EFFECTS OF COST OF EQUITY ON FINANCIAL PERFORMANCE OF COMMERCIAL AND SERVICE FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE IN KENYA

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ABSTRACT

Cost of capital is the rate of return required by investors for lending capital to the firm to finance its operations. Cost of capital plays pivotal role in the success or failure of firms. It indicates how firms plan its resources and it shows the opportunity cost of funds invested by companies. The aim of this study was to the effects of cost of capital on financial performance of commercial and service firms listed at Nairobi Securities Exchange in Kenya. It was based on the following specific objectives: To determine the effects of cost of equity on financial performance of commercial and service firms listed Nairobi securities Exchange. It was supported by the trade-off theory. The study adopted descriptive design. The target population of the study was 11 commercial and services firms at Nairobi securities exchange. The study applied purposeful sampling technique to select10 firms as the sample size. Data was collected form published annual reports and financial statements for 10 from 2011-2020. Data analysis was done using descriptive (Mean and standard deviation and inferential statistics (correlation and inferential statistics). Analyzed data was presented in tables. The study discovered that, Cost of equity had strong, significant and positive relationship with financial performance of listed commercial and services firms at Nairobi Securities Exchange. The study concluded that, Cost of equity had strong, significant and positive relationship with financial performance of listed commercial and services firms at Nairobi Securities Exchange This meant that, an increase in cost of equity by a single unit led to a corresponding increase in financial performance. The recommended that commercial and service firms listed at Nairobi securities Exchange should increase the application of equity than debt in their capital structure. Using more equity financing reduces the cost of funds since it has no repayment obligation, no additional financial burden to the firms. Additional cheap funds increase investment capabilities leading to increased financial performance of commercial and service firms listed at Nairobi securities Exchange.

Key words: Cost Of Equity, Return On Equity, Financial Performance, Commercial And Service Firms.

INTRODUCTION

Equity financing

Equity capital cost is lowest in those firms with highest financial transparency and bonus compensations. Cost of equity is determined by ownership structure, block ownership. The nature of ownerships affects negatively cost of equity especial where block-holders are firms, managers, or a family business. Additionally, information transparency is key indicator of the cost of equity. A higher information accuracy reduces investors' uncertainty of a firm's future cash flows. That reduction favors minimizes cost of equity (Tran, 2014).

Equity financing contributes to the performance of SMEs in Europe. Application of equity finance enhances firm performance because it provides enough capital for investment. Additionally, equity holders are paid last after others shareholders. This gives firms humble time to invest equity capital without urgent need to repay (Salerno, 2019).

An increase in equity financing in companies, decreases the value of listed industrial goods companies in Nigeria to the greater extent leading to increased cost of capital WACC. In addition, increased equity financing declines the size of the firm and growth inversely in Nigeria. Suitable management skills is required to make to decision on the best and efficient capital mix of financing in a firm (Auwalu, Hadiza, Sunusi & Sharafuddeen, 2020).

Equity financing contributes directly on the financial performance of money banks. Thus, banks that are able to fund their activities through equity reduce debt financing so that they can enhance financial performance. Increased equity financing affected corporate financial performance of Deposit Money Banks in Nigeria. Categorizing capital into equity financing, short-term debt and long-term debt by managers is key to the performance of Banks. Proper supervision and monitoring from both shareholders and bondholders is necessary so that they can reduced negatively affecting the value of the firm from various combinations of financing (Okolo, Okwu Ugwuoke & Gbaraba,2019).

Equity financing in great determinant of financial performance of SMEs in Kenya. Equity financing includes loans, trade credit, and equity financing and informal financing significantly influences financial performance. Additionally, trade credit is the strongest component of equity financing that contributes greatly to financial Performance of SMEs in Kenya. Equity financing, loans and finally informal financing as well contributes greatly to the financial performance but as much as trade credit (Mwende , Muturi & Njeru, 2019).

Equity financing is key source of finances to SMEs in Kenya. This due to its direct influences on financial performance. Equity financing is preferred by SMEs especially equity contribution from friends. This is because entrepreneurs prefer to share risks with less risk averse investors at as they reduce unwanted change in ownership. Most of the enterprises are owned individually are controlled and managed by the owners. This makes them prefer equity contribution (Njagi, Kimani & Kariuki, 2017).

Statement of the problem

The application of equity financing, debt financing and retained earnings enhances financial performance of firms of listed firms in Kenya.

Financial performance of commercial and services firms as measured in terms of Return on Assets (ROA) decreased to 2.7 in December 2022, from 3.3 percent in December 2021. Decline in financial performance was due to decrease in financing activities of listed firms (Kenya financial stability report,2023).

Al-Tamimi and Obeidat (2013), studied the impact of cost of capital, financial leverage, and the growth rate of dividends on rate of return on investment an empirical study of Amman stock exchange. The independent variables of the study were cost of capital, financial leverage, and growth rate of dividends. This study failed to study on cost of equity financing, cost of debt financing and cost of retained earnings financing. It's against this backdrop that this study sought to determine the effects of cost of capital on financial performance of listed Firms in Kenya.

Objectives of the study

General objective

The general objective of the study was to determine the effects of cost of equity on financial performance of commercial and service firms listed at Nairobi Securities Exchange in Kenya.

Specific objectives

I. To determine the effects of cost of equity on financial performance of commercial and service firms listed firms at Nairobi Securities Exchange in Kenya.

Research Hypotheses

H_{01}: Cost of equity has no statistically significant on financial performance of listed firms in Nairobi Securities Exchange in Kenya.

LITERATURE REVIEW

Theoretical Review

The trade-off theory

The trade-off theory was introduced by Modigliani and Miller in 1958. The theory holds the view that a company must decide on the amount and extent debt and equity to be applied by balancing costs and benefits. Further the theory states that business units are normally funded partly with debt and partly with equity. According to theory, debt financing has some benefits like tax benefits. However, there are some costs of debt like bankruptcy costs of debt, legal fees, may lead to financial distress. An increase in debt reduces marginal benefit debt increases, while the marginal cost increases. The theory further argues that capital targeted by firms ought to consider benefits and costs of debts. The aim is to balance debt tax shields against costs of bankruptcy (Dell'Ariccia, Igan, & Laeven, 2012).

This theory is based on the following assumptions: There are two main sources of funds i.e., equity and debt. The firms combine debt and equity financing in its capital structure. Firms must find the best capital mix between the two so that they reap much profits. Additionally, the theory assumes that, firm's pays 100 percentage dividends i.e. no profits retained for further investment. Further, the theory assumes that firms' financing remains constant overtime. The theory assumes that profit

yielded is constant, business risk is constant and investors are rational. They invest with expectation of making as much profits as possible (Huang, When & Liu, 2014).

The limitations of this theory include; the assumes that the profit earned is constant. This is not possible. Firms' fluctuate depending on the economic conditions. Sometimes they record supernormal profits when economic conditions are favorable while they record losses during hard times. Additionally, the theory assumes that firms pays 100 percentage dividends form its earning. This is not true as firms retain part its earning for reinvestment. Similarly, the theory assumes that business risks remain constant. This is not true in the current markets (Muthee, 2010).

This is relevant for this study as it was used to explain the relation between cost of equity, cost debt and financial performance of listed firms in Kenya. Listed firm's finance their investment through equity financing and debt financing. Thus, these has to balance the two sources of finance so that they can reap maximum benefits. Additionally, these firms incur costs like legal fees when they are raising funds through either of the sources. Thus, firms minimize such cost so that they can enhance their profitability.

Empirical review

Cost of equity and financial performance

Sumaryati and Tristiarini (2017), did a study on the influence of cost of equity on financial distress and firm value. This achieve its, the study counted on Working capital, Net profit before interest and taxes and Sales were independent variables of the study. The study adopted a descriptive research design. Collected data from secondary sources was analyzed using descriptive statistics and inferential statistics. A sample size of 114 was selected through purposive sampling method. The study established that the cost of equity significantly affects financial distress and firm value. Additionally, the study noted financial distress doesn't affect firm value. Additionally, the study noted that financial distress does not a mediate the relationship between cost of equity and firm value. The study concluded that application of cost of equity by shareholders can measure manager's performance in maximizing their profit.

Jiménez and -Grima (2020), did a study on corporate social responsibility and cost of equity. This adopted literature review research design. The sample size for the study was 22 articles. This article was obtained from Google Scholar and Web of Science (WOS) between 2008 and 2018. The independent variables were cost of equity, and cost of capital. Reviews collected form literature review was analyzed thematically. The study found out that, companies face diverse political and social pressures from different stakeholders this makes them adopt a social behavior to legitimize themselves or disclose CSR information to aid media coverage so that society can accept business practices of companies. The study further found out that disclosures are tailored by companies to keep an image that is a socially responsible. Additionally, the study established that companies in mining, tobacco, gambling, and sexual sectors or sensitive other industries many a times create negative externalities so that these firms can disclose more detailed ESG information in order to

legitimize themselves and reduce their CoE by compliance with social norms to found out business operations and good relations with stakeholders.

Bertoncelli, Fandella and Sironi (2021), determined the relationship between governance quality and the cost of equity capital in Italian listed firms: an update. This study adopted multivariate approach. The independent variables of the study were board independence, board size, the existence of the internal audit, and CEO duality incorporated. The sample size for the study was 139 firms from financial, industrial, and services sectors. Secondary data was collected from Stock Exchange website, on the corporate governance reports, and from DATA STREAM for listed Italian companies in 2018. Collected data was analyzed through descriptive statistics and regression analysis. The findings of the study indicated that corporate governance score and the firm's equity capital cost did not have statistically significant correlation. Further, the study noted that lower variability in the corporate governance index had no significant effect of a composite index in the reduction of cost the cost equity capital. In addition, the study noted that Quality Governance Index has no significant effects CEC level, while full set of explanatory variables to enhanced variation. The study concluded that corporate governance and the cost of equity capital had no statistically significant relationship. The study recommended that firms ought to come together for a better and common standard quality after a long tradition, and/or need to focus to new and different governance issues that creates difference among listed firms.

Olufemi Adebola, Oluyinka and Adeleke(2019), assessed the how equity financing options and financial performance of listed manufacturing firms in Nigeria. Explanatory research design. The independent variable of the study was retained earnings, ordinary share capital and preference shares while ROA was used to measure financial performance. The study utilized secondary data that was collected form annual reports. Criterion sampling technique was applied to select a sample size of 60 listed manufacturing firms from a target population of 70 listed firms. Collected data was analyzed through Descriptive statistics and inferential statistics. The findings of the study indicated that all independent variables significantly affected financial performance of listed firms. Further, the study noted that retained earnings and preference shares significantly affected profitability of listed manufacturing firms in Nigeria. Additionally, the study identified that ordinary share capital had a direct but insignificantly effect affected performance of listed manufacturing firms in Nigeria. The concluded that equity financing option composition affects financial performance of listed manufacturing firms in Nigeria to the greater extent. The study thus recommend that listed manufacturing firms should maximize the equity financing options available to them in order to increase the financial performance.

Auwalu, Hadiza, Sunusi and Sharafuddeen (2020),did a study on the effects of equity financing and Firm Value in Nigeria. The study adopted ex post facto research design. The variables of the study were: equity financing, firm size and debt financing. The study applied census method to select a sample size of 19 firms. Data was collected from annual reports and accounts of the industrial goods companies listed on Nigerian stock from 2006 to 2016. Data analysis was done descriptive and inferential statistics. The findings of the study showed that equity finance minimizes the capacity of firm value in Nigeria. Further, the study identified that the firm size and growth affected the value of frim negatively. Additionally, the study revealed that equity financing has a

significant effect on firms' value. The study recommended that managers ought to come with suitable management tool and introduce efficient capital mix in financing firm business.

Mutie, Muturi and Njeru (2019), studied the effect of Equity Finance on Financial Performance of Small and Medium Enterprises in Kenya. The study adopted descriptive research design. This study was based on loans, trade credit, equity financing and informal finances as independent variables of the study. The study applied Simple random techniques to select a sample size 384 respondents. The collected data form both Secondary and primary data sources. Primary data was collected a structured questionnaire while secondary data was gathered. Collected data was analyzed through descriptive and inferential statistics. The study established that Loans, Trade credit, Equity financing and Informal financing and Financial performance of the SMEs in Kenya had significant relationship. Further, the study noted that the trade credit had the strongest relationship with the financial Performance of SMEs in Kenya, then equity financing, loans and finally informal financing respectively. The study concluded that there is no one source of finance that fully contribute to the financial performance of the SMEs in Kenya. The recommended that, the SMEs in Kenya ought to apply the four sources of finance collectively but apply trade credit more than others.

Gathara, Kilika and Maingi, (2019) assessed the effect of equity on financial Performance of Selected Companies listed in the Nairobi Securities Exchange, Kenya. The study adopted Causal or explanatory research design and positivist philosophy. The variables of the study were Liquidity, Financial, owners' equity. Financial performance was measured using ROA. Secondary data was collected for 30 from annual reports and financial statements between 2007 and 2015. The study applied descriptive statistics, correlation analysis and panel linear multiple regression analysis to analyze collected data. The findings of the study indicated that equity had significant and effect on financial performance of selected companies listed at NSE, Kenya. The study recommended that managers of the selected companies listed at NSE, Kenya to apply various sources of finance since financial structure is positively affecting performance of the listed firms. Further, the study noted that most of the selected companies financed investments through owners‟ equity. Further the study discovered that most of the companies applied more internal funds to finance their business. The study concluded that owners' equity, affects positively and significantly financial performance of companies listed on the Securities exchange.

Njoroge (2018), ascertained the effect of voluntary disclosure on cost of equity capital of companies quoted at Nairobi Securities Exchange in Kenya. This this, the study adopted Descriptive research design and it was based on the forward-looking information, Corporate Social Responsibility information and Corporate Strategic information as independent variables of the study. The study applied purposive sampling to select a sample size of 20 listed firms at NSE 20 Index. Panel data used in the study was obtained from NSE handbook, annual reports and accounts of NSE 20 share index between 2012-2016 Collected data was analyzed through descriptive and inferential statistics. The findings of the study indicated that voluntary disclosure of forward-looking, corporate social responsibility and strategic disclosure had a positive and significant effect cost of equity capital. Further, the study identified that corporate social responsibility, voluntary information disclosure had positive and insignificant effect on cost of equity capital. Additionally, the study noted that

strategic information voluntary disclosure had positively and insignificant linkage with cost of equity capital amongst 20 share indices.

Conceptual framework

According to Mugenda & Mugenda, (2006), a conceptual framework is a hypothesized model that identifies the model to be used in a study and hence the relationships between the dependent variable and the independent variables. Kothari (2003) ,states that a variable is a concept which have qualities of quantitative values. A dependent variable is the predicated outcome variable. In this study distribution of cost of equity, cost debt, cost retained earnings and cost of preferences shares are independent variables while financial performance the dependent variable.

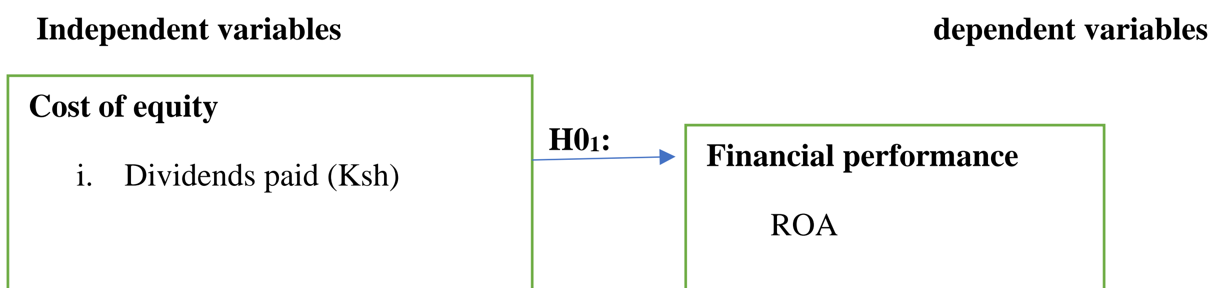

Figure 2.1 conceptual framework
Source: researcher 2021

Equity financing is an external source of raising funds to fund its investment. Raising addition Equity funds, attracts additional costs like legal, printing cost transaction that may reduce profitability of firms. Additionally, more equity financing brings on board new shareholders. New shareholders increase dividends payable to investors and hence reduce retained earnings for re-investment. Thus, reduction in expenses associated with rising equity financing increases profitability.

RESEARCH METHODOLOGY

Research Design

According to Ogula (2005), a research design as a plan, structure or strategy that outlines of how to get answers on research questions and control variance. The study adopted descriptive and correlation design research design. According to Bari, Muturi and Samantar (2019), correlation design enabled the researcher to identify the nature of relationships between dependent and independent variables applied by listed firms in Kenya.

Study area

This study was carried out on listed firms in Nairobi Securities Exchange Kenya as at December 2020. Kenya is located in East Africa and its boarders Tanzania to the south, Ethiopia to the north, Somalia to west and Uganda to east. The study target all 13 listed firms at NSE under commercial service sector.

Target population

According to Ngechu (2004), population as a set of people, services, events or organization to be investigated. According to Mugenda (2008), target population is the entire group of individuals, objects, things or elements that share common characteristics and may or may not be found in the same geographical location. The study targeted listed firms that had complete data from 2010-2020. To that end, the target population was 11 firms listed at NSE as at December 2023 NSE under commercial and services sector.

Table 3.1 Target Population

Commercial and Services
1. Deacons (East Africa) Plc Ord 2.50AIMS
2. Eveready East Africa Ltd Ord.1.00
3. Express Kenya Plc Ord 5.00 AIMS
4. Homeboyz Entertainment Plc 0.50GEMS
5. Kenya Airways Ltd Ord 1.00
6. Longhorn Publishers Plc Ord 1.00AIMS
7. Sameer Africa plc Ord 5.00
8. Nation Media Group Plc Ord. 2.50
9. Standard Group Plc Ord 5.00
10. TPS Eastern Africa Ltd Ord 1.00
11. WPP Scan group Plc Ord 1.00

Source: NSE 2023

Sampling design and sample size

Sampling design

According to Oso and Onen (2009), there are two main ways of selecting study sample from the target population, probability and non-probability sampling technique. This is a plan used in selectin a sample size and other key elements of a survey (Kothari et al., 2010). This study adopted a purposeful sampling technique.

Sample size

According to (Amin, 2004), sample is sub-group of the target population selected to represent other members of the target population. A sample is a representative part of a population (Gay (2007). The used purposive sampling technique to select a sample size. The study used Yamane 1967 formula to determine the sample size as shown below;

$$= \frac{N}{1+Ne(^2)}$$

Where

n = the Minimum Size of the Sample;

N = Size of population

- e = confidence level at 95 % (5%=0.05)

$$\frac{11}{1+13(0.05)^2} = 10$$

Thus, the sample size was 10 listed commercial and service firms selected through purposive sampling method as presented in table 3.1.

Table 3.2 Sample size

COMMERCIAL AND SERVICES
1. Deacons east Africa plc 2.50
2. Eveready east Africa ltd Ord 1.00
3. Express Kenya plc
4. Longhorn publisher
5. Nairobi business ventures plc Ord 0.50
6. Nation Media Group plc Ord 2.50
7. Sameer Africa plc Ord 5.00
8. standard group plc 5.00
9. TPS east Africa ltd(serena) 1.00
10. WPP scan group plc

Source: Researcher 2021

Data collection

According to Creswell (2008), a researcher should develop data collection instruments which measure, observe or quantify data under investigation. The study applied secondary data. Secondary data was collected from published annual reports for selected listed firms for 10 years using data collection sheets. This data was obtained from published annual reports and financial statements.

Data analysis and presentation

Data analysis is technique applied make inferences from data collected through systematic and objective identification of specific characteristics (Bryman & Bell, 2003). Data was analyzed using descriptive and inferential statistics.

Descriptive statistics

In descriptive statistics, this study applied minimum, maximum, mean and standard deviation.

Inferential statistics

Under, inferential statistics, the study used correlation and, simple multiple regression analytical techniques to analyze collected data. Analyzed data was presented in tables and figures. Regression model for the study was as follows:

Simple regression model

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$..............objective one

Y= Firm performance
X_1= cost of equity
e= error term
β_1= Regression coefficients.

Descriptive statistics.

The broader aim of the study was to determine the effects of cost of equity on financial performance of commercial and service firms listed at Nairobi Securities Exchange in Kenya. The study utilized secondary data was obtained from published annual reports for 10 years using a data collection sheet. The applied both descriptive and inferential statistical methods to process the collected data. Findings were presented in tables and figures as shown below.

Cost of equity

The study aimed at determining the cost of equity of commercial and service firms listed at Nairobi securities exchange. The study obtained data from annual financial reports. This data was analyzed using descriptive statistics whose output was presented in table 4.1

Table 4.1 cost of equity

	N	Minimum	Maximum	Mean	Std. Deviation
Deacons east Africa plc 2.50	10	.09	.86	.4794	.30228
Eveready east Africa ltd Ord 1.00	10	.07	.44	.1877	.13481
express Kenya plc	10	.04	.43	.2003	.14637
longhorn publisher	10	.02	.95	.2112	.28945
Nairobi business ventures plc Ord 0.50	10	.02	.75	.2185	.26285
Nation Media Group plc Ord 2.50	10	.13	1.89	1.0254	.61402
sameer Africa plc Ord 5.00	10	.02	.51	.1397	.15318
standard group plc 5.00	10	.04	1.89	.7289	.76937
TPS east Africa ltd(serena) 1.00	10	.05	.64	.2209	.19323
WPP scan group plc	10	.01	.33	.0960	.09754
Average mean				0.3508	
Valid N (listwise)	10				

Source : filed data 2023

It was established that, Deacons east Africa plc 2.50 recorded mean value of .4794 with standard deviation of .30228, Eveready east Africa ltd Ord 1.00 had mean of .1877 with standard deviation of .13481, express Kenya plc registered and average of .2003 with standard deviation of .14637. Additionally, the study noted that, longhorn publisher had mean of .2112 with standard deviation .28945, Nairobi business ventures plc Ord 0.50 had an average of .2185 with standard deviation .26285. Furthermore, the study identified that, Nation Media Group plc Ord 2.50 had an average of

1.0254 with standard deviation .61402, Sameer Africa plc Ord 5.00 had an average of .1397 with standard deviation .15318. Lastly, the study noted that, standard group plc 5.00 had mean of .7289 with standard deviation .76937, TPS east Africa ltd(serena) had an average of 1.00 .2209 and standard deviation .19323 and WPP scan group plc had an average of .0960 with standard deviation of .09754.The study identified that, Nation Media Group plc Ord 2.50 had the highest cost of equity thus it recorded higher financial performance while WPP scan group plc had the lowest cost of equity hence registered the lowest financial performance. Further, the study identified that others firms for instance: express Kenya plc, Eveready east Africa ltd Ord 1.00 standard group plc 5.00, Deacons east Africa plc 2.50 also had higher cost of equity and hence they had high financial performance. Financial performance of listed firms on the Nairobi Securities Exchange is determined by capital structure. Using equity financing in the capital; directly enhances financial performance. Thus, increasing equity financial in the capital structure while other sources like debt are reduced, enhances their profitability (Githire & Muturi, 2015).

Correlation analysis

The study carried out correlation analysis to uncover the nature of linkages between independent variables (Cost of equity, cost of debt and cost of retained earnings) and financial performance of commercia and services firms listed at NSE. The findings of the study were presented in the table 4.5

Table 4.2 Correlation analysis

		Cost of equity	Financial performance
cost of equity	Pearson Correlation	1	.480**
	Sig. (2-tailed)		.000
	N	100	100
Financial performance	Pearson Correlation	.480**	1
	Sig. (2-tailed)	.000	
	N	100	100

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

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

The study discovered that, Cost of equity had strong, significant and positive relationship with financial performance of listed commercial and services firms at NSE $r=.480^{**}$ $P= .000<0.01$. This meant that, an increase in cost of equity by a single unit led to a corresponding increase in financial performance. In a similar study carried out by Bertoncelli, Fandella and Sironi (2021), indicated that, corporate governance score and the firm's equity capital cost did not have statistically significant correlation. The study concluded that corporate governance and the cost of equity capital had no statistically significant relationship. These findings differed with the findings of the current study.

Simple Regression analysis

Cost of Equity

The study carried out simple regression between cost of equity and financial performance of commercial and services firms listed at Nairobi Securities Exchange. The findings of the study were presented in the table below:

Table 4.10 (a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.480[a]	.230	.223	2.27213

Source : Filed data 2023

a) Predictors: (Constant), cost of equity

b) Dependent Variable: Financial performance

It was discovered that, cost of equity had positive correlation with financial performance of listed commercial and service firms at Nairobi Securities Exchange r= .480 [a.] Further, the study identified that, the R Square of the study was .230. Thus, cost of equity contributed to 23.0% change in financial performance of commercial and services firms listed at Nairobi Securities Exchange. According to, Mutie, Muturi and Njeru (2019), loans, Trade credit, equity financing and Informal financing and Financial performance of the SMEs in Kenya had significant relationship. Further, the study noted that the trade credit had the strongest relationship with the financial Performance of SMEs in Kenya, then equity financing, loans and finally informal financing respectively. The study concluded that there is no one source of finance that fully contribute to the financial performance of the SMEs in Kenya.

Table 4.10 (b) ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	151.548	1	151.548	29.355	.000[b]
	Residual	505.930	98	5.163		
	Total	657.478	99			

Source : Filed data 2023

a. Dependent Variable: Financial performance

b. Predictors: (Constant), cost of equity

The study identified that the F test for study was 29.355. Additionally, the study noted cost of equity had significant effect on financial performance of listed commercial and services firms at NSE P=000<0.05.So, the regression model was fit for the study. Sumaryati and Tristiarini (2017), established that the cost of equity significantly affects financial distress and firm value.

Table 4.10 (c) Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.132	.270		4.920	.000
	Cost of equity	.771	.142	.480	5.418	.000

Source: Filed data 2023

a. Dependent Variable: Financial performance

The study found out that, cost of equity contributed to 13.2% on financial performance of commercial and service firms listed at Nairobi Securities Exchange when all other contributing factors are held constant. Thus, other factors not covered in this study affected financial performance by 86.8%. Besides, the established that, cost of equity had positive and significant effect on financial performance B.771, t=5.418, P .000<0.05. Hence, an increase in cost of equity led to an increase in financial performance by 77.1%. According to Olufemi Adebola, Oluyinka and Adeleke (2019), all independent variables significantly affected financial performance of listed firms. Additionally, the study identified that ordinary share capital had a direct but insignificantly effect affected performance of listed manufacturing firms in Nigeria. The concluded that equity financing option composition affects financial performance of listed manufacturing firms in Nigeria to the greater extent.

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

$\beta_{0=} .132, \ \beta_1 X_{1=} .771$

$Y=.132+.771$

Hypotheses Testing

H_{O1}: Cost of equity has no statistically significant on financial performance of commercial and services firms listed at Nairobi Securities Exchange.

The study the established that, cost of equity had significant effect on financial performance of Nairobi Securities Exchange P =.000<0.05. Hence, changing the amount of cost incurred on equity cost of led to an increase in financial performance of commercial and services listed at Nairobi Securities Exchange. Thus, the null hypothesis was rejected.

Summary of Findings

Cost of equity and financial performance

The study discovered that, Cost of equity had strong, significant and positive relationship with financial performance of listed commercial and services firms at Nairobi Securities Exchange This meant that, an increase in cost of equity by a single unit led to a corresponding increase in financial performance.

Similarly, the study the established that, cost of equity had a direct and significant effect on financial performance. Therefore, changing the amount of cost incurred on equity cost of retained led to an

increase in financial performance of commercial and services firms listed at Nairobi Securities Exchange 87.5%.

Conclusions

Cost of equity and financial performance

The study concluded that, Cost of equity had strong, significant and positive relationship with financial performance of listed commercial and services firms at Nairobi Securities Exchange This meant that, an increase in cost of equity by a single unit led to a corresponding increase in financial performance.
Similarly, the study the concluded that, cost of equity had a direct and significant effect on financial performance. Therefore, changing the amount of cost incurred on equity cost of retained led to an increase in financial performance of commercial and services firms listed at Nairobi Securities Exchange 87.5%.

Recommendations

Cost of equity and financial performance

The recommended that commercial and service firms listed at Nairobi securities Exchange should increase the application of equity than debt in their capital structure. Using more equity financing reduces the cost of funds since it has no repayment obligation, no additional financial burden to the firms. Additional cheap funds increase investment capabilities leading to increased financial performance of commercial and service firms listed at Nairobi securities Exchange.

Further, the study recommended that, commercial and service firms listed at Nairobi securities Exchange ought to increase the usage of equity. This would increase, significant and positive financial performance of listed commercial and services firms at Nairobi Securities Exchange

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