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## **Stock Turnover and Corporate External Financing Decision by Listed Companies in Kenya**

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### ***Abstract:***

*The study sought to determine the influence of stock turnover on corporate external financing decision by companies listed at Nairobi Security Exchange. A sample of 53 listed companies was purposively drawn and data derived from their daily and monthly trades at Nairobi security exchange for a period of 10 years from 2007-2016. The study used three proxies to measure external financing decision; Common equity offered (C.E), Straight Debt (S.D) and Covered Debt (C.D). Stock Turnover was measured by considering total daily share traded, total monthly share trades and annual share trades. The results established that equity financing decision is influence positively by an increase in a single unit of share volume traded relative to covered debt financing. Similarly straight debt financing was influenced negatively by one unit increase in share volume traded relative to covered debt financing. Holding other variables constant stock turnover was established to be significantly influencing corporate external financing decision. Therefore as the share volume traded increases by a unitary magnitude this has a significant influence on corporate external financing decision. It is therefore recommended that company managements should consider share counters and specifically market price per share at the exchange while making corporate external financing decision in order to enhance optimum corporate financing decision.*

***Keywords:*** Stock turnover, external financing decisions, listed companies

### **1. Introduction**

Economic and finance theories for decades have assumed that individuals are rational and optimal utility seekers. Proponents of traditional finance and investor rationality assumes that when investors receive new information, they update their behaviour correctly and immediately in accordance to Bayes Law(Nga & Ken Yien, 2013). Similarly investors' return experiences drives update in behaviour, and to some extent also drives updates in preferences thereby affecting the trading volume at the exchange. From the investors view of organizations' future prospects, the past organization returns positively impact investors return expectations and negatively impact investors risk perceptions, this definitely has an effect on the market price per share and ultimately the trading volume(Hoffmann & Post, 2015). These behaviours as reflected in the trading volume at the exchange could influence corporate external financing decisions(Lin, Tsai, & Lung, 2013).

Barber and Odean (2011), reviewed the documented patterns on investment behaviour in the American market. They posits that individual investors underperform standard benchmarks, they sell winning investments while holding on loosing investments. These investors are heavily influenced by limited attention and past return performance in their decision making. They engage in naive reinforcement learning by repeated past behaviour that coincide with pleasure while avoiding past behaviour that generates pain.Jiao and Yan, (2015) focused on convertible bond and heterogeneity of investor attitude on future stock returns in Europe. They empirically examines the effect of investors' heterogeneous attitudes on stock value returns. Their findings supports the predictions of Miller's model, on the implications of heterogeneous attitudes among investors to long-run stock returns.

The maintenance of an optimal external financing ratio is considered as one area where decision makers can influence the company's value and risk. In order to maintain optimum levels of debt and equity, decision makers must constantly be in control of external financing influences (Almeida & Campello, 2010). However, even after decades of active theoretical and empirical research, stock turnover influence on corporations' external financing decision remains an elusive empirical question in corporate finance.

Corporations in Kenya are experiencing liquidity challenges, Kenya airways, Uchumi supermarket, Transcentury limited, Mumias sugar company, Kengen Nakumatt Retail Store and a number of Commercial banks are among institutions facing financing and

investment difficulties (Nasieku, 2014). The Kenyan banking sector overreliance on customer deposits to finance their operations led to increased trend of high interest rate spread. The ultimate outcome of high interest rate spread was high cost of debt that resulted into enactment of legislation to cap the interest rate. Capping interest rate has led to reduced profitability and decline in performance by the banking industry (Olaka, 2017). Reduced profitability has led to an upsurge of branch closure as Kenyan financial institutions try to reorganize and restructure. Momentous efforts to revive the ailing companies in the Kenyan economy has focused mostly on financial restructuring. However studies in Kenya have indicated that managers and practitioners of different companies lack adequate guidance on attaining optimal financing decisions (Wambui & Muturi, 2014)

Behavioural finance and external financing issues have received substantial attention in developed economies, most of these behavioural finance empirical work however focuses on data derived from developed economies rather than developing markets. These markets have many institutional similarities however the studies' applicability in developing markets such as Kenya is not clearly articulated. Similarly studies done in Kenya have focused on the role of behavioural finance on investment decision making. Little has been done on influence of investors' behaviour on external financing decision making in developing market context such as Kenya. Therefore limited studies in examining influences of the firm's choice of external financing.

There is limited studies addressing the heterogeneity of investors' behaviour and its influence on corporate external financing decision in Kenya. This study therefore sought to establish the influence of heterogeneity of investors' behaviour on corporate external financing decision making consequently filling the existing gap. Therefore the following hypothesis was tested.

**H<sub>0</sub>:** Stock turnover does not significantly influence the corporate external financing decision by listed companies in Kenya.

The paper is organized as follows: the next section presents a literature review. Section 3 discusses the methodology. The empirical analysis and results are presented in section 4. Section 5 concludes the study and provides recommendation for future studies.

## 2. Literature Review

The assumptions of investor rationality have been the predominant view within financial economics for the last two decades, however more recent studies from the field of behavioural finance suggested that information plays little or no role at all in many financial decisions making both at individual and corporate level (García, 2013). Scholars have asserted that standard finance body of knowledge is built on the main pillars of the arbitrage principles of Miller and Modigliani, the Portfolio Principles of Markowitz, the Capital Asset Pricing theory of Sharpe, Lintner and Black, and the Option-Pricing theory of Black, Scholes and Merton. These approaches consider markets to be efficient, highly analytical and normative contrary to the reality (Shefrin & Statman, 2011).

Theoretically according to (Lin et al., 2013) large stock market tends often to begin and end with periods of frenzied buying (bubbles) or selling (crashes) affecting share trading volume. Many observers cite these episodes as clear examples of herding behaviour that is irrational and driven by emotion, greed in the bubbles, and fear in the crashes thereby affecting the stock trading volume. Individual investors join the crowd of others in a rush to get in or out of the market. Lin, Tsai, and Lung, (2013) classified herding into rational herding and irrational herding.

Rational herding is information-based, rational investors with similar stock preferences adopt the same response to similar information about company characteristics and fundamentals. When the herding of investors is rational in response to new information. By contrast, irrational herding occurs when investors with insufficient information and inadequate risk evaluation disregard their prior beliefs and blindly follow other investors' actions thus influencing the trading volumes.

Prospect theory developed by the psychologist Daniel Kahneman and Amos Tversky in 1979, illustrates how investors systematically violate the utility theory. Kahneman and Tversky found that most investors are averse to loss, therefore investment losses must be compensated through the presence of investment opportunities giving higher returns for most investors, these returns must be at least twice as high as the potential loss. A maximizer of prospect utility evaluates the result of his investments using a reference point, this could be trading volume of securities they trade in (Rohit, 2005).

Chen, Kim, Nofsinger, and Rui, (2007) using brokerage accounts data from China, analyzed investment decision making in an emerging market. Their study posits that Chinese investors make poor trading decisions, the stocks they purchase underperform those they sell, and this affects the stock trading turnover during trading period. Their study also posits that Chinese investors suffer from three behavioural biases: they tend to sell stocks that have appreciated in price, but not those that have depreciated in price. Consistent with a disposition effect, investors are believed to have a tendency of acknowledging gains but not losses, they seem overconfident and appear to believe that past returns are indicative of future returns as a result this behaviour affects the stock trading turnover during trading period (a representativeness bias) (Chen et al., 2007).

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Vieito, Pownall, Rocha, and Rocha, (2014), conducted a study in Portugal, analysing the neural behaviour of investors, they analyzed male and female patterns of brain activity associated with financial decision making and to what extent brain activity is different across gender. They further investigated if these differentials also occur for different types of investment decision. In particular the study focused on the decisions to buy, sell or hold stocks.

Using 40 participants (20 men and 20 women) invited to trade during a simulated investment market with 100 financial decisions, across 50 decisions traded in a growing market and 50 in market which has a tendency to decline. During the decision process Electroencephalogram technology was used to capture the brain electric activity. The findings shows that males and female use different parts of the brain to make investment financial decision agreeing with (Elliott-shircore, 2010) findings. This behavioural differentials mostly affects the trading volume at the market.

Considering the investment decisions of buying, selling or holding stocks, males activate similar parts of the brain when making all three different types of investment decisions. Whereas females appear to use different neural circuits. The study results highlight the importance of understanding exactly how risk is interpreted by individuals and that whilst many see risk as an opportunity others see it as a threat. In line with empirical findings in the behavioural finance literature, men trade more stocks and women buy more and sell less. Moreover women prefer to hold a larger proportion of the portfolio in cash and men more stocks, thereby affecting the stock trading volume (Vieito et al., 2014).

The interplay between stock turnover and various financing decisions has been of significant interest in the corporate circles. Companies strive to optimize their financing activities in order to maximize shareholders wealth ((Maali & Atmeh, 2015)). The agency costs of risky debt includes asset substitution problem to the borrowers and under-investment problem (Loncarski et al., 2008). These two issues are enhanced when corporations are not acquainted with the investors' unmet demands and therefore having adverse effects on both the interest rate spread and corporations' investment opportunities ((Landsman & Peasnell, 2008).

### 3. Methodology

The study was founded on positivist philosophical paradigm, the underlying assumptions of positivism are the belief that the social world can be studied in the same way as the natural world. Generally that there is a method for studying the social world that is value-free way and the explanation of a casual nature can be provided. Positivists assume that the researcher and the subject of the study are independent and do not influence each other (Mkansi & Acheampong, 2012). The study used data derived Nairobi Security Exchange data for 10 years trading period for 53 companies trading at NSE. The period under study was 2007 to 2016, the choice of the period was informed by the demutualization period that began in 2006. The data was extracted from NSE database. This study, was anchored on a descriptive survey research design, whose objective was to portray an accurate profile of situation. Descriptive research design is usually structured and specifically designed to measure the characteristics described by the research questions of the study (Saunders, Lewis, & Thornhill, 2009)

The population size of the research was 67 companies, however some companies had been delisted, suspended, and listed for less than five year. To enhance comparability, companies listed for less than 5 (five) years and those delisted and suspended from trading during the study period (2007-2016) were eliminated, accordingly resulting to a population of fifty three (53) companies. Secondary data for stock trading turnover was therefore collected from individual organization financial statements, CMA, and NSE database.

Stock Turnover was determined as the natural logarithm of annual stock trading volume. This was determine by taking the total daily stock trades during the trading year that ran from January to December the sum giving the annual trades per every firm's stock at the NSE. The study took the summation of trades where daily stock traded was used to construct the aggregate monthly trades and annual trades as shown in Table 1 This study only endeavoured to determine actual stock trades by being cognoscente of days within a month when trades did not take place. Therefore stock trading volume measures the content of earning announcements within the firm.

Variable	Proxy Definition	Measurement
	Input Measures	
Daily Sales Volume	X1 = Daily Sales	Sum of Stocks Traded per trading days
Monthly Sales Volume	X2 = Monthly Sales	Sum of monthly traded stock
Annual Sales Volume	X3 = Annual Sales	Total Annual Share traded

Table 1: Stock Turnover

Source: (Gregoriou & Rhodes, 2017)

This study employed a multinomial logistic regression model in determining the influence of stock turnover on corporate external financing decision. Multinomial logistic regression is often considered an attractive analysis because it does not assume normality, linearity, or homoscedasticity. Logistic regression does have assumptions, such as the assumption of independence among the dependent variable choices. This assumption states that the choice of membership in one category is not related to the choice or membership of another category in other words the dependent variable are independent of each other. The assumption of independence was tested using Hausman-McFadden test, (Starkweather & Moske, 2005).

Several preliminary tests were however performed in relation with multinomial logistic model (MNLM). The first preliminary test was the assumptions of independence among the dependent variable (IIA). There was need to make sure that during the study, there is non-violation of some of the assumptions of the classical linear regression model (CLRM) before employing the multinomial logit model. Violating some assumptions of the classical linear regression model could lead the researcher to run the risk of obtaining biased, inefficient, and inconsistent parameter estimates. Consequently, the following diagnostic tests were conducted in order to ensure proper specification of models, these tests included:

Factor analysis tests employed in the study, included the fixed effect analysis and random effect analysis. To decide between fixed or random affects a Hausman fixed random effect test was used where the null hypothesis ( $H_0$ ) was that the preferred model is random effects and the alternative hypothesis ( $H_a$ ) was that the fixed effects model was preferred, Hausman McFadden test for independence,

test for correlation, test for normality, test for serial correlation, and test for stationarity. The second section of the study sought to determine the likelihood of issuing convertibles versus seasoned stocks and straight bonds by running the multinomial logistic regression while controlling for other variables in the study.

$$Pr. (y = j) = \frac{\exp(Z_{ij})}{\sum_{j=i}^n \exp (z_{jk})}$$

Model 1: Multinomial Logistic Model

$$Pr. (y = j) = \frac{\exp(\theta Zi)}{\sum_{j=i}^n \exp (\theta z_{jk})} = \frac{1}{\sum_{j=1}^n (e^{(Z_1\beta_1+Z_2\beta_2+Z_3\beta_3+Z_4\beta_4+\dots+\sigma)})}$$

Model 2: Multinomial Logistic Control Effect Model

$$Pr. (y = j) = \frac{1}{\sum_{j=1}^n e^{((\beta_1Z_1+\beta_2Z_2+\beta_3Z_3+\beta_4Z_4+\dots+\sigma)+\beta_6Z_5)}}$$

Where j = 1, 2, 3 stands for unordered choices for convertible offerings, straight bond offerings, and seasoned stock offerings, respectively. The vector of independent variables are proxies for the Heterogeneity of investor behaviours:  $Z_1$ = Stock Turnover. The controlled independent variables included  $Z_2$ = Market Price per Share,  $Z_3$ = Earnings per Share,  $Z_4$  Idiosyncratic volatility (Beta),  $Z_5$  = Total Assets,  $Z_6$ Market Capitalization,  $Z_7$  = Firm Leverage.

**4. Results and Discussion**

The study focused on companies listed at Nairobi Security Exchange from the year 2007 to 2016 excluding companies with less than five year listing period. The study involved an analysis of panel data for a period of ten-year, fixed effects panel regressions were carried out to establish the influence of heterogeneity of investors behaviour on the choice of financing option taken by corporate managers of companies listed at Nairobi security exchange. Nairobi Security Exchange has a total of 11 sectors as shown in table 1. Data was collected from 53 companies representing the 11 sectors at the NSE as shown in Table 1.

The population of 53 listed companies was arrived at after excluding 14 companies listed for less than 5 years, those delisted and deregistered companies. The NSE has two sections the equity section and the debt market section. The equity market at NSE is divided into two segments, the Main Investment Market segment and the Alternative Investment Market Segment. The Main Investment Market segment constitute the following sectors, the Agricultural Sector, Automobile and Accessories, Banking, Commercial and Services, Construction and Allied, Energy and Petroleum, Insurance, Manufacturing and Allied, Telecommunication and Technology Segment. Real Estate Investment Trust, Investment Services and Exchange Traded Funds as shown in Table 2

Sector	Data Collection		
	Target	Actual	Percentage (%)
Banking	11	11	100
Manufacturing and Allied	10	8	80
Insurance	6	5	83.33
Commercial and Services	12	7	83.33
Energy and Petroleum	5	4	80
Construction and Allied	5	5	100
Agricultural	6	6	100
Investment	5	3	60
Automobile and Accessories	3	3	100
Telecommunication and Technology	1	1	100
Real Estate Investment Trust	1	0	0
Investment Services	1	0	0
Exchange Traded Funds	1	0	0
Total	67	53	79.10

Table 2: Secondary Data Actual Response

Three sectors dominates the NSE in terms of the number of companies listed at the NSE this includes the Commercial and Services, Banking and Manufacturing and Allied. Commercial and Services sector has the highest number of trading companies totalling twelve, data from seven companies under this sector was collected. Banking sector had 11 listed banks that had been listed for more than 5 years. Therefore 100% response rate. Manufacturing sector has 10 listed companies and 80% were included in the study due to shorter listing period.

Insurance sector has 6 listed companies one was excluded leaving 5 companies that formed 83% followed by Energy and Petroleum sector that has 5 trading companies. The Stanlib Fahari is the only trading company in REITs sector since the Real Estate Investment Trust was introduced in 2015 this was excluded from the study. Financial and non-financial companies in Kenya have embraced

equity external financing by floating common equity through IPO or by private introduction this has led to growth of the market for the last 10 years (CMA, 2014). The research focused on the secondary data collected from these institutions for a period of ten years (2007-2016).

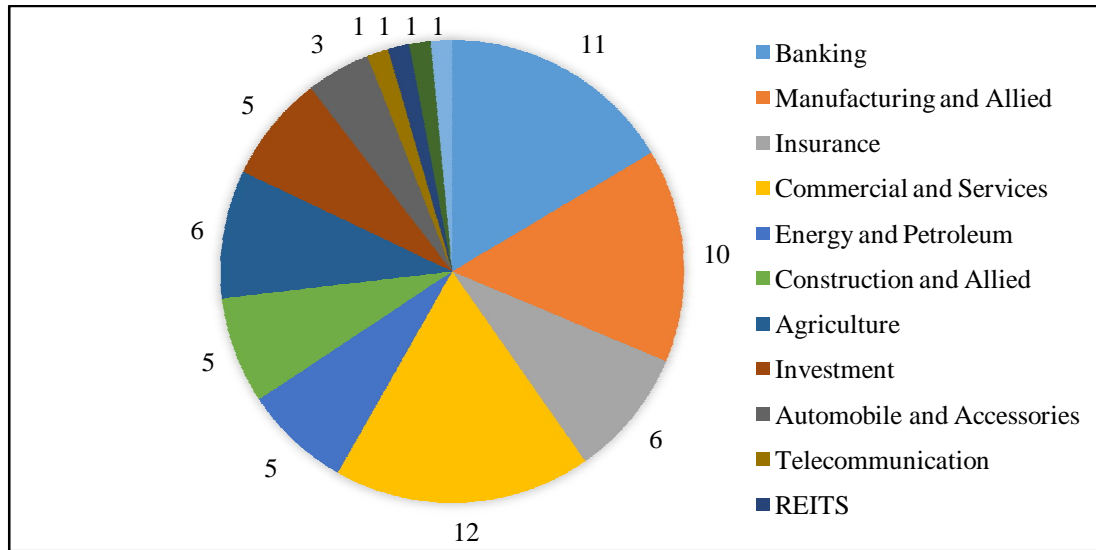


Figure 1: Sectors Listed at NSE

4.2. Descriptive Statistics

The findings as shown in Table 3 show that the stock turnover standard deviation between the firms is higher compared to within the firms. This is also shown by the high variation between the minimum and maximum units observed in the study. The period under study 2007-2016 signifies a period when the country was going through 2007/2008, post-election violence and the International Criminal Court process. The 53 firms in the study were faced with political and economic conditions during this period that resulted into high overall and between the firm variations. Volatility in the macroeconomic conditions of a nation has a direct impact on the trading potential of its citizens as local investors and even foreign investments through FDI (Nyamita, Garbharran, & Dorasamy, 2014). These conditions within the varied sectors could be the cause of the variability within and between the firms under study.

Proxy Variable	Obs	Sum of Wgt	Mean	Std. Dev.	Variance
Stock Turnover	530	530	6.778211	1.450816	2.104868

Table 3: Descriptive statistics for Stock Turnover

Overall average share traded for the period of the 10 years had a log. Mean of 6.778211 translating to a Mean of 6000825.528 with an overall standard deviation of 1.450816 and between the firms' standard deviation of 1.170787 and within the firms' standard deviation of 0.8703138 as shown in Table 3 High dispersion is attributed to variation of the Market Price per Share affected by different economic and political situation. The year 2007/2008, 2012/2013 and 2016 experienced heightened political activities compounded by post-election violence in the year 2008 and drought that could have caused the high variance in the Market Price per Shares. Based on the kurtosis and skewness data as shown by Table 4, the distribution of the data is not normal.

Proxy Variable		Mean	Std. Dev.	Min	Max	Observations
Stock Turnover	Overall	6.778211	1.450816	0	9.618093	N 530
	Between		1.170787	3.596910	9.484671	n 53
	Within		.8703138	2.373534	10.63034	T 10

Table 4: Panel Data Summary Statistics

4.2.1. Visual Plot

Figure 5 visual plots shows the shape of Annual share traded curves over the study periods(Michael, 2004). The plots have a trend that is moving upwards, indicating that the stock turnover had an upward trend over the study period 2007 to 2016. The troughs and peaks as indicated by the detrended logistic plot indicates the changes in investors behaviour and attitude towards a specific listed company therefore leading fluctuation in volume traded over the study period. Therefore positing varied investors behaviour towards the listed companies at NSE during the study period (Lin et al., 2013).

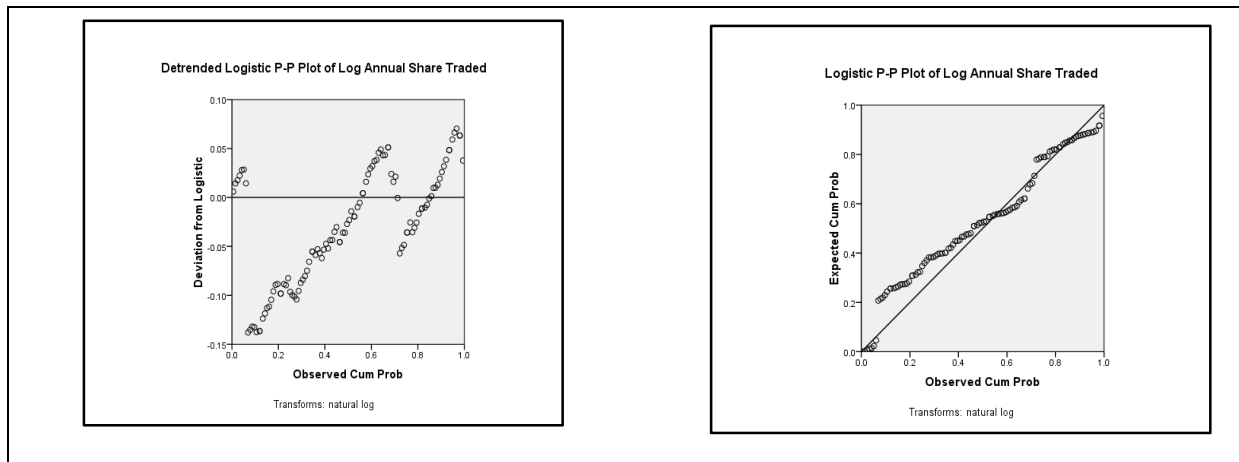


Figure 5: Stock Turnover Visual Plots

4.2.2. Correlation Analysis

The findings of the correlation analysis presented in the Table 5 indicates that the correlation coefficients were all significant with P-value less than 0.05. Market price per share negatively correlated with Stock turnover with a correlation coefficient of -0.1439 the relationship is a weak negative correlation. Stock Turnover negatively correlated with Earnings per share with a Correlation Coefficient of -0.1362, this relationship was a weak negative correlation

Total Assets was positively correlated to Stock Turnover with a correlation coefficient of 0.3669, this relationship was a weak relationship. Idiosyncratic volatility was positively correlated to Stock Turnover with a correlation coefficient of 0.0060. Market capitalization was positively correlated to Stock Turnover with a correlation coefficient of 0.2374.

	Market Price per Share	Stock Turnover	Earnings Per Share	Total Assets	Idiosyncratic Volatility	Market Capitalization
Market Price per Share	1.0000 (0.0000)					
Stock Turnover	-0.1436 (0.0007)	1.0000 (0.0000)				
Earnings per Share	0.3495 (0.0310)	-0.1362 (0.0102)	1.0000 (0.0000)			
Total Assets	0.0601 (0.0022)	0.3669 (0.0011)	0.0092 (0.0061)	1.0000 (0.0013)		
Idiosyncratic Volatility	0.2147 (0.0000)	0.0060 (0.0000)	0.0579 (0.0000)	0.0904 (0.0000)	1.0000 (0.0000)	
Market Capitalization	0.2550 (0.0000)	0.2374 (0.0011)	0.1672 (0.0000)	0.3038 (0.0000)	0.0641 (0.0000)	1.0000 (0.0000)

Table 5: Correlation Coefficient Matrix for Heterogeneity of Investors Behaviour (P-value in parenthesis)

4.2.3. Autocorrelation Analysis

A key assumption in regression is that the error terms are independent of each other. In this section the result of the test to determine whether there is autocorrelation (serial correlation), i.e. where there is a (linear) correlation between the error term for one observation and the next using Durbin-Watson test is presented. This is especially relevant with time series data where the data are sequenced by time. According to Cochrane, (1997), a value of *d* between 1.5 and 2.5 means there is no autocorrelation. The result of the analysis gave a DW coefficient of 2.039. Therefore the result proved that there is no auto correlation in the 10 years secondary data as shown in Table 5

Test	Durbin Watson
Value	2.039

Table 6: Autocorrelation Results

4.2.4. Normality Analysis

Inferential statistics are meant to infer whether there is underlying relationship within the respective variables for purposes of sequential analysis. The dependent variable was subjected to normality test to check whether the data provided was normally distributed or not. This was evaluated to test how far the data was normal to test for one sample Shapiro-Francia test. Tests for normality calculated the probability that the sample was drawn from a normal population.

The hypotheses used were:

→ Ho: The sample data are not significantly different than a normal population.

→ Ha: The sample data are significantly different than a normal population

For a linear model to fit to some given data, the dependent variable (heterogeneity of investors' behaviour) had to be normally distributed. Shapiro-Francia test is appropriate test for normality. The coefficient value *W* closer to 1 indicates that the data is normal. Accepting the null hypothesis that the sample data are not significantly different than a normal population. According to the findings in Table 7 the distribution of the correlation was strong as indicated by the clustering of *W* coefficient values just under 1.000. Indicating that the data is normally distributed (Mbah & Paothong, 2017).

Variable	Obs.	W	V	Z	Prob>z
Stock Turnover	530	0.91335	32.806	9.985	0.00001

Table 7: Shapiro-Francia *W* Test for Normal Data

#### 4.2.5. Stationarity Analysis

A unit root test was done to determine if the panel data was stationarity or non-stationary. Assuming a random observation (Efficiency of firm *i* at time *t*) the following stochastic model was tested. The study employed Levin-Lin-Chu test, Harris-Tzavalis and Fisher-type based Dickey-Fuller test to test for stationarity of the panel data, the advantage of this tests is that it allows for unbalanced panels. The results shown on Table 8 are based on Levin, Lin & Chu *t* (LLC), Harris-Tzavalis (HT) and Augmented Dickey and Fuller (ADF). However, irrespective of the test used, the analysis on Table 8 shows that the null hypothesis (the data is non-stationary and has a unit root) is strongly rejected. This means individually each company variable observation over 2007-2016 period is stationary and does not require any adjustments (Abu Hassan Shaari, 2013).

VARIABLE	TEST	STATISTICS (Adjusted)	Z	P - Value	
Stock Turnover	Levin-Lin-Chu	t	-20.8625	0.0000	
	Harris-Tzavalis	Rho	0.2446	-2.6575	0.0039
	Fisher type Based on Augmented Dickey-Fuller tests	P	293.6883		0.0000
		Z	-7.3261		0.0000
		L*	-9.1171		0.0000
Pm		12.8905		0.0000	

Table 8: Panel Unit Root Test Summary

#### 4.3. Regression Analysis

The results of the study as shown in Table 9 indicate that the standard errors of all the independent variables are less than 2.0 and the unit change in the dependent variable increases the odds of modelled events of all the independent variables by less than 10 times. All this show that there is no problem of multicollinearity and that the model is appropriate for the interpretation of the results. The reference category of the study was covered debt financing, this parameter is zero because it's redundant. The influence of Stock Turnover on the dependent variable (external financing decision) had an Exp (B) value of 1.677 which implies that a one unit increase Stock Turnover increased the odds for equity financing decision relative to covered debt financing decision.

The corporate common Equity financing decision was influenced positively to a large extent by a factor of 1.7. The results show that the variable has an un-standardized coefficient of 0.517 with a significant outcome of 0.034 where the statistical P-value  $\leq 0.05$ . Therefore this variable is significant. The results reveal this as one of the variables with high probability and statistically significant since the  $P < 0.05$ . Theory suggests that securities that have had low-trading volume in the past must demand an illiquidity premium compared to securities with high trading volume therefore trading volume influences external financing (Sehgal & Vasishth, 2015).

The standard error for straight debt financing variable was less than 2.0 as shown in Table 9. The results of this study indicate that the standard errors of all the independent variables are less than 2.0. This show that there is no problem of multicollinearity and that the model is appropriate for the interpretation of the results. The influence of Stock Turnover (X1) on the dependent variable (external financing decision) had an Exp (B) value of 0.995 which implies that a one unit increase in Stock Turnover decreased the odds for Straight debt financing decision relative to covered debt financing decision. The corporate straight debt financing decision was influenced negatively by a factor of 0.995. The results show that the variable has an un-standardized coefficient of 0.273 with a significant outcome of 0.014 where the statistical P-value  $\leq 0.05$ . This variable is significant since it has a computed P-value of 0.140 that is higher than the statistical  $P \leq 0.05$ .

External Financing Decisionsa		B	Std. Error	Wald	d.f	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
								Lower Bound	Upper Bound
Equity Financing	Intercept	-3.100	1.594	.031	1	.036			
	Stock Turnover	.517	.280	1.423	1	.034	1.677	.970	2.901
Straight Debt Financing	Intercept	7.275	17.923	.165	1	.044			
	Stock Turnover	.273	.294	.863	1	.014	.995	.739	2.337

Table 9: Stock Turnover on corporate external Financing Decision

#### 4.4. Hypothesis Testing

The nested model fit was significant with a final -2 likelihood ratio of 906.016, a chi<sup>2</sup> of 189.882, and a significant value of 0.009 which is less than statistically  $P < 0.05$ . This indicates that full model predicts significantly better, or more accurately the influence of heterogeneity of investors behaviour on corporate external financing decision. To get the expected  $\beta$  values, the 'Exp' function applied to the coefficients was used. The Exp ( $\beta$ ) was the odds ratio associated with each predictor. Predictors that increased the logit displayed Exp ( $\beta$ ) greater than 1.0, while those predictors that did not have an effect on the logit displayed Exp ( $\beta$ ) of 1.0. Predictors that decreased the logit had Exp ( $\beta$ ) values less than 1.0. The results of this study as depicted in Table 9 was used to decide whether to accept or reject the study null hypotheses (H<sub>0</sub>). The covered debt financing was used as the base category.

The null hypothesis, H<sub>0</sub>: The Stock Turnover does not significantly influence the corporate external financing decision. The parameter estimate result shows that the influence of stock turnover ( $Z_1$ ) variable on equity financing has a P-value of 0.034 which is lower than Statistical P-value  $< 0.05$ . Therefore the variable Stock turnover significantly influences equity financing decision. The influence of stock trading turnover ( $Z_1$ ) variable on straight debt financing has a P-value of 0.014 which is lower than Statistical P-value  $< 0.05$ . Therefore the variable Stock trading turnover significantly influence straight debt financing. Therefore there is evidence to reject the null hypothesis and accept the alternative hypothesis that Stock turnover significantly influence corporate external financing decision.

#### 5. Conclusion

The forces driving firms' external financing decisions in developed capital markets appear to hold to the some extent in emerging market settings, and generalising in such a manner might therefore be appropriate. Future developments, especially in the bond market, could usefully guide financial decision-makers to think in a different way and adopt more sophisticated models in order to reach the ultimate objective of maximizing the wealth of their respective organizations. Issuing equity alone clearly dominates issuing debt alone since the value of equity is much more sensitive to the behaviour of outside investors than the value of both straight and covered debt. Therefore, if outside investors are much more optimistic than firm insiders, equity will be much more overvalued than straight debt based on insiders' behaviour.

Differences in investors' behaviour induce trading, stocks turnover, stock with more divergent beliefs among investors tend to have higher trading volume. Stock trading volume has been used to proxy for belief differences. The higher standard deviation of stock turnover was attributed to the economic and political situations within the country during the study period. The corporate agents are significantly influenced by stock turnover when making external financing decision. Common equity financing is positively influenced by stock turnover relative to covered debt financing.

Similarly stock turnover negatively influences the straight debt financing decision relative to covered debt financing. The aim of this research was to determine the influence of investors' behaviour on corporate external financing decision-making and to address the question as to whether investors' behaviour influences external financing decision. This study focused on quantitative considerations of financial decision making by companies listed at NSE. This particular study helped to answer the influence of heterogeneity of investors' behaviour on corporate external financing decision. The study analysis disclosed that the stock turnover influenced the choice of external financing.

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