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Financial Structure Restructuring and Market Return of Manufacturing Firms Listed at Nairobi Securities Exchange, Kenya

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Abstract:
This study investigated the effects of financial structure restructuring on the market return of manufacturing firms in Kenya. The specific objectives were to examine the influence of debt restructuring, internal equity restructuring, external equity restructuring and shareholding restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange. Market timing theory, residual theory and Pecking Order Theory informed the study. A descriptive research design was adopted. This study was based on 11 manufacturing firms listed at the Nairobi Securities Exchange. This study covered a 5-year period from 2017 to 2021. The research adopted the use of secondary data. Both descriptive and inferential statistics was computed using STATA 15. Descriptive statistics included mean, standard deviation, Maximum and minimum. Inferential analysis included Pearson correlation and linear regression analyses. STATA software was used to conduct the analysis. The findings indicated that a positive and significant effect of shareholding restructuring and external equity restructuring on the market return of manufacturing firms listed at Nairobi Securities Exchange. This implied that an increase in external equity restructuring and shareholding restructuring leads to a significant increase on the market return. On the other hand, the findings indicated that a negative and significant effect of debt restructuring on the market return. This implied that an increase in debt restructuring leads to a significant decrease on the market return. However, the study failed to establish significant effect of internal equity restructuring on market returns. The study recommends that the management of listed manufacturing firms should include long term debt in their financing structure in a manner that it is aligned with their long-term strategic goals. Listed manufacturing firms to utilize external equity financing as a way of raising capital for major expansions, asset growth or acquisitions which may require heavy funding. Management of listed manufacturing firms should attract more ordinary shareholders into their organizations, hence increasing the amount of shareholders' capital in the organization.

Key Word: *Financial Restructuring, Market Returns, debt restructuring, internal equity restructuring*

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I. Introduction

The capital market in any country is one of the major pillars of long-term economic growth and development. The market serves a broad range of clientele including different levels of government, corporate bodies, and individuals within and outside the country. For quite some time, the capital market has become one of the means through which foreign funds are being injected into most economics, and so the tendency towards a global economy is more feasible/ visible there than anywhere else. It is, therefore, quite valid to state that the growth of the capital market has become one of the barometers for measuring overall economic growth of a nation. Thus, an increase in the market share of a public limited liability company through the sales of its shares increases its capital base and encourages expansion leading to a higher level of growth and productivity (Onchangwa & Memba, 2018).

Market return of a company can be perceived as an achievement in the management of a firm. It also reflects the market response to a company. According to stakeholder's theory, the shareholder's wealth is depicted by the increase in market return which is measured by the company's share price. The firm value, therefore, depicts the market return of a company. Consequently, improvement in the firm's value will lead to an increase in the market return of a stock and vice versa. The more the firm's value the higher the company's shares demand and vice versa. Several things related to the firm's value is yet to be agreed by the financial Scholars (Muthoka, 2020).

The main purpose of any firm is to enhance its shareholders' wealth. Investors, management and other stakeholders need to be aware of the company's performance to enable them make informed decisions about the

future. Rational investors expect good long-term return on their investment. Chauhan and Patel (2018) observed that maximizing market return is becoming the new co-operate standard. Hartomo (2015) opines that, creation of shareholder value is becoming increasingly challenging as owners and managers are forced to make appropriate financial decisions that contribute to the management of operations that create value and also identify activities that destroy value. In addition, it is necessary to implement effective instruments which are able to evaluate real value created.

The last global financial crisis was witnessed in 2007-2009 which was considered as the worst financial crisis since the Great depression. The CAMEL system failed to provide early detection and prevention of the devastating financial crisis. The failure in banks has seen low growth in banks globally and therefore they cope with global post financial crisis. Governments and bank regulators became tougher in enforcing laws and at the same time customer demands are increasing day by day. These factors make the global banking market place change and the emerging trend is now influenced by digital business, demographic shifts, competition from nonbank institutions that offer financial services and a changing workforce. Banks therefore had to re-invent themselves by developing new products and flexible business models for the future which were able to deliver the returns investors are looking for in the business (Thakor, 2018).

However, global empirical evidence observes that manufacturing firms experience poor market return, epitomized by low profitability, low portfolio quality, low operating efficiency and high operating costs. Similarly, in Africa, Manufacturing firms also manifest poor market return as evidenced by low efficiency ratios, declining net operating margins and declining portfolio. Poor market return deteriorates the capacity of manufacturing firms to absorb positive shocks, which subsequently affect solvency (Yenesew, 2014). Better market return led the lenders to recover full cost or make profit, and building institutions that can sustain themselves for a considerable period without continued reliance on government subsidies or donor funds. Manufacturing firms market return is based on the extent to which service users directly pay the full cost of providing services (Adhikary, 2014). As such financial restructuring influence market return of manufacturing firms.

The Kenyan financial sector has experienced huge changes over the last two decades. A ton of changes has been attempted in the sector that has prompted multiplication of financial products/items, activities and organizational structures that have enhanced and expanded the proficiency of the financial framework. All these improvements, combined with changes in the global financial sector and the expanding mix of domestic and worldwide financial markets, have prompted quick financial development. The increasing importance of the financial industry in present-day economies, caused by the quick rate of advancement in this sector, has led to the need to study financial innovation (CMA, 2018). In Kenya the business of dealing in shares and stocks started in the early 1920's and was initiated by the British colonialists. The first formal stock broking firm was established in 1951 by Francis Drummond. In 1954, the Nairobi Stock Exchange was constituted and registered under the Societies Act. The bourse has witnessed unprecedented transformation including changing its name to Nairobi Securities Exchange (NSE) - which effectively expands its mandate - and being supervised by another government entity – Capital Markets Authority. The CMA in a bid to nurture and reform the market to be more efficient and reliable encourages capital investment in the economy for example through establishment of a Central Depository System (CDS) and introduction of various rules and regulations (CMA, 2013). The country's financial markets are currently more developed compared to the colonial times over six decades ago since they have been institutionalized. Presently, NSE is one of the most vibrant stock markets on African continent (Gatua, 2013). The NSE All Share Index (NASI) which tracks the performance of all the stocks at the exchange was up 6.3 per cent in 2015 at 173 points, while the NSE 20 share index was down 0.4 per cent at 5091 points. The NSE performance was relatively good in 2015 at position two with the top performer being the Tunis Stock Exchange which was up 8.9 per cent for the year (African Alliance, 2016). In order for investors to trade in financial assets they need assurance that there will always be a ready market for these securities and will be always properly priced. This can only be achieved if the stock exchange market is efficient. This is dependent on many aspects among them symmetry of the market information and the capital structure of the listed firms (CBK, 2015)

Statement of the Problem

Kenya manufacturing sector has registered stagnation and declining profits for the last five years due to unpredictable operating environment. This exposes a gap in the country's ability to achieve a fully industrialized economy by 2030 (World Bank, 2020). The gross domestic product from manufacturing sector has been stationary and, in some cases, there has been drop due to seasonal fluctuations (Trading Economics, 2019). KPMG (2019) revealed that real growth in the manufacturing sector averaged 4.1% p.a. during 2010-2017 which is lower than the average annual growth in overall real GDP of 4.6%. It is estimated that manufacturing firms in Kenya have lost 70 per cent of their market share in East Africa (GoK, 2021) due to contingencies. Firms such as TATA, Johnson & Johnson and Unilever have announced plans to shut down their plants or shift operations from Nairobi to other countries due to cost of production, cheap imports and counterfeit products (KAM, 2019).

Companies listed in NSE face various challenges such as; keeping in pace with globalizations, government policies and regulation, integrity, client demands, resource management, market and customer

loyalty, risk management, business complexity, competition and inadequate capital. Companies such as Eveready (EA) Ltd, Uchumi Supermarkets, Unga Group Ltd, National Bank of Kenya, CMC Holdings Ltd Eveready (K) Ltd and East Africa Industries among many others have in the past have poor company performance indicators (CMA, 2022). Kariuki (2015) and Mwithi (2017) reported that Mumias Sugar had almost doubled its loss to Ksh 4.6 billion in the 12 months as per June 2015 financial results.

The market return has also been not impressive in the last five years up to 2020. The share price of listed manufacturing at the Nairobi Securities Exchange have reduced with an average of 83.76 per share in 2016 as compared to an average of 69.96 per share in 2020. Similarly, share price volatility has also indicated that market return has not been stable between 2017 and 2021. The instability in market return is evident with share price of volatility which has increased from 4.93 in 2016 to 6.08 in 2020. Notable instability in market return is evident in some manufacturing firms such as Eveready, British American Tobacco Kenya Ltd, Unga Group and Mumias Sugar Company (Capital Market Authority, 2021).

Several studies conducted on financial restructuring on market returns of listed firms have been found to have scanty information which cannot be relied on for better improvement on market returns and the little available empirical studies have contradictory results. Thus, the limited information on list manufacturing financial restructuring have subjected most manufacturing firms to bankruptcy (Simeyo et al., 2015; Tehulu, 2019). Further, most studies on financial restructuring and market return have not been done in Kenya where listed manufacturing firms have many market return problems making them face threats of eminent financial distress.

Past studies revealed mixed results on the correlation between financial restructuring and market return measured by market return. The Kenyan market return performance has room for improvement which can be enhanced through rigorous financial restructuring prior to issuing stocks as opposed to the pecking order approach. However, previous studies have not examined the impact of financial restructuring on performance of market return of manufacturing firms in Kenya. This has provided the motivation for the present study. Therefore, to fill this gap, this study examined the influence of financial structure restructuring on market return of manufacturing firms at NSE.

Objectives of the Study

i) To examine the influence of debt restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange.
ii) To determine the influence of internal equity restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange.
iii) To assess the influence of external equity restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange.
iv) To establish the influence of shareholding restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange.

II. Literature Review

Theoretical Framework

Market Timing Theory

The market timing theory was postulated by Baker and Wurgler (2002). The theory of market timing states that the organisations capital structure is the cumulative results of the past financing decisions that were based on different market conditions, also referred to as timing of equity market (Baker & Wurgler, 2002). Equity market timing concept holds it that a firm issues ordinary shares when their market return is high and re-purchases them when their market value has declined (Baker & Wurgler, 2002). Timing the debt market on the other hand refers to a situation where firms issue more debt capital if the prevailing interest rates are low and as insists goes to, the firm progressively reduces debt financing (Zavertiaeva & Nechaeva, 2017). This implies debt market timing depends on rates of interest charged and not the mispricing of equity shares.In summary the Baker and Wurgler (2002) theory of market timing argues that managers identify a window of opportunity where the issue of equity shares have lower costs due to misprizing's. Going by this argument therefore, managers tend to issue new equity shares when their market return is high relative to their book value and historical valuations. Further, the researchers argue, firms would prefer more equity finance compared to equity in those periods' equity shares are overvalued. The opposite is also true. Although a number of studies have been conducted in developed markets on market timing perspectives (Zavertiaeva & Nechaeva, 2017; Mabrouk & Boubaker, 2020), very few have considered the developing markets (Muhammad & Yet, 2020). The very few studies that observe market timing in these firms fail to concur if equity market timing can explain their behaviour. It is in this context therefore that this study sought to establish the effects of equity and debt restructuring on the market return of manufacturing firms.

Pecking Order Theory

The pecking order theory was initiated by Donaldson (1961) and developed further by Myers and Majluf (1984). The theory posits that firms have a hierarchy when it comes to raising capital. They will prefer internal finance which consists of retained earnings rather than external sources of finance which consists of debt and newly issued equity shares. In the event the internal finance is insufficient the firm will prefer debt capital while newly issued internal equity restructuring was the least preferred source. The theory implies lack of a well-defined optimal capital structure. A simple explanation of the rationale behind the preferences is that retained earnings incur no floatation costs and saves the firm from a lot of disclosure requirements that may lead to competitive disadvantage (Kishore, 2009). Retained earnings are also easily accessible and do not involve a lot of negotiations with third parties such as banks (Watson & Head, 2016). When it comes to external finance, the costs of issuing new debt is relatively lower than the cost of issuing new equity (Brigham & Houston, 2012). According to Watson and Head (2016) debt is more flexible since one can easily raise small amounts of debt and the issue of debt avoids the potential ownership problems associated with the issue of new equity. signals that the shares are overvalued and the management is not confident to serve the debt if the project is financed by debt. The theory is relevant to the study on restructuring through debt and equity during raising capital for the manufacturing firms. The theory provides models for raising capital through the order of internal funds, debt and new equity. The Manufacturing firms should prioritize their sources of financing, first preferring internal financing, and then debt, lastly raising equity as a last resort). Seemingly, the theory still requires empirical data especially in the financial restructuring analysis.

Residual Theory

The essence of the residual theory is that the firm will only pay dividends from residual earnings, that is, from earnings left over after all suitable (positive NPV) investment opportunities have been financed. Retained earnings are the most important source for financing for most companies (Darek, 2012). A residual approach to the dividend policy, as the first claim on retained earnings will be the financing of the investment projects. With the residual dividend policy, the primary focus of the firm's management is indeed on investment, not dividends. Dividend policy becomes irrelevant, it is treated as a passive rather than an active, decision variables. The view of management in this case is that the value of firm and the wealth of its shareholders will be maximized by investing the earnings in the appropriate investment projects, rather than paying them out as dividends to shareholders (Dhanani, 2005). Thus managers will actively seek out, and invest the firm's earnings in, all acceptable (in terms of risk and return) investment projects, which are expected to increase the value of the firm. Dividends will only be paid when retained earnings exceed the funds required to finance the suitable investment projects. Therefore, this theory will be used to examine effect of internal equity restructuring on market return of manufacturing firms.

Conceptual Review

This is a diagrammatic representation of the linear relationships between independent variables (Debt restructuring, equity restructuring, external equity restructuring and shareholding restructuring) and the dependent variable (Market return of manufacturing firms) as illustrated in figure 1.0.

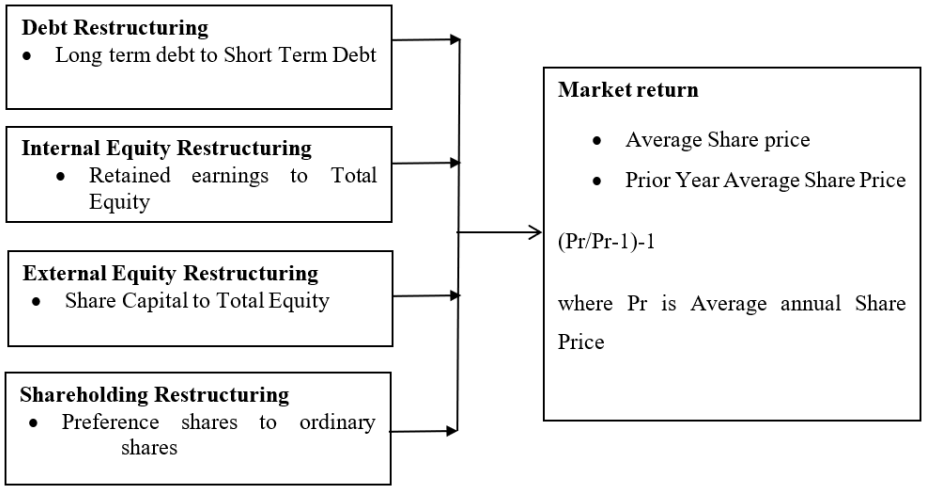

Figure 1.0: Conceptual Framework

Empirical Review

Debt Restructuring and Market Returns

Silva (2018) on the effect of debt structure on market capitalization of manufacturing firms; the objective was to determine the effects of capital restructuring on Market capitalization of manufacturing firms in Kristiansand. The study found that total debt and short-term debt ratio impacts positively and significantly on ROE while positively and significantly on ROA. Long term debt ratio had a positively and significantly impact ROE but not significantly impact on ROA of manufacturing firms.

Kyereboah- Coleman (2017) concluded that the ratio of total-debt to short–term-debt significantly positively impacts the ROA, while significantly positively affecting the ROE; strongly suggesting that profitable Manufacturing firms rely more on the long-term debt financing. In a study to examine the impact of financial structure on the performance of firms, Adekunle and Sunday (2019) used debt ratio to proxy financial structure while return on asset and return on equity were used as measures of firms' performance. result of the study indicated that debt ratio has a significant positive impact on the firm's financial measures of performance. The study, however, did not consider other financing decisions in the analysis, including the mediating effect of internal cash flow available. Weinraub and Visscher (2018) established that total and short term debt is positively related to firm's profitability, which might be the most important factor in accessing outside financing in countries with weak collateral laws. From their studies they also found out that a positive relation between tangibility and short-term debt and a positive relationship between tangibility and long-term debt exists. These results are consistent with most theories on financial structure that suggest that firms without fixed assets to use for collateral are unable to access long-term financing.

External Equity Restructuring and Market Returns

Graham (2017) discussed the main costs of equity as; tax costs, adverse selection, premium and floatation costs. These costs have an effect on the performance of firms when aggregated. These findings by Graham are consistent with existing theoretical models and empirical studies. Silva (2018) on the effect of equity structure on market capitalization of manufacturing firms is consistent with the previous study by Kyereboah-Coleman (2017). This study found that total equity impacts positively and significantly on ROE while positively and significantly on ROA. Long term equity had a positively and significantly impact ROE but not significantly impact on ROA of Manufacturing firms. This shows that if Manufacturing firms use long term debt to finance their operations, there may not be a pressure on management of manufacturing firms. This further suggests that profitable Manufacturing firms depend more on long term debt financing. According to Anthony (2017), since debt sales bring additional cash into the firm, this could exacerbate agency problems. Alternatively, if firms use the debt issue proceeds to address the gap between investments needs and external equity restructuring sources of funding, this would not necessarily lead to an increase in excess cash within the firm. The periodic interest payments on debt would then commit managers to pay out excess free cash flow. Hence, debt issues could reduce agency costs, and have positive effects on firm value and performance.

Internal Equity Restructuring and Market Returns

Bassey, Edom and Aganyi (2016) revealed that the future earnings capacity of Niger Mills Ltd. Calabar depends on its retained profit. It was also discovered that accumulated profit retained in the business has the potential of boosting future earnings. It was therefore concluded that, corporate bodies should always retain profits in their business rather than distribute all of it to shareholders. Nduati and Wepukhulu (2020) revealed that internal equity restructuring predicts a significant and positive effect on financial performance in Deposit Taking SACCOs. Yusra, Hadya and Fatmasari (2019) confirmed that internal equity restructuring had a positive and significant effect on the probability of the company paying dividend and dividend payment rate. However, the results of the study did not show significant evidence that internal equity restructuring have a stronger effect on the probability and firm level of paying dividends. Onyekwelu, Lucy and Onwe (2019) revealed that dividend payout (LDPT) and total assets (LTOA) have significant positive effect on market price of shares (LMSP) of oil and gas firms in Nigeria while internal equity restructuring have adverse effect on MSP for the period under review. Motanya (2020) indicated an inverse and insignificant relationship between internal equity restructuring finance and profitability at 1% significance level. This is evidenced by the beta coefficient of -0.018 and a corresponding p-value of 0.975 under equations 1. The results signify that during the period of study, increasing use of internal equity restructuring finance did not increase or reduce the profitability of petroleum firms in Kenya; implying an improvement in their financial status. Viet, Ngoc, Anh, Thong and Scott (2020) show that internal equity restructuring have a positive effect on firm performance.

Effect of shareholding restructuring on Market Returns

Onkware (2022) revealed that cost of preference had no significant relationship with financial performance. The study concluded that only Orchard manufacturing company had mean preference shares for the 2012 to 2018 period, with other manufacturing firms recording zero preference shares for the same period. According to the findings of the study, preference shares have a little impact on the financial performance of

manufacturing companies listed on the NSE. Nelson and Peter (2019) revealed a negative and insignificant relationship between shareholding restructuring and return on equity, a positive and insignificant relationship between shareholding restructuring and return on equity and a positive and significant relationship between Total debt ratio and return on equity. The results also indicated that F-statistic is 37.16701 with a probability of 0.026372 indicating that the combined effect of the explained variables on firm performance represented by return on equity is statistically significant. Omai, Memba and Njeru (2018) indicated that shareholding restructuring has a negative but insignificant effect on profitability at 5% level. Mukembo (2018) revealed a significant positive relationship between shareholding restructuring and the financial performance of manufacturing SMEs. Findings further showed that SMEs were highly leveraged with a short-term debt ratio to total assets signifying that manufacturing SMEs rely on customer deposits, term deposits, and short-term loans to finance their operations.

III. Material and Methods

A descriptive research design was adopted for this study. This design best fitted this study because it enables the investigation of the effect of more than one variable on another variable without manipulation of the variable. There are a total eight (8) listed manufacturing firms in Kenya and financial data was analyzed for a period of 5 years making a total of 40 observations. This study took the entire population of the 8 listed manufacturing firms at NSE using census technique. This study used secondary data. The data was drawn from past audited financial reports (Income Statement, Statement of Financial performance, and Cash Flow Statement) as they are published by the respective manufacturing firms between the financial years 2017 to 2021 (5 years period of time). Both descriptive and inferential statistics were computed using STATA 15. Descriptive statistics refer to methods of organizing and summarizing data, for this study frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Inferential statistics refer to methods of drawing conclusions from sample data about a population. For this study, regression and correlation analysis was used to determine both the nature and the strength of the relationship between study variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The regression and correlation analyses were based on the association between two (or more) variables. Data was presented in form of tables and model.

$Y= \beta_0+ \beta_1X_{it} + \beta_2X_{it} + \beta_3X_{it}+ \beta_4X_{it} +\varepsilon$

Where Y_{it} = Market return for manufacturing firms (i) in period (t)

α = Determines the level of fitted lines $\beta_1, \beta_2, \beta_3$ and β_4 = Regression coefficient

X_{1it} = Measure of debt restructuring for firm (i) in period (t)

X_{2it} = Measure of internal equity restructuring for firm (i) in period (t)

X_{3it} = Measure of external equity restructuring for firm (i) in period (t)

X_{4it} = Measure of shareholding restructuring for firm (i) in period (t)

ε_{it} = Error term

IV. Result and Discussion

Descriptive Analysis

Table 1 below is a representation of descriptive statistics and distribution of variables as considered for this study: liquidity level, financial leverage, operational efficiency and profitability on market capitalization. The descriptive statistics considered were mean, maximum, minimum, standard deviation, skewness and kurtosis. The results are shown in Table 1.

Table 1: Descriptive Statistics

	Market Returns	Debt Restructuring	Internal Equity Restructuring	External Equity Restructuring	Shareholding restructuring
N	40	40	40	40	40
Min	-59.25	0.00786	-0.27854	0.001446	0.017448
Max	10.56069	177.6797	0.914396	0.241341	0.319465
Mean	-3.572261	4.587021	0.636089	0.067757	0.124322
Std Dev	10.95771	25.4226	0.256272	0.064035	0.070581

Debt restructuring was calculated by finding the ratio of long-term debt to short term debt. Debt restructuring ranged from 0.008 to 177.6797 between 2017 and 2021. The distribution had a mean of 4.587021 and standard deviation of 25.4226. External equity restructuring was calculated by finding the ratio of share capital to total equity. External equity restructuring ranged from 0.001446 to 0.241341 between 2017 and 2021. The distribution had a mean of 0.067757 and standard deviation of 0.064035. Internal equity restructuring was calculated by finding the ratio of retained earnings to total equity. internal equity restructuring ranged from -0.27854 to 0.914396 between 2017 and 2021. The distribution had a mean of 0.636089 and standard deviation of

0.256272. Shareholding restructuring was calculated by finding the ratio of s preference shares to ordinary shares. Shareholding restructuring ranged from 0.017448 to 0.319465 between 2017 and 2021. The distribution had a mean of 0.124322 and standard deviation of 0.070581. In this study, market return was calculated by average share price for that year divided by the average closing price for the prior year minus one. Market return ranged from -59.25 to 10.56069 between 2017 and 2021. The distribution had a mean of -3.572261 and standard deviation of 10.95771

Inferential Analysis

Unit Root Test

The study used Im-Pesaran-Shin (IPS) to test for the presence of unit roots in panels that combine data from the dimension of the time series with that of the cross-section dimension, so that fewer time observations are required for power to be available for the test. The results are indicated in Table 2.

Table 2: Im-Pesaran-Shin (IPS)

Variable	**Im-Pesaran-Shin (IPS) unit-root Test**
Market Returns	24.7719 ** 0.0000
Debt Restructuring	35.1393 ** 0.0000
Internal Equity Restructuring	23.9189 ** 0.0000
External Equity Restructuring	8.2267 ** 0.0310
Shareholding restructuring	15.8348*
	0.0154

** sig at 1% level,

A p-value above 0.05 indicates the presence of unit roots, whereas a p-value under 0.05 indicates that the unit roots were not present for Im-Pesaran-Shin (IPS). The results indicated that there was absence of unit root for the study variables. This showed that all variables are stationery, there was no problem of unit root, and the results can proceed for further inferential statistics.

Hausman Test (Choice of Model)

The study determined whether to run a fixed effects model or a random effects model when conducting panel data analysis. The null hypothesis is that the preferred model is random effects; the alternate hypothesis is that the model is fixed effects. The p-value was considered significant at 5% and any value below that FEM was to be selected while a value above that then REM was to be selected. The results are indicated in Table 3.

Table 3: Hausman Test

	(b) Fixed	**(B) Random**	**(b-B) Difference**	**sqrt(diag(V_b-V_B))S.E.**
Debt Restructuring	-0.2818	-0.306	-0.0202	0.05788
Shareholding Restructuring	0.37396	-3.2403	-5.5406	11.8631
Internal Equity Restructuring	0.18531	17.8321	49.7282	48.6045
External Equity Restructuring	0.05781	-5.9624	-31.952	51.5186
b = consistent under Ho and Ha; obtained from xtreg B = inconsistent under Ha, efficient under Ho; obtained from xtreg Test:Ho:difference in coefficients not systematic chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B) =13.37 Prob>chi2 =0.0023				

Results in the table 3 indicated a prob>chi2 value of 0.0023 which is less than critical P value at 0.05 level of significance which implies that the null hypothesis that a random effect model is the best was rejected. The study hence adopted a fixed effect regression model

Correlation Analysis

To explore the effect of financial restructuring on market returns, a correlation analysis was conducted. The results of the correlation between financial restructuring and market returns pertinent results are summarized in Table 4.0.

Table 4: Pearson Correlation Analysis

		Market returns	Debt restructuring	External equity restructuring	Internal equity restructuring
Debt restructuring	Pearson Correlation	-0.4684*	1		
	Sig. (2-tailed)	0.0182			
	N	40	40		
External equity restructuring	Pearson Correlation	0.2666*	0.6715**	1	
	Sig. (2-tailed)	0.0477	0.0002		
	N	40	40	40	
Internal equity restructuring	Pearson Correlation	0.355*	0.3043	0.4245*	1
	Sig. (2-tailed)	0.0316	0.1391	0.0344	
	N	40	40	40	40
Shareholding restructuring	Pearson Correlation	0.3576*	0.5061**	0.2725	0.1426
	Sig. (2-tailed)	0.0301	0.0098	0.1875	0.4966
	N	40	40	40	40

The results indicated that internal equity restructuring has a significant negative effect on the market returns of listed manufacturing firms at NSE (r = -0.4684, P=0.0182). Further, external equity restructuring has a positive and significant on the market returns of listed manufacturing firms at NSE (r =0.2666, P=0.0477). Internal equity restructuring has a positive and significant effect on the market returns of listed manufacturing firms at NSE (r =0.355, P=0.0316). Shareholding restructuring has a positive and significant effect on the market returns of listed manufacturing firms at NSE (r =0.3576, P=0.0301).

Multiple Linear Regression

The general objective of the study was to examine effect of financial restructuring on market returns of listed manufacturing firms at NSE. The purpose of multiple linear regression was to establish the role of financial restructuring as block in regards to market returns. Table 5 below shows the model summary of the adopted fixed effect model.

Model Summary

The between R^2 is "How much of the variance between separate panel units does my model account for" The within R^2 is "How much of the variance within the panel units does my model account for" and the R^2 overall is a weighted average of these two. Since the study is interested in finding out dependent variable changes for each of the panel units (financial restructuring on market returns), the study used R squared within.

Table 5: Model Summary Fixed Effect of Investment diversification on financial performance

Fixed effects (within) regression	Number of obs =	40
Group variable: FIRMS	Number of groups =	8
Rsq:	Obs per group:	
within = 0.5244	min =	5
between = 0.322	avg =	5
overall = 0.4232	max =	5
r2_a =0.5216		
corr(u_i, Xb) = 0.0378 (assumed)	F(4,28)=	7.95
	Prob > F=	0.003

The result obtained from fixed effect model indicated that the financial restructuring accounted for 52.44% (R square=0.5244) of the variation in market returns of listed manufacturing firms at Nairobi Securities Exchange, Kenya thus other variables not in the study model explains the difference (47.56%). A post estimation was conducted which yielded an adjusted R square of 0.5216 (52.16%). The F-statistic to the model shows is F(4,28)=7.95, P=0.003. This implies that four financial restructurings have significant effect on market returns of listed manufacturing firms at Nairobi Securities Exchange, Kenya.

Regression Coefficients

The p-values for the coefficients indicate whether these effects are statistically significant. The results are presented in Table 6.

Table 6: Multiple Regression Coefficient

Market Returns	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
Debt restructuring	-0.281832	0.113505	-2.480	0.024	-0.541212	0.022526
Shareholding restructuring	0.3739645	0.172015	2.170	0.033	0.00931	0.738619
Internal equity restructurings	0.1853124	0.092419	2.005	0.045	0.074204	0.444829
External equity restructuring	0.0578148	0.392649	0.147	0.521	-0.57456	0.190194
_cons	20.84731	0.399325	52.210	0.000	20.00078	21.69384

The study regression model as obtained from table above is as shown below.

$Y=20.847-0.281X_1+0.373X_2+0.185X_3+0.058X_4$

Y=Market returns

X_1 = Debt restructuring

X_2 = Shareholding restructurings

X_3 = Internal equity restructuring

X_4 = External equity restructuring

H_{01}: There is no significant effect of debt restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange

The first objective of the study was to examine the influence of debt restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange. Correlation results showed that debt restructuring (r=-0.4684, p=0.0182) had a negative and significance relationship on market returns of the manufacturing companies in the Nairobi Securities Exchange. Similar results were obtained by Silva (2018) who established that debt restructuring ratio negatively and significantly on performance. The findings are in agreement with Kyereboah-Coleman (2017) who found that most of the firms incorporate more of debt-financing in their structures (long term debt in particular).

Further, regression analysis indicated a negative and significant effect of Debt restructuring on market returns of the manufacturing firms listed at Nairobi Securities Exchange (β= -0.2818323, p=0.024). This implies that a unitary increase in debt restructuring led to a decrease in the market returns of manufacturing companies quoted at the Nairobi Securities Exchange by 0.282 units holding other factors constant. The research affirmed the presence of a consequential association between debt restructuring and the market returns of Kenyan manufacturing firms. This implied that debt restructuring had a negative and consequential strength on the performance of manufacturing firms in Kenya. The results are in agreement with research conducted by Abor (2018) who discovered that debt restructuring has a considerably negative effect on profitability. It therefore means that an increase in long-term debt due to being more costly is associated with a reduction in performance. Silva (2018) on the effect of debt structure on MFIs performance; the objective was to determine the effects of debt restructuring on MFIs performance in Kristiansand. This shows that if MFIs use long term debt to finance their operations, there may not be a pressure on management of MFI. This further suggests that profitable MFIs depend more on long term debt financing. However, Ibrahim (2019) disclosed that long term debt is a general decision, having weak or no effect on the results of the company

$H0_2$: There is no significant effect of internal equity restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange

The second objective of the study was to determine the influence of internal equity restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange. Correlation results showed that Internal equity restructuring (r= 0.2666, p=0.0477) had a positive and significance relationship on market returns for the manufacturing companies in the Nairobi Securities Exchange. The correlation analysis outcomes are consistent with the finding of a research study by Muthui et al. (2017) who located that internal restructuring had positive and insignificant impact on the performance of commercial banks in Kenya

Regression analysis indicated that Internal equity restructuring had a positive but insignificant relationship with market returns for the manufacturing firm at Nairobi Securities Exchange (β= 0.058, p= 0.521). This implies that a unitary increase in internal equity restructuring led to an increase on the market returns of manufacturing companies quoted at the Nairobi Securities Exchange by 0.058 units holding other factors constant. Onyekwelu, Lucy and Onwe (2019) empirically investigated the relative effects of internal equity restructuring, dividend payout and total assets on market share price of oil and gas firms in Nigeria. The study found out that internal equity restructuring has adverse effect on share market performance for the period under review. However, Nduati and Wepukhulu (2020) assessed the effect of internal equity restructuring on financial performance of regulated SACCOs in Nairobi County. The results revealed that internal equity restructuring predict a significant and positive effect on financial performance in Deposit Taking SACCOs. Bassey, Edom and

Aganyi (2016) discovered that accumulated profit retained in the business has the potential of boosting future earnings

$H0_3$: There is no significant effect of external equity restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange

The third objective of the study was to assess influence of external equity restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange. Correlation results showed that external equity restructurings (r=0.355, P=0.0316) had a positive and a significance relationship on market returns for the manufacturing companies listed at the Nairobi Securities Exchange. The results are in agreement with Boateng (2011) who found that use of external equity restructuring equity restructuring is positively related to the performance of family-owned businesses in Pakistan.

Regression analysis indicated that there was a positive and significant effect of external equity restructurings on market returns for the manufacturing firms listed at Nairobi Securities Exchange (β= 0.185, p= 0.045). This implies that a unitary increase in external equity restructurings led to an increase on the market returns of manufacturing companies quoted at the Nairobi Securities Exchange by 0.185 units holding other factors constant. The findings are consistent with the comparative analysis of the Silva (2018) on the effect of equity structure on market return of manufacturing firms is consistent with the previous study by Kyereboah-Coleman (2017). This study found that external equity restructuring impacts positively and significantly on ROE while positively and significantly on ROA. Mbuh (2016), sought to find out the effects of equity structure on the financial sustainability of manufacturing firms. The study showed that external equity restructuring has a significant effect on the financial sustainability of manufacturing firms

$H0_4$: There is no significant effect of shareholding restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange

The fourth objective of the study was to establish influence of shareholding restructuring on market return of manufacturing firms listed at Nairobi Securities Exchange. Correlation results showed that Shareholding restructurings (r=0.3576, P=0.0301) had a positive and a significance relationship on market returns for the manufacturing companies listed at the Nairobi Securities Exchange. The results are in agreement with Mukembo (2018) conducted a study on shareholding restructuring and the financial performance of manufacturing SMEs firms in Uganda. Results revealed a significant positive effect of shareholding restructuring and the financial performance of manufacturing SMEs. However, Boyani (2015) conducted a study on the effect of the shareholding restructuring of manufacturing firms listed on the Nairobi securities exchange. The study found that a positive relationship existed between shareholding restructuring, the cost of capital, and the size of the firm, such that an increase in shareholding restructuring and size of the firm resulted in an increase in the cost of capital at statistically significant levels

The regression outputs indicated that shareholding restructurings revealed a positive and significant effect on the market returns of the manufacturing firm at Nairobi Securities Exchange (β=0.3739, p= 0.033). This implies that a unitary increase in shareholding restructurings led to an increase on the market returns of manufacturing companies quoted at the Nairobi Securities Exchange by 0.3739 units holding other factors constant. The results acknowledge Okiro, Aduda and Omoro (2015), in a study on the effect of shareholding restructuring on firm performance, found that there was a positive significant effect of the shareholding restructuring and firm performance as CS and regulatory compliance and performance of firms listed on the East African Community Securities Exchange. However, Omai, Memba and Njeru (2018) assessed the effect shareholding restructuring on profitability of petroleum marketing companies in Kenya. The results indicated that shareholding restructuring has a negative but insignificant effect on profitability at 5% level.

V. Conclusion and Recommendation

The study concluded that debt restructuring has significant negative influence on market returns of manufacturing firms listed at NSE. An increase in short term debt in favor of long-term debt would results to significant decrease in market returns. This the study, explains by the fact that long-term debt elongates payment period which enables manufacturing firms to invest the borrowed fund so as to generate adequate returns. Short-term debt tends to be more expensive and increasing it with a relatively high interest rate payable within a year will lead to a decrease in profit levels and hence low market returns. The study concluded that internal equity restructuring has positive and insignificant influence on the market returns of manufacturing companies listed firms. The positive and insignificant coefficient for equity implied that increase in the internal equity restructurings had an insignificant increased influence on the market returns for the manufacturing firm at Nairobi Securities Exchange. From the linear and multiple regression results, the study concluded that external equity restructuring has significant positive influence on market returns. An increase in external equity restructuring would results to significant increase in market returns. It is also evident from the findings that share capital

financing seem to be the preferred choice by majority of firms. Firms are therefore at liberty to raise capital through equities since they have marginal negative impact on returns. In addition, the general preference of external equity over retained earnings and debt clearly negates the provision of the pecking order theory implying that it may not be applicable in practice. The fourth objective of the study was to establish the influence of shareholding restructuring on market returns of listed manufacturing firms at Nairobi Securities Exchange, Kenya. The study concluded that shareholding restructuring has significant positive influence on market returns as indicated by multiple linear regressions. An increase in shareholding restructuring would results to a significant increase in market returns. Ordinary shares have certain rights including the right for the owners to vote at company meetings and distribution rights. The owners also have the right to receive dividends if the company's profitable and the directors decide to pay the profits to shareholders rather than re-invest the cash in the business.

The study recommended that management of listed manufacturing firms should include long term debt in their financing structure in a manner that it is aligned with their long-term strategic goals, affording the business more time to realize a return on an investment. Further, the study recommended that manufacturing firms to heighten utilization Long-term debt since it provides greater flexibility and resources to fund various capital needs, and reduces dependence on any one capital source hence improve their market returns. In regards to internal equity restructuring, the study recommends that it is necessary to retain part of the earnings to finance new investment capable of generating more wealth and having positive contributions to the shareholders. Also, corporate managers should endeavor to make judicious and efficient use of retained earnings to increase investor returns and that firms should retain when there are investment opportunities with a positive net present value (NPV). The study recommends that in configuring their financial structure, financing managers of listed manufacturing firm should prioritize the use of internally generated capital such as retained earnings and reserves ahead of externally issued equity. There is need to institute appropriate regulatory mechanisms meant to cushion investors from loss of their hard-earned wealth and hence restore confidence in their investments. The study recommends for the listed manufacturing firms to utilize external equity financing as a way of raising capital for major expansions, asset growth or acquisitions which may require heavy funding. In this way, firms will be assured of improved market returns as well as high financial growth. Listed manufacturing firms may consider using external equity restructuring as mode of fast and easily available form of financing. Raising equity via share sales is also very flexible. The business has full control over how many shares to issue, what to initially charge for them and when it wishes to issue them. It can also issue further shares in the future if it wishes to raise more money. In order to enhance their market returns, the study recommended that management of listed manufacturing firms should attract more ordinary shareholders into their organizations, hence increasing the amount of shareholders' capital in the organization. To encourage shareholders to contribute more to the financial structure, management should guarantee that they get competitive dividends with minimal smoothing.

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