International Journal of
Finance and Accounting
(IJFA)

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IPRJB
INTERNATIONAL PEER REVIEWED JOURNALS AND BOOK PUBLISHING

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
Vol.10 Issue 2, No.4. pp. 61 - 77, 2025

www.iprjb.org

Equity Share Capital and Market Capitalization of Non-Financial Firms Listed at the Nairobi Securities Exchange, Kenya

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Article History

Received 9th March 2025

Received in Revised Form 15th April 2025

Accepted 19th May 2025

How to cite in APA format:

Agembo, Z., Matanda, J., Roche, C., & Roche, C. (2025). Equity Share Capital and Market Capitalization of Non-Financial Firms Listed at the Nairobi Securities Exchange, Kenya. *International Journal of Finance and Accounting*, *10*(2), 61–77. https://doi.org/10.47604/ijfa.3341

Abstract

Purpose: The diminishing growth of many of the non-financial enterprises listed at the Nairobi Securities Exchange (NSE) discourage investors from investing in these firms. Concerning the question of whether there is an ideal financial structure that maximizes the firm's value, academics, business managers, investors, and other stakeholders face a significant challenge in ascertaining the ideal financial structure of these firms. The study general objective was to study the effect of equity share capital on market capitalization of non-financial firms listed at the Nairobi Securities Exchange.

Methodology: The target population of the study comprised of 45 non-financial firms listed at the NSE for a period of seven years. A descriptive research design was adopted with a census method focusing on 45 non-financial firms listed at the NSE, Kenya. Data was encoded and processed using statistics software (STATA version 18). Inferential statistics was adopted using the panel regression model. A data collection sheet was used to collect data of the listed non-financial firms and the outcome presented in tables using statistics such as means, standard deviation, frequencies, and percentages. The findings indicated the presence of a weak and positive correlation between equity financing and market capitalization. Panel regression model was applied for data analysis.

Findings: The findings of the panel regression model indicated a positive and significant effect between equity financing and market capitalization of non-financial firms listed at the NSE, Kenya.

Unique Contribution to Theory, Practice and Policy: The study was guided by the Market Timing Theory. The study recommended to managers to have equity shares leveraged by stakeholders in order to increase market capitalization and build resilience in the face of unstable market conditions.

Keywords: *Equity Share Capital, Market Capitalization, Non-Financial Firms*

International Journal of Finance and Accounting
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INTRODUCTION

The main aim of doing a business is to attain a greater firm value and market capitalization to increase its shareholder's wealth. A greater firm value translates to an increase in the prosperity of shareholders and the company, and the attractiveness to potential investors to the firm (Shuaibu, Ali & Moh'd Amin, 2019). Abdelkarim and Almumani (2018) state that market capitalization in a firm is the number of shares outstanding multiplied by the market price per share. Bistrova and Lace (2017) explains that a firm value is about company wealth and is brought out by the firm's ability to maximize shareholders' wealth. The value of the company is reflected in the market value of equity, liquidity value of the preferred stock, debt, and total assets. Hence the bargaining power of the stock or the book value of the company from its equity (Hirdinis, 2019). In the modern-day finance practice, market capitalization has increasingly become a worldwide accepted measure of business valuation. It represents the aggregate value of the company or stock.

Capital formation is an integral part of economic growth and development and plays an important role in economic theory of production and distribution (Abraham & Ofosu, 2023). Market capitalization is it one of the factors considered by investors in making investment decisions as it represents the value of a company traded on the stock market. However, there are numerous factors that influence the high or low market capitalization and an example is the manner in which the firm is financed as this affects performance and investments. Equity share capital is that amount contributed by the owners and normally includes ordinary share capital, preferential capital, retained earnings and reserves (Ishaya and Abduljeleel, 2014). Like debt providers, equity providers also earn returns inform of dividends from the profits generated by the firm (Titman et al., 2018).

In terms of measurement of equity (preference stock, ordinary stock and retained earnings), Bierman (2018) proposal on the use of book values is adopted, that each component's proportion to total debt and equity can be determined henceforth. Firms can choose among many alternative financial structures. Equity share capital is therefore very critical and fundamental in the business life cycle not only to maximize shareholders' wealth but also due to the impact it has on financial growth (Ishaya & Abduljeleel, 2014). Kenya's stock exchange, NSE, lists a number of non-financial companies in addition to financial organizations. According to Onguka, Iraya, and Nyamute (2021) these non-financial companies are involved in a number of economic sectors, including as consumer products, manufacturing, agriculture, telecommunications, and energy.

The health of non-financial companies indicates that demand for products and services exists across the economy, which can benefit the whole. Market capitalization represents the aggregate value of a company or stock (Jaya & Sundar 2022). According to Wahyudi and Pawestri (2016), firm value is the amount the prospective buyers would be willing to pay if the firm was to be liquidated. Sundaram and Inkpen (2004) describe firm value maximization as a decision-making rule that brings benefits to all stakeholders. The study sought to establish new findings regarding the relationship between equity share capital and market capitalization of non-financial firm listed at the NSE, Kenya

Statement of the Problem

A greater firm value translates to an increase in the prosperity of shareholders and the company, and the attractiveness to potential investors to the firm (Shuaibu et al., 2021). According to NSE report (2022); CMA (2020), majority of the non-financial companies listed at the NSE

have been performing exceedingly well, however, several non-financial companies have experienced a drop in their market capitalization which has seen some of them delisted from the NSE in the last decade. According to CBK report (2020) the market capitalization of non-financial companies listed at the NSE dropped to about 2.1 trillion shillings in 2018 having shed off some eight billion shillings in 2017. NSE (2020) further records a decline in market capitalization of non-financial firms listed at the NSE to 1.487 trillion shillings in 2019 and 1.466 trillion shillings in 2020. 2021, saw a rise in market capitalization to 1.98 trillion shillings. This was due to the government's efforts to stabilize public finances and boost investor confidence in the market after the 2020 COVID pandemic, (CMA, 2021). However, in 2022 and 2023, CMA (2023) reports a further drop by 11.57 % to stand at Sh1.75 trillion in 2022 and Sh1.66 trillion in 2023.Due to their dismal market performance, these corporations are facing a decrease in lender appetite (IMF, 2022). Firms like Mumias Sugar Company, Kenya Airways, Uchumi Supermarket Ltd, Athi River Mining, Deacons, Kurwitu Ventures have experienced financial problems which have seen their shares suspended at the NSE.

Limuru Tea has seen its share prices drop from Ksh. 500 to Ksh. 356.05 per share, WPP Scangroup Ltd from Ksh. 13.60 to Ksh. 3.01 per share, Bamburi Cement from Ksh.178 to Ksh. 31.50 per share, Kengen from Ksh.8.30 to Ksh.3.27 per share, and Centum Investment from Ksh. 43.81 per share to Ksh. 8.32 per share between the year 2017 to 2023. The decline has deterred lenders from lending to such firms (Njuguna, Kwasira & Orwa, 2020). According to the examined studies, there is not enough information on how equity share capital affects the market capitalization of non-financial companies that are listed on the Nairobi Securities Exchange. Review of the literature indicates that the majority of past empirical studies Omai, Memba & Njeru, (2018); Younus et al., (2014); Oladele et al.,(2017); Isola & Akanni, 2015; Baum et al.,(2014); Habib, Khan &Wazir, 2016; Bokhari & Khan, (2013); Aziz and Abbas,(2019); Chen, (2014); Opungu, (2016); Ater, (2017); Githire & Muturi, (2015); Muchiri, Muturi & Ngumi, (2016) among other studies have analyzed the effect of equity share capital on the financial performance of the firms.

In order to determine how equity share capital affect firm value, none of the analyzed research specifically looked at the influence of market capitalization on share capital. By concentrating on the impact of equity share capital on market capitalization of non-financial enterprises listed at the Nairobi Securities Exchange, the study aims to close this knowledge gap. This will be crucial in policy, investor behavior, and financial theory because equity share capital affects risk, ownership, and capital structure. In addition to giving investors ownership and possible rewards, it gives businesses a long-term financing alternative and has an impact on policy decisions pertaining to market regulation and economic stability.

Objectives of the Study

The general objective of this study was to establish the effect of equity share capital and market capitalization of non-financial firms listed in the Nairobi Securities Exchange, Kenya.

Hypothesis of the Study

Equity share capital has no significant effect market capitalization of non-financial firms listed at the NSE, Kenya

LITERATURE REVIEW

The main aim of this study was to establish the effect of financial structure on the market capitalization of non-financial firms listed in the Nairobi Securities Exchange, Kenya. A review

of both theoretical and empirical literature on financial structure and firm value of investment firms listed at the Nairobi securities exchange is presented.

Theoretical Review

This study was guided by the Market Timing Theory proposed by Baker and Wurgler (2002) and the pecking order theory Myers and Majluf (1984). Market Timing Theory postulates that financial structure is the cumulative outcome of past attempts to time the equity market (Baker & Wurgler, 2002). The market timing theory, indicates the idea that raising capital by issuing shares depends on market performance. The market timing theory assumes that firms time their equity issues whereby they will issue new stock when the stock price is perceived to be overvalued (high price) and repurchase their shares when there is undervaluation (low price) (Luigi & Sorin, 2009; Mostafa & Boregowda, 2014). This implies that firm's intent to take advantage of fluctuations in equity market valuations. As a result, fluctuations in stock prices will affect the firm's financial decision as well as its financial growth.

Two broad criticisms have been leveled at market timing theory. The first criticism, voiced by Alti (2006) and Flannery and Rangan (2016), questions the longevity and overall economic significance of market timing. However, Huang and Ritter (2015), using aggregate measures of market valuation, find evidence of a long-lasting market timing effect on Financial Structure and Leary and Roberts (2015) find that shocks to equity valuation can persist for varying lengths of time. The second criticism, as proposed by Hovakimian (2016) contends that the negative relationship between market-to-book and leverage is not indicative of market timing. Hovakimian (2016) also contends that the cross-sectional relationship between market-to-book and leverage dominates the temporal relationship. Market timing theory was relevant to the study by enabling firms decide whether to finance their investments via debt or equity. The firms either chooses to finance through equity or debt based on the market situation and thus this theory explains objective number three on equity capital financing.

Pecking Order Theory postulate that firms have a particular preference order for capital used to finance their business. Pecking order theory predicts that due to the information asymmetry between the firm and outside investors regarding the real value of both current operations and future income streams and prospects, external capital will always be relatively costly compared to internal capital (Olakunle & Oni, 2014). Myers and Majluf (1984) argued that if firms issue no new security but only use its retained earnings to support the investment opportunities, the information asymmetry can be resolved. This implies that issuing equity become more expensive as information asymmetry between insiders and outsiders increases hence leading to undervalued securities.

It is worth noting that the pecking order theory is criticized on the grounds of its underlying arguments and suggestions. Adedeji (1998) concludes that the suggestion of pecking order theory, that it is only the internal funds shortage that motivates firms to raise funds externally is questioned. This is because it ignores other theories and the effects of institutional factors that might affect the firm's choice of financing instruments such as the level of interest rate, borrower-lender relations and finally, the government intervention. Moreover, Fama and French (2018) argue that firms can avoid the information costs or the adverse selection by issuing the equities which are less subject to asymmetric information such as equity issues to employees in their compensation plan or to existing stockholders. They argue that this kind of issues does not change the ownership structure and then the existing balance of control (Zuriga, 2009).

This theory also presupposes that external stakeholders attempt to establish the firm's value or financial performance, which they are not able to fully monitor from the financing decisions made by the firm (Zurigat, 2009).This is a dependable pointer since well performing firms can secure more leverage, since they are viewed as less prone to default risk on leverage overhauling expenses that grow after leverage issuance (Myers & Majluf, 1984).In this study, the pecking order theory is applied in to establish whether firms in the investment sector have retained earnings as their preferred mode of financing their operations. The theory is relevant to the fourth objective thus will be used in establishing the impact of retained earnings on market capitalization of non-financial firms listed at the NSE, Kenya.

Conceptual Framework

A conceptual framework refers to a group of concepts that are broadly defined and systematically organized to provide a focus, a rationale, and a tool for the integration, presentation and interpretation of information (Cooper & Schindler, 2006). As noted by Smyth (2004), a well-presented conceptual framework helps to explain the possible connections between the variables. The relationship between the variables of the study is presented in the framework below:

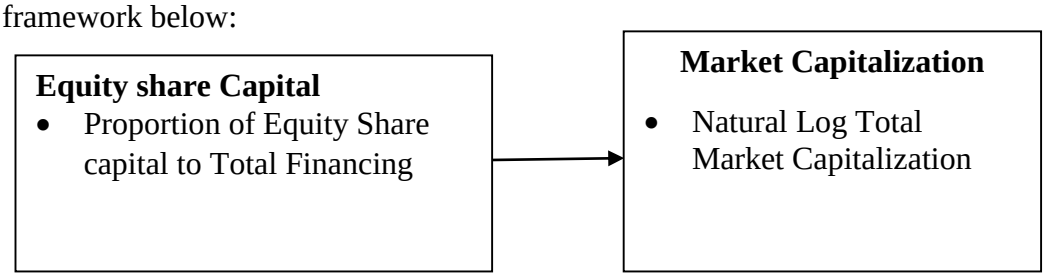

Figure 1: Conceptual Framework

Empirical Review

Younus et al., (2018) identified the impact between share capital and market capitalization of Sugar companies listed at Karachi Stock Exchange Pakistan (KSE Pakistan). This research includes 33 sugar companies listed in KSE Pakistan from the year of 2006 - 2011. This study tested these hypotheses; share capital and financial performance have the negative relationship, there is a significance impact of share capital on financial performance and that share capital and financial performance have a positive relationship which impact the aggregate financial growth of the firm over time. Panel data research design was used. Secondary data was utilized from company's financial reports, annual reports and state bank of Pakistan in financial review for the period of six years (2006 - 2011). The results showed a weak positive correlation between share capital and financial performance.

Mayasa (2020) conducted a study on the impact of financial structure on market capitalization of small and medium enterprises in Tanzania. Equity financing was one of the independent variables affecting performance. The study adopted causal research design compounded by the quantitative approach to generate data from SMEs that were selected using the random sampling. Secondary data dating from 2017 to 2019 for SMEs registered were collected for analysis. The data were analyzed using descriptive statistics, correlation matrix, random effect model, fixed effect model to establish the relationships among the study variables. The study target population was 2868 registered SMEs in six regions. The findings of the study revealed that equity financing had statistically negative influence on the performance of SMEs in terms

of ROCE and ROE while there was a statistically significant positive influence on the performance of SME in terms of ROA.

Noor, (2016) aimed to determine the effect of equity financing on financial performance of SMEs in Garissa County, Kenya. The study specific objectives were to establish the effect of Angel investors, retained earnings, donation and plough back profits on financial performance of small and medium Enterprises in Garissa County. Descriptive research methodology was used and panel regression model for data analysis. 3097 small and medium Enterprises in Garissa County were the target population. The study conclusion indicated that equity financing positively influenced financial performance of SMEs in Garissa County. The study recommended that small and medium enterprises owners should concentrate on utilizing funds from crowd funding and retained profits resulted in a significant positive effect compared to angel investors and ploughed back profits.

Omollo, Muturi & Wanjare (2018) examined the effect of equity Financing Options on financial performance of Non-Financial Firms Listed at the Nairobi Securities Exchange, Kenya. Panel econometric techniques were applied and a sample of 40 non-financial firms listed at the Nairobi Securities Exchange between 2009 and 2015. The study adopted the variables of Common stock, retained earnings and total equity as ratios of total assets on the financial performance proxy by ROA and ROE while firm size was used as the control variable. The results revealed that retention ratio has a statistically significant and positive effect on ROA and recommended that corporate finance managers should consider focus on more use of retained earnings and less common stock to boost performance. ROE was not significantly affected by the retention ratio. The study however did not conduct panel data stationarity tests to ensure the regressions were not spurious

From the empirical literature reviewed, several literature gaps will be filled by the current study. There is a lack of conclusive knowledge concerning the real effect of equity share capital among non-financial firms listed in Kenya. Empirical results from equity share capital gave diverging results with studies of Mayasa (2020); Chechet and Olayiwola (2014) showed a negative correlation while Younus *et al.,* (2014); Iqbal, Farooq, Sandhu and Abbas (2018); Noor, (2016) and Omollo, Muturi & Wanjare (2018) depicted a positive correlation between equity share capital and market capitalization. Ishaya and Abduljeleel (2014) indicated that there was no significant impact of equity share capital on market capitalization. This study wants to bridge this gap as there is overwhelming evidence of a knowledge gap in equity share capital in developing economies, where the markets are undercapitalized with few listed non-financial companies.

METHODOLOGY

A quantitative descriptive survey research design was used in this study. According to (Mugenda & Mugenda 2003), descriptive research design is a systematic method of investigation where data is gathered and analyzed in order to explain the prevailing conditions or interrelationships regarding a problem. The target population was all the forty-five (45) non-financial companies listed at NSE. A census study was found suitable and was applied in the study where all the forty-five non-financial firms in the investment sector at NSE were included as the sample. The study utilized secondary data for relevant information, published reports and financial statement of non-firms listed at NSE from 2017- 2023, available from NSE handbooks, CMA and company websites were the reliable source to provide this information. Data was collected and sorted according to research objectives and then analyzed using STATA

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
Vol.10 Issue 2, No.4. pp. 61 - 77, 2025
www.iprjb.org

18. Descriptive and inferential statistics was also be presented by the use of tables. The study employed panel regression model which is a combination of cross section and time series data,(Zulfikar, 2018) in which the data including time series and cross-sectional data will be pooled into a panel data set and estimated using a panel data regression.

The regression equation that was applied is shown below

$$Y = \beta_0 + \beta_3 EF_{3i\,t} + \varepsilon_{it}$$

Where:

Y is the Market capitalization, which is the dependent variable

β_0 is Constant term

β_1, β_2, and β_3 is the coefficients of independent variables

EF_3 is coefficient of Equity share Capital

it is indices for individuals and time

ε_{it} is the error term that varies non-stochastically over i and t

FINDINGS AND DISCUSSIONS

This chapter represents findings which are introduced, interpreted, and then discussed from panel data that was gathered from annual audited financial statements for non-financial firms listed at the NSE, Kenya. The chapter covered data analysis, descriptive statistics, diagnostic tests, and panel regression analysis used

Descriptive Statistics

This section covers the numerous descriptive aspects of the study variable. The mean, standard deviation, maximum and lowest values, skewness, and kurtosis are presented for the variable.

Table 1: Overall Descriptive Statistics

	Obs	Mean	Std. Dev	Min	Max	Skewness	Kurtosis
Market Capitalization	315	0.8591	2.7778	9.3870	25.0186	2.0004	5.8473
Equity Shares	315	0. 3495	0.2812	0.5600	0.9802	1.1542	2.9301

The study established the influence of equity financing on market capitalization of non-financial firms listed at the NSE, Kenya in line with the third study objective. The findings indicated that non-financial firms listed at the NSE relied on equity financing as a source of their financing mix. This was shown by a mean value of 0.3495, which suggests a proportion of 34.95%. This points out to a trend in these companies applying more than a quarter of equity financing in their financial structure. The standard deviation of equity financing was 0.2812, showing that equity financing data was relatively volatile among listed non-financial enterprises during the study period. The minimum and maximum values were 0.5600 and 0.9802. This indicates that all non-financial firms listed at the NSE had more than half proportion of equity financing in their financial structure as witnessed by the minimum value of 56% and maximum value of 98.02%.

The findings are consistent with a study undertaken by Nyeadi, Banyen, and Mbawuni (2015), who discovered that listed enterprises in Ghana use more equity than debt. The study also agrees with Githinji's (2017) findings, who concluded that many firms prefer equity financing over debt financing because there is no obligation to repay. Mwangi et al. (2014) also indicated that non-financial enterprises listed in Kenya use more equity than debt to finance their assets.

The researcher ascribed the preference for equity to Kenya's high loan costs, which deter the corporate sector from borrowing from commercial banks. The findings, however, contradicted Kodongo et al.'s (2014) study, which found that non-financial enterprises listed on the NSE use more debt than equity. The authors attributed this tendency to the fact that commercial bank loans are easier to arrange and acquire than equity, which requires regulatory approval by CMA.

In line with market capitalization as the dependent variable. Table 1 reveals the descriptive results with a mean of 0.8591, the minimum and maximum values of 9.3870 and 25.0186 respectively and a standard deviation of 2.7778 during the period under study. The average mean is an indication that majority of non-financial firms listed at the NSE in Kenya (85.91%) utilized short term debt, long term debt, equity financing and retained earnings in their financial structure to increase its market capitalization. Chessar (2015) asserts that evaluating a company's market capitalization in Kenyan non-financial firms is essential for investors because it enables comparisons with other listed companies, understanding of investor sentiment, and the making of well-informed investment decisions based on the company's perceived potential for growth and profitability, particularly in the context of non-financial firms listed at the NSE.

The high standard deviation figure of 2.7778 implying that there is high level of variability in the observations, an indication that market capitalization data was dispersed around the mean since the values are fairly higher than the mean value. The high variability could be due to the fact that the sampled companies were not split into their respective market capitalization classes of large cap, mid and small cap stocks in the study which differ in terms of market capitalization, volatility, and growth potential, (Norberg, 2024). The range in market capitalization spans from 9.3870 to 25.0186, indicating a broad spectrum of financial structure mix across the non-financial firms listed at the NSE.

The study employed Kurtosis and Skewness as descriptive distribution measures. Skewness quantifies how much a data distribution's symmetry is distorted around the mean. The bell shape is not adequately represented by skewed data, which is less than Gaussian (Black, 2023). Data that is normally dispersed needs to be symmetrical. Kurtosis displays how tailed a data distribution is and how frequently outliers occur in a data distribution collection (2023). A set of data is said to be less than normally distributed if outliers occur frequently. For all the variables, (short term debt, long term debt, equity shares, retained earnings and market capitalization), the measures of kurtosis and skewness fall in the normal distribution range as recommended by Black (2023) who states that normal skewness fall within a range of -2 and +2 while kurtosis values lie between approximately + 7 and -7 for kurtosis, (Black, 2023)

Inferential Statistics

The inferential statistics utilized correlation and regression analysis. Inferential statistics allows researchers to make predictions, test hypotheses and generalize findings from a sample to a population (Muriithi, 2016). Correlation analysis clarifies the relationships between every variable that was analyzed at in the study. The regression analysis was conducted utilizing a panel regression model.

Correlation Analysis

Correlation Analysis, a statistical technique, is employed to discern relationships among variables within a dataset, gauging the strength of these associations. As stated by Muriithi,

(2016), it serves to identify patterns within datasets. A positive correlation signifies a simultaneous increase in both variables, whereas a negative correlation denotes an inverse relationship, with one variable decreasing as the other rises. Correlation coefficients ranging from +0.5 to +1 indicate robust positive correlations, while those from -0.5 to -1 denote strong negative correlations, elucidating proportional changes between variables. Table 2 presents the correlation matrix for all variables considered in the study.

Table 2: Correlation Matrix

		LnMC	Equity Financing
LnMC	Pearson Correlation	1.0000	
Equity Financing	Pearson Correlation	0.1082**	1.0000
	Sig.(2-tailed)	0.0010	
N		315	315

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Findings in Table 2 further revealed the presence of a weak and positive relationship between equity financing and market capitalization of non-financial firms listed at the NSE, Kenya ($r=0.1082$, $p=0.0010$). The relationship was found to be statistically significant at $p<0.05$ level of significance. Therefore, the null hypothesis H03 which stated that equity financing had no significant effect on market capitalization of firms listed at the NSE, Kenya was rejected. Thus, the study observed that equity financing significantly influences market capitalization at 0.04 significant levels.

Model summary

A multivariate regression analysis was carried out to assess the impact of equity share capital on market capitalization of listed non-financial firms in Kenya. The coefficient of determination (r^2) was applied to explain the extent of these changes. The findings are shown in Table 3.

Table 3: Model Summary

Random-effects GLS regression	Number of obs=	315
Group variable: company_ID	Number of groups=	45
R-squared:	Obs per group:	
within = 0.7304	min =	7
between = 0.8293	avg =	7.0
overall = 0.7914	max =	7
corr(u_i, X) = 0 (assumed)	Wald chi2(4))=	214.43
	Prob > chi2=	0.0000

Critical value = 2.75

According to Filho et al., (2011), the within R^2 shows how much of the variation is captured by the model. It indicates how well the explanatory variable will account for the changes in the dependent variable between the panel units over time. The between R^2 captures how well the explanatory variable account for the differences in the dependent variable. The R^2 overall is a weighted average of these two. As per the findings of the model summary in Table 3, the R^2

within of 0.7304 imply that 73.04% explains how much the variation in the dependent variable within the observation unit was captured by my model, i.e., how much the predictor variable accounted for changes in the dependent variable within each observation over time. The value between of 0.8293 (82.93%) indicated how much the variation in the dependent variable between the observation was captured by the model i.e., how well the predictor variable accounted for the differences in the dependent variable.

Filho et al., (2011) also points out that, the random regression model (GLS regression) which is the weighted average of between and within estimators is a good indicator of how well the independent variable explains the dependent variable. In other words, it explains the model goodness of fit. Since the study utilized the random effect model the overall R square was therefore considered for the analysis which is the weighted average between and within R^2. Thus, the overall R^2 of 0.7914 indicated that 79.14% of equity share capital explain the market capitalization of non-financial firms listed at the NSE in Kenya.

From the findings of the random effect model, we can therefore conclude that, when all other factors remain constant, 79.14% of equity share capital explain the variations of market capitalization of non-financial firms listed at the NSE, Kenya. The F-statistic assesses the overall significance of the regression model by comparing the variability explained by the model to the variability that remains unexplained. The calculated F-statistic of 214.43 exceeds the critical value of 2.75 proves that the regression model is effective in its explanation of the variation in the market capitalization. The significance value was less than 0.05 indicating that the model was significant. Therefore, we reject the null hypothesis that the model is insignificant and conclude that equity financing have a significant effect market capitalization of non-financial firms listed at the NSE, Kenya.

Regression Analysis

The study sought to conduct regression analysis to determine the relationship between equity share capital and market capitalization of non-financial firms listed at the NSE in Kenya. The study employed panel regression model to establish the relationship between the dependent and the independent variables. The findings are displayed in Table 4.

Table 4: Regression Coefficients

Market Capitalization	Coeff.	Std. Err.	t	P>t	[95% Conf. Interval]	
Equity Financing	0. 268647	0.093965	2.86	0.000	-2.50129	1.96400
_cons	21.28192	0.701974	30.32	0.000	19.90607	22.6578
sigma_u	2.3735786					
sigma_e	1.5349747					
Rho	.70511381	(fraction of variance due to u_i)				

The following model was derived:

$$\mathbf{Y_{it} = 21.28192 + 0\ 0.\ 268647 EF_{it}}$$

Where:

$\boldsymbol{Y_{it}}$ represents market capitalization of listed non-financial firms i at time

$\boldsymbol{EF_{it}}$ represents equity financing *i* at time *t*

Discussions

The study sought to establish the effects of equity share capital and market capitalization on non-financial firms listed at the NSE, Kenya. The findings in Table 4.15 reveal the coefficient beta of 0. 268647 with P value of 0.0000. The results imply that, holding other variables constant equity financing is controlled, a unit increase in equity financing will lead to an increase in the market capitalization of non-financial firms listed at the NSE by 0. 268647. The effect will be significant as signified by the P value of 0.0000 (P <0.05). The study thus rejects the null hypothesis and concludes that equity financing exhibits a statistically significant effect on market capitalization of non-financial firms listed at the NSE, Kenya.

Similar findings were made by Abdulazeez and Saif (2019) in Oman, Nyeadi, Banyen, and Mbawuni (2015) in Ghana, Younus et al., (2018) in Pakistan, Noor, (2016), Banafa & Ngugi (2015), Musila (2015) and Nyamoma and Sporta (2020) in Kenya all who agreed that equity financing improves firm value and therefore firms should increase their equity financing to increase asset base and growth. Contrary findings were made by Ibrahim, Sabo, Kabiru and Abubakar (2020) in Nigeria, Mayasa (2020) who studied SMEs in Tanzania, Omollo and Muturi (2018) and Mwenje and Olweny (2016) in Kenya, who contend that firms should be encouraged to take more of trade credit and loans as their alternative financing sources. Badia, Pina, and Torres (2019); Chen et al., (2017); Abdikadir, (2017); Muema (2021) in Kenya; Hanin, Noriza, and Mohamad (2017) in South Africa found no significant relation between equity financing and market capitalization on diverse subsectors of the economy.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The study sought to establish the effect of equity share capital on market capitalization of non-financial firms listed at the NSE in Kenya. The results were obtained using regression analysis, correlation analysis, and descriptive statistics. The correlation result revealed a weak positive correlation between equity financing and market capitalization of these non-financial firms. The relationship was however statistically significant. The panel regression model further confirmed this observation, indicating a positive coefficient for equity financing. This suggests that other factors remaining constant, a unitary increase in equity financing by listed non-financial firms in Kenya will lead to a significant increase in the financial performance of these firms

Conclusions

Based on the study findings, there is a positive and significant effect of equity financing and market capitalization of non-financial firms listed at the NSE, Kenya.
The results of this study lend credence to the market timing theory which indicates that the idea that raising capital by issuing shares reflects on market performance. In order to raise their market capitalization, corporations are more likely to buyback equity when its market values are low and issue equity when its market values are high in relation to book and historical market values, according to the market timing theory. Equity financing is therefore a key source of a firm's financial structure since, instead of concentrating on debt repayment and interest from loans, it enables the business to reinvest the cash flow from activities to grow its business operations. This in turn presents a strong investment opportunity with the possibility of large profits, dividend payments, and business ownership.

Recommendations

The study reached a definitive conclusion that equity share capital significantly affects the market capitalization of non-financial firms listed at the NSE, Kenya. The results reveal the significance of internal funding sources thus listed nonfinancial companies should use this market timing theory to prioritize equity share capital. Recommendations for policymakers, including the Ministry of Trade, the Capital Markets Authority (CMA), and chambers of business in the creation of laws and regulations that will benefit industry participants. The current study has contributed knowledge on firms' financial structure and it has further advanced the existing literature on market capitalization. The study recommends that the academicians and scholars should team up to develop theories on market capitalization that will enhance the knowledge of finance in the developing world instead of relying more on theories from the western world. Based on the findings, 79.14% of equity share capital explain the variations of market capitalization of non-financial firms listed at the NSE, Kenya, it's noteworthy that the remaining 20.86% of the variation in market capitalization is not accounted for implying that other factors outside the scope of the study model play a significant role in influencing non-financial firm's market capitalization.

Contribution to the Body of Knowledge

The study contributed to the body of knowledge in the following ways; the findings of the study will assist the firm managers to evaluate the policies regarding equity share capital as the study discovered that the stated factors contribute to improved market capitalization. By undertaking the study, the equity share capital and market capitalization was explored. This went a long way in adding value to the past findings and enabled users have information and a deeper understanding of the need for enhancing the equity share capital to improve the market capitalization of firms. The study also offered a logical ground on which empirical indicators and hypotheses could be identified and tested to verify the theories. It contributed to the body of knowledge to other researchers, as they will be able to appreciate the effects of the stated factors, inspire similar and further research in other areas, and contribute to the existing literature on the effect of equity share capital on market capitalization.

Suggested Areas for Further Research

Having focused on non-financial firms listed at the NSE in Kenya, further studies should be undertaken focusing on examining the effect of equity share capital on other institutions outside the capital markets, for instance the manufacturing sector, construction sector and energy sectors in Kenya. This will help to improve the available knowledge and for the purpose of making comparison findings on the elements that promote equity share capital of emerging players in different economic sectors. Prospective research studies should aim to examine every element of financial structure, such as the impact of short-term debts and how they affect firms' market capitalization. Further studies can also incorporate moderating or intervening variables for example firm size in their models.

This study also focused on market capitalization which is not the only measure of non-financial firms. The study did not incorporate the non-financial measures which include customer satisfaction, learning and growth, market factors and other non-financial performance indicators. Therefore, the evidence in this study may not inform how non-financial indicators can influence the market capitalization of non-financial firms listed at the NSE, Kenya. Other studies can also utilize financial performance indicators such as ROE and ROA to measure financial performance of these firms. Additionally, the study's timeframe was limited to seven

years, which may not capture the full spectrum of effects that equity share capital can have on market capitalization. Future investigations should consider extending the research period to elucidate both short-term fluctuations and long-term trends in the relationship between equity share capital and market capitalization.

Finally, the study's findings highlight the importance of equity share capital, showing that it makes up approximately 0.7914 (79. 14% %) of non-financial firms listed at the NSE, Kenya market capitalization. Still, a sizeable amount of about 20.86% of equity share capital remains unexplained. Future researches should examine more facets of equity share capital and market capitalization in order to obtain a more comprehensive viewpoint. A more thorough and nuanced understanding of the factors influencing the market capitalization of these non-financial firms in this particular area will result from this more extensive investigation, which will help these firms make better decisions.

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