

What Is the Effect of Rights Issue on Firms Share Performance in the Nairobi Securities Exchange?

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Abstract

Rights issues give existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price in order to encourage participation in the capital raised over purchasing shares in the market. This study aimed to identify the effects of rights issue on the share performance of listed Kenyan-based companies on the Nairobi Securities Exchange. The research was to evaluate the effects of rights issue on firms' subsequent trading prior to and after the issue. All the firms listed at the Nairobi Securities Exchange and were part of the NSE 20 share index were considered. In addition to this, all the firms that performed rights issue between 2007 and 2012 were included in the target population whether or not they were part of the NSE 20 share index.

Keywords: Rights issue, Nairobi Securities Exchange, Share Performance

1.0 INTRODUCTION

Companies either in growth or expansion need more capital than they are sometimes able to generate internally. They explore options of raising that additional capital and a Rights Issue is such an option. If the objectives are achieved, they should lead to the improvement of a company's performance and the prices of its listed shares at the stock exchange should go up. The most common types of long-term financing in Kenya include long-term debt, common stock, preferred stock and retained earnings. This implies that companies can use own equity or borrow funds through long-term debt (bonds). Companies use either equity or debt financing but equity is preferred more since it forms a permanent source of funding that cannot be easily redeemed. Listed corporations around the world typically raise external equity capital either from existing shareholders or from new investors. Where corporations raise capital from new investors, it's called an initial public offer (IPO). Here, the public are invited to participate and the formula of allotting shares is clearly stated.

A rights issue on the other hand is an offer to buy additional securities in a corporation at a discount. It targets existing shareholders and are allocated based on the number of shares they hold. In most cases, a rights issue is offered by closed-end companies. These are companies that redistribute all their earnings failure to which, they face backlash from shareholders who may sell in mass and lower company value (Gowthorpe, 2005).

1.1 Statement of the Problem

Most companies have issued rights but it has not been established clearly how it affects the company's share performance in Kenya. Loughran and Ritter (1995), finds out that those American companies that offer rights issues tend to underperform in the long run, as compared to their counterparts with no rights issues. This study aimed at investigating the effects of rights issue on company's share performance and it was a case study of companies listed at the Nairobi Securities Exchange. It compared the share performance of firms before and after issuance of rights issues. The study therefore established the relationship between rights issue and share performance.

1.2 Objectives of the Study

1. To examine the effect of rights issue announcement on the share price performance of companies doing rights issue.
2. To evaluate the investors' reaction to rights issue announcement.

1.3 Research Hypothesis

H_0 : there is no effects of rights issue announcement on the share performance of companies doing rights issue

H_0 : there is no investor reaction to rights issue announcement

2.0 LITERATURE REVIEW

Companies issue rights as a way of raising capital for expansion or to finance internal operations. Rights issues provide a useful mechanism for raising equity for companies. According to Lambrechts and Mostert (1980) Rights issues give the existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price to encourage participation. Bruce Jurin (2002) analyzed the transaction costs involved in a rights issue and issue of common stock at the stock exchange. He found out that both kinds of offering incur many legal and filing charges. For a firm issuing common stock, the costs include preparing a

prospectus and lining up buyers for the issue. Rights issue by contrast, the company is required to contact all the shareholders and set up mechanism for the selling of rights. From the study by Bruce Jurin (2002), it is clear that the transaction costs for the companies with many shareholders tend to make rights offering favoured only for companies with high concentration of ownership and this with some exception tend to be smaller.

2.1 Theoretical Review

2.1.1 Modern Portfolio Theory

Modern Portfolio Theory (MPT) or portfolio theory was introduced by Harry Markowitz with his paper "Portfolio Selection," which appeared in the 1952 *Journal of Finance*. Thirty-eight years later, he shared a Nobel Prize with Merton Miller and William Sharpe for what has become a broad theory for portfolio selection. Prior to Markowitz's work, investors focused on assessing the risks and rewards of individual securities in constructing their portfolios. Standard investment advice was to identify those securities that offered the best opportunities for gain with the least risk and then construct a portfolio from these. Following this advice, an investor might conclude that railroad stocks all offered good risk-reward characteristics and compile a portfolio entirely from these. Intuitively, this would be foolish. Markowitz formalized this intuition. Detailing mathematics of diversification, he proposed that investors focus on selecting portfolios based on their overall risk-reward characteristics instead of merely compiling portfolios from securities that each individually have attractive risk-reward characteristics. In a nutshell, investors should select portfolios not individual securities. If we treated single-period returns for various securities as random variables, we can assign them expected values, standard deviations and correlations. Based on these, we can calculate the expected return and volatility of any portfolio constructed with those securities. We may treat volatility and expected return as proxy's for risk and reward. Out of the entire universe of possible portfolios, certain ones will optimally balance risk and reward. These comprise what Markowitz called an efficient frontier of portfolios. An investor should select a portfolio that lies on the efficient frontier.

James Tobin (1958) expanded on Markowitz's work by adding a risk-free asset to the analysis. This made it possible to leverage or deleverage portfolios on the efficient frontier. This leads to the notions of a super-efficient portfolio and the capital market line. Through leverage, portfolios on the capital market line are able to outperform portfolio on the efficient frontier. This theory contribute to the field of finance by explaining how rational investors in perfect markets can minimize the risk associated with their investments without reducing their returns through diversification and by building up an efficient portfolio of investments. The study draws its roots from the portfolio theory. This theory advocates that the investors aim at reducing their risks while increasing their returns and thus they should diversify so as not to put all their eggs in one basket. Through undertaking rights issue, investors stand a chance of increasing their returns since they purchase the shares at a discount. The risk and return of any given stock can be duplicated in many ways through various combinations of other stocks.

2.1.2 Random Walk Hypothesis

This is based on the extent to which information once released in the market will influence security prices. Information about the companies is received at random intervals by the investors who read randomly to the information. Therefore, there is continuous trading of a security through buying and selling security prices are therefore determined by a stochastic process where security prices is continuously changing as new information. A riskless in the market therefore, it is difficult to predict the intrinsic value of a security and the price will keep on revolving or around a given intrinsic value which cannot be exactly achieved. The random walk hypothesis leads to Efficient market Hypothesis (E.M.H).

2.2 Trends in Rights Issue

According to Ritter (1991), the wealth relative to three years after a rights issue is 0.80 which falls to 0.70 by the fifth year. This essentially means that companies put up rights issues when at their prime or undergoing major long term restructuring. This drives the market against a largely bullish investor market at the time of a rights issue. A good example of this in the local context is the Kenya Airways rights issues. The company offered a rights issue which received a more than 70% acceptance from investors. However, in the years following it, the company's share price and overall performance have been on a decline. The reason is that, while investors were bullish about the share, the company was floating extra shares as a way of raising money for long term expansion. The impact of such expansion can take upwards of fifteen years to materialize, and give a return to the amount investors put up in the rights issue.

Between 1946 and 1957, Nelson (1965) analyzed 380 rights offerings in the United States, by use of monthly data. From his study, Nelson realized that rights issue announcements have little or no impact on investor reaction, as wealth in the stock exchange neither increased nor declined after a rights issue. His study was followed by that of another American scholar, Smith in the years 1971 to 1975. Smith (1977) analyzed the market and concluded that, there were no supernormal returns on losses on investors after a rights issue. Essentially it means that, investors are indifferent to company announcements of rights issues. In Kenya, companies at the NSE that have issued rights have been on the increase in the recent past. In 2004 and 2005,

Uchumi and CFC stanbic holdings raised a combined sh. 2.01 billion and in 2004 KCB Group rights issue attracted sh. 2.75 billion. In 2006, DTB issued rights which attracted sh. 2.3 billion. In 2007, Olympia Capital, DTB and NIC bank issued rights which attracted a combined sh. 5.04 billion and in 2008 KCB and DTB issued rights which attracted a combined sh. 11.02 billion. There was no single rights issue in 2009 but there was a shoot-out in 2010 where four companies;- KCB Group, TPS East Africa, Standard Chartered and Kenya power floated rights that attracted applications for sh. 26.01 billion, making it the highest rights issue year ever. In 2011, there were no rights issue done but this was overtaken by 2012 whereby five NSE Listed firms turned to their shareholders for cash. They include;- Kenya Airways, DTB, NIC Bank, CFC stanbic Holdings and Standard Chartered. This was the best rights issue year and the cash calls attracted applications for shares worth sh. 37.6 from the investors. This was 18.7% more than what the firms were looking for (www.nse.co.ke).

2.3 Empirical Review

Karanja (2006) did a study on an evaluation of post rights issue Effect on firms' share price and traded volumes. The objective of the research was to evaluate the effects of post rights issue on the firms share price and traded volumes. On the population, Karanja evaluated 9 firms out of the 14 firms that had announced rights issue. He did an analysis 90 days after the rights issue and noted that most firms that announce rights issue usually experience a decrease in the share price after the issue at least in the very short run. Karanja recommended that firms that announce rights issue must consider information asymmetry as this highly determines the firms share prices after successful rights issue. Karanja (2006) further uses the work of Christie William et al who also examined whether post offer price share performance is related to the decision to issue rights instead of a firm commitment offering if market offering is important factor affecting post issue stock returns. Christie William et al wanted to find significant difference in stock performance after a firm commitment offering would be consistent with the notion that firm's commitments are timed. They found out that significantly more negative abnormal return during the year following the offer for the firm's commitment than for rights offer firms. They show that differences in these abnormal returns are robust to controlling for the offer size, the firm's leverage, and the market to book ratio and other firm's attributes. Hence the evidence suggests that firms selling shares to current owners via rights offer did not appear to be timing their issue to exploit over-valued equity while firms selling to new owners were. These findings support the notion that the pattern of underperformance is tied to market timing.

Kakiya (2007) conducted a study on the effects of Announcements on stock returns. The researcher computed a 5 day moving average to observe the trend of stock returns following earnings announcement. Daily market adjusted abnormal and cumulative abnormal returns were computed and a further t-test done to determine the effect of earnings announcement on stock returns and results interpreted. The findings from the study were that trends in stock returns are dependent on event announcement. Traded volumes are not significantly affected by announcement. Earnings announcement had a significant effect on stock returns when CAR was evaluated indicating market inefficiency but AR was not significant for individual companies. From the findings of the study, it was concluded that the Nairobi Stock exchange is not semi-strong form efficient. The researcher analyzed all companies and was testing the efficiency but this research has narrowed down on effect of rights issue on company's share performance and only companies that have done rights and those that form part of the NSE 20 share index formed the target population.

Olesaaya E.(2010) did a research on the effects of rights issue on stock returns and he investigated companies listed at the NSE. Olesaya used event study methodology in his study. He used market model which is a statistical model that relates the returns of any given security to the return of the market portfolio to measure and analyse the abnormal returns. In this study, Olesaaya assumed that the abnormal returns reflect the stock markets reaction to the announcement of rights issue. The findings of this study done by Olesaaya shows negative abnormal returns prior to announcement of rights issue, positive abnormal returns during the announcement and negative results thereafter. Munene K. (2006) studied the relationship between profitability and sources of financing of quoted companies at the NSE. The study population of the 48 companies quoted at the NSE between 1999 and 2004 and they concluded that there is a weak positive relationship between capital structure and profitability of firms quoted at the NSE between 1999 and 2004 and therefore other factor contribute to firm capital structure.

2.4 Conceptual Framework

Previous studies indicate that rights issue has relationship with company's share performance. However, Company's share performance and trading volume is also influenced by change in interest rates, Inflation rates, government policy and currency fluctuation. Whenever interest rates are low, the borrowing power of investors is increased and this consequently enables them to borrow and purchase the rights issue thereby leading to and improved share performance and high trading volume. When inflation rates are low, the investors can afford to buy additional shares and this consequently leads to improved share performance and high trading volume. The government can time by time impose certain policies. If the policy imposed favours the investors and increases their purchasing power, then they are likely to purchase the rights issue and this will consequently lead to an

improved share performance and a high trading volume. The converse of all this is true. For example if the currency exchange rate move upwards, the investor's borrowing power will be low and thus by not taking up the rights, this will consequently lead to a weak share performance and low trading volume. If the currency exchange rate move downwards, the investors can afford the rights and this consequently leads to and improved performance in shares and a high trading volume.

3.0 RESEARCH METHODOLOGY

The research adopted a descriptive study to evaluate the effect of rights issue on firms subsequent trading prior to and after the issue. This is because the study was about a fairly knowledgeable aspect of the phenomenon. Descriptive research was aimed at generating knowledge that may be useful to describe or develop a profile of the study. The population of this study made up of all companies listed at the NSE as at 31st December 2012. The companies are classified into five categories known as sectors. The sectors are; - Agricultural sector, Commercial and Services Sector, Finance and Investment sector, Industrial and Allied Sector and the Alternative Investment Market segment as seen in Appendix II. In total there were 62 companies listed as at December 2012. This targeted all Kenyan based companies that are in the NSE 20 share index and those that had undertaken rights issue between 2007 and 2012.

The sampling method that was used is purposive sampling in order to get the targeted companies. From the population of 62, the researcher selected companies that form the NSE 20 share index and companies that had done a rights issue between 2007 and 2012 were selected. This yielded 9 companies. The study mainly used secondary data. Data was collected from the Nairobi Securities Exchange. Secondary data was obtained from stock prices, market index, and announcement dates. A data collection sheet was used to capture information on companies that announced their rights during the period, date of announcement, market index, daily closing share prices and traded volumes over an event window of 20 days prior and 20 days after the rights issue announcement with the day of announcement being day zero. This is because the study aimed at examining the effect of rights issue announcement on stock return and extending the period of data collection could lead to changes in stock returns due to other market factors. Data analysis tool in Microsoft Excel Spreadsheet computer program was utilized. t-test was conducted on the daily share prices and trading volumes over the event window to determine whether there is a significant effect of share price and trading volume on rights issue announcement. On the performance of companies which have performed rights issue to those which have not performed rights issue, daily market abnormal return (AR) and daily cumulative abnormal return (CAR) was computed. AR was also computed.

$$AR_{it} = R_{it} - E(R)$$

Where;

AR_{it} is abnormal return for security i over time t

R_{it} is the return at time t on security i

R_{mt} is the time t return on NSE 20 Share Index

$E(R)$ is the expected return for security i at time t

This study adopted the market model, which provides a linear specification of the return of the given stock to the return of the market portfolio. This model is preferable because it reduces the variance of abnormal returns by removing the portion of the stock return that is related to variation in the market return, Adelegan, (2009).

The market model is specified as:

$$R_{it} = a_i + b_i R_{mt} + e_{it} \quad (1)$$

Where: R_{it} and R_{mt} are the returns on stock i and the market respectively at time period

t . e_{it} is the error term.

$$E(R) = \alpha + \beta * R_{mrt}$$

Where;

α and β are parameters estimated with the market model.

R_{it} and R_{mrt} were calculated as follows:-

$$R = \ln(P_1/P_0) \text{ which is the same as } (P_1 - P_0)/P_0$$

An average market abnormal return was estimated as follows:-

$$(MAR_t) = \frac{\sum_{it}^n AR_{it}}{N}$$

Where, N is the number of firms being examined, each firm was analyzed separately.

Market abnormal return was estimated to determine whether on the average, the rights issue announcement is associated with change in security returns.

Cumulative abnormal returns (CAR), which measures investors' total return over a period starting from 20 days prior to and 20 days after rights issue announcement, was measured as below:-

$$CAR_t = \sum_{t=1}^{t=j} AR_t$$

Where j denotes day -20 through to a day +20

AR_t = Is the abnormal return for each security over time t .

T-test was conducted at 95% confidence level to find if there was significant AR, CAR, MAR and CAR after rights issue announcement.

Specific objective 1, 2 and 3 were addressed by test on share price, share trading volume and share index. The t-test at 95% confidence level was used since the population in the study was less than 30 thus it was very suitable for this study. The event date was defined as $t=0$, while the estimation period was 40 days starting from 20 days before rights issue announcement to 20 days after rights issue announcement.

4.0 RESULTS AND DISCUSSIONS

4.1 Effects of rights issue before and after the offer on the companies doing rights issue

The null hypothesis stated that there is no significant effect of rights issue announcement on share price performance of companies doing rights issue; indicating that the population mean before and after rights issue announcement should be equal; i.e. $H_0: U_1=U_2$. The hypothesized mean difference is equal to zero and the alternative hypothesis is $H_1: U_1 \neq U_2$.

Table 4.1 Share Prices

	one sample test				95% confidence level		
	volume			test value = 0			
Company	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
KCB	11.913	19	2.093	-1.14	21.08	18.80	0.0000
NIC	-12.742	19	2.093	1.14	25.57	27.85	0.0009
KQ	14.349	19	2.093	-1.60	17.16	13.96	0.0001
DTB	-2.318	19	2.093	0.75	90.45	91.95	0.0316
STANDARD BANK	-3.2804	19	2.093	3.28	203.65	210.20	0.0039
CFC BANK	-4.5574	19	2.093	1.41	43.24	46.06	0.0002
KPLC	10.807	19	2.093	-84.11	190.91	22.70	0.0000
TPS SERENA	15.546	19	2.093	-2.465	62.53	57.60	0.0000
OLYMPIA CAPITAL	13.872	19	2.093	-1.85	20.34	16.65	0.0000

For Olympia Capital, the trend of share prices drops from 19.2 to 18.85 on announcement as seen in figure 4.11. The share prices of Olympia Capital shares were collected and t-test conducted. It was found that the computed t-value was 13.872 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, is rejected. The computed P-value of 0.0000 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For TPS Serena, the trend of share prices drops from 63 to 57 on announcement as seen in figure 4.12. The share prices of TPS Serena shares were collected and t-test conducted. It was found that the computed t-value was -15.546 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, is rejected. The computed P-value of 0.0000 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For CFC Bank, the trend of share prices rises slightly from 44 to 45 on announcement then on day 2 drops to 44.5 and then rises up to 48 on day 13 and on day 16 rises again as seen in figure 4.13. The share prices of CFC shares were collected and t-test conducted. It was found that the computed t-value was -4.5574 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, was rejected. The computed P-value of 0.0002 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For KCB Bank, the trend of share prices remains at 20.75 till day 3 then on day 4 drops to 19.95 and 18.75 on day 5 as seen in figure 4.14. The share prices KCB shares were collected and t-test conducted. It was found that the computed t-value was -11.913 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, is rejected. The computed P-value of 0.0000 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero.

Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For NIC Bank, the trend of share prices rises from 27 to 27.5 on day 1 and then continues rising till day 17 and then drops to 27 on day 14 and to 25 on day 20 as seen in figure 4.15. The share prices NIC shares were collected and t-test conducted. It was found that the computed t-value was -12.742 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, is rejected. The computed P-value of 0.0009 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For KQ, the trend of share prices drops from 15.15 to 14.95 on announcement day then continues to drop up to 13.7 on day 5 and 6 till day 13 and then rises to 14.05 on day 14 and drops up to 14 on day 20 as seen in figure 4.16. The share prices KQ shares were collected and t-test conducted. It was found that the computed t-value was 14.349 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, was rejected. The computed P-value of 0.0001 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For DTB Bank, the trend of share prices rises to 94.5 on day 2 and then drops gradually to 90 on day 8 then continues dropping up to 88.5 on day 11 to 13 as seen in figure 4.17. The share prices DTB Bank shares were collected and t-test conducted. It was found that the computed t-value was -2.318 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, was rejected. The computed P-value of 0.0316 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For Standard Chartered Bank, the trend of share prices rises and later drops as seen in figure 4.18. The share prices of Standard Chartered Bank shares were collected and t-test conducted. It was found that the computed t-value was -3.2804 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, was rejected. The computed P-value of 0.0039 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For KPLC, the trend of share prices drops 3 days before announcement from 225 to 28 then continues dropping as seen in figure 4.19. The share prices of KPLC shares were collected and t-test conducted. It was found that the computed t-value was -10.807 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, $H_0: U_1=U_2$, was rejected. The computed P-value of 0.0000 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

4.2 The investor's reaction to rights issue announcement

The null hypothesis stated that there is no significant reaction of investors to rights issue announcement, indicating that the population mean before and after rights issue announcement are equal. I.e. $H_0: U_1=U_2$. The hypothesized mean difference is equal to zero and the alternative hypothesis is $H_1: U_1 \neq U_2$

Table 4.2: Trading Volumes

One Sample Test				95% Confidence Level			
Company	Volume		T-Critical	Test Value = 0			
	T Stat	Df		Mean Difference	Mean 1	Mean 2	P-Value
Tps Serena	-0.5578	19	2.093	10475	31610	52560	0.5835
Olympia Capital	1.0444	19	2.093	-260588	538740.2	17564	0.3094
Nic Bank	0.1277	19	2.093	-2285.5	76765	72200	0.8997
Kenya Airways	-1.7611	19	2.093	80325	136730	297380	0.0943
Diamond Trust Bank	-1.8348	19	2.093	42010	7680	91700	0.0822
Standard Chartered Bank	-0.305	19	2.093	2957.5	5570	11485	0.2368
Cfc Bank	-1.2216	19	2.093	1423.87	7752.2	10599.93	0.2943
Kenya Commercial Bank	1.6957	19	2.093	-539058	2591235	1513120	0.1063
Kplc	-5.142	19	2.093	222438.1	53000	497876.2	0.0005

The volumes of TPS Serena shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -0.5578 which falls within the acceptance region. On examining the P-value, it was 0.5835

which is greater than the alpha value of 0.05, indicating that we accept the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investor's reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Olympia capital shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was 1.0444 which falls within the acceptance region. On examining the P-value, it was 0.3094 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of NIC bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was 0.1277 which falls within the acceptance region. On examining the P-value, it was 0.8997 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Kenya Airways shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -1.7611 which falls within the acceptance region. On examining the P-value, it was 0.0943 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Diamond Trust Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -1.8348 which falls within the acceptance region. On examining the P-value, it was 0.0822 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Standard Chartered Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -0.3050 which falls within the acceptance region. On examining the P-value, it was 0.7637 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Kenya Commercial Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was 1.6957 which falls within the acceptance region. On examining the P-value, it was 0.1063 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of KPLC shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -5.142 which falls outside the acceptance region. The P-value computed was 0.0005 is lesser than the alpha value of 0.05 thus we accept the alternative hypothesis $H_1: U_1 \neq U_2$. Thus it was concluded that rights issue announcement has a significant effect investors reaction.

The volumes of CFC Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -1.2216 which falls within the acceptance region. On examining the P-value, it was 0.2368 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: $H_0: U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

From the results presented above, the null hypothesis was accepted for all firms except 1 out of the 9 firms that were analyzed, representing 11.1% of the population. It can therefore be concluded that rights issue announcement has no significant effect on investors reaction to rights issue announcements.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

From the results obtained, on the effect of rights issue on investor's reaction, trading volumes of the subsequent firms were analysed and the null hypothesis was accepted for all firms except 1 firm which is KPLC (which had its name changed later to Kenya Power) where the alternative hypothesis was accepted out of the 9 companies that were analyzed. The t-stat of KPLC was 514.20% which lies outside the acceptance region and p-value of KPLC was 0.0005 which is less than the alpha 0.005 and thus it was the only company that showed significance. It was therefore concluded that at the NSE, rights issue announcements have no significant effect on investor's reaction.

On the effect of rights issue on company's share performance before and after rights issue, 9 companies were analysed on the company doing rights issue on the event period of 20 days before and 20 days after and t-test was conducted on all companies. The null hypothesis, $H_0: U_1=U_2$, was rejected. The computed P-value of all companies was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the

hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights and 100% of the results indicated a positive significance level. It was therefore concluded that there is an effect of rights issue announcement on share price performance of companies doing rights issue.

5.2 Conclusion

The study aimed at evaluating the effect of rights issue announcement on companies share performance. It can therefore be concluded that rights issue announcements have no significant effect on investor's reaction and that there is a relationship between rights issue and company's share performance. 100% indicated a positive significance level thus positive stock price change during the period surrounding the announcement of a rights issue. It can therefore be concluded that there is an effect of rights issue before and after rights issue is done on a particular security. On the investor's reaction to rights issue announcements, the null hypothesis was accepted for all firms except KPLC which is 1 out of the 9 firms that were analyzed, representing 11% of the population. It can therefore be concluded that rights issue announcement has no significant effect on investors reaction to rights issue announcements.

An analysis of the researches done in this area suggest that there is a positive reaction to announcement and that the external factors influence the market reaction to the announcement. From this research, it is clear that most companies especially banks are embracing rights issue in the recent past. Companies have actually found it necessary to raise funds through rights issue. This study is consistent with other Studies done in this area. Kakiya 2007, similar to this study found out that traded volumes are not significantly affected by announcement. Studies by Ball, Brown and Finn (1977) for Australia, Kang (1990) for Korea, Tsangarakis (1996), for Greece and Tong (2002) for Singapore found significantly positive stock price increase during the period surrounding the announcement of a rights issue and thus consistent with this study.

5.3 Recommendations for Further Study

This study recommends that further studies be done on the effect of rights issue on financial and share performance of the companies listed at the NSE. This includes daily and yearly assessment and ratio analysis. This is because this study focused on the effect of rights issue on company's share performance and daily share prices, market index and trading volumes were used thus therefore, a yearly overview could be an interesting study to identify the effects on company's financial and share performance. Also, other studies on other events announcement on share prices and traded volumes should be done so as to show clearly the effect of events announcement on traded volumes.

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