CAPITAL ADEQUACY AND MARKET CAPITALIZATION OF MANUFACTURING FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

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ABSTRACT

Kenyan firms listed in the Nairobi Securities Exchange (NSE) have in the past decade recorded mixed results in relation to shareholders value creation thus raising queries of their financial soundness. For instance, though there has been an upward trajectory of 20.84 percent in shareholders wealth measured as market capitalization in 2024 compared to 2023, 85 percent of this value was controlled by ten companies. Of the ten, only one, East Africa Breweries PLC is in the manufacturing sector. The research study aimed to determine the effect of capital adequacy on market capitalization of firms listed at the Nairobi securities exchange in Kenya. The study was guided by buffer capital theory. The study employed a descriptive design because it permitted the researcher to break down associations among a substantial number of factors in a study. The study targeted 8 listed manufacturing firms at the NSE. The sample size was 8 listed manufacturing firms listed at the NSE hence there was no sampling. Secondary data was collected for duration of 7 years (2018 to 2024) annually. In data analysis, both descriptive and inferential statistics were conducted. Descriptive statistics involved determining the mean, the standard deviation, skewness and kurtosis of each variable under study while inferential statistics involved both the correlation and regression analysis. STATA 15 was employed for the data analysis purposes. Regression results show that capital adequacy ($\beta = 1.3284$, $p = 0.000$) positively and significantly influence market capitalization. The study concluded that financial soundness significantly shapes market capitalization among listed manufacturing firms. Capital adequacy enhanced firm valuation. The study recommended that manufacturing firms strengthen their capital base through retained earnings, prudent dividend policies, and improved financial management practices.

Key words: Financial Soundness, Capital Adequacy, Market Capitalization, Manufacturing Firms, Nairobi Securities Exchange.

INTRODUCTION

Market capitalization is the firm value in an open economy. (Pavone, 2019) Depending on the supply of shares and investor demand, a company's market capitalization oscillates during the period that it is trading (Dima, Izzeldin & Soliman, 2022). Company size, return potential, and risk are salient factors to consider in making a long-term investment strategy. This understanding makes an investor construct a balanced stock portfolio composed of a mix of market caps. Consequently, market capitalization enables an investor and the bank to know its

current affordability (Xu, Liu & Li, 2019). When a company investor or an individual investor is buying company shares or security, the market value becomes one of the paramount factors to consider. Many investors choose securities or assets depending on the differences between the worth of security perception and market value (Gichobi, 2023).

As outstanding stock or share is sold and bought in the stock exchange markets, market value in many cases is used as a representative of public opinion about a company's worth in net. It is also a critical factor in some forms of valuing stock. Market capitalization is used as a consensus on the value of equity of a company by the public. According to Kaundal and Sharma (2010), interest in ownership is freely traded that is sold and bought through purchases and sales of stock. This provides a mechanism in the market, which is used to determine the prices of company shares. Overall, market capitalization is a critical metric for both companies and investors. It is a snapshot of a company's worth and is used in a variety of financial and business decisions. (Kirimi, Kariuki & Ocharo, 2022).

The term soundness is utilized to denote the ability of an organization to be regarded as a going-concern whereby it is able to continue its operations in the near future. (Ahmed & Ahmed,2022). Financial soundness for a bank is a condition in which the indicators characterizing the capital adequacy, asset quality and liquidity, as well as its effectiveness are within certain limits (Arzova & Sahin, 2023). Therefore, an organization that is deemed to be sound is regarded as being able to function normally in the long-term while at the same time being in a position to resist any internal or external vulnerabilities that may affects its operations (Pavone, 2019). Therefore, a financially sound organization is perceived to be able to effectively clear out any negative elements as soon as they are identified, thus, allowing the organization not to be impacted heavily in the future. Capital adequacy denotes the amount of capital, equal to or above capital requirements by the regulator (Nyanyuki, Nyanga'u & Onwonga, 2022). Capital adequacy defines the ability of a commercial bank concerning achieving the time obligations and added risks like operational risk, credit risk that is important for the bank to mitigate against potential losses, hence, protect the interests of the bank's account holders and other creditors in the financial sector (Solichah & Moehaditoyo, 2019).

According to the Federal Deposit Insurance Corporation, 2015, in the United States alone from the year 2009 to 2015, there was reduction in market capitalization due to financial soundness. Banks tightened their lending standards in the wake of the financial crisis, which led to a decline in loans volume (Jang, Shin & Yim, 2020). The FDIC and other regulators imposed stricter capital requirements on banks in the wake of the financial crisis. These higher capital requirements required banks to hold more capital, which reduced their earnings and, therefore, their market capitalization. In China many trading firms exhibit a deteriorating market capitalization trend that is difficult to recover from (Desalegn, Zhu & Borojo, 2023). In 2018, the Chinese government implemented a new capital adequacy ratio (CAR) requirement for banks. This requirement forced banks to raise their capital levels, which reduced their profitability and led to a decline in their market capitalizations. In Indonesia, Nugroho, MArif and Halik (2021) concluded that financial soundness significantly impacts market capitalization; this is evidenced by the relationship of variable financial soundness with

systematic risks of companies that positively impact. Bank Central Indonesia (BI) has implemented a number of measures to strengthen the banking sector, including raising capital requirements and requiring banks to hold more liquid assets.

The African market is highly detected by low market capitalization problems, and there is an impossibility of integrating the market (Lawal, 2019). Nigerian banks have traditionally been stable in regards to market capitalization. Inadequate financial soundness has made it more difficult for Nigerian banks to raise new capital. Nigerian banks have been raising capital through a variety of means, including equity issuances, debt issuances, and mergers and acquisitions. However, the weakening of their financial soundness has made it more difficult for them to raise capital through all these channels. South Africa is not an exception to this phenomenon of financial soundness and market capitalization, as it has also witnessed a number of companies underperforming over the years. Eskom, the South African state-owned electricity utility, defaulted on its debt. This led to concerns about the stability of the South African financial system and a decline in the market capitalizations of all South African banks. Ethiopia is one of the countries found in Africa in which some challenge that are in existence relates to the market capitalization of listed firms (Tsegaye, 2022). The Ethiopian stock market is relatively illiquid, meaning that it can be difficult to buy and sell shares quickly. This can make it less attractive to investors negatively affecting its market capitalization (Meher & Getaneh, 2019).

The Nairobi Securities Exchange, formerly known as the Nairobi Stock Exchange, was established in 1954 as a voluntary organization of stock brokers in the European community. The Nairobi Securities Exchange is currently operating with 65 listed firms. Firms listed in NSE are expected to be financially stable in order to build investors' confidence and contribute to economic growth. Companies listed at the NSE are no exception to market capitalization and bankruptcy (Otieno, 2020). During listing period, these firms must meet the set criteria set by NSE. However, despite meeting the set listing requirements, firms are exposed to market dynamics which affect them either positively or negatively. These dynamics may be caused by the government policies, risk perceptions, management decisions and investment decisions (Wanzala, Muturi & Olweny, 2018). Currently, many firms have been delisted due to market capitalization problem with others being placed under receivership in Kenya including commercial firms, banks, manufacturing concerns among others due to market capitalization and bankruptcy (Oruko & Tibbs, 2020).

Financial soundness can significantly affect the market capitalization of firms listed at the Nairobi Securities Exchange (NSE). This is because investors are less likely to invest in firms that they perceive to be financially unsound (Gichobi, 2019). Firms that are experiencing declining profits or revenue growth are more likely to be perceived as financially unsound. This is because investors are less confident that these firms will be able to generate enough cash flow to meet their obligations. Firms with high levels of debt are also more likely to be perceived as financially unsound. This is because they are more vulnerable to interest rate increases and economic downturns. In 2018, the market capitalization of Kenya Airways declined by over 50% after the airline reported a loss of Ksh. 11.4 billion. In 2019, the market

capitalization of Uchumi Supermarkets declined by over 70% after the supermarket chain reported a loss of Ksh. 2.2 billion. In 2020, the market capitalization of East African Portland Cement Company declined by over 80% after the cement manufacturer reported a loss of Ksh. 7.9 billion (Cherono, 2022).

Statement of the Problem

Market capitalization is a fundamental metric that plays a central role in investment analysis, portfolio management and corporate strategy. According to Wang, Yang, and Yang (2023), the growth of a nation's market capitalization has a substantial bearing on the country's overall financial security and economic development. It provides valuable insights into a company's size, risk profile, and potential for growth, making it a crucial factor for both investors and businesses (Otieno, 2020). However, firms listed in the Nairobi Securities Exchange (NSE) in Kenya, have in the past decade recorded mixed results in relation to market capitalization thus raising queries of their financial soundness. For instance, though there has been an upward trajectory of 20.84 percent in shareholders wealth measured as market capitalization in 2024 compared to 2023, 85 percent of this value was controlled by ten companies (Oruko & Tibbs, 2020). Of the ten, only one, East Africa Breweries PLC is in the manufacturing sector. This raises serious concerns on market capitalization in the sector. In addition, end of quarter market capitalization recorded a 21 percent decrease to Kenya Shillings 2,016 billion registered in the first quarter of 2022 from Kenya Shillings 2,540 recorded in the last quarter of 2021 (CMA, 2022). As a result, market capitalization dropped significantly. Abrupt declines in market capitalization may create the perception of diminished quality in the goods or services provided, so potentially impairing a company's ability to effectively compete. Declining market capitalization can make it more difficult for firms to attract new investment. This is because investors are more likely to invest in companies that they believe are growing and have the potential to generate high return. Le and Ngo (2020) studied the financial nexus between capital market development and bank soundness in 23 countries. They found that capital market development may increase bank profitability, which in turn may lead to higher market capitalization. Dima, Izzeldin and Soliman (2022) also found that financial soundness had significant impact on market capitalization in a sample of 63 countries. Xu, Liu and Li (2019) analyzed the relationship between market capitalization and financial soundness with the risk dimension. They found that financial soundness is correlated with market capitalization, even after controlling for risk. However, limited studies have examined the effect of capital adequacy on market capitalization among NSE-listed manufacturing firms using panel data, creating a contextual and methodological gap.

Research Objective

i. To determine the effect of capital adequacy on market capitalization of manufacturing firms listed at the Nairobi Securities Exchange in Kenya

LITERATURE REVIEW

Buffer Capital Theory

This theoretical underpinning of was put forward by Calem and Rob in 1999. The Capital Buffer Theory argues that banks maintain a capital buffer to absorb unexpected losses and fluctuations in asset values. According to Calem and Rob (1999), banks face a trade-off between the benefits of holding capital to protect against risk and the costs associated with holding excess capital, such as the opportunity cost of not investing in more profitable assets. The theory suggests that banks adjust their capital buffers in response to changes in regulatory requirements, market conditions, and perceived levels of risk (Kohler, 2015). It assumes that banks aim to maximize shareholder value by balancing risk and return and they have access to reliable information about their risk exposures and the potential impact of different capital levels. The theory also assumes that regulatory capital requirements are effective in influencing banks' capital allocation decisions (Choi, 2017). Manufacturing firms maintain capital buffers to absorb unexpected losses and markets volatility. Higher capital adequacy signals financial strength and stability enhancing investor confidence and positively impact market capitalization. Firms with higher levels of capital adequacy are better positioned to withstand economic downturns and exploit growth opportunities, whereas inadequate buffers may attract high scrutiny and financing costs. One critique of the capital buffer theory is that it may oversimplify the complex dynamics of bank risk-taking behavior (Saunders & Cornett, 2014). In practice, decision makers often operate with incomplete information and cognitive limitations, leading to suboptimal financial decisions. A broader approach that includes behavioral and structural factor is needed.

Empirical Studies

Mir and Shah (2022) investigated the relationship between capital adequacy and the market value of select public and private sector banks in India. The study utilized a balanced panel data set using bank level data of 37 banks indexed at Bombay stock exchange (BSE) across public and private sector for the period of 10 years (2009-2018). The study takes 370 observations into consideration (i.e., 37 banks over time frame of 10 years). The study is based on secondary financial data obtained from the capital line database. The results of the study confirm that there is a significant impact of capital adequacy on market value of the banks. While regression analysis is a common method for examining associations between variables, the study could provide more details on the specific regression model used, including variable selection, model specification, and diagnostic tests to assess the robustness of the results. Additionally, the study could consider alternative analytical approaches or techniques to validate the findings.

Nurlaela, Mursito, Kustiyah, Istiqomah and Hartono (2022) aimed to determine the influence of capital adequacy on market value of listed firms in Indonesia in 41 Banking Subsector Companies on the Indonesia Stock Exchange. This form of research is a causal associative method that tests three hypotheses. The test results show that capital adequacy negatively affected firm value. While the selection of listed firms is appropriate for examining market value, details regarding the representativeness and characteristics of the sample could be

provided to assess the generalizability of the findings. Additionally, information on the sources of data and measures taken to ensure data reliability and validity would enhance the transparency of the study.

Nyanyuki, Nyanga'u and Onwonga (2022) assessed effect of capital adequacy on financial performance of commercial banks in Kenya. The study adopted correlational designs. The target population comprised of 43 listed commercial banks, and purposive sampling technique was used to select 10 commercial banks. The study used financial statements from which secondary data was extracted from Nairobi security exchange from the year 2015 -2019. The study established that capital adequacy determinant was negatively associated with financial performance of commercial banks in Kenya. The study is anchored on capital buffer theory, which provides a solid theoretical foundation for examining the relationship between capital adequacy and financial performance in commercial banks. However, the critique could benefit from a more detailed explanation of how capital buffer theory informs the research framework and hypotheses formulation. Providing clarity on the theoretical underpinnings would enhance the understanding of the study's conceptual framework.

Kimeu (2020) sought to determine the effects of capital adequacy on market value of listed commercial banks in Kenya. The study used descriptive and explanatory research designs. The target population of the study was eleven (11) listed commercial banks. The study took a census survey of the 11 listed commercial banks in the Nairobi Securities Exchange (NSE) between year 2014 to 2018. The study used secondary data sources including both published income statements and statements of financial position from which data on core capital, supplementary capital and ROA were recorded. The study concluded that core capital has a significant effect on market value. However, supplementary capital does not have a significant effect on market value among commercial banks listed on NSE. The study's scope is limited to listed commercial banks in Kenya, which may restrict the generalizability of the findings to other types of banks or financial institutions. Further, the study failed to provide rationale of using two research designs

Odekina, Gabriel and Solomon (2019) examined the effect of capital adequacy on \the stock prices of listed commercial banks in Nigeria. The study used secondary panel data sourced from the CBN and Annual Bank Reports. The data analysis technique employed is panel random effect regression method. The capital adequacy variables of the study show that capital adequacy have significant positive effect on the bank's stock prices. However, the choice of the panel random effect regression method for data analysis is appropriate for panel data analysis, but the study could provide more details on how the model was specified and validated.

Conceptual Framework

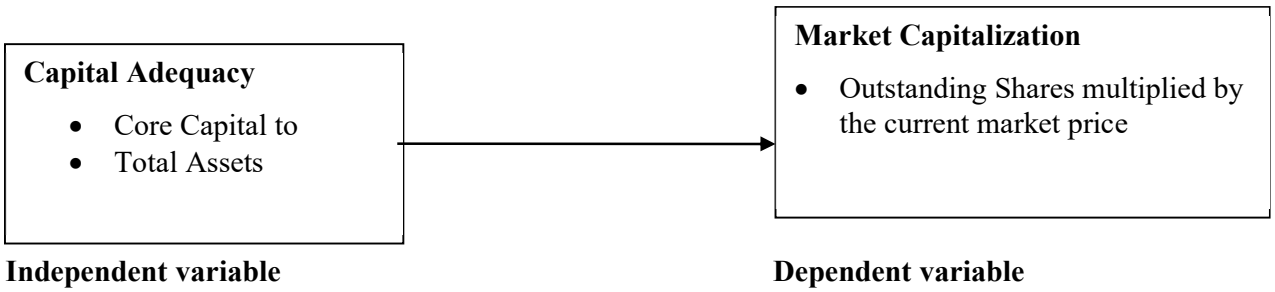

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The descriptive research design was adopted in this study. It was the most preferred because the study used quantitative statistical data to describe the relationship between financial soundness and market capitalization. The population of interest in this study was manufacturing firms listed in NSE, whose number stood at 8 as at 30th Dec, 2024 (B.O.C Kenya Ltd, British American Tobacco Kenya Ltd, Carbacid Investments Ltd, East African Breweries Ltd, Eveready East Africa Ltd, Kenya Orchards Ltd, Unga Group Ltd and Flame Tree Group) (NSE, 2024). The interest of this population was driven by the fact that due to their poor performance of listed manufacturing companies, stakeholders suffered while the investors, prospective and actual shareholders, accordingly lose confidence in the market and withdraw resulting the country's economy suffering (Hudson, 2013). This study employed a census technique to encompass the entire population of the eight listed manufacturing firms. This study used secondary data, which is the data collected from audited financial reports of individual firms, from website of NSE and CMA of selected firms. The data cut across a seven-year period, between 2018 and 2024 to ensure a trend can be established across time and reasonable conclusions can be drawn from the analysis. Capital adequacy was measured as the ratio of core capital to total assets, while market capitalization was measured as the total value of outstanding shares. Data analysis is a body of methods that help to describe facts, detect patterns, develop explanations, and test hypotheses. Descriptive statistics such as mean, median, mode and standard deviation was used in data analysis. Inferential statistics consisted of Pearson correlation analysis and linear regression analysis. The study utilized a dataset consisting of panel data collected from eight companies over a five-year period. Panel data combines cross-sectional and time-series dimensions, allowing for a more comprehensive analysis of dynamic relationships within the dataset. Given the structure of the data, where observations span multiple time periods for each company, a panel regression model was employed. This approach was ideal for examining the effect of independent on dependent variables over time and across different entities. The results were presented in form of tables and models.

FINDINGS AND DISCUSSION

Descriptive Statistics

Descriptive statistics was carried out to establish relationship between capital adequacy and market capitalization. The findings are as shown in Table 1.

Table 1: Descriptive Statistics

stats	Market Capitalization	Capital Adequacy
N	56	56
min	21,366.00	0.014322
max	142,000,000.00	3.743016
mean	21,500,000.00	0.242474
Sd	38,500,000.00	0.604556

The descriptive statistics show that market capitalization among the sampled firms varies widely, with values ranging from KSh 21,366 to KSh 142,000,000. The mean market capitalization is KSh 21,500,000, while the standard deviation is KSh 38,500,000, indicating high dispersion in firm valuation. This suggests that a few firms have significantly higher market values compared to others, pointing to an uneven distribution within the manufacturing sector. Capital adequacy also demonstrates variability across firms, with values ranging from 0.014322 to 3.743016. The mean capital adequacy is 0.242474, with a standard deviation of 0.604556, indicating moderate dispersion. This reflects differences in firms' financial strength and their capacity to absorb potential risks. Overall, the findings indicate substantial variation in both market capitalization and capital adequacy among the firms, suggesting differences in financial stability and market valuation within the sector.

Trend Analysis

This section presents a seven-year trend analysis from 2018 to 2024 of key indicators, namely solvency, capital adequacy and market capitalization. The purpose of this analysis is to examine the movement and stability of these indicators over time in order to assess the institution's financial resilience, operational performance, and overall market position. Trend analysis enables identification of patterns, periods of financial stress, recovery phases, and structural improvements that may influence long-term sustainability.

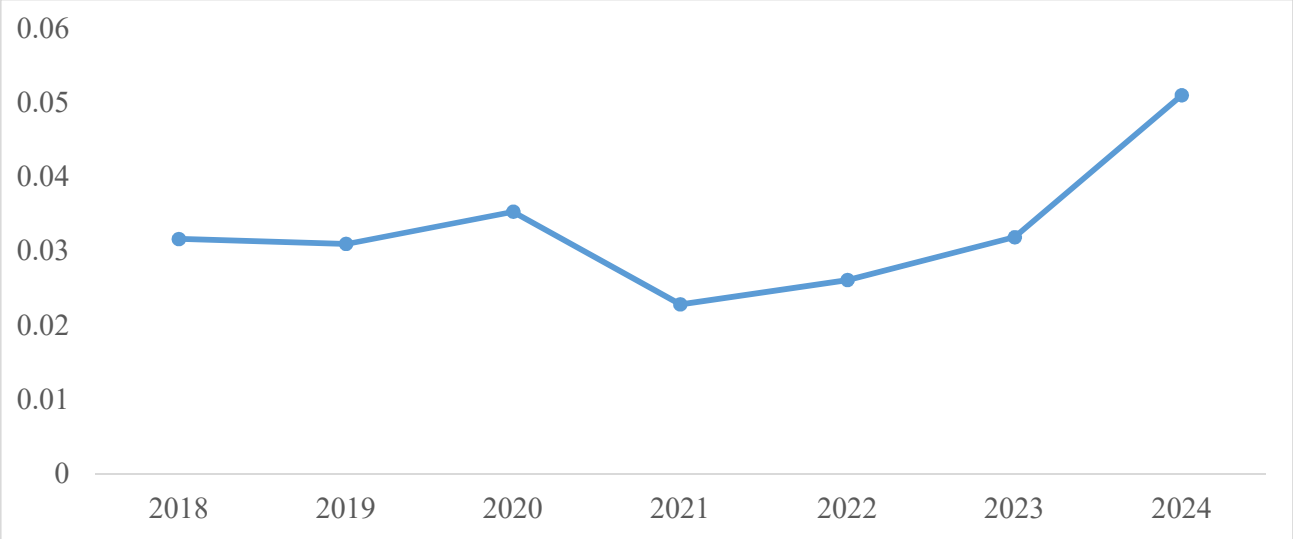

Figure 2: Capital adequacy

Capital adequacy initially shows stability in 2018 and 2019, with ratios around 0.0316 and 0.0310, reflecting adequate capital buffers. A notable rise occurs in 2020 to 0.0353, indicating strengthened capacity to absorb financial shocks. However, this improvement is followed by a sharp decline in 2021 to 0.0228, suggesting erosion of capital, possibly due to reduced profitability, asset growth outpacing capital, or economic stress. The ratio moderately recovers in 2022 to 0.0261 and continues improving in 2023 to 0.0319. A strong increase in 2024 to 0.0510 marks the highest capital adequacy over the period, indicating enhanced financial resilience, better retained earnings, and stronger compliance with capital requirements.

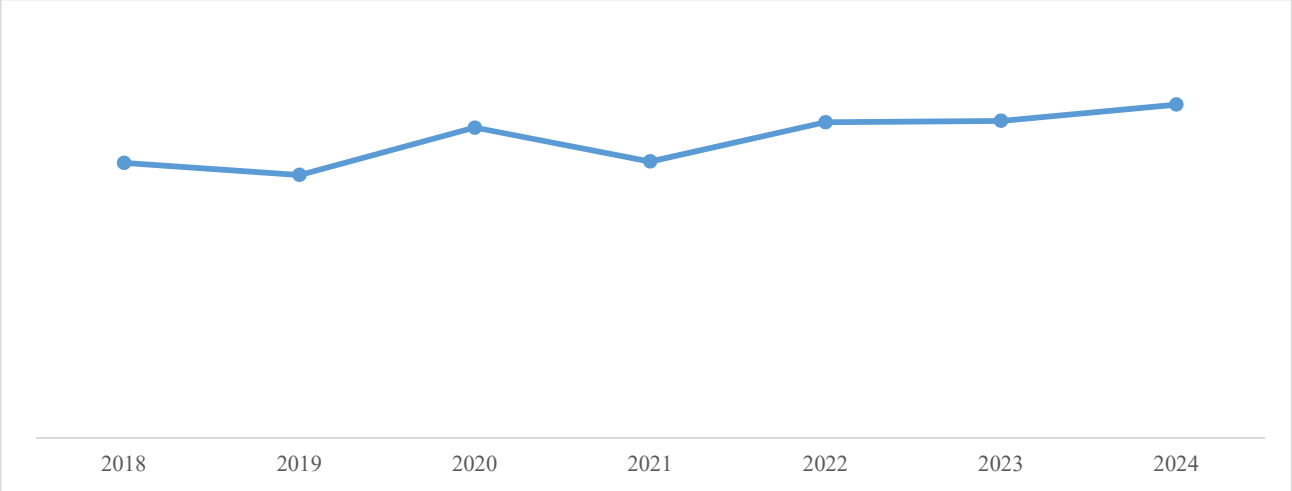

Figure 3: Market capitalization

Market capitalization exhibits cyclical movements but generally trends upward over the seven-year period. In 2018, the average market value stands at KSh 20.3 million, dropping slightly to 19.4 million in 2019 due to weaker valuations. A strong rebound occurs in 2020, rising to 22.9 million, reflecting improved investor confidence and better financial performance. Market

value dips again in 2021 to 20.4 million, likely reflecting pandemic-related uncertainty. However, capitalization recovers consistently from 2022 onwards, rising to 23.3 million, 23.4 million, and finally 24.6 million in 2024.

Inferential Statistics

Inferential statistics were employed to examine the effect of capital adequacy on market capitalization. Pearson correlation analysis was used to determine the strength and direction of associations between capital adequacy and market capitalization. Linear regression was applied to assess the effect of capital adequacy on market capitalization.

Correlation Analysis

To examine the effect of financial soundness on market capitalization, a correlation analysis was performed. The findings, summarized in Table 2, highlight the strength and direction of the relationship between the two variables, providing preliminary evidence on whether financial soundness significantly contributes to market capitalization among the studied firms.

Table 2: Pearson Correlation Analysis

		Market capitalization	Capital adequacy
Capital adequacy	Pearson Correlation	0.5402	1
	Sig. (2-tailed)	0.000	
	N	56	

Capital adequacy demonstrates a strong positive correlation with market capitalization, reflected by a coefficient of 0.5402 and a significant p-value below 0.001. This relationship indicates that firms with stronger capital buffers tend to command higher market valuations. These findings are consistent with Mir and Shah (2022), who established that capital adequacy significantly improves market value among Indian banks. Similarly, Odekina et al. (2019) found a positive effect of capital adequacy on stock prices, reinforcing that well-capitalized institutions are perceived as safer and more stable. On the contrary, Nurlaela et al. (2022) reported a negative relationship in the Indonesian banking subsector, suggesting that the effect may vary contextually depending on risk exposure and capital structures.

Panel Regression Analysis

Panel regression analysis was conducted to assess the effect of capital adequacy on the market capitalization of manufacturing firms listed at the Nairobi Securities Exchange in Kenya, adopting a fixed effects model, with the results presented in Table 3. The Hausman test result ($\chi^2 = 6.56$, $p = 0.0108$) indicates that the null hypothesis is rejected, implying that the random effects model is inappropriate. Therefore, the fixed effects model is preferred since there is a significant difference between the estimators, suggesting correlation between the explanatory variables and the unobserved firm-specific effects.

Table 3: Regression Fixed Effect of Capital Adequacy on Market Capitalization

Fixed-effects (within) regression	Number of obs	=	56
Group variable: Firm_ID	Number of groups	=	8
R-sq:	Obs per group:		
within = 0.3036	min	=	7
between = 0.2820	avg	=	7
overall = 0.2918	max	=	7
	F(1,47)	=	20.49
corr(u_i, Xb) = -0.1578	Prob > F	=	0.000

Market Cap	**Coef.**	**Std. Err.**	**t**	**P>t**	**[95% Conf.**	**Interval]**
Capital adequacy	3.070854	0.678409	4.53	0.000	1.706071	4.435637
_cons	-3.27921	0.291115	-11.26	0.000	-3.86485	-2.69356

The study examined the effect of capital adequacy on market capitalization among manufacturing firms listed at the Nairobi Securities Exchange using a fixed-effects regression model. The within R-square of 0.3036 indicates that capital adequacy explains 30.36% of variations occurring within firms over time. The between R-square of 0.2820 shows that 28.20% of differences across firms are captured by the model, while the overall R-square of 0.2918 demonstrates that capital adequacy explains 29.18% of total variation in market capitalization. The model is statistically significant, as confirmed by the F-statistic ($F = 20.49$, $p < 0.001$). The regression model is as shown.

$$\mathbf{Y= -3.27921+3.070854X_1}$$

The regression results show a positive and significant coefficient of 3.070854 ($p = 0.000$), indicating that a one-unit increase in capital adequacy leads to a 3.070854-unit increase in market capitalization. This implies that well-capitalized firms project stronger financial stability, enhanced risk-bearing capacity, and higher investor confidence, ultimately boosting their valuation in the capital market. This suggests that firms with stronger capital buffers are perceived as financially resilient and capable of sustaining operations under adverse conditions. Investors are likely to interpret high capital adequacy as a signal of low risk, operational stability, and readiness for expansion. For manufacturing firms listed on the Nairobi Securities Exchange, robust capital adequacy translates into greater investor confidence and higher valuation. This emphasizes that maintaining sufficient capital is a key driver of market capitalization.

Discussions of the Findings

Panel regression analysis offers a rigorous approach for examining the relationship between capital adequacy and market capitalization by controlling for unobserved heterogeneity across firms and over time. The adoption of a fixed effects model is particularly suitable in this context, as it accounts for firm-specific characteristics such as governance structures,

operational efficiency, and managerial practices that may influence market valuation but remain constant over time. This approach enhances the internal validity of the analysis by isolating the effect of capital adequacy on firm value. Similar applications of panel models in financial studies have been supported by Baltagi (2008) and Hsiao (2014), who emphasize their strength in capturing dynamic relationships across entities and periods.

From a theoretical standpoint, the relationship can be explained through Buffer Capital Theory advanced by Calem and Rob (1999), which posits that firms maintain capital buffers to mitigate financial distress and absorb unexpected losses. Adequate capital enhances financial resilience and reduces the likelihood of insolvency, thereby strengthening firm stability. In addition, signaling theory, as advanced by Michael Spence (1973), explains that strong capital positions serve as credible signals of firm quality, reducing information asymmetry between firms and investors. This improves investor confidence and influences valuation decisions in capital markets.

Empirical evidence further supports this relationship. Studies by Mir and Shah (2022), as well as Odekina et al. (2019), demonstrate that firms with stronger capital bases tend to attract higher investor confidence due to perceived lower risk and enhanced financial stability. Similarly, Kimeu (2020) finds that capital strength positively influences firm valuation within the Kenyan context. However, contrasting evidence by Nurlaela et al. (2022) suggests that excessive capital may signal inefficiency or underutilization of resources. These mixed findings indicate that while capital adequacy generally enhances market value, its effect may vary depending on institutional context, sectoral dynamics, and firm-specific conditions.

Conclusion and Recommendations

The study concluded that capital adequacy positively influences market capitalization of manufacturing firms listed at the NSE. Firms with stronger capital positions demonstrate higher financial resilience, reduced risk exposure, and greater investor appeal. The descriptive trends, relational patterns, and regression interpretation all show that improved capital buffers correspond with higher market valuation. Strong capital positions signal long-term stability and enhance the firm's capacity to absorb shocks, thereby elevating market confidence. Based on these findings, the study rejects the null hypothesis that capital adequacy has no effect on market capitalization. The evidence supports capital adequacy as a key driver of firm value.

The study recommended that manufacturing firms should strengthen capital buffers by reinvesting a portion of earnings, adopting prudent dividend policies, and enhancing internal capital generation. Maintaining adequate capital ensures resilience, supports growth initiatives, and boosts investor confidence. Firms should also evaluate their asset structures to optimize the balance between capital and operational investment. Government agencies should design policies that incentivize capital strengthening among manufacturing firms, such as tax incentives for retained earnings or grants for capital-intensive modernization. Creating supportive regulatory frameworks that encourage robust capitalization will enhance the sector's stability, competitiveness, and market attractiveness.

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