Relationship between the Cost of Retained Earnings and Financial Performance of Selected Firms in NSE, Kenya

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Abstract—The purpose of the study was to determine the relationship between cost of retained earnings on the financial performance of manufacturing firms listed in Nairobi Security Exchange. The study was anchored of signaling and liquidity risk theory. The study adopted descriptive research design. The unit of observation was companies Listed in NSE (NSE). According to NSE there are 64 listed companies. The study purposively selected manufacturing firms that are listed at NSE. According to NSE, there are 8 manufacturing firms that are listed at NSE. The researcher collected secondary data from the audited annual financial reports of 8 manufacturing firms listed in NSE. The study used data collection sheet to assist in data collection. Descriptive and inferential analysis was used in data analysis. The study revealed that cost of retained earnings had moderate and significant relationship with financial performance of Manufacturing firms listed at the NSE, Kenya. The study concluded that most companies fell below average in terms of retaining net income among listed manufacturing firms listed in Nairobi security exchange over the period of study (2012-2018). The study recommended that firms need to rely on retained earnings financing in order to overcome the massive related interest expenses payable whenever other sources like debt financing are adopted.

Index Terms—Cost of Retained Earnings, Financial Performance, Nairobi securities exchange.

I. INTRODUCTION

A. Background of the Study

Retained Earnings (RE) is the amount of net income left over for the business after it has paid out dividends to its shareholders (Khan, 2013). In Pakistan dividend policy are the guiding principles of a company which decide shareholders part of the company earnings. According to Lincoln (2014), Managers pay dividend when they have no profitable investment opportunities but it has a negative impact on share prices of firms. Carson, (2012) observed that dividend policy has not affected on the wealth of shareholders and it is irrelevant for the firm. On the other hand, Walter and Gordon supported that dividends are relevant and it has a direct effect on firm value.

According to (Hodrick, 2015) total return of the stock can be measured by adding dividend and capital gain/loss for the period of a year. A study conducted by Beisland (2014) revealed that a positive relationship exists between retained earnings and stock prices. Retained earnings have a substantial impact on firm value and shareholders’ wealth. Investors who anticipate for the growth of the company and stock prices are heavily depended on the high retention ratio (Muhammad, 2012).

In Bangladesh, there is still continuing controversy in the investment community that concerns the relevance of retained earnings as the underlying source of value of a share of common stock but more often, earnings are described important to shareholders because earnings provide the cash flow necessary for paying dividends (Khan & Zulfiqar 2012). Therefore, a firm’s ability to generate cash flow affects the value of its securities and the ability to assess future cash flow is equally important for the investment community, both shareholders and creditors.

Edmans (2014) observed that, the amount of retained earnings has now become an important issue to investors and other stakeholders because it is another way to evaluate the effectiveness of management to bring improvement in market value of their firms. That is shareholders now consider as part of their investment criteria the extent to which firms use retained capital and they also consider this in measuring how much value in terms of capital gain, business growth and asset net worth have been added by the company's retention of capital overtime. Before buying, investors normally ask themselves not only whether a company can make profits, but whether management can be trusted to generate growth with those profits (Edmans, 2014).

Masulis & Kjellman (2015) proposed that Mauritius firms should use more retained earnings in their capital structure to improve performance. Profitable firms would have the ability to serve its retained earnings by using their income generating business which could deter them from default of payment and consequently bankruptcy. Additionally they expressed that firms with large size and significant tangible assets should use more retained earnings as these types of firms have a strong financial fundamental. Hence, the firms would have sufficient financial resources to meet debt obligation. According to Kayode (2014) it is a critical decision for any business organization for an appropriate capital structure, the decision is not only because of the need to maximize returns to various organizational constituencies, but on an organization’s ability to deal with its competitive environment.

In Nigeria there is an increasing growth in awareness of the importance of financial management with emphasis on...
investment and retained earnings policies as a veritable tool for efficient business management (Azeem, & Ali, 2014). Achieving this target has always been hinged on the responsibility of the management to establish corporate policies for effective and efficient internal control, performance evaluation and reserve management. The intention of most firms to fulfill the expectations of the investors and financial markets increasingly dominate reserve accumulation motives and this is common among firms in both developed and developing economies (Azeem, & Ali, 2014).

Owners of Small and Medium Enterprises (SMEs) in Kenya may show strong preference for the funding options, which have minimal or no intrusion into the business that is retained earnings and personal savings (Bell & Vos, 2015). Amidu (2016) observed that positive profits give a lot of room to the business owners or the company management to utilize the surplus money earned.

B. Statement of the Problem

Majority of listed firms have experienced losses in its financial performance over the years for instance in 2016 ARM recorded a loss of Ksh 6.3 billion while in 2017 the company recorded a loss of ksh 6.9 billion, (Kenya Association of Manufacturers Priority Report, 2018). In response to the poor financial losses by some selected firms listed in NSE and a fact that some of them are among the four economic pillars in the Big four Agenda of the government of Kenya and vision 2030. Thus this research sought to ascertain how cost of capital components and financial performance of selected firms in NSE relate.

Studies have been undertaken on the role of manufacturing firms’ financial performance and firm size of for instance Kubai, (2015) studied how cost of capital affects the performance in financial perspective of Kenyan manufacturing firms. The study adopted a descriptive research design in determining occurrence frequency or level to which variables associated. The results disclosed a negative relation between financial performance, size and total debt indicating that a decrease in performance in financial perspective is as a result of using assets or more of debt. However, Kubai’s study adopted descriptive research design to assess the relationship between total debt, size and financial performance while our study will adopt a cross-sectional design to assess the relationship between capital cost and of manufacturing firms’ financial performance.

II. LITERATURE REVIEW

A. Theoretical Review

The study was anchored on Signaling and Liquidity Risk Theory. Signaling and Liquidity Risk Theory was developed by Spence in 1973. In his seminal 1973 article, Spence proposed that two parties could get around the problem of asymmetric information by having one party send a signal that would reveal some piece of relevant information to the other party. That party would then interpret the signal and adjust her purchasing behavior accordingly usually by offering a higher price than if she had not received the signal (Spence, 1973).

The signaling model suggests that firms generate signals to the outside world about their credit quality or their cash flows when they use a specific type of financing option. Signaling took root in the idea of asymmetric information (a deviation from perfect information), which says that in some economic transactions, inequalities in access to information upset the normal market for the exchange of goods and services (Spence, 1973).

Flannery (1986) observed that, debt maturity can reduce the costs of information asymmetry between firm managers and investors. He theoretically proves that if bond market investors cannot isolate good firms from bad ones, good firms will consider their long term debt to be underpriced and will, therefore, issue short-term debt. Conversely in the same circumstances, bad firms will sell over-priced bonds. Flannery (1986) further argues that debt maturity serves as a signaling device. Short-term financing subjects a firm to more frequent monitoring; hence only good-quality firms will be more willing than bad-quality firms to use short-term debt. A firm issues long-term debt when information asymmetry is related to uncertainty of long-term cash flows. However, a firm will issue short-term debt when informational asymmetry is randomly distributed across short and long-term debt. This theory is therefore relevant to the current study as it will help in explaining how the cost of retained earnings on the financial performance of manufacturing firms listed in Nairobi Security Exchange.

B. Cost of Retained Earnings on Firms Financial Performance

Masood (2018) sought to investigate the determinants of retained earnings in profitable steel companies in India. Multiple linear regression is used to identify the determinants of retained earnings for a period of sixteen years ranging from 1995- 2011 judgmental sampling was used to select 27 steel companies. Data was collected relating to the sample steel companies for steel sector and analyzed using the statistical technique of multiple linear regression using SPSS version 19 (Statistical Package of Social Sciences). The technique of multiple linear regression was applied primarily to minimize the problem of multi collinearity. This technique of multivariate analysis was used because it was the most appropriate tool for evaluating the individual and combined effect of a set of independent variables on dependent variable. The study findings revealed that a large number of variables, such as profit after tax, reserves, Investments, depreciation affects or impacts the retained earnings of companies or retention of their earnings.

A study by Yemi and Seriki (2018) on the effects of retained earnings and manufacturing firms’ market value: Nigeria stock market experience. The sample data was extracted from 75 manufacturing firms listed on the Nigeria stock Market during the period 2003 to 2014. The unbalanced panel...
data (cross-sectional and time series) used to examine the relationship were obtained from the annual financial statements of the various firms. Two basic approaches descriptive and multiple regression models were used to determine the relationship between the underlying variables. The results indicated a positive and significant relationship between retained earnings, earnings per share, dividend payout and value of firms while market value was positively but non-significant associated with financial leverage. The study reduced the dearth of previous research on dividend policy in emerging markets regarding the empirical relationship between retained earnings and market value of firms.

Tirmizi and Ahmad (2017) investigated the impacts of retained earnings on the maximization of manufacturing SMEs value and shareholders wealth. The adopted modeled equation was modified to represent retained earnings based firm valuation equation which included retained earnings, firm value and shareholders wealth as variables. This model was tested by analyzing the impacts of retained earnings on firm value and shareholders wealth. Also, impact of firm value on shareholders wealth was analyzed. Primary data was collected from randomly selected listed Egypt manufacturing firms by means of a questionnaire. The alpha score for the constructs of retained earnings based firm valuation model was 0.866. Factor analysis was used to validate the instrument and ordinary least squares linear regression analysis was used to test the formulated hypotheses. The major findings suggested that retained earnings had played a vital role in expansion activities and benefited sample firms in achieving desired growth during 2000 to 2009. As value of sample firms was enhanced and shareholders wealth was maximized due to investment and reinvestment of retained earnings in value enhancing projects. Thus, results of the study validated the strength of retained earnings based firm valuation model in Egypt.

Ravi (2017) investigated firm growth and retained earnings behavior of the manufacturing firms in Pretoria South Africa. The sample size comprised of 26 manufacturing companies in Pretoria. Data was collected from the period of 2010 to 2016with the help of correlation and multiple regression. The outcomes suggested that across the classifications of sample companies cash flow and dividend were found to be the most influencing variables on retained earnings. Companies with low investment opportunities for growth and expansion prefer to distribute much of their earnings as dividend. The findings further revealed that profit, if retained, remains unutilized for long time or utilized in short-term investment opportunities which would yield low return on investment. Such companies prefer to pay out the earnings and raise capital whenever needed. Thus, the level of earnings retained is very much influenced by the growth rate of the companies.

Mung’aru (2016) investigated the effects of earnings on dividend payout of firms quoted at the Nairobi securities exchange. The research employed secondary data which was analyzed utilizing SPSS software version 20 and the results presented in tables. The population comprised the 64 quoted companies in the NSE as at December 2015. Out of the 64 listed firms, data was available for 43 firms. The results consistently support the potential association between the four independent variables and the dependent variable (dividend payout) for firms listed at the NSE. Earnings leverage and company size had a positive correlation with DPO while liquidity had a negative correlation. Earnings were found to be a significant determinant of DPO while other variables of the research were not significant. The study used the F-statistic to test the overall significance of the regression model and the model was found statistically significant and suitable for this study. During the five year study timeframe, the findings indicate that a combination of all the four independent variables (company earnings, liquidity, company size and leverage) had greater variations in the dependent variable (DPO) of firms listed at the NSE.

Mulama (2014) assessed the determinants of retained earnings in companies listed at Nairobi securities exchange. The factors which were tested are; firm size, dividend payout, growth opportunities, profitability, tangibility of assets, and leverage. Both the longitudinal and cross-sectional research designs were employed to enhance the study of companies listed under different segments during the period between 2009 and 2012. Only 41 non-financial companies listed at NSE were studied while financial companies were excluded from the study to remove any anomalies associated with this sector which is highly regulated by the central bank prudential on issues of liquidity, asset and capital holding, and provision for bad debts among other factors. Secondary data from published reports and financial statements at NSE was used in this study. Data was collected by using a of data collection sheet. The study employed a multiple regression data analysis technique where tools of SPSS were used. The research findings indicated that there was a weak positive relationship between profitability and retained earnings. The study also revealed that both the firm size and growth opportunities had a weak negative relationship with the retained earnings. Dividend payout ratio was found to have little or no relationship with the retained earnings. The study results showed a strong negative relationship between leverage and the retained earnings.

C. Conceptual Framework

![Figure 1: Conceptual Framework](https://www.wjir.org)

III. RESEARCH METHODOLOGY

The study adopted descriptive research design. The research was carried out in Kenya, specifically in the eight manufacturing organizations listed on the Nairobi Securities Exchange. The targeted listed firms are located in the Nairobi Metropolitan Area. According to NSE there are 64 listed companies which are categorized into 13 groups. The study purposively selected manufacturing firms that are listed at NSE. According to NSE there are 8 manufacturing firms that are listed. Purposive sampling is a form of non-probability
sampling in which researchers rely on their own judgment when choosing members of the population to participate in the study. Purposive sampling is useful in this instance because it provides a wide range of non-probability sampling techniques for the researcher to draw on. Purposive sampling was appropriate in such a quantitative research design. The study gathered secondary data on the cost of retained earnings and financial performance Nairobi Securities Exchange-listed manufacturing companies. Secondary data included information gathered from previously existing sources, specifically the distributed yearly reports (Annual Audited Reports, 2012-2018) of the 8 manufacturing firms listed on the NSE. The research was conducted over a seven-year period, beginning in 2012 and ending in 2018.

The study used both descriptive and inferential analysis. Descriptive statistics involved the use of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). Frequency tables were used to present the data for easy comparison (Kilgarriff, 2015). Correlation regression analysis was used in the study to identify the relationship between cost of retained earnings and financial performance of manufacturing firms listed in Nairobi Security Exchange, Kenya. Data analysis was done with the aid SPSS Version 25 of manufacturing firms listed in NSE (2012-2018). The assumption for a t-test is that the scale of measurement applied to the data collected follows a continuous or ordinal scale. The study was presented in form of tables and graphs. 

Y = $\beta_0 + \beta_1X_1 + \varepsilon$………………..1

Where:

Y= Financial Performance
$\beta_0$ represents Constant Term
$\beta_1$ represents Cost of Retained Earnings
$\varepsilon$ represents Error Term

$\beta_1$, Represents Régession Coefficients for Independent Variable

IV. FINDINGS OF THE STUDY

The study collected data from Annual Audited Reports of the eight listed manufacturing firms between the years 2012-2018

A. Cost of Retained Earning

The study established the mean cost of retained earnings of each of the 8 manufacturing firms listed in NSE for the 7 years. The findings are shown in table 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum (Ksh)</th>
<th>Maximum (Ksh)</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flame Tree</td>
<td>7</td>
<td>-</td>
<td>419,745,000.00</td>
<td>239,181,000.00</td>
<td>169,707,269.03</td>
</tr>
<tr>
<td>Unga Ltd</td>
<td>7</td>
<td>-</td>
<td>3,367,537,000.00</td>
<td>1,786,085,142.86</td>
<td>1,304,780,509.39</td>
</tr>
<tr>
<td>Orchard</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BAT</td>
<td>7</td>
<td>1,668,918,000.00</td>
<td>3,332,167,000.00</td>
<td>2,145,377,48.57</td>
<td>633,207,596.28</td>
</tr>
<tr>
<td>EABL</td>
<td>7</td>
<td>1,933,212,000.00</td>
<td>27,105,032,000.00</td>
<td>15,024,285,857.14</td>
<td>9,819,701,302.41</td>
</tr>
<tr>
<td>Carbacid</td>
<td>7</td>
<td>1,245,458,000.00</td>
<td>2,637,207,000.00</td>
<td>2,023,758,857.14</td>
<td>517,200,233.21</td>
</tr>
<tr>
<td>Everready</td>
<td>7</td>
<td>388,343,000.00</td>
<td>325,903,000.00</td>
<td>58,890,714.29</td>
<td>237,001,775.43</td>
</tr>
<tr>
<td>BOC Kenya</td>
<td>7</td>
<td>1,239,735,000.00</td>
<td>1,447,497,000.00</td>
<td>1,370,431,142.86</td>
<td>66,588,938.65</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td>3,235,430,020.41</td>
<td></td>
</tr>
</tbody>
</table>

From the findings Flame Tree had a (Mean= 239,181,000.00; SD= 169,707,269.03), UNGA LTD (Mean= 1,786,085,142.86; SD= 1,304,780,509.39), Orchard (Mean=0.000, SD=0.000) , BAT had a (Mean= 2,145,377,428.57; SD= 633,207,596.28) East African Breweries LTD (Mean= 15,024,285,857.14; SD= 9,819,701,302.41) and Carbacid (Mean=2,023,758,857.14; SD =517,200,233.21), Ever ready (Mean=58,890,714.29; SD=237,001,775.43) and Boc ltd (Mean = 1,370,431,142.86, SD=66,588,938.65). This findings implied that Orchard and Everready manufacturing firms had no retained earnings between 2012 to 2018. However, with an average mean of 3,235,430,020.41 most companies fell below average in terms of retaining earning among listed manufacturing in NSE (2012-2018). The finding agrees with Ravi (2017) who argued that retained earnings have a positive effect on organization financial performance. If retained earnings, remains unutilized for long time or utilized in short-term investment opportunities which would yield low return on investment. Such companies prefer to pay out the earnings and raise capital whenever needed.
B. Trend Analysis on Cost of Retained Earnings among Listed Manufacturing Firms

The study sought to ascertain the trend of the cost of retained earnings among listed manufacturing firms from 2012 to 2018 the findings are indicated in figure 2.

The findings revealed that there has been a decrease in the cost of retained earnings between 2012 and 2018 with 2012 recording the highest mean cost of retained earnings at 419134875 while 2018 recorded the highest mean cost of retained earnings at -1132064778. Retaining profit isn’t always the most popular option among a company’s shareholders. Shareholders often prefer to receive higher dividends rather than see the money reinvested to increase stock value.

C: Return on Assets of the 8 Manufacturing firms listed in NSE

The study sought to determine the mean of ROA of each of the 8 manufacturing firms listed in NSE for the 7 years the findings are indicated in table 2.

Table 2 : Return on Assets

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flame Tree</td>
<td>7</td>
<td>.00</td>
<td>.17</td>
<td>0.09</td>
<td>0.07</td>
</tr>
<tr>
<td>Unga Ltd</td>
<td>7</td>
<td>.00</td>
<td>.07</td>
<td>0.05</td>
<td>0.02</td>
</tr>
<tr>
<td>Orchard</td>
<td>7</td>
<td>.00</td>
<td>.67</td>
<td>0.18</td>
<td>0.25</td>
</tr>
<tr>
<td>BAT</td>
<td>7</td>
<td>.00</td>
<td>.41</td>
<td>0.32</td>
<td>0.08</td>
</tr>
<tr>
<td>EABL</td>
<td>7</td>
<td>.00</td>
<td>.33</td>
<td>0.21</td>
<td>0.07</td>
</tr>
<tr>
<td>Carbacid</td>
<td>7</td>
<td>.00</td>
<td>.22</td>
<td>0.15</td>
<td>0.04</td>
</tr>
<tr>
<td>Everready</td>
<td>7</td>
<td>.00</td>
<td>.49</td>
<td>0.09</td>
<td>0.31</td>
</tr>
<tr>
<td>BOC Kenya</td>
<td>7</td>
<td>.00</td>
<td>.10</td>
<td>0.05</td>
<td>0.03</td>
</tr>
<tr>
<td>Average Mean</td>
<td></td>
<td></td>
<td></td>
<td>0.14</td>
<td></td>
</tr>
</tbody>
</table>

From the findings BAT had the highest ROA (Mean= 0.32; SD= 0.08), followed by EABL (Mean= 0.21; SD= 0.07), Orchards (Mean= 0.18; SD= 0.25), Carbacid (Mean=0.15; SD= 0.04),Flame Tree had (Mean=0.09; SD= 0.07),while Everready indicated a (Mean=0.09; SD= 0.31), BOC Kenya had (Mean=0.05; SD=0.03), UNGA LIMITED (Mean= 0.05; SD= 0.02).The findings further revealed that Mumias Sugar recorded a negative return on assets (Mean= - 0.228; SD= 0.35).With an average mean score of 10.6, the study findings indicated that BAT, EABL, ORCHAD and CARBACID performed better financially between 2012 to 2018 with Flame Tree and BOC KENYA recording good returns. The findings agree with Bayaraa (2017) which showed that growth in sales, earnings per share and costs to revenue ratio influence positively the financial performance of an organization by ROA.

D: ROA from 2012 to 2018

The study further sought to determine ROA of all the 8 manufacturing firms listed in NSE for the 7 years (2012=2018) the findings are indicated in figure 2.
The findings revealed that in 2015 the 8 listed manufacturing companies had the highest level of ROA with a mean of 0.17533156 while in 2018 the 8 companies had the lowest level of ROA with a mean of 0.00866789.

E: Diagnostic Tests

Normal q-q plot is used to determine how well a variable fits to a specific distribution. In a normally distribution, the points in the Q-Q-normal plot-cluster around the horizontal line.

In the figure above, the points in the Q-Q-normal plot cluster around the horizontal line. Since the scatter dots deviate from the straight line in a minimal way it indicates that there is a normal distribution.
In the figure above, the points in the Q-Q-normal plot cluster around the horizontal line. The financial performance observation is a long straight line. This indicates normal distribution.

F. Correlation Analysis

Table 3: Correlation Analysis on the Cost of Retained Earning and financial performance of Manufacturing Firms

<table>
<thead>
<tr>
<th>Cost of Retained Earning</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.397</td>
<td>.002</td>
<td>56</td>
</tr>
</tbody>
</table>

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

A correlation analysis between costs of retained earnings and financial performance of manufacturing firms listed in NSE indicated that \( r = 0.397 \) and the \( p < 0.05 \). This shows that there is a strong positive and significant relationship between costs of retained earnings and financial performance of manufacturing firms listed in NSE. The findings agree with a study by Mung’aru (2016) who argued that retained earnings have a significant effect on financial performance of manufacturing firms.

Table 4: Model Summary of Cost of Retained Earning

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.181*</td>
<td>.033</td>
<td>.015</td>
<td>.16374480</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Cost of Retained Earning

The results show that cost of retained earnings contributed 3.3% to financial performance of the manufacturing companies listed in the NSE while 96.7% is the variation due to other factors

a) G. ANOVA of Cost of Retained Earnings

ANOVA was deployed in ascertaining the fitness of the model in predicting the relationship between cost of retained earnings and financial performance among manufacturing firms listed in N.S.E.

Table 5: ANOVA of the Cost of Retained Earnings

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.049</td>
<td>1</td>
<td>.049</td>
<td>1.837</td>
<td>.018*</td>
</tr>
<tr>
<td>Residual</td>
<td>1.448</td>
<td>54</td>
<td>.027</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.497</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predicted Variable: ROA

b. Predictor variables: (Constant), Cost of Retained Earnings
The findings show the F Value = 1.837 and the Sig. Value was .0181 > .05 hence it was concluded that the model was not suitable for predicting the relationship between cost of retained earnings and financial performance.

Table 6: Regression Coefficient of the Cost of Retained Earnings

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td></td>
<td>.130</td>
<td>.024</td>
</tr>
<tr>
<td>1</td>
<td>Cost of Retained Earnings</td>
<td>5.200</td>
</tr>
<tr>
<td></td>
<td>1.355</td>
<td>.181</td>
</tr>
</tbody>
</table>

a) H. Regression Coefficient of the Cost of Retained Earnings

The influence of the predictor variables on the value of financial performance of manufacturing firms listed on the NSE is 0.130. The findings also show that a unit change in cost of retained earnings results in a 5.200 times difference in financial performance of manufacturing organizations listed on the NSE. Based on the above results the study derived the following regression model as shown below.

\[ Y = 1.30 + 5.200X_2 + \epsilon \]

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusion

The study concluded that cost of retained earnings had moderate and insignificant relationship with financial performance of Manufacturing firms listed at the NSE, Kenya. Furthermore the study concluded that most companies fell below average in terms of retaining net income among listed manufacturing firms listed in Nairobi security exchange over the period of study (2012-2018). The findings agrees with Ghani, Ahmad, and Salim (2016) who argue that organizations should use retained earning financing as a source of business capital because of its potential (capacity) to influence business performance

B: Recommendations

From the study findings showed cost of retained earning positively influence financial performance of manufacturing firms listed at the NSE. This led to the recommendation that firms need to rely on retained earnings financing in order to overcome the massive related interest expenses payable whenever other sources like debt financing are adopted.

REFERENCES


