

Cash Flow from Operating Activities and Financial Performance of Investment Firms Listed at Nairobi Securities Exchange in Kenya.

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ABSTRACT

Financial Performance of Investment Firms Has a Significant Impact on Future Prospects of the Firm. Listed Companies Place a Lot of Emphasis on Profitability and Stability of Their Performance. However, Investment Firms Have Been Experiencing a Problem of Poor Financial Performance Over Time. The Study Sought to Establish Effect of Cash Flow From Operation Activities on Financial Performance of Investment Firms Listed at Nairobi Securities Exchange in Kenya. The Study Was Anchored on Resource-Based View Theory. Descriptive Research Design Was Used in This Study. All the Investment Firms Listed at NSE Were Subject of Investigation Hence a Census Study Was Conducted. Secondary Data Was Sourced From Cash Flow Statements and Other Relevant Financial Statements Using Secondary Data Collection Sheet. The Data Was Analyzed Using Descriptive and Inferential Statistical Methods With the Aid of SPSS, (Version 29.0) Statistical Software. Descriptive Statistical Tools Including Mean, Frequency, Standard Deviation, Skewness and Kurtosis Were Used. Inferential Statistics Included Use of Product Moment Correlation to Depict Strength and Direction of Relationship Between Variables. Panel Regression Model Was Applied for Data Analysis and Langrange Multiplier Test Was Done to Determine Whether Fixed Effect Model Was Suitable for Analysis. The Finding of the Study Indicated a Positive and Significant Correlation Between Operating Cash Flows and Financial Performance of Investment Firms Listed at NSE in Kenya. Coefficient of Determination (R-Squared (R²) Value Was 0.6451 for CFOA. The P-Value for the Variable Was Less Than 0.05 Level of Significance. This Implied That Operating Cash Flow Explained Financial Performance of Listed Investment Firms in Kenya. The Finding of This Study Will Be of Benefit to a Number of Interested Parties Including Creditors, Investors, the Government, Scholars and Researchers, Regulatory Authorities and Trading Companies. From the Findings of the It Was Recommended That Directors of Investment Firms Should Implement a Policy Focusing on Quick Moving Inventory, Which Will Eventually Affect Other Components of Operations.

Keywords: Cash flow, Cash flow from financing activities, Cash flow from investment activities, Cash flows from operations, Free cash flow, Financial performance, Return on Equity.

INTRODUCTION

Cash flow statements is a crucial financial report used to assess management ability to run an organization. It is an accounting concept used to describe the inflow and outflow of cash within a firm (Kroes & Manikas, 2019). According to Hamza, Mutala and Antwi (2015), a high cash flow permits a firm to expand its operations, replace worn out assets, take advantage of opportunities existing in the market, and pay dividend to its shareholders. It is important to note that creditors are concerned about a firm's liquidity to settle their short-term maturing obligations (Block & Hirt, 2017). Cash flow statements is made up of three components including cash from operation activities, cash from investing activities and cash from financing activities

Cash flows from operations are often referred to as working capital, and come from internal activities such as the company's revenue or service delivery. This cash flows show whether a company's daily operations

generated or depleted cash. The operating cash flow shows how much cash companies will have generated from their everyday product delivery. Cash receipts from transactions include income from the sale of goods and services, cash from debtors, cash interest gained, cash dividends collected from finance and investment (Simpasa, 2014). The cash flow is characterized as the amount of cash paid to buy goods, tax settlements, seller payments, wage payments, and other operating expenses (Gordon, Henry, Jorgensen & Linthicum, 2017). Negative net cash flow from operating activities indicate that a firm's expenditure is more than its revenue and compels a firm to seek extra funds from external sources such as debt or stock issue (Omag, 2016). Debt financing increases a firm's expenditure on interest payment, hinders growth and exposes the firm to the risk of bankruptcy. Issue of stock on the other hand dilutes firm ownership (Frank & James, 2019).

Cash Flow Statement and Financial Performance

According to the International Accounting Standard, cash and cash equivalents are short-term, highly liquid assets that are easily convertible to existing cash quantities and have a low risk of value changes (IAS 7). Cash consists of on-call cash and demand deposits, whereas cash equivalents are short-term, highly liquid assets that are easily converted to established cash amounts and have a low risk of losing value. Cash management, according to Allman-Ward (2013), is "the art and science of handling the organization's cash flow." The main features of good cash management, according to them, are consistent use of a company's current assets and current liabilities efficiently across each step of the business cycle, consistent preparation, tracking, and review of a company's sales, disbursement, and account balances, and collection and storage of information to effectively use the cash.

In Kenya, managers are concerned with controlling cash flows into and out of the company, as well as cash balances kept by the business at any given time, whether by deficit financing or cash spending surpluses (Pandey, 2016). The goals of cash management include maintaining reasonable control over cash position, maintaining ample liquidity for the company and ensuring that surplus cash is used profitably. Cash management is an important function for listed firms since it entails controlling cash movements both inside and outside the firm, as well as cash balances held by the organization at any one time (Pandey, 2016). The generation, distribution, and payout of cash is referred to as cash management (Van Horne & Wachowicz, 2016). The goal is to manage an organization's cash flows in such a way that it optimizes the availability of funds not invested in fixed assets or inventory while reducing the risk of insolvency (Husted, 2015).

According to Wetson and Copeland (2018), cash flow management is concerned with maximizing cash accessible, increasing interest received on non-required surplus money as soon as possible, and preventing losses caused by fund transfer delays. The opportunity cost of holding cash to meet short-term demands is equivalent to the return that could have been achieved if the money had been saved or put to better use. Running on insufficient cash reserves to lower the opportunity cost may, however, increase the risk of not meeting commitments when they are due, therefore an optimal cash balance should be established.

Cash flow components include operating cash flow, investment cash flow, and finance cash flow (Block & Hirt, 2017). Cash flows from operations are often referred to as working capital, and come from internal activities such as the company's revenue or service delivery. Cash flow investment refers to the amount of money produced by unworkable activities, such as investment in plants and equipment or other fixed assets (McMahon, 2016). Cash flow financing refers to the money coming in and going out of the company from outside sources including lenders, shareholders, and investors. This component of the cash flow from investing covers actions such as a new loan, a loan repayment, stock issue, and dividend payments (Atrill, 2013).

Nairobi Security Exchange

The Stock market in Kenya has been growing rapidly and has diversified to provide not only the primary role of providing an alternative source of capital for investment, but also many other functions. NSE was established in July 1953 as Nairobi Stock exchange as an overseas stock exchange. The NSE has recently adapted an automated trading system, to keep in pace with other major world stock exchanges, and this has greatly increased the volumes of stocks traded in the market. Currently the NSE is trading more than a 100 million shares each month,

making it to play a great role in the economic growth of Kenya. This has been facilitated by enabling idle money and savings to become productive by bringing together the borrowers and lenders of money at a low cost.

The market has helped in educating the public about the need to invest in the stock market as well as boosting the confidence of investors through the requirement of listed companies to have published financial reports. Nairobi Securities Exchange All Share Index (NASI) was introduced complimentary to the NSE 20 share index in 2008, with a base value of 100 as of January 2008. This was part of some of the recommendations by the International Finance Corporation (IFC) and regulators of world stock markets to ensure a comprehensive dissemination of market information to investors. Unlike the 20 Share Index, which measures price movement in selected, relatively stable and best performing 20 listed companies, NASI incorporates all listed companies irrespective of their performance and their time of listing. NASI is calculated based on market capitalization rather than the price movements of the counters, meaning that it reflects the total value of all listed companies at the NSE. Prices are based on last trade information from NSE's Automated Trading System

The Nairobi Securities Exchange (NSE), being a promising and attractive market in Africa due to the positive looking Kenyan economy, is attracting investors who see growth and possibility for more benefits (Muiruri, 2014). The NSE is classified as both emerging market and frontier market and currently, there are 64 firms listed on the Nairobi Securities Exchange under various segments (Wabwire et al., 2013). NSE has witnessed notable levels of volatility in investor returns in part. In addition, the exchange has been bolstered by enhanced weight increment on MSCI frontier markets portfolio index rising from 3% to 4.8% which is likely to attract volumes of portfolio and foreign direct investments (Chege et al., 2014). As such, the International Finance Corporation in 2014 ranked the NSE-20 index, as the best performing market after recording its best return of 179% with an all-time high of 5030 points since its establishment (Adjei, 2015)

Usually, the market index is taken as a measure of performance within a specific period in the stock market. The index measures a certain section of the market deemed to represent the entire (Shaharudin, Samad and Bhat, 2009). The index is used to compare returns from various assets for decision-making purposes by both investors and managers (Aurangzeb, 2012). Stock price indices are usually weighted averages of the component price relatives (Clements, Izan, and Lan, 2011). The NSE-20 share index is usually considered as the proxy representing the overall stock prices in Kenya (Aroni, 2011). In Kenya, the All Share Index (NASI) is also used as a measurement of market performance. The introduction of all share index was as a result of numerous criticisms on the 20 share index which only listed 20 blue cheap companies. Total market capitalization can also be used to gauge the performance of the market. This involves summing up the entire volume of shares traded in the totality to determine how active the market is.

Statement of the Problem

Investors are mainly interested in the returns they get from their investment. They will always select their investment well so as to fulfill their expectations. Financial performance has a significant impact on future prospects of the firm. Listed companies place a lot of emphasis on financial performance and stability of their firm. However, investment firms have been experiencing a problem of poor financial performance over time (Fredrick, 2021). For example, in the year 2019, the industry's ROE was 3.8%, which decreased to 3.4% in 2020, 2.7% in 2021 2.1% in 2022 and 1.95% in 2023 (CMA, 2024). The poor financial performance has significant consequences including reduced investor's confidence, volatility of share price hence uncertainty in the financial markets, lower credit rating, inability of the firms to invest in profitable opportunities due to insufficient funds, tarnished name of the company which may lead to regulatory scrutiny and potential for insolvency (Ogutu 2023). The changes in financial performance and the trend of changes are of great interest in the capital market given their effect on stock market stability and strategies adopted by investors (Maisami, 2020). According to the conventional theory of share pricing, any situation that indicates a change in earnings of a particular company will affect its share prices. Empirical review shows that studies on financial performance has been done extensively. However scanty studies has been done on effect of cash flow management on financial performance of investment firms in Kenya. Ajide, (2017) carried a study on firm-specific, and institutional determinants of corporate investments in Nigeria. Banafa, et al., (2015) studied the impact of leverage on financial performance

of listed investment firm in Kenya. Chechet et al., (2014) examined effect of capital structure and profitability of Nigerian quoted investment firms: This has occasioned the need for this study.

Objective of the Study

To establish the effect of cash flow from operating activities on financial performance of investment firms listed at Nairobi Securities Exchange in Kenya.

Research Hypothesis

H₀₁: Cash flow from operating activities do not affect financial performance of investment firms listed at Nairobi Securities Exchange, Kenya.

Theoretical Review

The study will be anchored on resource-based view theory.

Resource Based View Theory

The founding idea of viewing a firm as a bundle of resources was pioneered by Penrose in 1959. Resource based view theory is based on the idea that the effective and efficient application of all useful resources that the company can muster helps determine its competitive advantage especially where emphasis is put on the importance of resources and its implications for firm performance (Conner, 1991). Each company builds competences from these resources and when particularly well developed, they constitute a competitive advantage for the company (Pearce & Robinson, 2007). These competitive advantages may enable the company to benefit strongly (Barney, 1991). Therefore, Resource based view theory is based on the idea that the effective and efficient application of all useful resources that the company can muster helps determine its competitive advantage. While Birger Wernerfelt identified this important research body in the area of strategic management in his 1984 essay A Resource-based View of the company, where emphasis is placed on the significance of resources and their impact on corporate performance (Rugman & Verbeke, 2002).

The ability of the company is determined by its resources. In this day of fierce competition, a company's resources must keep evolving in order to produce greater yields. As a result, a firm's profitability is essentially decided by the ability of its resources (Crook, 2018). The resource-based approach is used to describe how businesses acquire competitiveness by giving higher value to consumers in novel ways. They focus on discovering special resources and maximizing their utilization. In other words, for organizations to attain competitive advantage, they first need to utilize their internal resources to the uttermost best and then advance to new resources. The quest for these new ones could now be considered an alliance formation and performance and not the other way round. Resources could be anything that has an enabling capacity and this could entail both existing and new ones (Hunt, 2015). The RBV theory suggests that individuals are motivated to make the best use of economic resources available to them, as well as reasonable decisions made by a firm that are influenced by the economic framework (Barney, 2007).

The core of the resource-based model is that competitive advantage is generated when resources held only by the company are used for the development of distinctive skills. Companies are various resource collections: tangible and immaterial assets/capabilities. In terms of the resources they possess, no two businesses are the same. The resources of a firm influence how effectively it conducts its business. If a firm has the finest and most suitable stock of resources related to its business and strategy, it will prosper. Ultimately, the competitive advantage may be ascribed to possession of important resources which allows the business to operate better than rivals. Organizational capacity is characterized by the complex mix of assets, people and procedures used by businesses to turn inputs into outputs (Thompson, and Strickland, 2003). The idea of re-engineering is rooted in that specific theory since it is far more practical to use current resources externally, rather than attempting to learn new skills for each given chance, according to the proponents of RBV. Resources play a key role in enabling businesses to attain better performance in the RBV model.

CONCEPTUAL FRAMEWORK

Conceptual frame work is a diagrammatic description of how variables are related (Tola, 2018). Independent variable for this study was cash flow from operating activities while financial performance of investment firms listed at NSE was the dependent variable.

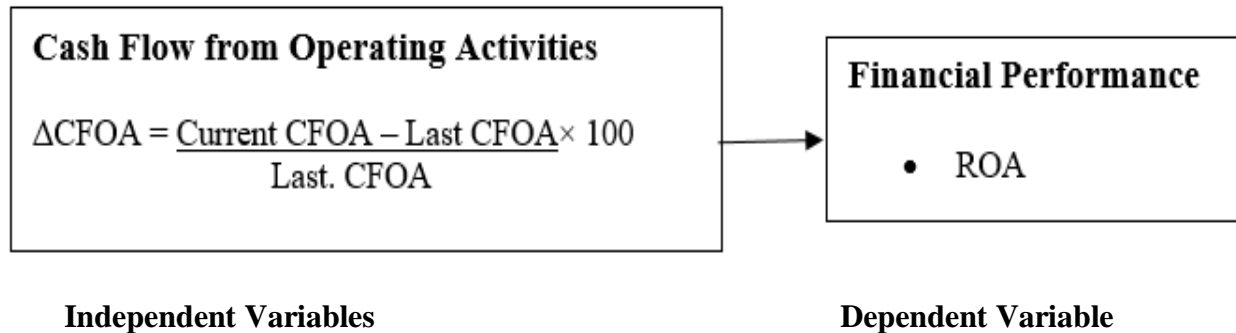


Figure 2.1: Conceptual Framework

Empirical Review

The section presents reviewed empirical literature on operating cash flow,

Operating Cash Flows and Financial Performance

Mehtari (2016) explored the relationship between operating cash flow and profitability of firm in. The study used correlations analysis to analyze the relation between these two variables. The study investigated 19 quoted companies in USA and financial indicators and three variables to measure firm’s performance, namely profitability (return on investment) market performance (measured by changes in stock market value) and cash flow performance (dividend per share).

The study concluded that firms with low total assets, more liabilities, less equity, an unqualified opinion of an auditor and low retained earnings have better cash flow performance (measured by cash dividend). The study targeted companies in USA while the current study focused on companies listed in NSE in Kenya.

Parsian (2018) studied the effect of operating cash flow on profitability in Tehran stock exchange. The study was conducted to relate the influence of different component of cash flows on profitability growth. The study used 42 firms sampled from Tehran stock exchange.

The study adopted multiple regression models. The study found that different operating cash flow components affect profitability. The study failed to include correlation analysis to which was essential for determining the relationship between operating cash flows from Cash generated from operation and profits from operations on financial performance.

Ali (2018) investigated the relationship between various earnings and cash flow operations of firm performance and stock returns in Iran. Simple and multiple regression analysis were used to analyze the data for the period from 2003 to 2011.

The study concluded that the cost of operations to losses predicts financial performance. The study recommended that many firms to be concerned about their ability to performance. The study failed to analyze evaluate the effect of operating cash flows on financial performance using correlation analysis to establish the relationships.

Chikashi (2018) investigated the operating cash flows income and firm performance. The objectives were to identify the effect of each component of cash flow operations on performance, to identify obstacles that slow cash flows on performance and to establish the effect of operating cash flows on firm performance.

The case study of the 3 electric appliances industry of the Tokyo Stock Exchange was used, The researcher used the data for the fiscal year of 2009 to 2011 an employed the pooled regressions (Panel data regression analyses). This study analyzed each component of operating cash generates more financial performance using measure of dispersion.

RESEARCH METHODOLOGY

This section discusses research methodology used in the study.

Research Design

This study used descriptive research design. Schindler and Cooper (2008) stated that research design characterizes the best suitable framework of research techniques and methods that guide collection, measurement of the data and analysis. This research was designed to fit a descriptive model.

Population of the Study

Odoh and Chinedum (2014), argues that the target population of a study is the center of focus used by researchers to generalize the findings of a study. The population of the study was the 5 investment firms listed at NSE in Kenya.

Sampling Frame

The sampling frame is the list of all population elements from which a sample is retrieved (Gorard, 2018). This study's sampling frame comprises was the list of the 5 investment firms listed at NSE in Kenya as shown in Appendix I.

Census

Owing to the small size of the population census was considered appropriate for the study where all the five investment firms listed at NSE were included in the study.

Data Collection Instruments

The study used secondary data that was collected by use of a secondary data collection sheet. These data was sourced from audited financial statements of the five investment firms listed at NSE in Kenya for the last 10 year from 2014 to 2024.

Data Processing and Analysis

Secondary data gathered was analyzed using descriptive statistics and inferential statistics. Descriptive statistic tools including the mean, frequency, standard deviation skewness and kurtosis.

Inferential statistics was applied by use of product moment correlation and panel regression analysis.

The panel regression equation that was applied is as shown as equation 3.1.

$$Y = \beta_0 + \beta_1 X_{1it} + \varepsilon_{it} \dots \dots \dots \text{Equation 3.1}$$

Where; Y represent the Financial Performance

β_0 , represent the constant or coefficient of intercept

β_1 , represent the coefficients of independent variables

X_1 represent Cash flow from operating activities

it represent the indices for individuals and time

ϵ_{it} represent the error term

Research Findings and Discussion

This section discusses research findings and discussions for the study

Descriptive Statistics

The study used data that was sourced from cash flow statements of investment firms listed at Nairobi Securities Exchange in Kenya. Descriptive statistical measures including the minima, maxima, mean, standard deviation, skewness and kurtosis were used. Table 4.1 indicates the descriptive statistic results.

Table 4.1 Descriptive Statistic Results

Variable	N	Min	Max	Mean	Std dev	Skewness	Kurtosis
CFOA	48	-2500.41	6493.332	223.4837	1301.073	0.435165	3.818615

Table 4.1 shows cash flow from operating activities between 2014 and 2023. The data reveals a mean of 223.4837, indicating that, on average, the firms experienced a positive cash flow from their core business operations. However, the high standard deviation of 1301.073 suggests a significant cash flow variability across the firms.

The minimum value of -2500.41 and maximum value of 6493.332 further support this variability, indicating that some firms may have had negative cash flows, while others had large positive inflows from operating activities. The skewness of 0.435165 indicates a slight rightward skew, meaning there were firms with smaller positive operating cash flows but some instances with high cash flows.

The kurtosis value of 3.82 reflects moderate peaked distribution suggesting that the data has a low number of extreme values. Since skewness was less than 2.0 (0.435165) and Kurtosis was less than 6 (3.82) it implied that the data was normally distributed.

Trend Analysis

Trend analysis plots are created by plotting a variable against time and are used in many disciplines to study, predict and forecast variables.

Trend Analysis for Cash Flow from Operating Activities

Figure 4.1 shows trend analysis for cash flow from operating activities. The figure indicated that in 2014, the change in cash flow from operating activities was negative at -53.448, indicating a reduction in cash flow. The following year, 2015, saw a positive change of 4.454, marking a recovery.

However, the trend reversed again in 2016 with a larger negative change of -96.321, followed by another sharp decline in 2017 of -161.666. Starting in 2018, the data shows a positive shift with a change of 9.402, followed by a substantial increase in 2019 with a change of 58.681.

These improvements continued into 2020, with a change of 43.206. However, 2021 and 2022 saw a return to negative changes, with -54.846 and -50.914, respectively, suggesting a decline in cash flows during those years. The most recent year, 2023, shows a significant recovery with a positive change of 66.141, indicating a positive shift in operating cash flow.

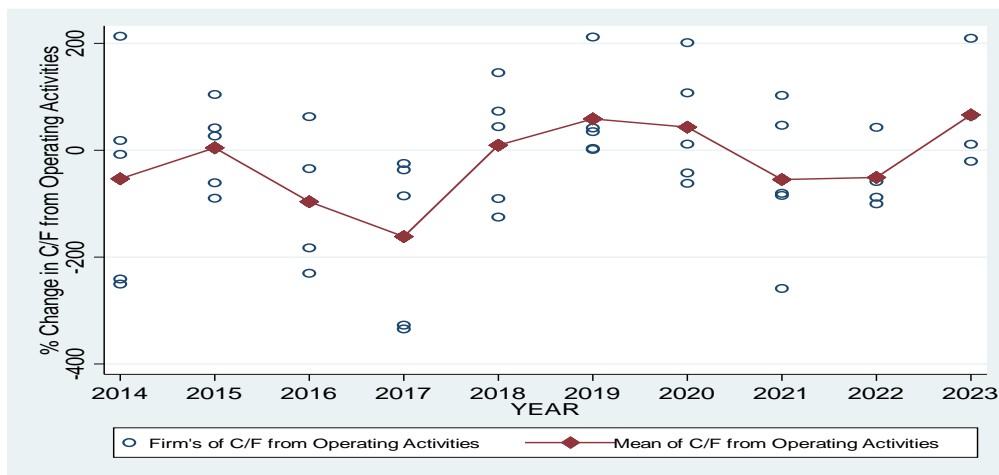


Figure 4.1: Trend Analysis for Cash Flow from Operating Activities

Inferential Statistics

This Section Presents the Findings of Inferential Statistical Results. The Result of the Correlation and Panel Regression are Discussed.

Correlation Analysis

Correlation analysis was used to establish relationship between study variables. (James,2022). Pearson’s correlation coefficient was used to establish the relationship between study variables where the relationship was considered significant at $P < 0.05$. Correlation analysis results is as shown in Table 4.2.

Table 4.2. Correlation Analysis Results

		CFOA
ROE	Pearson Correlation	.337*
	Sig. (2-tailed)	.019
	N	48

** . Correlation is significant at the 0.01 level (2-tailed).

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

Table 4.2 shows the results of a consolidated correlation analysis of the study variables. From the analysis, it is evident that there was a positive and significant correlation between cash flows and financial performance of investment firms listed at the Nairobi Securities Exchange in Kenya. Relationship between financial performance and cash flow from operating activities had a coefficient of $r = 0.337$, $P = 0.019$.

Regression Analysis

Regression analysis was used to investigate relationships between the study variables R^2 was used to measure direction and strength of the relationship between study variables where all the independent variables were regressed against the dependent variable.

Cash Flow from Operating Activities and Financial Performance

The study sought to establish the effect of cash flow from operating activities on financial performance of investment firms listed at NSE in Kenya. The findings are as shown in Table 4.10.

TABLE 4.3 Cash Flow from Operating Activities and Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Sig(P-value)
Cash Flow from Operation	0.263412	0.041242	6.386984	0.0000
C	-1.26E-14	0.020947	-6.00E-13	1.0000
R-squared	0.645152			
Adjusted R-squared	0.595688			
S.E. of regression	13.01397			
F-statistic	13.04294			
Prob(F-statistic)	0.000000			

The findings on Table 4.3 indicated that the relationship between cash flow from operating activities and financial performance of investment firms listed at NSE in Kenya was positive and significant (Beta = 0.263412, p-value = 0.0000). This implied that an increase in cash flow from operating activities by one unit would result to an increase in financial performance of investment firms by 0.263412 units.

Therefore, the null hypothesis H_{01} : that stated that cash flow from operating activities do not affect financial performance of investment firms listed at Nairobi Securities Exchange, Kenya was rejected at 95% level of significance.

The coefficient of determination (R-squared) indicated an overall value of 0.645152. This implied that 64.5152% of the financial performance of investment firms was associated with cash flow from operating activities with other factors not covered by the study accounting for 35.4848%. The findings of the study are in line with the findings of Wallace and Kilika (2021) and Ouma, Omagwa in Kenya, Ngaba (2018) and Ajide (2016) in West Africa and Nazir, Tan, and Nazir (2021) in Pakistan all who found that cash flow from operating activities had a notable impact on the financial performance of Investment firms.

The fitted model for regression coefficient for the independent variables is as shown in equation 4.1

$$Y = 0.263412 + 0.645152X_1 \dots\dots\dots \text{Equition 4.1}$$

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This section discusses the summary of the findings, conclusions of the study, recommendations of the study.

Summary of the Findings

The study investigated the effect of cash flow from operating activities. This variable was hypothesized to affect financial performance of investment firms listed at NSE in Kenya.

Cash Flow from Operating Activities and Financial Performance

In the study, cash flow from operating activities was correlated with financial performance of investment firms listed at NSE in Kenya. From the analysis it was noted that cash flow from operating activities positively correlated with financial performance of investment firms listed at the Nairobi Securities Exchange in Kenya. Regression model revealed that cash flow from operating activities significantly explained some variation in financial performance of investment firms.

This implies that an increase in cash flow from operating activities will cause financial performance of investment firms at the Nairobi Securities Exchange in Kenya to increase significantly. This finding underscores the importance of cash flow from operating activities in the financial sector, in particular, investment firms.

Conclusion of the Study

The study draws several conclusions based on its findings of the study in alignment with the research objectives and hypotheses. From the study, it was revealed that cash flow from operating activities had a significant positive effect on financial performance of investment firms listed at the Nairobi Securities Exchange in Kenya. Thus, the null hypothesis that cash flow from operating activities does not have an effect on financial performance of investment firms listed at the Nairobi securities exchange was rejected. It was therefore concluded that an increase in cash flow from operating activities increases financial performance of investment firms listed at the Nairobi Securities Exchange in Kenya.

Recommendations of the Study

Based on the findings of the study, the following suggestions are recommended for various stakeholders: For investment firm, the management should prioritize efficient operations: Focus intensely on managing day-to-day operations to ensure consistent, positive operating cash flows, as these are a major driver of financial performance. They should adopt sound working capital policies by managing the cash flow cycle efficiently. This includes accelerating receivables, strategically managing payables and optimizing inventory management. Management should actively diversify investment portfolios across various asset classes to reduce asset-specific risks and enhance overall returns. When making investment decisions, ensure capital is invested in productive, value-adding assets and projects that are expected to yield significant returns. The management should implement robust financial management systems and utilize data analytics for accurate cash flow forecasting, budgeting, and scenario planning.

Investors should focus on cash flow analysis by use of cash flow statements as a key tool for evaluating an investment firm's performance and liquidity, as they provide a clearer picture of financial health than income statements alone. should also look for firms with strong governance, transparent operations, and a management team that demonstrates sound liquidity management practices.

Investors should adopt a long-term investment horizon to mitigate the impact of short-term market volatility and focus on firms with strong, sustainable fundamentals.

Spread investments across different sectors and asset classes to protect against potential downturns in a specific firm or industry.

Regulators and policymakers including CMA, and the government should provide and enforce strong governance policies on operations within the investment sector to ensure transparency and protect stakeholders. Encourage Regulators should formulate and revise policies that encourage listed investment firms to maintain optimally diversified portfolios across various assets to enhance market stability.

In order to enhance disclosure standards, the regulator should continue to improve and enforce financial reporting and disclosure standards, such as those related to environmental, social, and governance factors, to provide investors with comprehensive information.

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APPENDIX I: LIST OF INVESTMENT FIRMS LISTED AT NSE, KENYA

1. Centum Investment Co Ltd
2. Home Africa Ltd
3. Kurwitu Ventures Ltd
4. Olympia Capital Holdings Ltd
5. Tran-Century Ltd

Source: CMA (2024)