Influence of Cash Flow Trends on Shareholders Returns among Manufacturing and Allied Companies Listed in the Nairobi Securities Exchange, Kenya

[1]Kariuki Simon Gathu, [2]Kibati, Patrick
[1]*School of Business, Jomo Kenyatta University of Agriculture and Technology, Kenya*
[2]*School of Business, Kabarak University, Kenya*
Corresponding Author: [1]Kariuki Simon Gathu

Abstract: *The study investigated the effect of cash flow trends on shareholders returns among listed manufacturing and allied companies in Kenya. Over the recent times most of these firms have been showing serious cash flow difficulties. The specific objective of the study was to examine the influence of cash from financing activities on shareholders' returns. The free cash flow theory guided the study. The study adopted a descriptive research design. The target population comprised of accounts and finance staff working with the aforementioned entities. The study population constituted 227 such staff. A sample of 54 respondents was obtained using stratified random sampling technique. The data collected were processed and analyzed using Statistical Package for Social Science Version 24 software. The results of the analysis were presented using tables. The study found that cash flows from financing activities significantly influenced shareholders' returns ($t=6.821$; $p < 0.05$). The study concluded that cash flows from financing activities were highly important. The study recommended that manufacturing and allied firms should increase the payment of dividends*

Key Words:*Allied companies, cash flow from financing activities, cash flow trends, manufacturing companies, Nairobi Securities Exchange, shareholders' returns*

I.   Introduction

The success of corporate entities including manufacturing and allied companies depends on efficient management and utilization of cash flows. Cash flow is a key matrix that shows liquidity position of a company [1]. Cash flow involves the amount of cash and cash equivalent that a firm receives or gives out through payments. Cash flow indicates the amount of money coming in and out of the company [2]. The inflow may include receivables and receipts from customers while cash outflow includes payments of organization overheads which include mortgages, taxes, accounts payables and taxes.

In accounting and finance cash flow involves the amount of money available at the beginning of the financial period and money at the closing of the company fiscal year [3]. A positive cash flow occurs when there is a higher closing balance as compared to the opening balance. Cash flows statement among the three components that make up a company financial statement. Cash flow is classified into three categories namely cash flows from operating activities, investing activities and cash flow from financing activities [4].

Manufacturing and allied sector contribute to a significant proportion of the world GDP, in particular among the developed countries. The global manufacturing sector continued to expand where Europe continue to dominate the list of the top global economies that have the higher volume of manufactured exports. Also, China, Korea, United States and the UK are among the top economies that form a significant proportion of manufactured items for exports [5]. Manufacturing is a tenth largest sector of the U.S economy; it contributes a total value in the U.S economy amounting to 1.84 trillion dollars in 2011. The United States tend to produce most of the manufactured goods and services and are followed closely by China, Japan, and Germany. Other emerging economies like Brazil and Indian economy have been shown significant improvement in their manufacturing volumes. The America manufactures account a larger amount of production than India, Korea and Canada [5].

The manufacturing sector in Africa has been facing numerous challenges which inhibit its growth. Lack of proper production capacities and enough industries in Africa explains the reasons why Africa still lags behind development. In 1970's Africa contributed to 30% of manufacturing output in the world economy. However, in 2010 the level of African output has declined significantly to 1.5 %. Such decline explains the reason why there have been higher cases of unemployment and manufactured export products [6].It is indicated that the Kenya manufacturing sector has been contributing 13% to the GDP every year for the past five years up

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to 2009 when the GDP declined to 1.3% [7]. However, the GDP attributed to manufacturing and allied sector increased to 4.5% in 2010 and later dropped to 3.3% in 2011.

There are nine firms in Kenya Listed in under manufacturing and allied sector in the Nairobi Security Exchange (NSE).Currently, Kenya has sixty-seven listed companies in the NSE whereby the companies fall under two segments namely main and alternative segments. All the listed firms in the Nairobi securities exchange are classified based on the economic sectors in which they operate. There are ten sectors in the NSE each containing several companies. The study focused on the nine firms because Eveready East Africa had already been delisted and hence reducing the number to nine firms operating in manufacturing and allied sector [8]. There has been a sharp declining in the manufacturing and allied sector GDP since 2011. Statistics showed that in 2014 the Kenya manufacturing and allied sector grew at a rate of 3.2% and increased slightly to 3.5% in 2015 which led to a contribution of 10.36 in Gross Domestic Products [9]. However, despite a slight improvement in growth of manufacturing and allied sector, the GDP attributed to manufacturing, and allied sector has been declining.

II. Statement of the Problem

In the past few years, several manufacturing and allied companies in Kenya have been facing critical cash flow problems to finance their operation. For example, Eveready East African Limited, Mumias sugar, Unga group and others have been showing a decline in performance. Most of those companies have been facing severe cash flow problems. Mumias have been highly levered, and could not secure additional financing through borrowing and hence bringing its operation to a halt. The government had to intervene to revive the company by injecting over 3.2 billion shillings to boost its cash flow and ensure that its operations return to normalcy. The manufacturing sector has been identified as one of the key sectors to support the Kenya Vision 2030 strategy. Economic Survey in 2012 was conducted and compared revised growth of 4.5 percent in 2010. The survey showed that the manufacturing sector contribution to GDP worsened from 9.6 percent in 2011 to 9.2 percent in 2012, while the growth rate deteriorated from 3.4% in 2011 to 3.1% in 2012. The Global Economic Report of 2012 to 2013 indicated that surviving firms have less debt outstanding than those companies that have cash flow crises. The average ratio of total debt to total assets is still very high at 87.68 Percent in the surviving firms, with a median value of 81.10 percent. On average 36.90 percent of the assets of surviving firms are financed through debt. Research indicates that approximately 40% of the manufacturing companies are owned by foreign entities and tends to control a significant proportion of the Kenyan market share [6]. Among the foreign owned manufacturing companies include but not limited to common brands such as Coca-cola, General Motors, coca cola. Most of the Kenyan owned firms have been reporting millions of losses. They lack adequate cash flows to sustain their operations. The study aims to investigate the effect of cash flow on shareholders returns among listed manufacturing and allied companies in Kenya. There is no specific research that has been carried out in Kenya to determine how cash flows affect the shareholder's returns.

III. Objectiveof the Study

To establish influence of cash flow from financing activities on shareholders returns among listed manufacturing and allied companies listed in the NSE

IV. Research Hypothesis

H_{01}: There is no significant influence of cash flow from financing activities on shareholders returns among manufacturing and allied companies listed in the NSE.

V. Theoretical Review

5.1 Free Cash Flow Theory

Free cash flow theory was established by Jensen in 1986. The theory argues that firms that generate excess cash as compared to the fund required to finance a project that has a positive Net Present Value, tend to face greater agency problems because free cash flow tends to heighten conflict of interest between managers and shareholder [10]. Corporate manager of listed firms that have higher levels of free cash flows tends to initiate investment that reduces the firm value. Most of such managers initiate takeovers and other investments projects that may not add value to the company. Jensen further argued that listed companies that have more free cash flows face a lot of pressure to pay the excess cash flows to the shareholders rather than invest the money into investment opportunities that are less profitable. More pay out to shareholders increase the price of shares due to higher demand by investors to buy stocks of a company that is paying higher dividends [11]

Jensen argues that a firm that tends to retain excess cash reduces the available investment marginal utility which consequently causes a decline in value of its shares. When there is a deterioration in the stock price of a company that has more free cash flow happens, such a firm become less attractive not only to the investors but also to the takeovers firms [12]. Jensen argued that such excess free cash flows should not be retained in the

business because such funds could be invested in more profitable opportunities or it could be paid out to the investors who could consequently help to increase the value of company shares. Jensen in his free cash flow theory postulated that in most big firms especially those listed on recognized stock exchanges such as New York, London, and Nairobi Stock exchange face agency problems between stock holders and managers. Managers tend to have a conflict of interest with stock holders as they undertake investment projects that are contrary to the interest of owners [13].

The most affected stock holders are the individual stock holders who hold fewer shares in a company as compared to corporate shareholders. Individual shareholders lack incentives to control and monitor the affairs of the company, and hence they become prone to the abuse of the directors. The only remedy that such individual investor may pursue when they become frustrated by the manner in which directors are misusing company cash flows is to sell out their shares. On the other hand institution, investors may have the power to reduce agency problem because they hold bulk of stocks and it is difficult for them to sell on the stock markets. Therefore, institution investors play a critical role in monitoring managers, and to some extent, they may initiate and remove using their higher voting right attributed to a large number of share ownership that they have in the company [14]. Jensen in his theory of free cash flow suggested that agency problem can be reduced by ensuring that the firm is committed in debt whereby managers will be forced not to misuses free cash flows because they have a debt contract they have to honour. However, care should be taken because greater reliance on debt escalates interest rates risks which may consequently lead to project failure [15].

Jensen theory was found to be relevant to this study because it support the reason why cash flows should be effectively managed by reducing conflict of interest between shareholders and the directors to ensure that shareholders wealth is maximized. Also, the theory supports the shareholders return variable used in this study by identify how cash flow should be managed to ensure that shareholders gain derive value for their investments in a company [16].

VI. Empirical Review
6.1 Cash flows from Financing Activities and Shareholders Returns
Cash flow from financing activities involves the amount of cash flow and outflow relating to non-current owners equity and noncurrent liabilities [4]. Cash flow from financing activities includes sales and re-purchasing of ordinary shares, payments of dividends and long-term debts. Cash from issuing stocks is part of cash flow from financing activities categorized as cash inflow received by the firm as a result of selling share. Under the financing activities, cash inflows include amount sales proceeds that are obtained from the sale of stocks, long and short term borrowings. Cash flows from financing activities involves three main transactions namely securities transactions, loan, and dividends transaction. Cash outflow that falls under financing activities includes dividends paid to equity stock owners, payments of account payables, and loan repayment.

Securities transactions are part of Cash flows from financing activities and involve issuance and purchase of shares [17]. When form issue stocks to the public it increase its cash flows from financing activities as security buyers subscribe for stock in exchange for cash. However, when a company issues shares, it tends to dilute company ownership by increase additional owners into the enterprise. Such additional owners may influence the company decision and control. Issue common stock is not a bad thing because it is one way of raising additional capital for business expansion. However, it tends to dilute company ownership. Besides, selling additional shares implies that fewer shareholders returns may be realized to the existing shareholders because if a company makes profits and decide to distribute the benefits in the form of a dividend to shareholders, each share holders may end up receiving fewer returns because of their large number [18].

There is no direct relationship between cash flows from financing activities and shareholders returns. However, shareholders returns may be passed by looking for some dividends that are paid to shareholders by a company in each financial year. A dividend is another measure of shareholders return and a component of financing cash flow [19]. Dividends are outflows that fall under financing activities. When a company pays higher dividends to shareholders, it means that shareholders returns are higher. On the contrary, higher dividends payments tend to reduce the number of cash flows from financing activities. It is imperative to evaluate individual line items in cash flow statements to find out how each item affects the overall firm cash flows [20]. For example, a company that decreases the number of dividends it has been paying to its shareholders in the previous period is a wrong signal that the company is facing difficulties or is having some financial problems.

However, depending on the dividend policy of the company it is not common to see that some firms do not pay any dividend to their shareholders which does not imply they are facing financial problems. Such firms that do not pay a dividend may have concentrated on expanding the company. Other firms may not pay a dividend because they have focused on business growth [21]. Loan repayments are another important aspect of cash flow from financing activities. Payment of loan to the bank tends to reduce cash flows from financing activities because it involves the movement of cash out of business. However, payment of interest on the loan is

not included as part of financing cash flow because in terms payments are considered as part of normal business operations, and hence it is factored as a component of cash flows from operating activities [18]. Cash flow from financing actives may be obtained by adding cash from issuing stock stocks, payment of debt and cash incurred in Paying cash dividends.

VII.   Conceptual Framework

The conceptual framework as shown in Figure 1, is a diagrammatic illustration of study variables and how they are hypothesized to relate. The independent variable was cash flow from financing activities. The dependent variable used in the study was shareholders' returns which was measured using earnings per share ratio. The framework held that shareholders' returns were influenced by cash flows from financing activities.
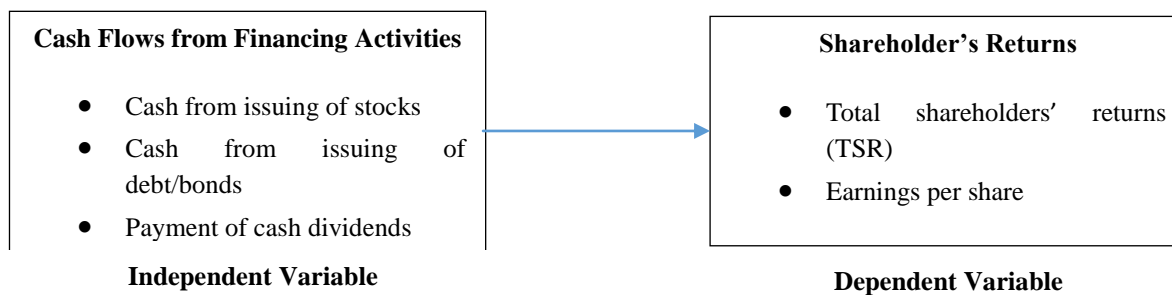
Cash Flows from Financing Activities	**Shareholder's Returns**
• Cash from issuing of stocks • Cash from issuing of debt/bonds • Payment of cash dividends	• Total shareholders' returns (TSR) • Earnings per share
Independent Variable	**Dependent Variable**

Figure 1: Conceptual Framework

VIII.   Methodology

This part covers research methodologies and techniques that were used to conduct the study. The section includes the research design that was employed to carry out the study. Also, the chapter identified data collection, procedure, and techniques to analyze the data. The section included population being targeted, sample size and sampling techniques as well as instruments that were utilized to gather data.

8.1 Research Design

It is stated that a research design is a plan and structure that can be used to investigate, and to provide answers to the research questions [22]. Research design helps to express research problem and provide a plan that was employed to obtain evidence that supports the study [23]. This study used descriptive research design because of it helpful at investigating cause and effect relationship between independent and dependent variables and hence making it more appropriate at examining effects of cash flows on shareholders return among listed manufacturing and allied firms in Kenya. Descriptive research design assisted in conducting an advanced level analysis like regression and correlation analysis that helped to establish the nature and extents of the relationship between the independent and dependent variables discussed in this study [24]. Quantitative secondary data was collected from the published financial statements. In addition, primary data was collected from finance officers and accountants of the nine manufacturing and allied firms listed in the Nairobi Securities exchanges

8.2 Target Population

In research, a population is a whole group that the research is focusing on. It includes the entire elements where the researcher focuses on making inferences from past observations [22]. The target population for the study constituted the accounts and finance staff working with the 9manufacturing and allied firms listed in the Nairobi Securities Exchange as at January 2017.The reason for choosing the afore stated was because there was limited research that had hitherto been conducted in relation to cash flow trends and shareholders' returns among listed manufacturing and allied companies in Kenya**.** A total of 227 accounts and finance officers working with the aforestated firms comprised the study population.

8.3 Sampling Frame

A sample is a representative and manageable subset of the entire population where significant estimates and inferences pertaining the whole population can be obtained [25]. A sampling frame is a list of all those item or element in the population. In this case, the sampling frame was made up of accounts and finance staff working with all listed manufacturing and allied firms in Kenya. The sampling frame is as shown in Table 1.

Table 1: Sampling frame

Name of Firm	Accountants	Finance Officers	Sub-Total
B.O.C Kenya Ltd	15	8	23
BAT Kenya Ltd	17	12	29
Carbacid Investments Ltd	8	7	15
EABL Ltd	24	14	38
Eveready East Africa Ltd	9	4	13
Frame Tree Group Holdings Ltd	12	7	19
Kenya Orchards Ltd	13	8	21
Mumias Sugar Co. Ltd	21	16	37
Unga Group Ltd	20	12	32
Grand Total	**139**	**88**	**227**

8.4 Sample Size and Sampling Technique
The study employed the Nassiuma'sformula to calculate the sample size as shown below.

$$n= \frac{N \times C^2}{C^2+(N-1)e^2}$$

Where:
n = sample size
N = Study population
C = Coefficient of Variation (21% - 30%)
e = Error margin
The above equation was substituted as illustrated below:

$$n= \frac{227 \times 0.21^2}{0.21^2+(227)0.025^2}$$

$$n = 54.0$$

n =54 respondents
The sampling technique used was stratified random sampling because the distribution of finance and accounts staff across the nine listed manufacturing and allied firms as shown in Table 3.1 varied across the entities. This sampling method ensured that there was proportionate representation of all the nine firms hence reducing sampling bias.

8.5 Research Instruments
The study employed secondary data and primary data whereby secondary data was obtained from published financial statements of the manufacturing and allied companies in the NSE. Primary data was collected using structured questionnaires from the targeted respondents. Secondary data was recorded in a data collection sheet. A data collection sheet is an important tool for collecting data [26]. Data collection sheet has been included in the appendices.3. The data collection sheet included data on net cash flow from operating activities, net cash flows from investing activities, and net cash flow from financing activities. Also, data on shareholders return for each firm under investigation was also being recorded.

8.6 Data Collection Procedure
The study reviewed relevant books, published financial statements and annual financial reports from 2007 to 2016 in relation to listed manufacturing and allied firms in Kenya. In addition, primary data were collected using self-administered questionnaires. The questionnaires were distributed within three days and collected thereafter.

8.7 Pilot Testing
Pilot study involves pre-testing questionnaire to test validity, credibility and accuracy of the research questions prior to the actual collection of data from actual respondents [27]. The pilot study was conducted in Nakuru town prior to administering the research questionnaire on the actual respondents in Nairobi. The respondents for pilot study were drawn from the branches of listed manufacturing and allied firms in Nakuru town. The rationale of conducting the pilot study was to determine both validity and reliability of the data collection tool. Validity was determined through consultation with the University supervisor whose views were deemed sufficient in determining the content validity of the research questionnaire. The Cronbach's alpha coefficient was used to test the reliability of the data collection instrument. The results of the reliability testing are as shown in Table 2.

Table 2: Reliability Test Results

Study Variable	Test Items	Alpha Coefficient
Cash flow from financing activities	7	0.78
Shareholders' returns	7	0.85

As shown in Table 2, it is clear that all the four study variables (flow from financing activities, and shareholders' returns) returned Cronbach alpha coefficients greater than the recommended threshold of 0.7. Therefore, the research questionnaire was found to be reliable.

8.7 Data Processing and Analysis

The collected data were processed with the aid of the Statistical Package for Social Sciences (SPSS) Version 24 tool. The data were reviewed for completeness, accuracy, consistency, and relevance prior to analysis. The analysis incorporated both descriptive and inferential statistics. It is stipulated that regression model can be employed in explanatory research to predict the value of a dependent variable based on independent variable values [28]. Therefore, a regression model was utilized in this study to determine the effect of each cash flow trend variable on the shareholders' returns. The following regression model was used:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Where:

Y = Shareholders' returns

β_0 = Constant

X_1 = Cash flow financing activities

ε = Error term at 95% confidence level

β_1 = Regression coefficient

Total Shareholders Return (TSR) was determined using the following formula:

$$TSR = \frac{Pe - Pb + Dividend}{Pb}$$

Where

Pe = Price at end

Pb = Price at the Beginning

The reason why Total Shareholders Return (TSR) ratio was used is because unlike other ratios it measures both dividends paid and share price appreciation. The reason why the study employed TSR ratio is because unlike other measures of shareholders return such as ROE which focuses more on measuring firm profitability, TSR ratio tend to be a direct measure of total shareholders receive at the end of a given financial year. However, due to limitation of earning per share where some firm may report their earning per share based on operating cash flows instead of net income, earning per share will be complemented TSR.

The test for significance of the regression model involved the use of F-test to measure multiple variables which in this case included operating cash flow, investing cash flow and financing cash flow. The F-test framework has two frameworks namely restricted and unrestricted framework which helps to explain variation in the independent variables [28]. The coefficient of determination (R^2) represents the explained variation. It involves the sum of squares due to regression divided by the total sum of square. A coefficient of determination of 1 implies that regression line has perfectly fitted the data. R^2 is the explained variation of the dependent variable [29]. The results of the analysis were presented in form of tables.

IX. Results, Interpretations and Discussions

This section captures the response rate, and the results of data analysis in respect of cash flow trends and shareholders'' returns amongst manufacturing and allied firms listed in the NSE. The results, which are both descriptive and inferential, are accompanied by pertinent interpretations and discussions.

9.1 Response Rate

The number of questionnaires that are filled and returned by or collected from the respondents against the total number of questionnaires issued constitutes the response rate. The researcher had issued a total of 64 questionnaires to the respondents, out of which, 40 were filled and returned. This represented 62.5% response rate.

9.2 Descriptive Results and Interpretations

The study analyzed the views of the finance officers and chief accountants regarding cash flow trends and shareholders returns in their respective firms. Their views were captured on a Likert scale where 'strongly disagree', 'disagree', 'not sure', 'agree, and 'strongly agree' were represented by integers 1, 2, 3, 4, and 5 respectively.

9.2.1 Cash flow from financing activities

In addition, the study examined the perceptions of the selected staff working with listed manufacturing in relation to cash flow from financing activities. The respondents' views to this effect are as shown in Table 3.

Table 3: Descriptive statistics for cash flow from financing activities

	N	SA	A	NS	D	SD	Mean	Std. Dev.
Dividend payments by manufacturing and allied companies listed in the Nairobi Security Exchange increases shareholders returns	40	42.5	30.0	7.5	12.5	5.0	5.23	8.163
Principal payments on new investment project reduces shareholders returns	40	37.5	32.5	17.5	10.0	2.5	4.45	3.012
Increasing cash flow from financing activities increases shareholders returns	40	22.5	47.5	12.5	10.0	7.5	3.68	1.163
Payment of creditors decreases shareholders returns	40	25.0	35.0	12.5	20.0	7.5	3.50	1.281
Cash received from issuing shares increases shareholders returns	40	2.5	40.0	12.5	20.0	22.5	3.00	1.812
Issuance of debts/bonds increases shareholders returns	40	15.0	20.0	10.0	35.0	20.0	2.75	1.391
Purchase of shares increases returns of shareholders	40	12.5	25.0	10.0	25.0	27.5	2.70	1.436

The study established that 42.5% of the respondents strongly agreed that dividend payments increase shareholders' returns. In total, 70.0% of the respondents were in agreement that principal payments on new investment project reduce shareholders, returns amongst the studied firms. Although, there was general admission that increased cash flow from financing activities among these entities increases shareholders' returns (mean = 3.68), there was considerable variation in the respondents' views (stddev = 1.163). Payment of creditors was admitted by most of the respondents (60.0%) to result in decrease in shareholders' returns.

A significant number of respondents (42.5%) disputed that cash received from issuing shares increases shareholders' returns. However, a similar number of respondents (42.5%) concurred with this argument. This was further reinforced by the general uncertainty (mean = 3.00) and significant variation of respondents' views (stddev = 1.812) regarding this proposition. Similarly, while 10.0% of the respondents were not sure regarding the statement those issuance debts or bonds increases shareholders' returns, 55.0% of the respondents disputed this proposition. In the same breadth, majority of the respondents disagreed that purchase of shares by manufacturing and allied companies listed in the Nairobi Securities Exchange increases returns of shareholders.

9.2.2 Total shareholders' returns

In respect of returns of shareholders, the study sought and analyzed the opinions held by the selected employees working with manufacturing firms. A summary of their views is as shown in Table 4.

Table 4: Descriptive statistics for total shareholders' returns

	N	ML	L	NS	LL	NA	Mean	Std. Dev.
Issuing of shares to the public by manufacturing and allied companies listed in the Nairobi Securities Exchange affect the price of share	40	40.0	47.5	10.0	2.5	0	4.25	.742
Insufficient cash flow affect the price of its share	40	30.0	42.5	17.5	10.0	0	3.92	.944
Issuing of shares to the public affect dividend issued to shareholders	40	32.5	40.0	12.5	5.0	10.0	3.80	1.244
Increase in cash flow increase the total dividend issued to shareholders	40	32.5	37.5	12.5	12.5	5.0	3.80	1.181
Insufficient cash flow affect the total dividend issued to shareholders	40	37.5	20.0	17.5	22.5	2.5	3.68	1.269
Increase in cash flow increase the price of share	40	22.5	27.5	15.0	17.5	17.5	3.20	1.436
Purchase of plant and equipment, payment of long term debt and purchase of shares always affect share price and dividend paid to shareholders	40	25.0	12.5	15.0	32.5	15.0	3.00	1.450

The study found that 47.5% of the respondents agreed while 40.0% others strongly agreed that issuing of shares to the public by manufacturing and allied companies listed in the Nairobi Securities Exchange affect the price of share. It was generally admitted that insufficient cash flow in the listed firms affect the price of their shares (mean = 3.92). There was insignificant variation in opinions of the respondents in this regard (stddev = 0.944). Though there was substantive variation in opinions (stddev = 1.244), it was generally admitted that issuing of shares to the public affect dividend issued to shareholders (mean = 3.80).

It was further established that 70.0% of the respondents at least admitted that increase in cash flow increase the total dividend issued to shareholders. In the same perspective, it was disputed by 25.0% of the respondents that insufficient cash flow affected the total dividends issued to shareholders. It was generally not certain (mean = 3.20) whether or not increase in cash flow in manufacturing and allied companies listed in the Nairobi Securities Exchange increase the price of shares. Moreover, respondents were not sure regarding the

statement that purchase of plant and equipment, payment of long term debt and purchase of shares by the stated companies always affect share price and dividends paid to shareholders. There was significant variation in the opinions held by the participating respondents (stddev = 1.450).

9.3 Inferential Results and Interpretations

The study determined the relationship between cash flow from financing activities and shareholders' returns amongst listed manufacturing and allied entities operating in Kenya. In addition, the influence of the cash flow trends, particularly cash flow from financing activities, on the shareholders' returns was evaluated. The secondary data were employed to come up with inferential statistics.

9.3.1 Relationship between cash flows from financing activities and shareholders' returns

The study analyzed the relationship between cash flow from financing activities and shareholders' returns using Pearson's correlation coefficient. The results indicated in Table 5 are in relation to the analysis of the pertinent secondary data.

Table 5: Correlation between cash flow trends and shareholders returns

		Shareholders' returns
Cash flows from financing activities	Pearson Correlation	-0.783
	Sig. (2-tailed)	.013

The correlation results shown in Table 5 indicated that there existed a negative, strong and statistically significant relationship between cash flows from financing activities and shareholders' returns ($r = -0.783$; $p < 0.05$). The results implied that cash flow from financing activities had a huge and significant negative implication on shareholders' returns amongst listed manufacturing and allied firms. These findings, however, were contrary to results of an earlier study which found that increment in cash flows from financing activities may lead to increased but due to a rising number of investors, the returns of each shareholders are likely to be fewer [18].

9.3.2 Influence of cash flow trends on shareholders' returns

The study evaluated how cash flow from financing activities as part of cash flow trends influenced returns of shareholders in listed manufacturing and allied companies in Kenya. This was achieved through pertinent regression analysis where the results of coefficient of determination, analysis of variance, and regression coefficients are as shown in Tables 6 to 8.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.778[a]	.605	.582	.36717

a. Predictors: (Constant), cash flows from financing activities

The results of the coefficient of determination ($R^2 = 0.605$) as shown in Table 6 indicated that 60.5% of the shareholders' returns could be attributed to the cash flows from financing activities. In this respect, therefore, the implications of these results was that the specific cash flow trends played an important role in light of returns of shareholders amongst the listed manufacturing and allied firms in Kenya. It was further indicated that, there existed other factors represented by 39.5% that played a role relative to shareholders' returns among the studied firms.

The analysis of variance (ANOVA) results are as shown in Table 7. The results indicated that the linear regression model was statistically significant.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	555.502	3	185.167	2.370	.003[a]
	Residual	675.596	5	135.119		
	Total	1231.098	8			

a. Predictors: (Constant), cash flows from financing activities

b. Dependent variable: Earning per share

The study further examined the influence of cash flows from financing activities on shareholders' returns amongst listed manufacturing and allied firms. The results to this effect are as depicted in Table 8. The following linear regression model was employed.

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Table 8: Regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.341	.664		.521	.651
	Cash flow from financing activities	.623	.052	.710	6.821	.000

a. Dependent Variable: Earning per share

The results shown in Table 8 are substituted as follows:

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

$Y = 0.341 + 0.623 X_1$

The above model was interpreted to mean that a unit change in shareholders' returns was subject to increase in cash flows from financing activities of 0.623 unit given that other factors were held constant (0.341). It is evident according to the regression coefficient resulting from analysis of the secondary data that the cash flow trend studied had substantive effect on returns of shareholders among listed manufacturing and allied firms in Kenya.

9.3.3 Testing null hypothesis

The results of the T-statistics as shown in Table 8 were employed to test the null hypotheses as follows:

H_{01}: There is no significant influence of cash flow from financing activities on shareholders returns among manufacturing and allied companies listed in the NSE

H_A: There is significant influence of cash flow from financing activities on shareholders returns among manufacturing and allied companies listed in the NSE

Results of t-statistics = (6.821; $p < 0.05$)

The results of the t-statistics were interpreted to mean that the influence of cash flow from financing activities on shareholders returns among listed manufacturing and allied firms was statistically significant. The third null hypothesis was consequently rejected.

X. Conclusions

The study concluded that dividend payments increase shareholders' returns. According to the study findings, it was concluded that payment of creditors decreased shareholders' returns. The study concluded that there was uncertainty whether cash received from issuing shares increases shareholders' returns. Moreover, cash flow from financing activities was found to have significant influence on shareholders' returns.

XI. Recommendations

Relative to cash flow from financing activities and shareholders' returns, the study recommended that the manufacturing and allied firms listed in the NSE should increase the payment of dividends. In the same breadth, they should increase cash flow from financing activities. The study further advised that payment to creditors ought to be reduced in order to increase shareholders' returns.

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