as well as opportunity costs of not having committed their funds to other well performing investment markets (Low & Yong, 2011). There is a change in investing behavioral patterns where investors refrain from IPO market to avoid further dissonances and focus on other investment markets with better returns.

Review of Literature

Defining Quality of a Firm

Quality of listing firms significantly influences sustenance of these markets. In this paper, quality of a firm is viewed as strength of firm's fundamentals and these fundamentals are defined as basic characteristics that define the economic value of a firm (Buckley, 2003). These are financial performance and stability, governance structure, strategy and competitiveness, management system, product and service quality and firm agility among others (Dechow et al., 2010). When summed together, they define the caliber of quality of a firm. The study is inclined toward fundamentals relating to finance.

Information Asymmetry in Primary Market

Assessment of the quality of listing firms calls for the provision of accurate and complete information about the firm's fundamentals. Key fundamental information such as cash generating abilities, investment opportunities and financial stability are not known to the public until listing firm make disclosures in information memorandum and prospectuses (Roosenboom et al., 2003). Management has complete information about the firm and though guided by statutory and listing requirements, they have certain discretion on what information and to what level of detail to disclose. When publicly disclosed information is incomplete, investors relying on such information are at risk of making wrong investment decisions. Their assessment of attractiveness of offer is inadequate.

Benveniste and Spindt (1989) assert management of listing firms rarely provide complete information in public disclosures. Based on this, there are two sets of information; information disclosed and undisclosed to the public. Private information not disclosed to public may be proprietary information and negative information that may adversely affect demand of IPO shares like frauds cases among others (Guo et al., 2006). Management may manipulate information disclosed to the public so that the listing firm is viewed to be of high quality to attract high subscription (Kaustia & Knüpfer, 2008). Having two set of information creates information asymmetry that hinders evaluation of the listing firm's quality by prospective investors and propagate investing behavioral biases such as herding.

Dimension of Quality of a Firm

Quality of a firm has varied dimensions and this paper focuses on financial dimension particularly earnings management, growth opportunities and financial efficiency.

Earnings Management

Quality of earnings is defined as accuracy of capturing outcome of financial transactions conducted throughout a period into financial statements and adequacy of capturing of financial and non-financial information relating to the firm issuing statement (Dechow et al., 2010). Earnings management disguises true quality of reported earnings through structuring of financial transactions. It alters judgment drawn from these reports by misleading users of financial reports (Healy & Wahlen, 1999).

In IPOs, earning management is a viewed as a window-dressing behaviour where management overstates pre-IPO financial performance to make listing firm more attractive and of higher quality than it is (Andriansyah & Messinis, 2016). Its easily executed since management will be revealing historical financial reports for the first time to the public (Chen et al., 2005). Howard Schilit (1952) in his book titled *Financial Shenanigans* identified most financial statement manipulations focus on earnings than cash flows or financial position.

Earnings management is not always unethical. The accounting professional has over the year developed choices to accounting principles so that management should select a choice that accurately capture intention and outcome of business transactions. For example, in reporting historical financial statements, restatement is allowed to improve accuracy and quality of reporting. Some management restate financial reports to improve cash and earnings generation abilities of a firm as well as overall profitability and stability. Restated earnings in information memorandum may not be ported again since they are either transitory or massaged (Ahmad-Zaluki, 2008; Teoh et al., 1998).

Whereas accounting profesional has grown and offered flaxibility in choice of accounting treatment to various transactions, opportunistic use of accounting choices to misrepresent financial transactions or reduce financial transparency of financial reports is a fraudulent unethical practice (Talab et al., 2017) and is viewed as a form of market manipulation that undermines investor

confidence and trust, and harm efficiency and integrity of a market (Duong et al., 2021).

Growth Opportunities

Myers (1977) broke the value of a firm into total value of net assets and the present value of growth opportunities. Net assets are defined as the sum of resources deployed to a firm while growth opportunities are the component of a firm's market value that cannot be attributed to the assets in place (Kogan & Papanikolaou, 2014). These opportunities are uncertain real investments arising from growth options (Danbolt et al., 2002).

Whereas identification of growth opportunities in IPO prospectuses is informative to prospective investors, value addition occurs when part of IPO proceeds or other funds are allotted to these opportunities. IPO proceeds committed to growth, development and expansion of existing business increases current and future earning capabilities of a firm. However, allocations of IPO proceeds to working capital management, debt repayment or equity cash-out do not contribute to the growth of a firm (Andriansyah & Messinis, 2016; Wyatt, 2014). Continuous investment in productive assets in years preceding listing of a firm is an indicator of past growth opportunities that were exploited (Ahmad-Zaluki, 2008).

Financial Efficiency

Majority of IPOs in Kenya are from state-owned enterprises. Government of Kenya instituted policies and guidelines aimed at aligning and reforming public enterprises engaged in commercial operations and handing them over to private hands through public listings and private arrangements (Ministry of Finance, 1998). The reformation process was aimed at formulating enterprises' strategies to be focused on self-sustaining, profitability, value-oriented and transparent commercial entities (Privatization Act, 2016; Ministry-of-Finance, 1998). This was aimed at improving firms' efficiencies in their commercial undertaking and cease dependency on government handouts for sustenance (PC, 2019). A state-owned enterprise engaged in commercial activities has a different orientation from that of a private commercial business; It may not be keen on profit maximization, stringent cost management and customer focus. Agency conflict between management and government is highly prevalent since management lack incentive to deliver the government's goals and government rarely initiate measures to address this conflict (Bitok et al., 2014; Tenai et al., 2011). The competitive nature and strategy of a typical private commercial enterprise may not have been fully entrenched in management of state-owned enterprises at the time of listing.

Methodology

This is a quantitative study whose population are all IPOs offered to NSE between 2000 and 2014. Since 2014, NSE has experienced IPO drought. A total of 10 firms were listed excluding listing by way of introduction and IPO for non-equity financial instruments. Requisite information discussed below was collated from pre-IPO financial data presented in information memorandum and firms' websites.

Earning Management

The study sought to detect earnings management practices and their impact on reported financial statements. Since investors are keen on most recent financial statements of listing firm, earnings management is more prevalent in financial year preceding listing. Growth patterns of earnings before interest, tax, depreciation, and amortization (EBITDA) prior to listing and Beneish M-score were evaluated. The M score was developed by Professor Messod Beneish (1999) to detect accounting manipulation using eight indices that focus on use of fraudulent techniques and aggressive accounting. M-score is not applied to financial institutions and is presented mathematically as follows

Beneish M-Score = - 4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI

$$-0.172*SGAI + 4.679*TATA - 0.327*LVGI$$

Where DSRI is Days Receivable Index, GMI is Gross Margin Index, AQI is Asset Quality Index, SGI is Sales Growth Index, DEPI is Depreciation Index, SGAI is Selling General and Administration expense Index, TATA is Total Accrual to Total Assets and LEVI is Leverage Index.

Growth Opportunity

The portion of IPO proceeds intended to be allocated to growth, development and expansion activities was computed to indicate presence of growth opportunities. Ratios based on capital expenditures relative to revenues and total assets were computed. Future growth options presented in chairman and chief executive statements were disregarded unless there was intention to allocate part of IPO proceed to them.

Financial Efficiency

Economic measures of efficiency such as economic value added, market-based value addition and residual income analysis are best suited measures of financial efficiency. However, they are only applicable once the firm has listed since are market-based measures. Owing to this, accounting-based ratios were used to measure financial efficiency.

Findings and Discussion

Earnings Management

Growth patterns on EBITDA were computed as follows; G1 captured annual growth of EBITDA to the financial year preceding year of listing, G2 is the weighted average growth of EBITDA for four years preceding financial year before listing and G3 is the compounded annual growth rate of EBITDA for five years to the listing. In the three ratios, half of the responding firms reported at least a negative growth in one of the preceding years while some had all the growth rates being negative indicating declining profitability. Test of difference of paired samples indicated that G1 was not significantly greater than G2 and G3 at 95% confidence level. These findings are reported in the table below.

Table 1; EBITDA growth rate

	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10	Mean growth rate
G1	164.23%	1.02%	199.34%	-31.11%	31.98%	24.56%	-225.35%	-6.48%	100.27%	72.47%	33.09%
G2	113.12%	0.08%	109.06%	-4.07%	34.42%	-1.85%	-51.50%	-3.93%	86.91%	62.10%	34.43%
G3	115.98%	-5.77%	44.99%	15.37%	37.90%	-11.84%	-9.43%	6.92%	72.53%	55.09%	32.18%

Two firms reported consistent growth rate of above 70% in the three measures. This aroused interest to investigate further. Firm 1 which had all growth measures above 100% was found to have aggressively restated its financial statements “to reflect the correct earning ability of the firm”. EBITDA was restated and rose by over 167% in the second year preceding year of listing while restated profit after tax in the fourth year preceding IPO year increased by more than five times. The restatement related to consultancy fees. These fees (a substantial amount) were paid to directors (who were also shareholders) and treated as tax allowable expenses. The fees were restated as shareholders’ dividend removing their effect on EBITDA and profit after tax. The effect is tabled below.

Table 2. Effect of the restatement on EBITDA and profit after tax in Firm 1.

	t-1	t-2	t-3	t-4	t-5
Increase in EBITDA upon restatement in a	59.42%	167.84%	49.36%	53.22%	69.55%

particular year.					
Increase in profit after tax upon restatement in a particular year	100.3%	556.5%	87.5%	550.9%	166.9%
KEY t - i is i financial year preceding year of listing for i is 1 to 5					

Beneish M-score was calculated for the two financial years preceding year of listing. Beneish (1999) guideline states M-score greater than -2.2 indicates a likely probability of profit manipulation while a score below -2.2 indicate a firm is likely not to engage in profit manipulation. M-score was developed in United States of America where disclosure requirements distinctively differentiate cost of goods sold (COGS) and selling, general and administration expenses (SGA) in financial statements. In other parts of the world, reporting standards do not adequately distinguish the two in the financial reports and the environment under which firms operate is different from that of America. MacCarthy (2017) recalculated score taking above into consideration, in a developing market and reported a new scoring guideline applicable in developing markets as follows. A Firm with a M-score of less than -2.22 is unlikely to have engaged in profit manipulation, a score between -1.78 and -2.22 is a gray area and a score greater than -1.78 indicates a high likelihood of profit manipulation. The computed M-score and its component indices for the nine firms, excluding a financial institution are tabulated below.

Table 3. Beneish M-score for IPOs

	DSRI	GMI	AQI	SGI	DEPI	SGAI	LVGI	TATA	M-SCORE
Firm 1	0.53	0.97	0.01	1.65	0.51	0.84	1.27	0.00	3.50
Firm 2	1.06	0.92	0.94	1.17	0.23	0.97	1.31	0.05	4.01
Firm 3	1.57	1.47	0.81	1.48	0.47	0.87	0.85	-0.07	2.92
Firm 4	1.43	0.74	1.05	1.18	0.75	1.75	0.47	-0.05	0.34
Firm 5	0.63	0.98	1.05	1.36	0.12	1.03	0.96	-0.16	2.27
Firm 6	0.70	0.52	1.00	0.92	0.04	0.18	1.03	-0.10	2.11
Firm 7	1.67	0.83	1.02	1.23	0.04	0.95	0.98	-0.02	3.08
Firm 8	1.36	1.06	1.00	1.21	0.27	0.83	0.98	0.13	2.89
Average index	1.12	0.94	0.86	1.28	0.30	0.93	0.98	-0.03	2.64

The overall results indicate all responding firms are most likely to have engaged in profit manipulation in the financial year preceding year of listing. A review of component indices of M-score revealed the following. SGI which is a ratio of sales in one period to preceding one indicated average sales growth of 28% with Firm 1 recorded the highest growth of 65%. DSRI compares the ratio of receivables to sales in two consecutive periods. A ratio of 1.465 and above (Firm 3, firm 7) indicates manipulation of receivables unless there has been changes to a liberal credit policy (MacCarthy, 2017). GMI captures changes in gross margin between two preceding years. The findings indicate a drop of 6% which according to MacCarthy (2017), it's an indicator of profit manipulation. Some firms which had phenomenal growth in sales reported declining profitability. The positive dependency relationship of growth in sales supporting growth in gross margin is violated in this finding. AQI measures growth of total assets in two consecutive years. The computed index indicates firms are neither engaging in capitalizing expenses and internal intangible assets nor deferring expenditure to future periods. DEPI measures ratio of depreciation expenses against firm's value of property, plant and equipment in two consecutive years. A high score indicates assets have revalued upwards or useful life has been extended while a low score signals likelihood of manipulation. The computed DEPI is low indicating depreciation charge and value of assets are unlikely to have been manipulated. SGAI is a ratio of sales, general and administrative expense for consecutive years. There is an overall drop in this ratio by 7% though overall growth in sales is 28%. The expected positive dependence ratio between the two does not

hold. LEVI index, a measure of leverage and TATA, a ratio capturing changes in working capital items are in the normal range.

Growth Opportunities

Several approaches were used to detect presence of growth opportunities in the listing firms. First, the ratio of IPO proceeds intended to fund growth development and expansion activities to the total funds raised was computed. In state-owned enterprises, government took all the proceeds to its coffers after offsetting floating costs. A private firm did not issue a single share to raise funds but the founding shareholder cashed out by selling own shares in the IPO. The firm which incurred some listing expenses had a weak strategic and competitive outlook and new technology disrupted its market. A few years after listing, the firm closed its production facilities. Other private firms committed a portion of all proceeds to their growth as shown below.

Table 4. Portion of IPO proceeds committed to growth opportunities

	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10
IPO percentage	53.25%	0%	79.60%	0%	0%	0%	82%	0%	13.04%	100%
status	private	private	private	State-owned	State-owned	State-owned	private	State-owned	private	private

KEY- IPO percentage means percentage of IPO proceeds committed to growth and development activities

Ratios of capital expenditures to revenues and total assets were also used to establish presence of growth opportunities. Whereas few firms had consistently committed substantial amounts of funds to capital expenditure over five years to listing, most firms committed insignificant proportion to earning assets as revealed in table 5 below. Firms 3, 4 and 9 are not in capital intensive industries (are at the customer-end in service provision industries) thus low ratios are accepted.

Table 5. Ratio of capital expenditure to total revenue

	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10
Capex/TA t-1	21.82%	3.38%	12.08%	0.05%	28.96%	1.58%	0.52%	2.90%	1.50%	1.10%
Capex/TA t-2	28.81%	2.08%	46.91%	0.00%	25.95%	1.40%	0.76%	4.20%	2.17%	1.09%
Capex/TA t-3	31.75%	3.29%	15.01%	0.03%	36.19%	1.44%	0.55%	6.63%	2.53%	1.23%
Capex/TA t-4	4.65%	1.17%	0.18%	0.05%	29.16%	3.42%	0.43%	8.27%	2.46%	0.85%
Capex/TA t-5	42.44%	4.01%	10.08%	0.14%	28.50%	8.77%	0.36%	6.73%	3.50%	1.02%
Average capex/TA	25.89%	2.79%	16.85%	0.06%	29.75%	3.32%	0.52%	5.75%	2.43%	1.06%

KEY Capex/ total assets ratio computed in t-*i* where *i* is financial year preceding year of listing for *i* is 1 to 5

The ratio of capital expenditure to revenue indicates firms 3,5 and 7 committed substantial portions of revenues to the acquisition of earnings assets. Some firms committed less than 1% indicating lack of growth options in their business operations. These findings are tabulated below.

Table 6. Ratio of capital expenditure to total revenue

Period	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10
Capex/ rev t-1	8.58%	1.23%	22.30%	0.50%	34.43%	2.42%	35.77%	17.06%	0.65%	12.98%
Capex/ rev t-2	12.17%	0.76%	107.73%	0.00%	32.60%	1.17%	3.78%	36.40%	0.72%	14.21%
Capex/ rev t-3	14.98%	1.33%	21.05%	0.31%	46.23%	2.47%	2.98%	48.37%	0.95%	14.48%
Capex/ rev t-4	21.79%	0.43%	0.22%	0.40%	41.08%	4.73%	2.61%	54.79%	0.82%	13.78%
Capex/ rev t-5	23.90%	1.69%	16.56%	0.77%	46.86%	11.00%	1.48%	30.54%	1.35%	14.53%
Average Capex/rev aver	16.28%	1.09%	33.57%	0.40%	40.24%	4.36%	9.32%	37.43%	0.90%	14.00%

KEY Capex/ revenues ratio computed in t -i where i is financial year preceding year of listing for i is 1 to 5

Financial Performance

EBITDA to shareholders fund ratio was computed where shareholders fund was based on historical values since listing had not occurred. The ratio indicated low profitability among some firms even before taking into consideration earnings management. The performance ratio would have even been lower if financing costs, depreciation, amortization and taxes were adjusted in the numerator. Variability of ratio was also noted in some firms such as Firm 9 which reported a change from 5.32% to 312.21% in consecutive years. This ratio is presented in the table below.

Table 7. Return on shareholders fund ratio

Period	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10
t-1	82.69%	108.51%	60.53%	11.35%	74.74%	22.18%	9.70%	13.55%	91.81%	41.05%
t-2	237.29%	121.31%	30.01%	18.28%	89.37%	18.52%	-19.07%	15.15%	107.93%	31.81%
t-3	421.70%	101.75%	30.79%	14.61%	91.92%	22.72%	17.18%	19.39%	123.73%	25.59%
t-4	n/a	153.14%	42.18%	19.47%	103.60%	46.67%	7.15%	19.03%	312.21%	18.65%
t-5	n/a	56.52%	-1.77%	14.70%	114.30%	28.53%	144.42%	13.67%	5.32%	21.46%
Average ratio	247.25%	108.25%	32.35%	15.68%	94.79%	27.72%	31.88%	16.16%	128.20%	27.71%

KEY. Period t -i is i financial year preceding year of listing for i is 1 to 5

Scrutiny of ratios reveals some firms had ratio exceeding 100%. This is not rational and triggered further investigations. Key findings were, restatement of financial statement in Firm 1 (table 2) significantly increased EBITDA hence a high return to shareholder ratio. Firm 2 had exceptional high growth in closing stock that was not supported by growth in sales. Dependence rule holds a firm can't grow its production volume without being supported by similar growth in sales over years. Such practice would lead to accumulation of closing inventory. In the five years to listing, Firm 2 recorded a closing inventory cumulative annual growth of 2% while sales declined annually at a rate of 15% as shown in table 8 below. A plausible reason is closing stock was overstated to support growth in gross profit margin, a negative indicator of quality in a firm. The shrinking and technology-disrupted market that the firm operated in, may have compelled the firm to manipulate its figures to look attractive to not-well informed investors. It's worth noting that this is the firm that had highest M-score and it never raised a coin in the market (all shares in IPO were offered by the founding entrepreneur).

Table 8. Growth of sales and closing inventory for 5 years to listing of Firm 2

	t-5	t-4	t-3	t-2	t-1
Sales growth in current year i over the prior year	-13.50%	-8.81%	21.10%	17.11%	-59.25%
Growth in closing inventory in current year i over the prior year	-33.40%	20.62%	12.24%	17.27%	1.94%
Cumulative growth of sales for 5 years to listing year					-15%
Cumulative growth of inventory for 5 years to listing year					2%

KEY t -i is i financial year preceding year of listing for i is 1 to 5

Operating income ratio indicated firms generating fair margins from their operation as shown in table 9 below. Manipulation observed in return to shareholder ratio did not have much impact to this ratio.

Table 9. Operating margin ratio

Period	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10
t-1	18.78%	13.40%	71.04%	25.77%	51.65%	13.85%	96.84%	41.09%	9.43%	48.04%
t-2	11.65%	15.52%	38.45%	44.31%	53.10%	7.48%	-8.69%	53.94%	5.69%	34.81%

t-3	19.83%	15.50%	39.04%	39.95%	52.42%	16.33%	13.85%	58.14%	4.32%	24.54%
t-4	13.90%	20.04%	45.48%	51.59%	51.71%	31.84%	7.61%	48.92%	4.11%	22.93%
t-5	7.43%	18.99%	-2.55%	32.05%	47.37%	23.24%	32.49%	25.41%	-0.17%	21.46%
Aver	14.32%	16.69%	38.29%	38.73%	51.25%	18.55%	28.42%	45.50%	4.68%	30.35%

KEY t -i is i financial year preceding year of listing for i is 1 to 5

Total asset turnover ratio indicates effectiveness of a firm in utilizing assets to generate sales. Whereas some firms were able to generate sales that are twice or more than the value of assets, others had sales that were less than 20% of total assets as indicated in the table below. The finding on this ratio is inconclusive as a measure of performance since capital-intensive firms have lower ratios compared to service delivery firms.

Table 9. Total asset turnover ratio

Period	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6	Firm 7	Firm 8	Firm 9	Firm 10
t-1	2.543	2.743	0.542	0.107	0.841	0.652	0.015	0.170	2.294	0.084
t-2	2.368	2.745	0.435	0.140	0.796	1.203	0.201	0.115	3.029	0.077
t-3	2.119	2.477	0.713	0.108	0.783	0.584	0.185	0.137	2.673	0.085
t-4	0.213	2.726	0.792	0.126	0.710	0.723	0.164	0.151	3.006	0.062
t-5	1.776	2.379	0.609	0.181	0.608	0.797	0.240	0.220	2.584	0.070
Average ratio	1.804	2.614	0.618	0.132	0.748	0.792	0.161	0.159	2.717	0.076

KEY t -i is i financial year preceding year of listing for i is 1 to 5

Conclusion and Recommendation

The study concludes that the quality of firms listed in NSE between 2000 and 2014 was generally low. M-score revealed likelihood of all listing firms having manipulated their earnings. Few private firms had opportunity to invest IPO proceeds in growth, development and expansions. Either, some private firms lacked growth options to commit funds to or founding entrepreneurs had other purposes for listing other than raising growth funds. Financial efficiency is fairly low with evidence of earning manipulation to prop profits. With IPO investors burning their fingers in these offers in long run, they may have refrained from future IPOs, shrinking the overall demand market for new issues in the market. The study recommends regulating bodies entrusted with granting approvals to list be strict in ensuring only high-quality firms are listed. Strategy of lowering listing requirements to attract prospective firms seems counterproductive since shrinking demand resulting from refraining of retail investors defeats the very purpose of lowering listing requirements.

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