EFFECT OF INITIAL PUBLIC OFFER FINANCING ON PERFORMANCE OF COOPERATIVE BANK OF KENYA LIMITED IN NYANZA REGION, KENYA

BY

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ABSTRACT

Financial institutions including Co-operative Bank of Kenya Limited performed very dismally in eighties both in Kenya and globally. During this period, a number of banks and microfinance institutions did poorly and very few of them were listed in the securities market. A number of factors have been said to have occasioned the poor performance during this period; such factors include: lack of political goodwill, global economic crisis i.e. recession and poor management. Currently the banks are doing well in terms of performance but individual bank performance is not the same. Financing decisions they make may have brought either positive or negative effect. Co-operative Bank of Kenya reached a decision to go public in 2008 with an aim of getting enough deposits. The bank needed capital to finance its core system, expand its outlets, develop products and increase its lending in a bid to get its competitive space in the industry, despite the reported slowdown in IPO market during the same period. After the IPO, the bank experienced steady growth in its profit before tax through to the year 2013. Previously, the bank's performance was dismal; it did poorly in the year 2000 and 2001. It is however not clear whether improved performance is due to the IPO or not. This study investigated the effect of IPO financing on the performance of Co-operative Bank of Kenya Limited in Nyanza region. Cooperative bank of Kenya is used in the study because it is one of the top commercial banks in Kenya; commercial banks sell almost similar products in a homogeneous market, the results therefore are expected to be generalizable. Specific objectives were: to determine the effect of branch expansion on profit before tax in Co-operative Bank of Kenya Limited, to establish the effect of product development on profit before tax in Co-operative Bank of Kenya Limited and to investigate the effect of Customer satisfaction on profit before tax in cooperative bank of Kenya Limited. It was conceptualized that branch net work, product development, CSR and technology influences PBT and there also exist intervening factors such as government policies, economic factors, legal factors and leadership factors. The study adopted descriptive research design. The target population was 120 Co-operative Bank employees from six branches in Nyanza region. Stratified random sampling was used to sample 92 employees from the 120 employees; the study used both primary and secondary data. Questionnaires with both structured and unstructured questions were used to collect primary data while annual financial reports for Co-operative Bank were used to provide secondary data. Regression results shown that the branch expansion insignificantly affect profit before tax, β=-0.021, p=0.316>0.05, this means that instead of increasing the number of branches, the bank can decide to capitalize in alternative banking channels such as putting more ATM lobbies, agency banking and mobile banking. This can increase revenue as compared to branches whose cost of setting up may be expensive. Further, results have shown that product development significantly affects profit before tax, β=0.115, p=0.021<0.05, the commercial banks therefore should develop unique products that may capture the market hence increase revenue. Finally, the amount used in corporate social responsibility was found to be significantly affecting profit before tax, β=0.074, p=0.022<0.05. The cost of technology was also found to be significantly affecting profit before tax, β=-0.297, p=0.000<0.05. Commercial banks therefore should invest more on powerful systems that are real time and that serve customers fast. This level of efficiency will lead to good customer experience, attraction of more customers hence more revenue. In conclusion, the study found out that IPO financing influences profit before tax in Co-operative Bank of Kenya and therefore recommend that commercial banks should procure funds through IPO financing as it is realized from the study that IPO financing significantly influences profit before tax of Co-operative Bank of Kenya Limited.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Co-operative Bank of Kenya Limited is one of the licensed commercial banks in Kenya. The bank is among the top three commercial banks in Kenya based on market share, capital base and profit before tax. In the beginning of the last decade, Co-operative Bank of Kenya Limited had not attained a billion in terms of profit before tax. The bank surprisingly did poorly in the year 2000 and 2001.The bank's poor performance was partly attributed to bad debts written off that were borrowed by various Savings and Credit Co-operative Societies among other factors. Currently, the bank is in the league of what we call 'tier one banks' in Kenya; this is so considering all parameters with the point of reference being profit before tax. When Co-operative Bank of Kenya Limited decided to sell shares to the public, its main reasons were improvement of their services with the main aim being increasing their profit before tax.

Initial public offer refers to the first sale of stock by a private company to the public. IPOs are often offered by smaller, younger companies seeking capital to expand like in the case of cooperative bank of Kenya Limited which wanted to increase the number of their branches but can also be offered by large privately owned companies looking to become publicly traded (Ritter, 1991). When Co-operative Bank of Kenya went public, it was young with only 52 branches and a profit before tax of 3.36 billion. By 2012, the bank had a profit before tax of 7.49 billion and branches standing at 74. The deposits that the company sought to raise through this IPO were majorly to be used in both loans and advances which forms the core of commercial banks' business. The bank also had the pressure from the industry to counter competition through improvement of their system hence efficiency and speed their services by investing in their core system (Co-operative Bank Prospectus, 2008) becoming a publicly-held company offers the owners of a private company the potential for substantial benefits. These include the ability to raise new capital for more rapid growth and to broaden ownership beyond the current owners (Ritter, 1991). Despite importance of IPO financing, challenges of timing, underwriting costs, cost of accounting, agency costs and privacy costs still exists and therefore this financing method needs thorough evaluation before the decision to go public is made. While commenting about the amount of subscription after the IPO, the Managing Director of Co-operative Bank of Kenya Limited confirmed that the percentage subscribed was above their target admitting that the timing of the IPO was not good due to economic challenges and that the Board of Directors of Co-operative Bank was impressed despite the fact that one of their main target which was NSSF stayed away from the offer due to its internal issues. This brings out the fact that if a study about IPO and performance of Individual commercial banks had been done, then there couldn't have been uncertainty in timing of the viable time for the IPO.

Why and when firms decide to go public is still a largely unresolved question in finance hence there is need to investigate and shed light in this topic. For some firms, the initial public offering is part of natural maturation; they direct access capital to security markets which is not the case with Co-operative Bank of Kenya since it had not reached maturation and was still growing by then. Celikyurt (2010) suggested an alternative, acquisitions-based motive for IPOs; but still this is not consistent with the reasons why Co-operative Bank of Kenya Limited went public. The bank went public because it wanted to expand among other reasons which were also aimed at expansion. Celikyurt (2010) further affirms that firms go public to become acquirers, and that the IPO facilitates this process by providing both immediate capital as well as access to capital markets. For other firms, however, an initial public offering may be part of an exit strategy that eventually leads to their own acquisition or merger (Celikyurt, 2010). This is not consistent with the case of Co-operative of Bank of Kenya Limited whose reason for IPO financing was purely expansion with an aim of increasing profit before tax.

This study explored the effect of additional financing from IPOs on performance of Co-operative Bank of Kenya Limited and further articulates this with the space of the banking industry in Kenya and as a driver of economic growth.

1.1.1 Branch Expansion

The study revealed that the number of branches insignificantly influence profit before tax, this implies that it is not obvious that when branches increase, then profit before tax must be affected. Increasing the number of branches can lead to the branches consuming a lot of resources in their construction or hiring human resources. Besides, the branches may take time to break even, alternatively, the management may decide to retain the number of branches and empower them through staffing and development of new and powerful products. Other external factors may lead to variations in profit before tax, such factors include: economic factors such inflation, competition and political factors. Commercial banks and for this matter Co-operative Bank of Kenya Limited is advised to concentrate more on ABC which tends to be cheaper in their maintenance rather than brick and mortar type of banking halls.

1.1.2 Product Development

Product development was found to be significantly influencing profit before tax, that is, if Cooperative Bank of Kenya developed unique and differentiated products with proceeds from the IPO, then the bank's profit before tax was likely to increase since the benefits outweighs the cost. Mc Carthy and Perreault (2010) observed that in service sector like banking industry, the cost and effort may not be high but can have a devastating long term effect if dissatisfied consumers turns elsewhere for help. This implies that if an organization like a commercial bank gets it right in product development, then the bank will have high profit before tax. Commercial banks therefore should develop new products after thorough analysis and feasibility study. Kibera (2007) agrees with this by observing that product development stage is very important because it is at this juncture that the company tries to 'concretize' the product that is, it tries to find out if the product is technically feasible. Problems of brand naming and packaging are also faced and resolved.

1.1.3 Customer Experience

Both technology and corporate social responsibility significantly influence profit before tax in Co-operative Bank of Kenya Limited. With powerful banking system, real time transactions, paperless banking, ATM banking, speed and efficiency are assured; this translates to quick turnaround times hence increase in profit before tax. Harker (2000) emphasized technology and further observed that banking is going through a revolution and that people will soon have all their banking just at their finger tips. On CSR, Co-operative Bank extended their cooperate social responsibility to various students in high school, they used this as a marketing tool thereby ending up with and maintaining very many customers; this translate to an increase in profit before tax. Co-operative Bank and other commercial banks should come up with powerful core banking system which improves efficiency, speed and supports real time transactions. Next, the bank should participate relentlessly in CSR as this will positively affect customer numbers and in turn increase profit.

The study is importance to, first, scholars to carry out further studies related to this study based on the final recommendations and the gaps identified. Secondly, the study may be important to the Board of Directors in evaluating various forms of financing and also drawing both short term budget and long term strategic and grand strategies. Finally, the government of Kenya, especially the Ministry of Finance, will have ideas about the roles played by commercial banks in the economy. This may in turn help them create conducive environment through humble policies which will spar commercial banks to greater heights. The study took descriptive nature. The tools that were used include questionnaires, observation and interviews.

1.2 Statement of the Research Problem

IPO financing is one of the sources of financing for limited liability companies. Most organizations go for IPO financing for purposes of raising cash for expansion purposes. Existing theories have outlined various reasons for resorting to IPO financing. Some of the reasons identified include: general expansion and acquisition strategies. Theories have it that very few firms go through IPO with an intention of acquisition or because they would like to escape acquisition. It is evidenced that most of the firms that have gone through a successful IPO process have improved their profit before tax. Despite the advantages of going through an IPO, there exist quite a number of challenges which include the following: underwriting cost, legal and counting costs, under pricing due to speculations and inaccurate valuation by underwriters, agency costs, information asymmetry and uncertainty in business coupled with both political and economic environment challenges. Many organizations, including commercial banks, have gone through IPOs successfully even though they have faced some challenges. Co-operative Bank of Kenya arrived at the decision with an objective of expanding its branch outlets, increase lending, improve their core banking system and finally to develop various products. Many studies have been carried out about pre-IPO and post-IPO performance of various stocks of listed companies but none the studies within the scope of this study have been done about effect of IPO financing on performance of an individual commercial bank in Kenya hence making it difficult for various strategic decision makers in commercial banks to decide on whether or not to undergo IPO financing.

1.3 Objectives of the Study

The general objective of the study was to determine the effect of IPO financing on performance of Co-operative Bank of Kenya Limited in Nyanza region, Kenya.

The Specific objectives were:

i. To determine the effect of branch expansion on profit before tax in Co-operative Bank of Kenya Limited.

ii. To establish the effect of product development on profit before tax in Co-operative Bank of Kenya Limited

iii. To investigate the effect of Customer satisfaction on profit before tax in Co-operative Bank of Kenya Limited

1.4 Hypothesis of the Study

The following hypothesis were tested

H_0: There is no effect of branch expansion on profit before tax in Co-operative Bank of Kenya Limited.

H_0: There is no effect of product development on profit before tax in Co-operative Bank of Kenya Limited.

H_0 There is no effect of customer satisfaction on profit before tax in Co-operative bank of Kenya Limited.

1.5 Scope of the Study

The study covered Co-operative Bank of Kenya's branches in Nyanza region. Fifteen of Co-operative Bank branches were used in the study, the study analyzed effects of IPO financing on performance of Cooperative bank of Kenya limited in Nyanza region. The performance indicators analylized were cost of product development, cost of technology, amount of money used in corporate social responsibility and number of branches.

1.6 Justification of the Study

For all the profit making organizations, performance is a key pillar. In the process of drafting their strategies at the strategic levels, most organizations prioritize performance as an indicator of growth.

Coupled with various challenges and conflicts of interest, organizations and particularly commercial banks are left with no alternative but to craft both short term strategies and long term grand strategies. The challenges in such environments include agency problems, tough economic conditions, government policies and regulations, competition and rate at which technology and innovation advances. Despite the mentioned challenges, the banks may remain in business since they are key drivers of the economy.

The study therefore is of material importance since it explored the very technical financial management function (Financing decisions). It is important to note that there are many sources of funds commercial banks could access other than IPO financing. It is upon the Finance Manager to advice the company on which one to choose from based on cost, impact and risk involved. The study further would be important to policy makers in drafting the policies regarding commercial banks. Finally, the study would give insight for scholars by identifying gaps and proceeding with further studies related to this study.

1.7 Conceptual Framework

Proceeds from IPO financing was used to fund branch network, improve technology, and enhance corporate social responsibility and development of new products. In return, profit before tax is expected to be influenced, besides there are a number of intervening variables such as government policies, economic factors, legal factors and leadership or management factors, in the process of going through an IPO financing for example, certain factors can intervene; for instance, for a firm to go public it is expected to fulfill some legal requirements by regulators, for Co-operative bank of Kenya Limited, it had to abide by Capital Markets Authority guidelines that governs listing in securities exchange market. Just like the managing director observed that Co-operative Bank IPO performed above their expectation and that the economy was not good since the issue followed post election violence, both economic and political factors cannot be assumed in this study hence can intervene and finally is the government policies which keeps on changing and at times being modified.

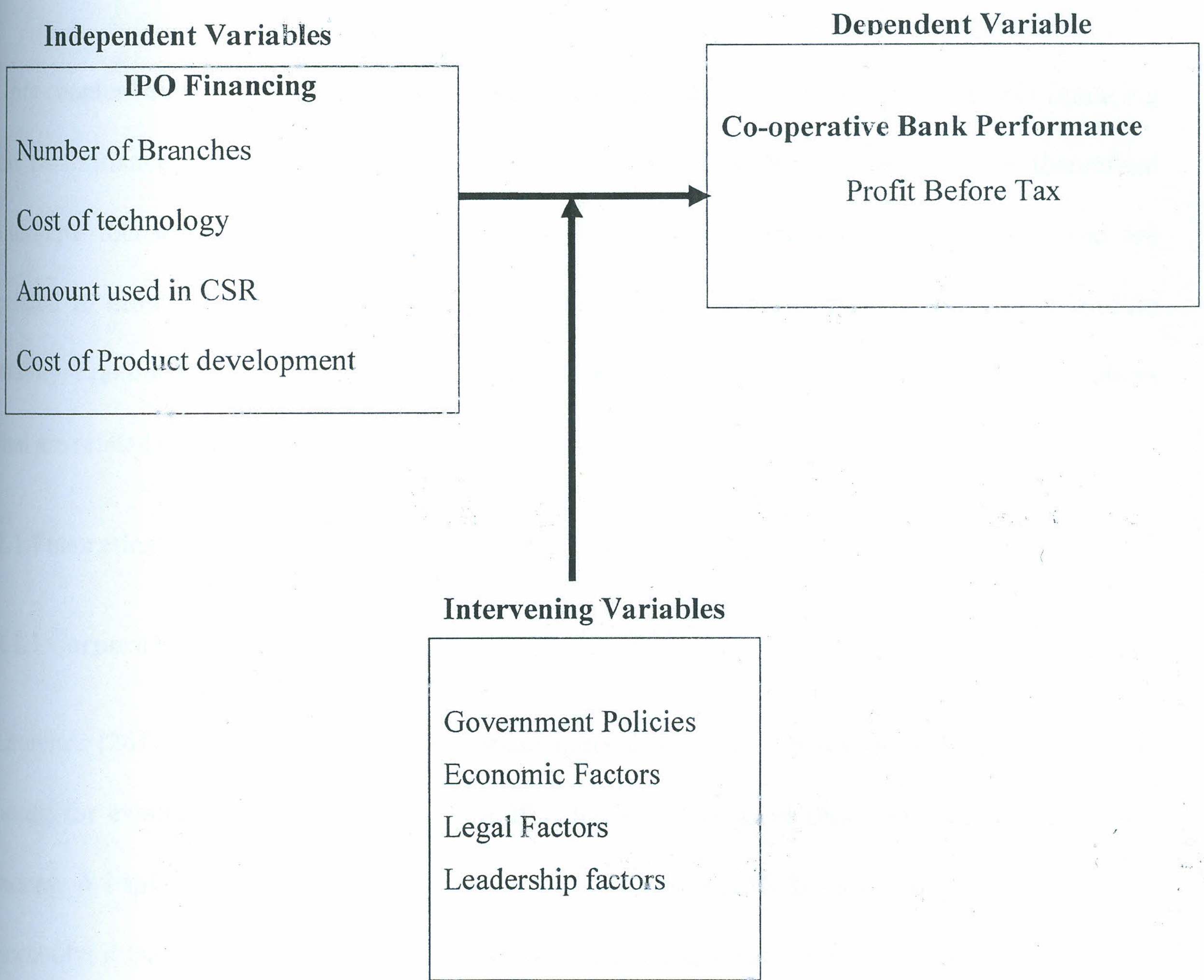

Figure 1.1: Effect of IPO financing on performance of Cooperative bank of Kenya Limited.

Source: Adopted and Modified from Irungu (2013)

CHAPTER TWO

LITERATURE REVIEW

This chapter reviewed the theoretical and empirical literature relevant to effect of IPO financing on performance of Co-operative Bank of Kenya Limited in Nyanza region. The theoretical literature focused on various theories that had been in existence for very long time and are related to effect of IPO financing on performance of commercial banks, empirical literature mainly examined both quantitative and qualitative views of recent work from various authors that are related to this study.

2.1 Theoretical Literature Review

2.1.1 Corporate Financing

Laurence (2013) noted that a bank may want more funds than it rises from deposits. This can occur, for example, if the bank wants to increase its lending. In this case, the bank borrows money. A bank can borrow in several ways. First, it can borrow from Central Bank of Kenya, Secondly; it can borrow from another bank which has excess cash that it needs (surplus). This is usually called overnight loans, meaning they have a term of one day. Thirdly, a bank can borrow from a corporation or financial institution that has spare cash. This borrowing occurs through a repurchase agreement with a pension fund.

Laurence (2013) asserts that bank sells the pension fund a security, such as a Treasury bill and agrees to buy it back later at a higher price. This deal is equivalent to a loan since the bank receives cash temporarily. This practice is however not common with commercial banks in Kenya since they are under strict regulatory control by central bank of Kenya, besides this can only raise funds temporarily; in the case of Co-operative bank of Kenya, they had to go through initial public offer since they wanted a lot of money and funds that they were not to return back immediately. The security (TB) is the collateral for the loan and increase in the security price is the interest. Fourthly, banks can borrow money in form of bonds from the commercial banks. In America for instance, bonds are illegal hence commercial banks are not allowed to issue bonds. Financial Holding Companies issue bonds and they pass on the funds they raise to banks that they own. Bonds are important source of funds to large banks. As was applied in this study, some of Co-operative Bank of Kenya Limited's reasons for issuing IPOs was to raise funds to increase its lending, fund their core banking and increase branch network among other reasons, Just as Laurence (2013), observed, there are many ways in which a company can raise capital, in the case of Co-operative Bank of Kenya Limited, they decided to go through IPO financing.

Brigham (2010) asserts that going public increases liquidity and allows founders to harvest their wealth. This observation may just be true only if the issue is successful, but if the issue is not successful then it may be more disadvantageous. The stock of private or closely held corporation is illiquid. It may be hard for one of the owners who want to sell some shares to find a ready buyer and even if the buyer is identified, there is no established price on which to base the transaction. After Co-operative Bank of Kenya issued their IPOs, the bank was listed in securities market, the shares became liquid hence investors could now have a basis for transaction agreements. Going public also permits founders to diversify their wealth.

Brigham further observed that by selling some of a firms stock in a public offering, they can diversify their holdings thereby reducing the riskiness of their portfolios. Going public also facilitates raising new corporate cash just like Co-operative Bank of Kenya realized 4.7 million proceeds from IPO to finance its operations. It also establishes value for the firm and facilitates merger negotiations. Having an established market price helps when a company either is being acquired or is seeking to acquire another company in which the payment will be with stock though this is not one of the reasons why Co-operative Bank of Kenya went public. Finally, going public increases potential markets to the bank. Many companies report that it is easier to sell their products and services to potential customers after they become publicly traded.

Brigham (2010) further asserts that cost of reporting is very high as publicly owned companies must file quarterly and annual reports with seal and or various state agencies, especially to small firms. Second is the fear of disclosure of data. The management may not like the idea of reporting data because these data will then be available to competitors. For cooperative bank of Kenya Limited, reporting data was not an issue because all limited liability companies are required to disclose their financials with or without floating new shares. Similarly, the owners of the companies may not want people to know their network. The third disadvantage is self dealings and consumption of perks. If the other owners are not directly involved, then the Manager has many opportunities for various types of legal but unethical self dealings including payment of high salaries. The fourth disadvantage is inactive market. If the given market is very small and its shares are not traded frequently, its stock will not be really liquid and the market price may not represent the stock's true value.

As can be applied in this study, Co-operative Bank of Kenya Limited met all the costs mentioned, they disclosed their financials and published all the requirements in their prospectus as is required by Capital Market Authority when the company is selling their shares for the first time and risked being subjected to these disadvantages assuming it did not meet their target in raising funds. Brigham (2010) again noted that there is no hard-and-fast rule regarding if or when a company should go public. This is an individual decision that should be made on the basis of the company's and stakeholders' own unique circumstances.

2.1.2 Product Development

Product development stage is very important because it is at this juncture that the company tries to 'concretize' the product. That is, it tries to find out if the product is technically feasible. Problems of brand naming and packaging are also faced and resolved, (Kibera, 2007). A new product is one that is new in any way for the company concerned. A product can become 'new' in many ways, for instance, a fresh idea can be turned into a new product and starts a new product life cycle. Variations on an existing product idea can also make a new product. By increasing speed of product development life cycle means that firms must be developing products all the time, further they must try to have marketing mixes that will make the most of the market growth stage when the profits are highest (Kibera, 2007). As can be applied in this study, it is realized that Cooperative bank of Kenya developed good products that influenced their PBT positively; that is, the developed unique products.

During growth stage competitors are likely to introduce product improvement. First changes in marketing strategy may be required here because profit do not necessarily go to the innovator. Sometimes fast copiers of the basic idea will share in the market growth stage. When a firm's product has won loyal customers, it can be successful for a long time in the mature or declining market. However, continued improvement may be needed to keep customers satisfied, especially if their needs shift. In identifying and developing new product ideas, effective strategies to go with them are often the key to a firm's success and survival, but this is not easy (Mc Carthy and Perreault, 2010).

New product development demands effort, time, and talent and still the risks and costs of failure are high, experts estimate that consumer packaged goods companies spend at least $20 million to introduce a new brand and seventy to eighty percent of these new brands flop. In service sector, the front and cost of spent effort may not be as high but can have a devastating long term effect if dissatisfied consumers turns elsewhere for help. As can be applied in this study, commercial banks sell purely services. This means that if they get it wrong in product development, then they incur a lot of money. One of the reasons for issuing shares by Co-operative Bank of Kenya was to finance product development; the products developed were found to be significantly influencing profit before tax.

2.1.3 Cost of Capital

Ritter (1998) observed that there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulators for publicly-traded firms. Furthermore, there are substantial one-time costs associated with initial public offerings that can be categorized as direct and indirect costs. The direct costs include the legal, auditing, and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public.

Harzel (1993) asserts that bank capital serves much the same functions as capital in a non financial firm. In the case of Co-operative bank, the proceeds from initial public offer financing were used in the bank which further enhanced its operations and increased its profit before tax. It provides a buffer for temporary operating losses. Capital absorbs these losses until profitability is restored so that the firm remains solvent. Further he says that capital includes preferred and common stock, paid in surplus, and undivided profits (retained earnings). Cost of equity capital is by far the most difficult cost to measure. In theory it may be defined as the minimum rate of return that the company must earn on the equity finance portion of an investment project in order to leave unchanged market price of the stock. If the firm invests in project where the expected return is less than this required return, the market price of the stock over the long run will suffer. To determine the cost of equity capital in practice we must analyze the valuation of common stock in the market place. Dividend valuation model: the value of stock to investors is the present value of the expected feature stream of income paid to them. Because dividends are all that stockholders as a whole receive from their investments, these stream of income is the cash dividend paid in feature period and perhaps a final liquidating dividend.

At time zero, the value of a share of a stock is;

$$P_0 = \frac{D_1}{(1+K_e)} + \frac{D_2}{(1+K_e)^2} + \cdots \frac{D_\infty}{(1+K_e)^\infty} \tag{2.1}$$

$$P_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1+K_e)^t} \tag{2.2}$$

Firm's external equity consists of funds raised externally through public or right issues. The minimum rate of return which the equity shareholder require on funds supplied by them by purchasing new shares to prevent a decline in the existing market price of the equity share is the cost of external equity. The firm can induce the existing or potential shareholder to buy new shares when it promises to earn a rate of return equal to:

$$K_e = \frac{Div_1}{(P_0)} + g \tag{2.3}$$

Thus, the shareholders required rate of return from retained earnings and external equity is the same. The cost of external equity is however greater than the cost of internal equity for one reason. The selling price of new shares may be less than the market price thus the formula for the cost of the new share of equity capital may be written as:

$$K_e = \frac{D_1}{(P_1)} + g \qquad (2.4)$$

Where P_1 is the issue price of new equity; $\mathbf{K_e}$ is the cost of external equity; $\mathbf{Div_1}$ is the dividend; P_O is the market price of shares; **g** is the expected (constant) growth in dividends; $\mathbf{D_1}$, $\mathbf{D_2}$ is the flow of dividends yearly and **t** is the time (annually). The cost of retained earnings will be less than the cost of new issue of equity, that is, $P_O > P_1$.

For example, the share of a company is currently selling for Rs 100. It wants to finance its capital expenditures of Rs 100 million either by retaining earnings or selling new shares. If the company sells new shares, the issue price will be Rs 95.The dividend per share next year, **DiV1** is Rs 4.75 and it is expected to grow at 6%. Calculate (i) The cost of internal equity (retained earnings) and (ii) the cost of external equity (new issue of shares).

Cost of internal equity can be arrived at:

$$K_e = \frac{Rs\,4.75}{Rs\,100} + 0.06 = 0.0475 + 0.06 = 0.1075 \text{ or } 10.75\% \qquad (2.5)$$

The cost of external equity can be calculated as:

$$K_e = \frac{Rs\,4.75}{Rs\,95} + 0.06 = 0.05 + 0.06 = 0.11 \text{ or } 11\% \qquad (2.6)$$

It is evidenced that cost of external equity is greater than the cost of internal equity because of the under-pricing (cost of external equity=11% > cost of internal equity =10.75%) (Pandey, 2005). As can be applied in this study, procuring for finance involves appraisal of various alternatives, that is, retain earnings, go for debt financing or decide to use equity financing. Co-operative bank Limited decided to issue new shares (IPO) because they are cheaper than debt financing, secondly, Co-operative Bank of Kenya wanted much money that could be difficult to raise through retaining earnings even though retained earnings are cheaper than equity financing.

2.2 Empirical Literature Review

2.2.1 Challenges of IPO Process

IPO financing have various challenges such us underwriting cost, legal and accounting costs and many others. The most widely analyzed one is related to the increase in agency costs when a firm goes public. An IPO originates a reduction in ownership concentration that affects the incentives that shareholders have to exercise control over management, accentuating the opportunity for management to pursue different goals to that of the maximization of shareholders' wealth (Jensen and Meckling, 1976). This aspect has been analyzed in depth in several papers, such as Mikkelson (1997) and Cai and Wei (1997). The results have shown that the deterioration in post-issue profitability cannot be associated with an inferior incentive structure as a result of the reduced concentration of ownership. Mikkelson (1997) argues that managers' and other stockholders' interests are closely aligned for the reason that officers and directors continue to hold important ownership stakes in the first years after the IPO.

Further, the above authors observed that quoting on a stock market provides a mechanism for disciplining management through the exposure of management decisions to the valuation of stock market, the possibility of takeover bids and the design of efficient compensation schemes for managers. On the other hand, Jain and Kini (1994) obtained favorable evidence on the influence of ownership structure over the post-issue operating performance of IPO firms. However, these authors did not measure the ownership structure, as do Mikkelson (1997) and Cai and Wei (1997), but approximated it as the percentage of shares retained by the main shareholders after the IPO As can be applied in this study, the mentioned challenges exist in Co-operative Bank of Kenya, the post-IPO challenges were addressed through choosing competent underwriting company and putting a guideline that those in senior management of the company were not allowed to sell their shares for some specific year after the issue.

The other challenge of going public is underwriting fees, when a company goes public; it can expect to pay its underwriters high fees to sell its stock at a low price. Theoretical explanations for high underwriting fees are based on the underwriter's reputation asset allowing banks to certify new issues (Beatty and Ritter, 1986). In the case of Co-operative Bank of Kenya, the underwriting could not be said to have been less, but it could be said that it was commensurate to the IPO proceeds; speaking about the issue just after the IPO, the Managing Director of Co-operative bank Limited observed that the performance of the IPO was impressive and was above his expectation despite the fact that the "Giant" NSSF stayed away from the issue due to its internal wrangles.

Informational asymmetry is another challenge faced in the IPO process. Leland and Pyle (1977) noted that numerous markets are characterized by informational differences between buyers and sellers. In financial markets, informational asymmetries are particularly pronounced. Borrowers typically know their collateral, industriousness, and moral rectitude better than do lenders; entrepreneurs possess "inside" information about their own projects for which they seek financing and further the authors went on to observe that Lenders would benefit from knowing the true characteristics of borrowers.

2.2.2. Post IPO Performance

Houge and Loughran (1999) investigated the profitability of the IPO banks compared to the industry average in order to explain the poor long-run stock returns of the IPO banks. Their findings show that there are no significant changes in profitability, although the IPO banks had a significantly lower profitability than the industry. Houge and Loughran (1999) revealed that IPO banks are highly sensitive to market performance and to interest rate changes. So, a number of IPO banks rise during periods when the interest rise and reduce when the interest reduce; this contradicts the recommendation of IPO financing for commercial banks because this implies that before a commercial bank decides to sell shares to the bank, they should consider the prevailing interest rates; however taking into account the pre-offering return, more profitable IPO banks show a decline in the return on assets after the IPO. However, Houge and Loughran (1999) shown that small and large financial institutions do not experience substantially different levels of profitability; this further contradicts the optimism by the board of directors of Co-operative bank prior to their 2008 IPO.

As regards stock returns, analysis has revealed that investors seem to incur losses due to holding shares in the firms that have recently carried out an IPO compared to those that have not done so. The strategy of investing in IPOs at the end of the first day of public trading and holding them for three years would produce a wealth of 83% compared to that obtained by investing during the same period in a group of control firms belonging to the same sector and with a similar market value (Ritter, 1991).

Alanazi (2011) examined the profitability performance for 21 Saudi firms that implemented initial public offering IPO between 2003 and 2009. Part of this period in Saudi Arabia was characterized by IPO clustering. They observed that the government privatized firms showed a substantial increase in their ROA and their ROS after the IPO as compared to the pre-IPO level and further observes that it seems that both types of companies have become more competitive under market forces and competition. A similar outcome was found among the big private joint stock companies that share the same characteristics with the government firms, this suggests a good reason for the Saudi government to continue privatization through IPOs, and that, as a matter of policy, existing private firms undergoing IPO might be first required to spend some time as joint stock companies. Conversely, significant performance declines were found for the private limited liability firms undergoing IPOs. These results are in line with the evidence on private firms' performance decline after the IPO. As can be applied in this study, even though the study has not exhausted comparative analysis on performance of various stocks in the securities market, it is evidenced that due to inaccurate valuation of share price of new stocks and speculations, cases of under pricing of stock and subsequent poor performance of new stock after IPO financing exists. This implies that before one recommends IPO financing for commercial banks, he or she should consider challenges such as inaccurate valuation of shares and find ways of coming up with accurate valuation.

2.2.3 Technological Development

Harker (2000) noted that technological innovation adds more competitive pressures, fast, not necessarily more cost effective for the firm, consumers get to depend on them and demand access. Whereas in the past the bank branch was the only channel for distribution of financial services, today we see variety of channels eroding the branch dominance. Furthermore as banks struggle with the technological issues and complex organizational choices that surround the introduction of say Information Protection and Control (IPC) banking services, they see emergence of new competitors; off the shelf home finance software and mobile banking services besides real time transactions in the bank branches.

Further, Harker (2000) observed that Technology has allowed banks to offer much more to their customers like the facilities of card and telephone access, anytime and anywhere banking through twenty four hours automated teller machines (ATMs), credit cards, debit cards and point of sale access. The technology has made it possible for the customers to have finger tip access to their accounts worldwide. Cyber banking has led to cash less society and this is the direction towards which technology is driving the banks today. The computers and particularly the networks are finding their applications in fund transfers, payment messages, interbank settlements, netting of foreign exchange payments, interbank reconciliations, and quick disposal of loan/investment proposal, foreign exchange information among branches and offices, email services, design of organization/customer databases, MIS systems and decision support systems.

Another impact of technology is the globalization of banking services; large banks are shifting their focus away from the domestic market to the global arena pursuing global expansion and emphasizing those products and services that are globally oriented, (Indian Institute of Banking and Finance, 2008). As applied in this study, Co-operative Bank of Kenya Limited reason for issuing IPOs was to finance its core capital, improve efficiency of its operations and improve its customer experience; this is realized in this study as it is evidenced that improvement in technology increases profit before tax.

2.2.4 Expansion and Economic Growth

Atje and Jovanovic, (1993) observed that there exist a relationship between stock markets and economic development reporting that the impact on both the pace of growth and level of GDP is positive. Levine and Sara (1998),using individual and composite indicators of financial development (including stock market capitalization and value traded), observed that higher liquidity of the equity market is positively correlated with the economic growth, whereas the correlation between the size of the market and GDP growth is not statistically significant.

In the earlier article by the same authors the results of similar empirical investigation were presented according to which the size of the given country's stock market may have significant impact on the GDP growth even when compared with the role played by the banking sector, Bakaert, Harvey and Lundblad, (2007) addressed the issue of stock market liberalization and reported that opening the equity market for foreign investors may increase the GDP growth rate by as much as one percentage point. In contrast with the works described above whose authors used time series or cross-sectional data, some economists combined the two approaches by analyzing panel data. Rousseau and Wachtel (2000) investigated the impact of increasing liquidity and market capitalization in 47 countries (1980-1995 time periods) with results indicating a relatively stronger impact of total value traded on the real GDP per capita level.

Beck and Levine (2004) analyzed 40 countries over the 1976-1988 periods with results providing evidence that the development of both banking sector and equity markets boost the rate of economic growth which may be regarded as a proof of distinct but complementary functions of the two main financial system's segments. Many emerging markets companies seeking financing through stock issuance face domestic equity market constraints such as lack of sufficient funds provided by local investors or low liquidity and consequently may be unable to raise the required funds. As a result, their management may decide to issue the depository receipts and gain therefore access to more developed equity markets. Other considerations may include highly developed financial intermediaries. As applied in this study, Co-operative Bank of Kenya Limited's shares were listed in securities market after the initial Public offer, this added into the list of the listed companies in Kenya and as a result, the GDP of the country is believed to have been affected positively.

2.3 Conclusion

From the literature, it is evident that extra income may have a greater effect on commercial banks' activities hence performance. IPO financing though is an alternative to sources of banks' financing and is expected to improve their performance; the challenges may still exist. Tenai (2011) observed that Initial Public Offerings (IPO) involve problems regarding price discovery due to uncertainties regarding aggregate demand and the quality of the issuer and that IPOS are under priced; he further asserts that under pricing is a loss to the issuing firm because it is a loss of money that could be utilized for profitable investment opportunities. This phenomenon contradicts one of the major purposes for companies going public. Organizations would ask such questions as what are the challenges of going through a successful IPO, i.e. if the commercial bank is doing well, is IPO financing necessary? The study therefore seeks to establish the effects of IPO financing (capital required) in determining the performance Co-operative bank of Kenya Limited in Nyanza region, Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research study was basically a fact finding research. It adopted descriptive research design, which enabled in-depth search of information on how IPO financing affected performance of Cooperative bank of Kenya in Nyanza region. The study analyzed the effect of IPO financing on Co-operative Bank of Kenya Limited.

3.2 Study Area

This study targeted Co-operative Bank branches in the six counties representing Nyanza region. Nyanza region has six counties which include Homabay, Nyamira, Kisumu, Kisii, Siaya and Migori. The region has an area of about 42 square kilometers. The area had fifteen Co-operative Bank branches by 2014 and an average of twenty employees per branch, bringing the total number of employees to be averagely three hundred.

3.3 Model Specifications

Multiple regression model was used; it determines whether a group of independent variables together predict a given dependent variable.

$$Y_{it} = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \varepsilon$$

Where:

I. Y_i = the values of the dependent variables (PBT) at time t

2. {β_i; i =1, 2, 3, 4} = Coefficients of independent variables

3. {X_i; i=1, 2, 3, 4} = independent variables at time t

4. ε Is the error term which is assumed to be normally distributed with zero and mean constant variance.

Source: Adopted from Irungu (2013)

3.4 Target Population and Sampling Techniques

The study population comprised of 15 Co-operative Bank branches in Nyanza region; six of the fifteen branches were selected. In the branches, there is an average of twenty employees per branch this resulted into a total population of one hundred and twenty employees. The study sample comprised of 92 Co-operative Bank employees from the total population through stratified random sampling method.

3.5 Data Type and Collection Techniques

The study used both primary and secondary data. Structured and unstructured questionnaires were used to collect primary data. Secondary data were collected through annual financial reports from Central Bank of Kenya and other publications from the internet and government resource centre.

3.6 Data Analysis and Presentation

To determine the relationship between IPO financing and profit before tax of cooperative bank, descriptive statistics such as percentages and mean scores of cost of product development, number of new branches, amount allocated to social corporate responsibility were used. Using correlation analysis and multiple regression analysis models, the relationship between number of branches, cost of technology, cost of product development, amount of funds used in corporate social responsibility and profit before tax of cooperative bank of Kenya Limited were determined.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results and discussion based on the information of the respondents and study objectives.

4.2 Response Rate

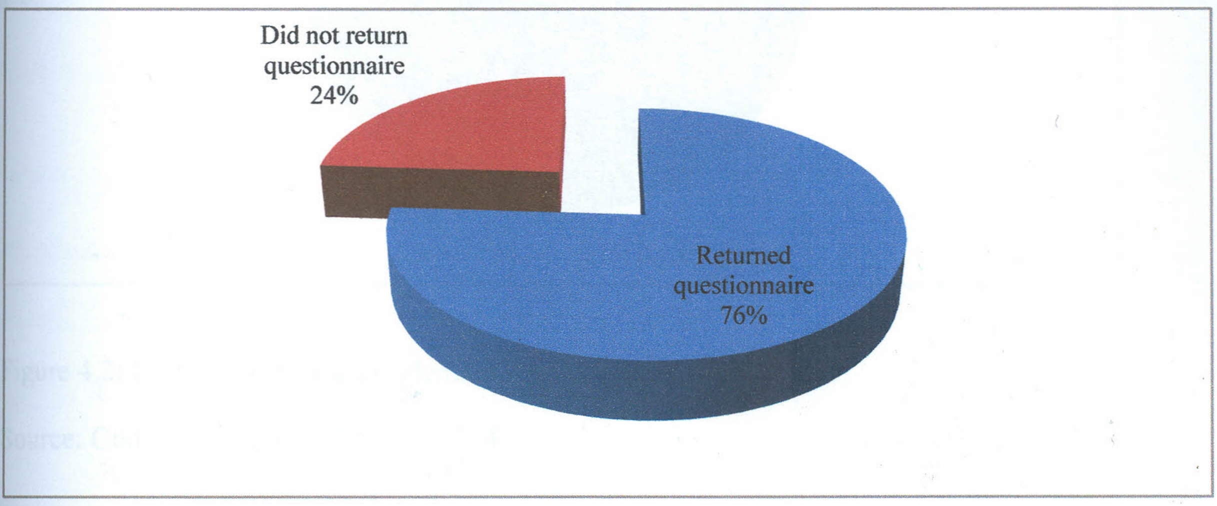

Figure 4.1: Response Rate
Source: Computed from Field Data, 2014.

Of the total number of 92 respondents, 70 respondents i.e. (76%) of the sampled population returned the questionnaires completed satisfactorily and 24% did not return. Figure 4.1 shows the level of response.

4.3. Demographic Characteristics of Respondents

4.3.1 Gender of Respondents in Co-operative Bank of Kenya

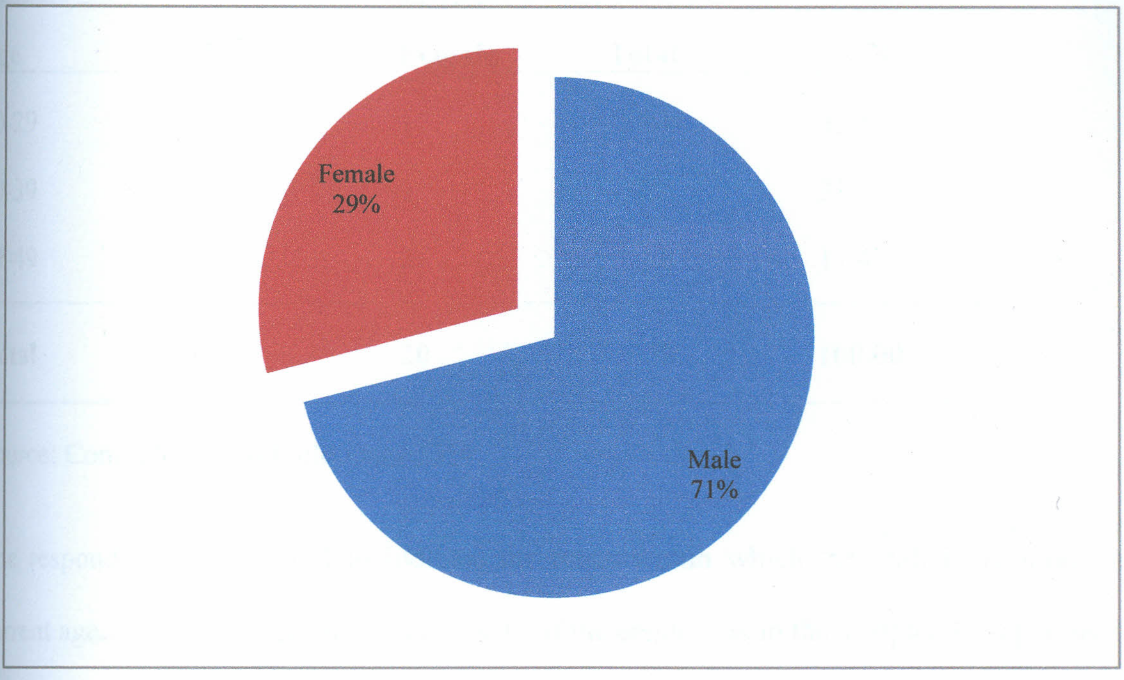

Figure 4.2: Gender of the Respondents

Source: Computed from Field Data 2014

From a total of 70 questionnaires received, 50 questionnaires, that is, 71% were received from male respondents duly completed while the remaining 20, that is 29% issued were received from the female respondents. Figure 4.2 shows the gender of respondents.

4.3.2 Age of the Respondents in Co-operative Bank of Kenya

Table 4.1: **Age of Respondents of Employees of Co-operative Bank**

Age	Male	Female	Total	%
20-29	29	11	40	57.14
30-39	15	7	22	31.43
40-49	6	2	8	11.43
Total	**50**	**20**	**70**	**100.00**

Source: Computed from Field Data 2014

The respondents were asked to indicate the range within which they fall in relation to their current age. Table 4.1 indicates that majority of the employees in the sampled Co-operative bank branches fall between ages 20-29.It was found that 57.14% of respondents fall between the age ranges of 20-29, 31.43% fall between 30-39 years and finally 11.43% falls between age ranges 40-49.

4.3.3 Level of Education of the Respondents

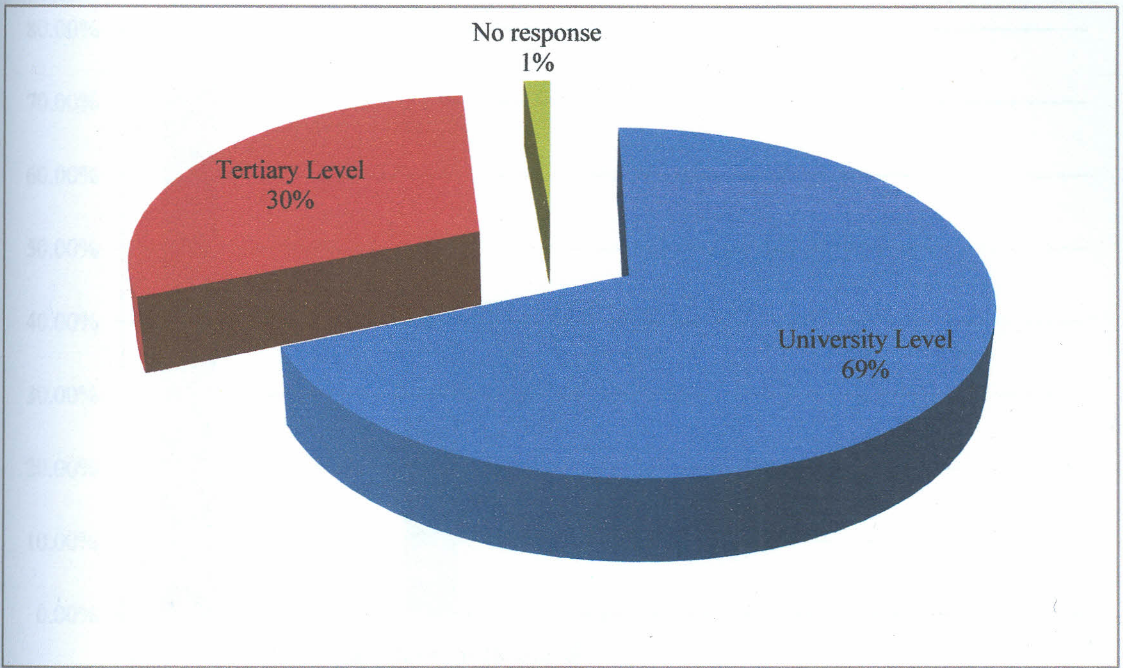

Figure 4.3: Level of Education of the Respondents of Co-operative Bank of Kenya Employees.

Source: Computed from Field Data 2014.

A total of 48 respondents (69%) had attained university degree with only 21, which represents 30%, said to have attained tertiary level that is either diploma or certificate. One respondent which represent 1% did not say the level of education. Figure 4.3 shows the education level of respondents.

4.3.4. Professional Background Respondents

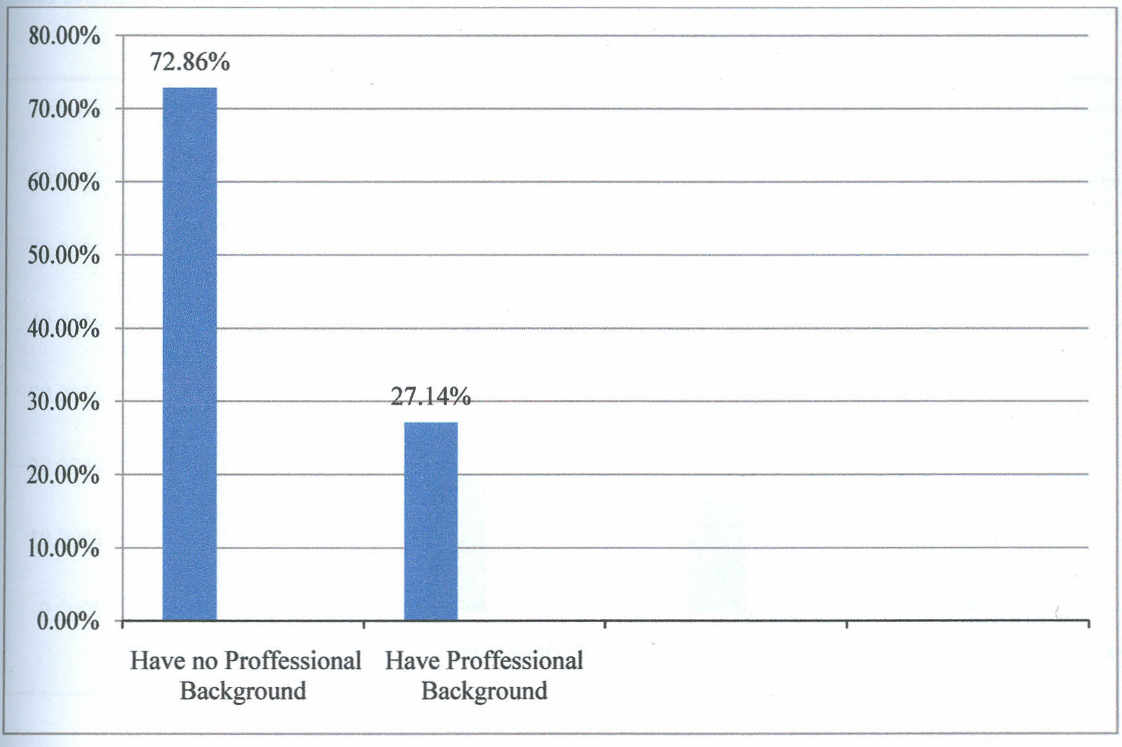

Figure 4.4: Professional Background of Employees of Cooperative bank of Kenya Limited.

Source: Computed from Field Data 2014.

Out of the 70 respondents, 51 which are 72.86% said to have no professional background, while 19 respondents which are 27.14% said to have various professional backgrounds. Figure 4.4 shows professional background of various levels.

4.3.5 Designation of Respondents

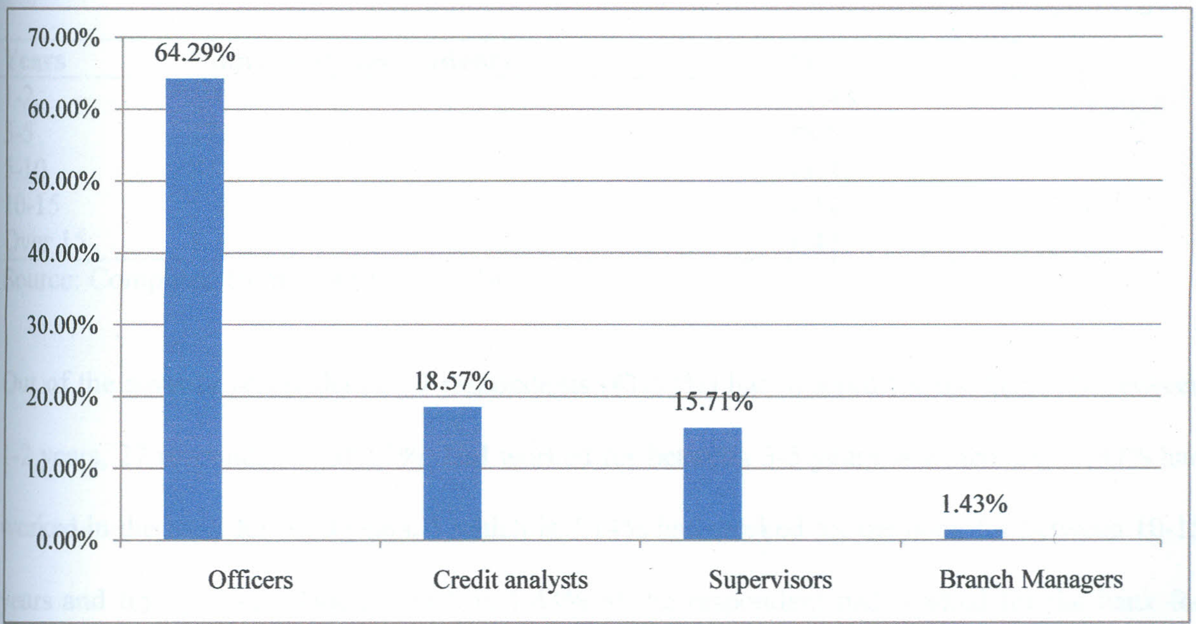

Figure 4.5: Designation of Co-operative Banks of Kenya Limited Employees.

Source: Computed from Field Data 2014.

Out of the 70 respondents, 45 respondents, which is 64.29% were officers, 13 respondents which are 18.57% were credit analysts, 11 respondents which are 15.71% were supervisors and 1, which is 1.43%, was Branch Manager. Figure 4.5 illustrates the designation of various respondents.

4.3.6. Duration Worked for at the Co-operative Bank of Kenya Limited

Table 4.2. Duration Worked for at Co-operative Bank of Kenya

Years	Number of Respondents	%
1-2	29	41.43
3-5	27	38.57
5-10	8	11.43
10-15	5	7.14
Over 15	1	1.43

Source: Computed from Field Data, 2014

Out of the seventy respondents, 29 respondents (41.43%) had worked for the bank for between 1-2 years, 27 respondents (38.57%) had worked for between 3-5 years, 8 which are 11.43% had worked in the bank for 5-10 years, 5 which is 7.14% had worked for the bank for between 10-15 years and finally 1 respondent which is 1.43% of the respondent had worked for the bank for over 15 years. Table 4.2 illustrates the duration worked for various respondents.

4.3.7. Branch Expansion and Network of Co-operative Bank of Kenya Limited

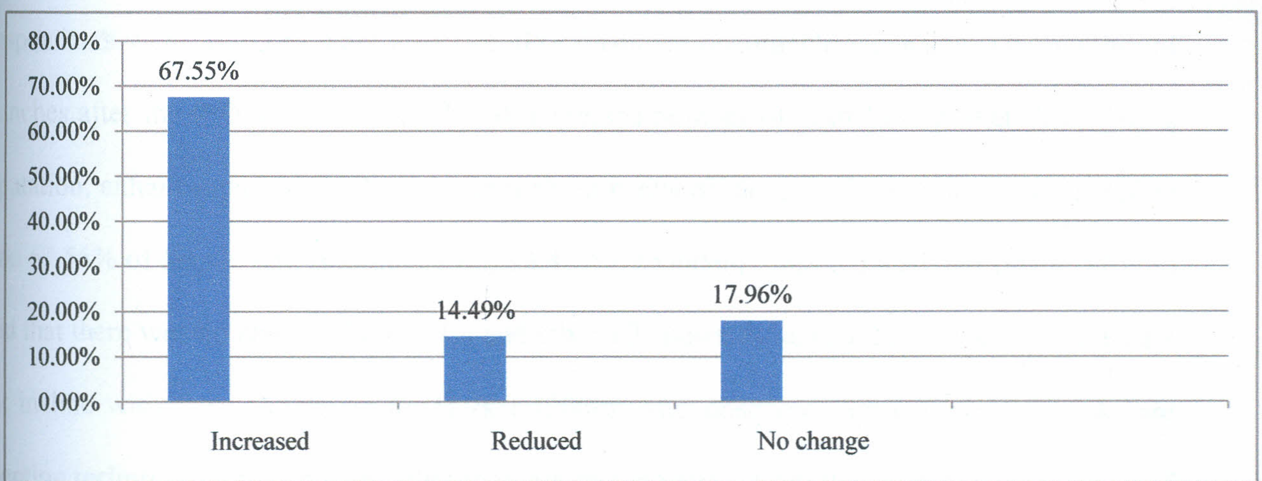

Figure 4.6: Branch Expansion and Network of Co-operative bank of Kenya Limited

Source: Computed from Field Data, 2014

Table 4.3: **Branch Expansion and Network of Cooperative Bank of Kenya Limited**

	Increased	Reduced	Remain the same	
	1	**2**	**3**	**Total**
1. Number of Branches after the IPO	54	7	9	70
2. Cost associated with increased number of branches	45	13	12	70
3 Market share i.e. Number of Customers	63	7	0	70
4 Perception of Cooperative bank branches and reputation	48	12	10	70
5. Extension of social responsibility	50	11	9	70
6. Awareness level due to accessibility	52	14	4	70
7. PBT due to the number of Branches	18	5	41	70
Total	**331**	**71**	**88**	**490**

Source: Computed from Field Data, 2014

Respondents were asked to state effect of IPO financing on branch expansion, i.e., number of branches after the IPO, cost associated with increased number of branches, market share, banks reputation, enhancement of CSR, awareness about banks products and increase in Profit Before Tax. 67.55% of respondent said increased, 14.49% respondents said reduced and finally 17.96% said that there was no change. Figure 4.6 and table 4.3 shows these results. The above results are not in line with the observation by Harker (2000), who observed that commercial banks are adopting technology in such a way that they are moving away from the brick and mortar type of banking, and that with time banking will be made very easy through such practices such as mobile banking, Agency banking, credit and debit cards besides real time transactions.

4.3.8. Results of Co-operative Branch Expansion

Table 4.4: Results of Branch Expansion of Co-operative Bank of Kenya Limited

Statement	True	Not True	Unaware	Total
Profit before tax increased due to more branches	25	40	5	70
Many branches led to more sponsorship of pupils	54	5	11	70
Branch network led to improvement of businesses	50	2	8	70
Branch expansion led to creation of job opportunities	48	6	16	70
Schools, hospitals and churches benefited due expansion	52	5	13	70
Business people benefited from the branch expansion	49	6	15	70
Branch expansion came with extra costs	55	8	7	70
Branch expansion came with cheap operations of accounts due to accessibility.	47	14	9	70
Total	**380**	**96**	**84**	**560**

Source: Computed from Field Data, 2014.

Respondents were asked to give their opinion on results of IPO financing on cooperative bank's branch expansion. 380 responses which is 67.86% of the responses said that the below statements are true. 96 responses which are 17% said that the statements were not true while 84 responses which are 15% said that they were not aware. From the above results, it was found that increase in branches does not increase profit before tax, with only 25 responses confirming that increase in branches increase profit before tax and 40 responses are of contrary opinion and 5 respondents were unaware. These results confirms that number of branches insignificantly influence profit before tax. Table 4.4 summarizes this information.

4.3.9. Product Development in Co-operative Bank of Kenya Limited

Table 4.5: Product Development in Co-operative Bank of Kenya Limited

Statements	True	Not True	Not Aware	Total
Many products were developed after the IPO	51	8	11	70
The products developed contributed to the increased PBT	49	12	9	70
Customers were satisfied and retained due powerful products after the IPO	50	12	8	70
Product development resulted in a high cost of product development and research.	43	18	9	70
PBT increase overweighed the cost associated with research and product development.	40	17	13	70
Resistance to change among staff was experienced due to the new products	40	21	9	70
The new products were positively accepted in the market	41	17	12	70
Were there negative impacts of new products developed on the existing?	43	18	9	70
Total	**357**	**123**	**80**	**560**

Source: Computed from Field Data, 2014

Respondents were asked to indicate if the following factors are true, not true or not aware concerning product development; many products were developed after the IPO, products developed contributed to increased PBT consequently, customers were satisfied due to powerful products, product development resulted into high cost of product development, PBT realized as a result of product development outweighed the cost of research, resistance to change among staff was experienced due to the new products, new products were positively accepted in the market and finally, were there negative impacts of the new products developed on the existing products. 357 which were 63.75% responses received noted that the above points were true 123 which were 21.96% noted that the above points were not true and finally 80 responses which are 14.29% noted that they were not aware. Table 4.5 shows these results. The results indicate that there was an effect of IPO financing on performance of Co-operative bank of Kenya Limited since 357 responses agreed that the above statement were true. The results shown that product development significantly influence profit before tax as 49 of the respondents confirmed that products developed led to increase of profit before tax, 12 respondents disagreed and only 9 of the respondents were unaware. Commercial banks should develop unique products to gain more revenue.

4.3.10 New Product Developed in Co-operative Bank of Kenya Limited

Table 4.6: New Product Developed in Co-operative Bank of Kenya Limited

Range of Products	No. of Respondents
0- 4	12
5- 9	25
10-14	13
15-19	16
20-24	4

Source: Computed from Field Data 2014

Respondents were asked to mention the number of loan and account products that were developed between 2008 and 2013. A total of 12 respondents stated that between 0-4 savings accounts were developed, 25 respondents stated that between 5-9 current accounts were developed, 13 respondents stated that between 10-14 micro banking loans products were developed, 16 respondents stated that between 15-19 Business (corporate) loan products were developed and finally 4 respondents stated that between 20-24 consumer loan products were developed. Table 4.6 summarizes the number of products developed. From this it was found that many products were developed after the initial public offer in all categories, this is what resulted into increase of profit before tax after the issue as Kibera (2007) stated that firms must develop products all the time and they must try to have marketing mixes that will make the most of the market growth stage when the profits are highest.

4.3.11 Profit before Tax of Co-operative of Kenya Limited

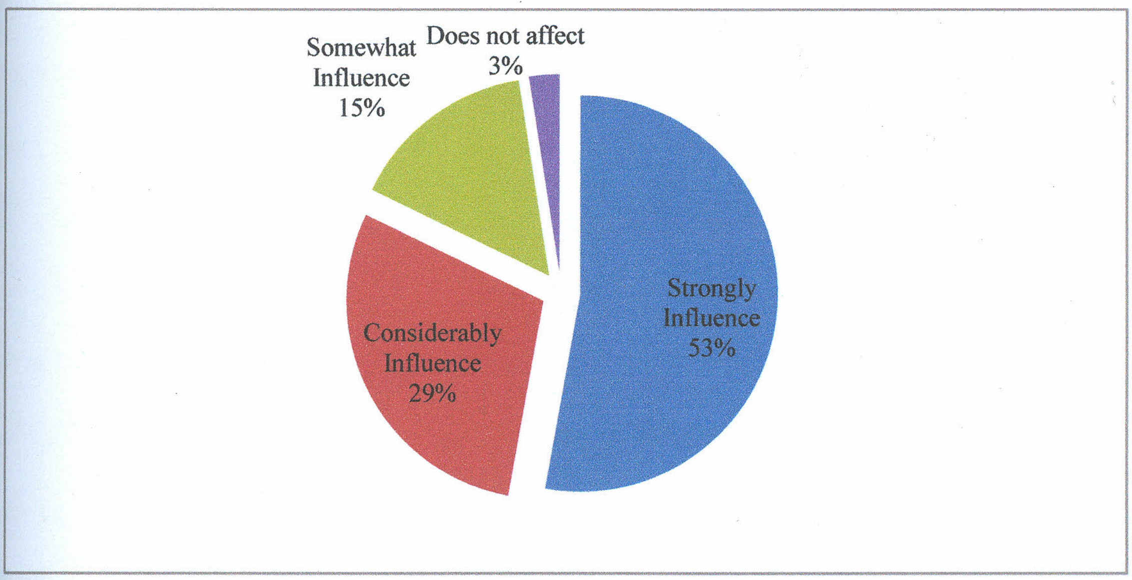

Figure 4.7: Effect of Profit Before Tax of Cooperative Bank of Kenya Limited.

Source: Computed from Field Data, 2014

Respondents were asked to mention if increased PBT due to IPO financing influenced the following parameters in Co-operative bank in Kenya; cost of production due to economies of scale, staff productivity improved due to trainings, staff productivity due improved remuneration and staff training, increased deposits hence better and quality loan book, increased number of branches, increased number of new products, better and powerful core banking system and increased amount of loans and advances disbursed. 296 responses representing 52.857% said that PBT strongly influence the above parameters, 164 responses representing 29.286% were in the opinion that increased PBT considerably influence the parameters, 86 responses representing 15.357% were in the opinion that PBT somewhat influence the above parameters and finally 14 responses representing 2.5% said that it does not affect the above parameters. Figure 4.7 illustrates the results. When compared to Houge Loughran (1999), he observed that banks experience long run poor stock returns.

4.3.12 Trend on PBT after the Co-operative Bank IPO

Table 4.7: Trend on PBT after the Co-operative Bank of Kenya IPO

	Statements	True	Not True	Not Sure	True
	Parameters	1	2	3	70
1	Amount of shares subscribed affected PBT in subsequent years.	43	19	8	70
2	Amount of profit retained after the IPO led to increased PBT in the subsequent years.	48	12	10	70
3	Offer price per share contributed positively in the subsequent PBT	35	22	13	70
4	Earnings per share contributed significantly to PBT after the IPO	39	22	9	70
Total		**165**	**75**	**40**	**280**

Source: Computed from Field Data, 2014

Respondents were asked to state the trend of PBT after the bank's IPO considering the following factors; amount of shares subscribed, amount of profit retained, offer price per share and earnings per share. 165 representing 58.93% of the responses confirmed that it was true, 75 responses representing 26.79% disagreed that it was not true while 40 responses which is 14.29% were not sure. The above results confirm that initial offer financing improves profit before tax of commercial banks and therefore commercial banks should procure funds though initial public offer .Table 4.7 summarizes these results.

4.3.13 Customer Experience in Cooperative Bank of Kenya

Table 4.8: Customer Experience of Co-operative Bank of Kenya Limited

Statement	True	Not True	Not Aware	Total
Banking Operations and Activities.	1	2	3	70
Core banking increased speed of execution of transactions.	52	14	4	70
Improved volume of data i.e. handles large volumes	46	16	8	70
Increased accuracy of execution of transaction	48	18	4	70
Cost of maintaining the system is high	38	21	11	70
Core banking system comes with reputation and goodwill	45	18	7	70
Improves efficiency and effectiveness	64	6		70
Enhances invention and innovation.	49	20	1	70
New core banking comes with resistance to change	20	40	10	70
New core banking system comes with hiring expensive skills to operate	24	40	6	70
New core banking system comes with migration challenges, which may be expensive due to loss of data	44	21	5	70
Total	**430**	**214**	**56**	**700**

Source: Computed from Field Data, 2014.

Respondents were asked to give their opinions on the functionality of core banking system under the scores of true, not true and not sure concerning the below statements. 430 responses which forms 61.429% said that the statements are true, 214 which represents 30.571% said that the below statements are not true while 56 responses that represents 8% of the total responses said that they were not sure. These results confirm that enhanced technology improves customer experience hence increase of customer numbers; this in turn leads to increase of profit before tax, commercial banks should invest more in technology. The results confirm assertion by Harker (2000) who observed that banks are moving from traditional way of banking and currently embracing technology. Cooperative bank of Kenya also choose to improve its core banking system in order to maximize its profits. Table 4.8 further clarifies these results.

4.3.14 Economic Growth and Development after Co-operative Bank IPO

Table 4.9: Economic Growth and Development

Parameters	True	Not True	Total
Co-operative bank IPO led to economic development and infrastructural development through various categories of loans advanced.	62	8	70
Increase in PBT after the IPO of co-operative bank led to increased corporate tax to the government hence contributing significantly to economic growth,	61	9	70
The Co-operative bank IPO led to increased branches hence employment opportunities.	60	10	70
Increased PBT led to increased number of CSR hence economic development	61	9	70
Total	**244**	**36**	**280**

Source: Computed from Field Data, 2014

Concerning economic growth and development, the respondents were asked to observe whether the below statements are true or not true. 244 respondents which are 87.14% said the statements are true, 12.86% which is 36 respondents said that the statements are not true.

Table 4.10: Anova Results on Profit Before Tax Model

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.400	4	.100	27.209	.000[b]
	Residual	.114	31	.004		
	Total	.514	35			

Source: Computed from Field Data 2014.

a. Dependent Variable: Profit Before Tax

b. Predictors: (Constant), Cost of Product Development, Number of Branches, Amount used in Corporate Social Responsibility, Cost of Technology.

Table 4.10.shows that 'Regression' variation "0.400'' was due to interaction in samples between the predictors while the "residual'' variation "0.114'' was due to differences within individual samples. Table 4.10 also provides the F statistics of 27.209, $p=0.000<0.01$. This indicates that the IPO financing significantly influence profit before tax in cooperative bank of Kenya Limited.

Table 4.11 Summary of Profit Before Tax Model of Co-operative Bank of Kenya Limited

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.882	.778	.750	.06065	.778	27.209	4	31	.000	1.320

Source: Computed from Field Data, 2014

a. Predictors: (Constant), Cost of Product Development, Number of Branches, Amount used in Corporate Social Responsibility, Cost of Technology.

b. Dependent Variable: Profit Before Tax

From the findings in table 4.11, coefficient of determination R^2 was 0.750, F (4, 31) =27.209, P<0.01. This shows that the proportion of variance in profit before tax of cooperative bank of Kenya Limited that is explained by independent factors (branch expansion, cost of technology, amount of funds used in corporate social responsibility and cost of product development) is 75%. However, 77.8% variations in profit before tax could be explained or accounted for by the independent factors, the rest cannot be explained by them. The value of Durbin Watson is 1.320. Since the Durbin-Watson statistics ranges from zero to four, as a rule of thumb, the residuals are uncorrelated if the Durbin Watson statistics is close to two. This shows the absence of autocorrelation. Table 4.11 shows that the estimated model explains well the deviation in the effects of IPO financing on profit before tax of cooperative bank of Kenya Limited.

The R^2 is at 0.778 which means that 77.8% in profit before tax is explained by the independent variables such as number of branches, cost of technology, amount of funds used in corporate social responsibility and cost of product development.

Table 4.12.Descriptive Statistics of Independence and Dependent Variables

Descriptive Statistics			
	Mean	**Std. Deviation**	**N**
Profit Before Tax	1.6761	.12124	36
Number of Branches	.8073	.50169	36
Cost of Technology	.1684	.26063	36
Amount used in Corporate Social Responsibility	.0261	.35201	36
Cost of Product Development	.2047	.28259	36

The descriptive statistics in table 4.12 brings out the mean of the variables tested for both dependent variable and independent variables, with dependent variable(PBT) being the one with the highest mean of 1.6761 and a standard deviation of 0.12124, the rest which are independent variables are in such a way that number of branches is with a mean of 0.8073 and a standard deviation of 0.50169, cost of technology has a mean of 0.1684 and a standard deviation of 0.26063, Amount used in corporate social responsibility has a mean of 0.0261 and a standard deviation of 0.35201 and finally cost of product development has a mean of 0.2047 with a standard deviation of 0.28259.

Table 4.13: Regression Coefficients on Profit Before Tax determinants of Co-operative Bank of Kenya Limited.

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	1.718	.024		70.439	.000
Number of Branches	-.021	.021	-.087	-1.019	.316
Cost of Technology	-.297	.050	-.639	-5.971	.000
Amount used in Corporate Social Responsibility	.074	.030	.213	2.411	.022
Cost of Product Development	.115	.047	.268	2.440	.021

Source: Computed from Field Data, 2014.

The results of the model in table 4.13 indicates that number of branches insignificantly affects profit before tax, $\beta=-0.021$, $p=0.316>0.05$, Houge and Loughran (1999) revealed that IPO banks are highly sensitive to market performance and to interest rate changes. So, number of IPO banks rise during periods when the interest rise and reduce when the interest reduce, however taking into account the pre-offering return, more profitable IPO banks show a decline in the return on assets after the IPO and this means that IPO financing affects individual organizations differently this means an IPO does not mean there has to be changes in expansion of the bank. Cost of technology significantly affects profit before tax, $\beta=-0.297, p=0.000<0.05$ this implies that commercial banks should invests more in technology with funds sourced through IPO financing, the speed and efficiency of operation will be realized and this will translate to more revenue hence increases profit before tax. Harker (2000) observed and agrees that technology has made it possible for the customers to have finger tip access to their accounts worldwide. Cyber banking has led to cash less society and this is the direction towards which technology is driving the banks today. The computers and particularly the networks are finding their applications in fund transfers, payment messages, interbank settlements, netting of foreign exchange payments, interbank reconciliations, and quick disposal of loan/investment proposal, foreign exchange information among branches and offices, email services, design of organization/customer databases, MIS systems and decision support systems, all these will translate to an increase in profit before tax.

Amount used in corporate social responsibility from IPO financing significantly affects profit before tax, $\beta=0.074, p=0.022<0.05$,this implies that commercial banks should involve themselves in corporate social responsibilities, the CSR will act as a marketing tool, the bank then will get many customers and hence ends up increasing their profit before tax. Cost of product development with funds sourced from IPO financing significantly affects profit before tax, $\beta=0.115$, $p=0.021<0.05$, the banks should develop variety, powerful, differentiated and quality products to cope with competition in the industry, the products developed will lead to high profit before tax. By increasing speed of product development life cycle means that firms must be developing products all the time, further they must try to have marketing mixes that will make the most of the market growth stage when the profits are highest (Mc Carthy and Perreault, 2010). In conclusion, the null hypothesis that is, there is no relationship between IPO financing and profit before tax (PBT) of commercial banks in Kenya is rejected and the alternative is accepted, this is because, of all the independence variables tested, three variables significantly affects profit before tax.

4.4 Discussion

This section restates the purpose and results of the study to previous research, and explains the implications of findings of this research.

The purpose of this study was to determine the effect of IPO financing on performance of Cooperative bank of Kenya Limited and the specific objective of the study were: to determine effect of branch expansion on profit before tax in Cooperative bank of Kenya, to establish effect of product development on profit before tax in Cooperative bank of Kenya and to investigate effect of customer satisfaction on profit before tax in Cooperative bank of Kenya Limited.

The research sought to examine the effect of branch expansion in Cooperative bank of Kenya, results shown that the branch expansion after IPO financing insignificantly affect profit before tax, β=-0.021, p=0.316>0.05,this means that instead of increasing the number of branches after the IPO, banks can decide to capitalize in alternative banking channels such as putting more ATM lobbies, agency banking and mobile banking, this will increase revenue as compared to branches whose cost of bringing them up may be expensive.

The research sought to establish the effect of product development after IPO financing on profit before tax in Cooperative bank of Kenya, the results have shown that, product development significantly affects profit before tax, β=-0.021, p=0.316>0.05,the commercial banks therefore should develop powerful and unique products that will capture the market hence increase revenue. Customer experience is defined by both state of technology and CSR, this is explained by both cost of technology and amount used in cooperate social responsibility.

The research also sought out to investigate the effect of customer satisfaction after IPO financing on profit before tax in cooperative bank of Kenya. Amount used in CSR significantly effects profit before tax, $\beta=0.074, p=0.022<0.05$, cost of technology also significantly affect profit before tax, $\beta=-0.297, p=0.000<0.05$, commercial banks therefore should invest more on powerful systems that is real time and that serves customers first, this level of efficiency will led to good customer experience, attraction of more customers hence more revenue. The commercial banks should also extend more funds towards cooperate social responsibility, when this is done, the bank will increase the number of their clients, this happens since CSR is used by banks to market their products.

The increment in customer numbers will then lead to increase in PBT. Level in technology and its space in the current banking industry that is, competition has been taken a notch higher by the individual commercial banks, Harker (2000) explained how technology has changed the way commercial banks do their businesses, these includes, ATMs, intranet banking, mobile banking and many others, the banks should invest more, innovate and offer excellent customer service. The research found out the IPO financing indeed affects commercial banks performance, of all the independent variables tested, that is, branch expansion, cost of product development, amount used is corporate social responsibility and cost of technology only number of branches that does not influence profit before tax this is also consistent with the study by Alanazi (2011), who observed that government privatized firms showed a substantial increase in their ROA and their ROS after the IPO.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, RECOMMENDATIONS

This chapter outlines the summary of findings, conclusions, recommendations, limitations and suggestions for further research.

5.1. Summary and Conclusions

This section provides for the summary of findings of this study as per the study objectives.

The purpose of study was to determine effects of IPO financing on performance of Co-operative Bank of Kenya Limited, Kenya. The performance parameters in Co-operative Bank of Kenya analyzed were: product development, branch expansion, cost of technology and cooperative social responsibility.

The first objective was to determine effect of IPO financing of profit before in Co-operative Bank of Kenya Limited, the study found out that number of branches insignificantly affects profit before tax $\beta=-0.021$, $p=0.316>0.05$, this implies that even if the number of branches increases due to IPO financing, the profit before is not affected because putting up branches and staffing may be expensive. The branches also at times take long before breaking even. Commercial banks therefore should invest on other sources of revenue instead of increasing branch net works, examples of such sources are ABC, this will help bank by increasing the number of their customers, the services includes: Lipa na m-pesa, visa, debit cards, credit cards, mobile banking and ATM lobbies.

The second objective was to establish effect of product development on profit before tax in Co-operative Bank of Kenya Limited. The study found out that product development significantly influence profit before tax, β=-0.021, p=0.316>0.05, this means that as Co-operative Bank of Kenya developed products, they came up with various products that was received well in the market. The products developed attracted and retained customers there by increasing the banks market share by increase of customer numbers. It was realized that if the bank can develop good products, besides the increase in number, Co-operative Bank of Kenya also benefited by selling excellent products which leads to increase in profit before tax.

The third and also the final objective was to investigate effect of customer satisfaction on profit before tax in Co-operative Bank of Kenya, this objective is a combination of two measurable parameters which are technology and CSR. Both CSR and technology influences a common factor called efficiency and effectiveness; these results from excellent customer experience due to powerful banking system on the other hand, CSR contributes a lot to commercial banks prosperity, if it is well managed, it can have serious results as it is used by most organizations to as marketing tool. Banks therefore should come up with a powerful, efficient, speedy system that can be able to counteract competitions. On the other hand, the bank should allocate more funds to enhance the number of the students that are sponsored yearly.

5.2. Recommendations

It is recommended that commercial banks should issue new shares to the public in order to improve their core capital, develop products and use the funds to enhance their CSR activities. It is expected that profit before tax will be increased after the initial public offer. Besides, it is also recommended that commercial banks should invest more on ABCs instead of increasing number of its branches, branch net work was found not to be influencing profit before tax and finally, it is recommended that commercial banks should only sell new shares after evaluating the costs, timing and risks involved.

5.3. Limitations of the Study

Even though this study makes contributions to knowledge gap on effect of IPO financing on performance of Co-operative Banks in Nyanza region, Kenya, it is prudent to evaluate the results in the context of its limitations. The first limitation is that this study only focused on effect of IPO financing on performance of Co-operative Bank of Kenya Limited only and in Nyanza region, this may make the results not generalizable since some internal factors that are unique to Cooperative bank may make the results bias. Using Nyanza region as an area of study may also be bias since the region may perceive Co-operative Bank of Kenya services differently from other regions. Secondly, the study used questionnaires to capture information about population with reference to objectives; this method has disadvantages since some respondents may not give accurate responses. By nature of the respondents, they are ever busy and take very little time to answer questionnaires; this might have worked against reliability of the research.

5.4. Suggestions for Further Research

This study by its nature may have not been able to exhaustively investigate all the variables that explain the effects of IPO financing on performance of cooperative bank of Kenya Limited, Nyanza Region. The study found out that IPO financing influence profit before tax or performance of Co-operative Bank of Kenya Limited. Furthermore, this study is important and may be used by top level managers in various Limited liability companies. The study can also be used by scholars and the government as a guideline in formulating policies and finally it may be used by investors who would like to know which stocks to invest in. The following areas are therefore recommended to be considered for further investigations or study: effect on debt financing on performance of commercial banks in Kenya. A comparative study should be carried on performance of different commercial banks stocks listed in securities exchange market.

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