

EFFECT OF EQUITY FINANCING ON SHAREHOLDER VALUE CREATION OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

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ABSTRACT

Management's efficient use of resources is crucial for economic growth. Positive shareholder wealth creation is a key indicator of a company's success. Decisions regarding equity financing should prioritize increasing shareholder wealth. Many NSE-listed firms have had mixed results in creating shareholder value in the past decade. The current study aimed to examine the impact of equity financing on the creation of shareholder value in firms listed at the NSE. The study analysed the effect of ordinary share capital, retained earnings, and equity reserves on shareholder value creation. A descriptive research design was adopted, and data was collected from audited annual financial reports of 59 firms listed at the NSE over a period of 10 years (2012-2021). The data was analyzed using STATA software, and panel data regression analysis was conducted to investigate the relationship between the independent and dependent variables. Diagnostic tests were

also performed to ensure the validity of the regression analysis. The results indicated that all three independent variables had a statistically significant and positive association with shareholder value creation. Specifically, firms with higher retained earnings were found to have increased net income and profitability, leading to enhanced shareholder value creation. The study recommended that policy makers at the NSE prioritize effective equity financing options to positively impact shareholder value creation and attract potential investors. Additionally, publicly traded companies were advised to utilize efficient planning tools to determine optimal financing strategies that maximize shareholder value and attract more investors.

Key words: Equity Financing, Ordinary Share Capital, Value Creation, Equity Reserves, Shareholder.

INTRODUCTION

Organizational financial health relies on efficient resource allocation for growth (Pham, 2020). Identifying the optimal financial structure is essential for shareholder wealth and sustainability. Managers face the decision between debt and equity to maximize wealth. Capital structure choices have a significant impact on firms, with finance managers needing to effectively manage financial resources (Eka, 2018). Achieving financial sustainability involves optimizing the equity financing mix and reducing operational costs through internal restructuring and working capital management (Rahman, Sarker, & Uddin, 2019).

Businesses can alter ownership structures through issuing new shares or obtaining loans, considering costs and needs. Understanding how financing choices affect shareholder value is vital for strategic decisions (Chindengwike, 2021). Managers prioritize financing decisions that boost

competitiveness and shareholder wealth, focusing on options with positive net present value. Capital structure decisions are influenced by available resources, highlighting effective resource management by finance managers for success (Vuong, Vu, & Mitra, 2017). Equity investors offer financial support and valuable expertise crucial for start-up growth (Wilson, Kacer, & Wright, 2019). In Malaysia, capital structure decisions and strategic planning significantly impact business value and strategy. Rating companies should adjust to the evolving landscape, emphasizing increasing shareholder wealth and maintaining healthy cash flow for this goal (Jee et al., 2021).

Financial managers are essential in reducing a company's cost of capital and increasing its value through performance improvement. Akintunde, Nwabuisi, and Oyeyemi (2021) highlight wealth maximization as a key goal for African firms, particularly in Nigeria. Efficient resource management drives operational growth and profitability, impacting shareholder wealth through strategic decisions. Akintola and Olurin (2020) stress the importance of capital in a company's financial performance and long-term goals in Nigeria. Managers aim to optimize capital structure to enhance shareholder wealth by managing costs, tax advantages, and agency costs efficiently through an ideal debt-to-equity ratio. Muthoni, Jagongo, and Muniu (2019) emphasize the significance of long-term returns for savvy investors in cooperatives. Managers work towards increasing shareholder value by selecting optimal financial tools and making strategic financial decisions. However, measuring actual value creation poses a challenge, requiring effective tools for evaluation.

Equity Financing

Equity financing involves raising capital through the sale of common or preferred stock when a company's retained earnings are insufficient or when it needs to balance its debt (Fianto, Gan, Hu & Roudaki, 2018). Two types of equity issues exist: initial public offerings (IPOs) and seasoned issues. Equity financing is considered the most expensive way to attract money, but companies resort to it when other options are not viable or when shares are overvalued. Companies issue equity for various reasons such as funding projects, maintaining liquidity, and impacting future cash flows (Belo, Lin, & Yang, 2019).

Managers often see equity offers as a successful means to expand a business and incentivize growth (Cumming, Meoli, & Vismara, 2021). Firms with high investment potential prefer stock issuance to avoid interest-bearing debt, optimizing capital structure by balancing tax advantages and financial distress risks. Listed companies access equity financing through the securities market, while unlisted large companies rely on private placement from institutional investors. Equity financing includes share capital, retained earnings, and equity reserves, with listed companies having better capital access through security markets.

The ordinary share capital represents the funds raised by a company through the issuance of common shares to the public and private sources, reflected in the owner's equity section of the balance sheet (Muiruri & Wepukhulu, 2018). This account is part of the stockholder's equity and is updated based on the number of equity shares held by the business owners. Unlike debt, ordinary share capital does not require interest payments, with dividends distributed to shareholders based on their ownership percentage. Retained earnings serve as an internal source of financing for

company investments, with a trade-off between retained earnings and dividend payments to shareholders (Drover et al., 2017). Equity reserves are funds set aside for contingencies and future obligations, excluding share capital and retained earnings (Muthoni et al., 2019).

Shareholders Value Creation

Creating shareholder value involves using equity capital to make decisions that increase shareholder wealth (Zumente & Bistrova, 2021). This is achieved by generating future inflows that surpass alternative investments (Zumente & Bistrova, 2021). Factors influencing value include growth rate, tax rate, profit margin, capital investment, cost of capital, and working capital. Value can increase through factors like cash flow growth, reduced volatility, and higher residual cash flow value. Six components of shareholder value are net operating profits after taxes, debt tax advantage, new capital investment, return on new capital, cost of capital, and duration of returns exceeding cost (Zumente & Bistrova, 2021).

The primary objectives of companies are to increase shareholder value and revenue. Shareholder value is the current wealth accumulated by shareholders through investments in company shares. Zumente and Bistrova (2021) explain that this value is calculated by multiplying the total number of shares by the average share price. A rise in shareholder wealth indicates value creation. Companies aim to maximize shareholder value by ensuring a positive economic value added (EVA). Caballero, Teruel, and Martinez (2020) suggest that companies prioritize maximizing shareholder value. Incentives like efficiency and long-term growth contribute to shareholder value through equity shares.

The decision-making processes of businesses, including liquidity, dividends, investments, and financing, play a crucial role in generating shareholder value (Tipape & Jagongo, 2019). Alternative financing options should aim to increase net income and satisfy equity holders (Caballero et al., 2020). Residual revenue should be considered when calculating shareholder value, as it is believed to be accurately reflected in a company's share price. Additionally, the perception of the target market towards the organization is important in determining the value created. The ultimate goal of any business action should be to maximize the return on investment for shareholders (Ndulue, Okoye, & Amahalu, 2021). Corporate finance aims to increase the wealth of shareholders by utilizing equity capital and generating cash flows from assets and operations. In contrast, if an organization relies solely on debt funding, the generated cash flows do not belong to anyone.

A company's ability to generate a return on investment exceeding its cost of capital is crucial for value accumulation. Economic profit, the figure remaining after subtracting operating costs and capital allocation from total revenue, must be positive. According to Van Horne (2002), a corporation creates value by providing shareholders with additional money. Therefore, management should carefully consider decisions that enhance shareholder value (Bessler, Conlon & Huan, 2019). Investment and finance decisions play a significant role in creating shareholder value. Value-based metrics like economic value added (EVA) and market value added (MVA) are commonly used indicators to measure shareholder value creation, allowing for comparisons between businesses and considering time effects and potential capital losses (Zumente & Bistrova, 2021).

Equity Financing and Shareholders Value Creation

Profitability and shareholder value are key in business (Nyamoma, 2020). Measures such as economic value added, market value added, and shareholder value are popular (Nyamoma, 2020). Capital structure, such as debt-to-equity ratio, impacts financing choices. Determining the best capital structure is a finance manager's challenge (Nyamoma, 2020). Managers must grasp value drivers in the company and industry to enhance shareholder value (Akintunde et al., 2021). Value is affected by various factors, both monetary and non-monetary. Managers should pinpoint unique operational aspects that influence stock prices (Akintunde et al., 2021). Analyzing value creation aids in strategy development and assessment (Pham, 2020).

Strategic decisions regarding equity financing in various countries, including the UK, US, China, India, Brazil, and Canada, have resulted in increased value for shareholders (Miralles, Miralles, & Redondo, 2019). Sound financial decisions contribute to the growth of successful businesses and the expansion of globalization. The capital structure decisions of companies are influenced by their listing and trading frequency on the Stock Exchange, as well as the volume of stocks traded (Abdul, 2015). Research comparing US manufacturing companies that received equity from 2005 to 2015 with those that did not found that equity recipients experienced positive increases in shareholder value and significant productivity growth (Islam, Fremeth, & Marcus, 2018).

A study conducted in Asia, US and Europe revealed that private equity-backed companies were generally better managed (Hotchkiss, Smith, & Stromberg, 2021). Understanding the financial factors that impact stakeholder value is crucial for implementing an effective financial strategy (Muthoni, Jagongo, & Muniu, 2019). Competitive businesses that perform well can create long-term value (Wilson et al., 2019). Efficient management of financial resources contributes to a lower cost of capital, enabling value generation by reducing the funds needed for new investments. In Nigeria, operating costs, profit margins, returns on capital employed, and expense ratios all play significant roles in creating shareholder value (Akintunde et al., 2021).

The impact of equity financing on the performance of non-financial companies listed on the NSE was examined by Achieng, Muturi, and Wanjare (2018) using return on assets as a performance measure and total equity as a measure of equity financing. The study was based on Modigliani and Miller's theory of capital structure indifference. Results showed a significant positive relationship between total equity and performance. Muthoni, Jagongo, and Muniu (2019) found a positive correlation between shareholder value creation and equity financing in NSE-listed companies. However, the data used was over six years old, questioning the conclusions' relevance. Mbuvi and Gekara (2015) discovered a significant relationship between dividend policies and shareholder profitability. Mwenje and Olweny (2016) suggested that private equity has a limited effect on generating shareholder value.

Firms Listed at Nairobi Securities Exchange

Nairobi Securities Exchange (NSE) is the primary stock exchange in Kenya, established in 1954. It has gained a strong reputation and attracts both local and international investors (NSE, 2017). The Capital Markets Authority (CMA) oversees the NSE and grants licenses to participants. The NSE is considered the premier financial marketplace in the region and is a member of the African

Securities Exchange Association (ASEA). It offers high-quality trading services to domestic and international investors. NSE uses various indices to measure stock market performance. As of the end of 2021, there were 59 listed companies on the NSE, with the NSE 20-share index being the most popular and oldest index. In 2018, the NSE became a member of the World Federation of Exchanges. The NSE updated its mobile app in 2020 to provide investors with easier access to real-time market information. However, the NSE faces challenges in attracting new listings and is dominated by four companies, Safaricom, Equity, Kenya Commercial Bank, and East African Breweries Limited, which control 78% of investor value (Buigut & Soi, 2020).

Statement of Problem

In developing economies like Kenya, firms face a financing dilemma, particularly those trading stocks at the NSE (Muthoni et al., 2019). This has led to mixed results in shareholder value creation over the past decade, raising concerns about their financing decisions. The reliance on equity financing, which is easier to raise, has been a common approach. However, despite a 20.84% increase in shareholders' wealth in 2019 compared to the previous year, 85% of this growth was concentrated in just 10 firms (NSE, 2020). The NSE has a limited number of firms that can effectively maximize shareholder value due to the prevalence of financial crises in the past decade. Mumias Sugar, ARM Cement, Uchumi Supermarket, Baumann Limited, and Hutchings Biemer Limited are among the firms facing such challenges. The average holdings of NSE firms decreased from 15.7% in 2016 to 11.6% in 2020, indicating a declining trend (KNBS, 2021).

In the quarter ending December 2022, Nairobi Securities Exchange (NSE) witnessed a substantial decrease in shareholders' invested wealth, amounting to Kes 610 billion. The top five stocks at NSE also experienced a decline in market capitalization during this period. Notably, Safaricom's shareholder wealth dropped from Kes 1 trillion in October 2022 to Kes 967.5 billion in December 2022. Similarly, Equity bank and East African Breweries Limited (EABL) saw reductions in shareholder value. The decline in shareholder value has been attributed to poor financing decisions, particularly an overreliance on equity financing, leading to an inadequate financial structure (CMA, 2022).

Several studies have been conducted internationally and locally on the relationship between equity financing and shareholder value creation. Akintunde, Nwabuisi, and Oyeyemi (2021) found a significant connection between financing choices and maximizing shareholder wealth among listed companies in Nigeria. Nyamoma (2020) discovered that equity and debt financing had a positive and statistically significant impact on shareholder value creation in manufacturing companies listed on the NSE. Mwenje and Olweny (2016) found that private equity had little effect on shareholder value creation in Kenyan listed companies. Muthoni, Jagongo, and Muniu (2019) focused on equity financing and shareholder value creation in non-financial firms listed on the Nairobi Securities Exchange, highlighting a contextual gap in the literature. This study aims to fill that gap by examining the effect of equity financing on shareholder value creation in firms listed at the NSE.

General Objective

The main objective of this study was to examine the effect of equity financing on shareholders' value creation of firms listed at NSE.

Specific Objectives

- i. To evaluate the effect of ordinary share capital on shareholder value creation of firms listed at NSE.
- ii. To evaluate the effect of retained earnings on shareholder value creation of firms listed at the NSE.
- iii. To evaluate the effect of equity reserves on shareholder value creation of firms listed at the NSE.

Theoretical Review

Pecking Order Theory

The pecking order theory, as developed by Myers and Majluf (1984) and Lukas and Mac Donald (1990), suggests that companies should prioritize internal financing over external sources. This theory is based on the idea that due to information asymmetry, businesses prefer debt financing over equity issuance. Firms tend to be conservative with dividends and rely heavily on debt to maximize company value. The theory emphasizes that companies should focus on increasing shareholder value through cost-effective growth funding methods (Sheikh & Wang, 2010). Managers have more information about the company and its projects than external investors, leading to a preference for debt over equity issuance (Myers, 1984). Fama and French (2002) found that profitable companies use less debt, supporting the theory that issuing debt signals confidence in meeting obligations. Large corporations are strong proponents of the pecking order theory due to fewer negative selection issues (Frank & Goyal, 2003).

The theory suggests that companies may raise external capital before market inefficiencies correct, with external equity potentially being more cost-effective than debt. While the theory predicts minimal equity issuance, market timing theory contradicts this, as companies issue equity even when other financing options are available (Fama & French, 2002). The pecking order theory is based on two key premises: managers' superior knowledge of company profits and future prospects, and their focus on current shareholders' interests (Myers & Majluf, 1984). Companies often prefer retained earnings over equity or debt financing, with equity seen as less desirable than debt (Harelimana, 2017). The theory, however, does not account for various factors like taxes, financial constraints, or investment opportunities, making it an incomplete model that complements the traditional trade-off theory (Fama & French, 2005).

Trade-off Theory

Modigliani and Miller (1958) introduced the theory of bankruptcy costs and benefits, further developed by Kraus and Litzenger (1973). The theory suggests that companies aim to achieve a specific debt ratio to balance bankruptcy costs and growth opportunities. Minimizing bankruptcy costs involves leveraging tax benefits of debt financing. However, as debt financing costs increase, marginal benefits decrease. Companies must find the optimal debt-to-equity ratio to maximize total value while meeting regulatory requirements. The balance is achieved when benefits from debt equal additional debt expenses (Kraus & Litzenger, 1973).

Miller (1977) noted that despite high corporate taxes, bankruptcies are rare with lower costs, challenging the trade-off theory's prediction of higher debt levels (Miller, 1977). Welch (2004)

found that share price fluctuations drive capital structure variations. The theory explains differing capital structures in the same sector but struggles to account for profitable companies with low debt ratios. Myers (1984) criticized the theory's assumption of perfect markets. Fama and French (2002) argue that the trade-off theory remains widely used due to its consistency with data.

Market Timing Theory

Market timing theory, developed by Baker and Wurgler in 2002, posits that a company's capital structure is influenced by past financing decisions in response to market conditions. Referred to as "timing the equity market," companies choose debt financing when external equity costs are high and vice versa. Zavertiaeva and Nechaeva (2017) explain "timing the debt market" as increasing debt issuance during low-interest rate periods and decreasing it during high-interest rate periods. This suggests that debt market timing is driven by interest rates rather than equity mispricing. Market timing theory has replaced pecking order theory and trade-off theory in corporate finance discussions. Mabrouk and Boubaker (2020) found that market timing model and the trade theory argue that firms increase equity financing when share prices are high. By timing the market, managers can lower their cost of capital (Baker & Wurgler, 2002). Hovakimian (2006) argues that the temporal aspect of equity issuance can influence a firm's capital structure. Baker and Wurgler's (2002) theory posit that corporations can optimize financial resources by strategically issuing debt and equity during opportune periods. The research emphasizes the importance of equity market timing in generating shareholder value and maximizing wealth.

Shareholder Value Theory

The shareholder wealth maximization model states that a company's main objective is to maximize returns for shareholders while maintaining a constant level of risk. This is calculated by combining capital gains and dividends (Eiteman et al., 2004). Milton Friedman argues that corporations have no moral obligation or social responsibility other than increasing their own profits (Friedman, 1970). The stock price reflects investors' expectations of return and risk, and promptly incorporates new information (SV theory). Financial management aims to maximize shareholder value through dividend payments and/or market value increases (Watson & Head, 2007).

Value can be returned to shareholders through share sales. The economic justification for creating shareholder value is based on the assumption of perfect competition in the firm's markets (Booth, 1998). Long-term cash flows determine value creation, surpassing the cost of capital (Hecking, 2002). Traditional metrics like stock prices, profits, and dividends have limitations, leading to the development of newer metrics like economic profit and economic value added (EVA). These metrics support the creation of shareholder value (Hecking, 2002).

Empirical Literature Review

Ordinary Share Capital and shareholder value creation

Earnings per share (EPS) is a key metric for evaluating a company's financial health, but it has limitations such as an inability to accurately reflect shareholder value and a bias towards rising EPS. De Wet (2013) studied the rise in EPS at three companies, identifying contributors like price escalation, asset investment, operating leverage, and financial leverage. Abdoli and Pourkazeni

(2013) found a negative relationship between shareholder value creation and ownership, but a positive one with share capital.

Muthoni, Jagongo, and Muniu (2019) emphasized the importance of equity financing in maximizing shareholder value. Caballero, Teruel, and Martinez (2020) highlighted the link between net operating working capital and firm value. Oyuga (2014) discussed how share prices influence investor decisions. Mbuvi and Gekara (2015) examined the impact of dividend policy on shareholder value. Luvembe, Njangiru, and Mungami (2014) studied the effect of stock dividends on market value. Muthoni (2019) explored the financing decisions affecting shareholder value creation for non-financial companies listed on the Nairobi Securities Exchange.

Retained Earnings on Shareholder Value Creation of Firms

The importance of retained earnings in firm valuation was examined in Pakistan during the military regime (Tirmizi et al., 2021). Retained earnings were found to play a crucial role in expansion activities and help firms achieve their growth goals. Investments made with retained earnings and subsequent reinvestments in value-increasing projects contributed to the maximization of shareholder wealth. In the United States, book-to-market and retained earnings-to-market were found to be reliable indicators of future returns (Ball et al., 2020). The retained earnings component of the book value of equity was considered a good proxy for underlying earnings yield.

In Indian companies, the effective utilization of retained earnings was found to be lacking, leading to a distorted association between corporate profitability and shareholder enrichment (Thirumalaisamy, 2020). This may result in poor investment decisions by shareholders. Retained earnings were found to have a significant positive correlation with the financial growth of pension fund administrator (PFA) companies in Nigeria (Lawal et al., 2022). It was recommended that PFAs improve their design strategies to increase earnings and use operating expenses wisely. The influence of retained earnings on the operational performance indicators of oil and gas companies in Nigeria was found to be positive but negligible (Ugwu et al., 2021). In non-financial businesses traded on the Nigeria Stock Exchange, a positive and statistically significant correlation was observed between dividend pay-outs, earnings per share, retained earnings, and the value of firms (Yemi & Seriki, 2018).

In publicly traded conglomerates in Nigeria, there was a significant and positive relationship between discretionary accruals and cash flow return on investment (Ndulue et al., 2021). However, no significant connection was found between discretionary accruals and cash value added. The impact of retained earnings on the returns of Nairobi Securities Exchange-listed firms in Kenya was found to be very slight and insignificant, with an inverse relationship (Thuranira, 2014). On the other hand, retained earnings had a significant and positive impact on the financial performance of Kenyan saving and credit co-operative societies (Nduati & Wepukhulu, 2020).

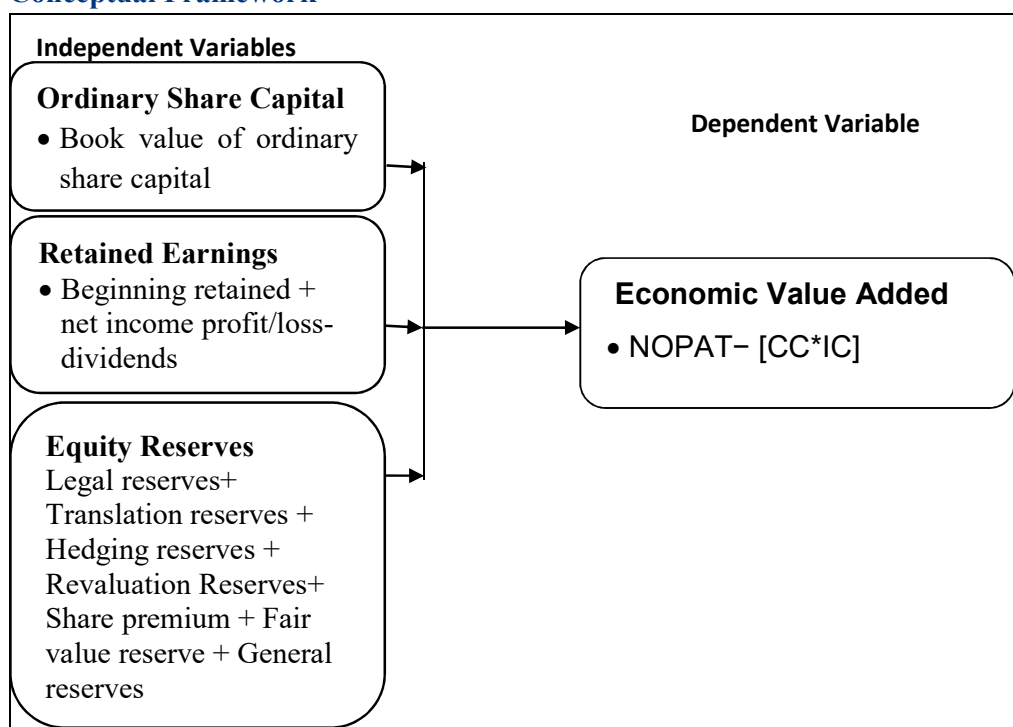
Equity Reserves on Shareholder Value Creation of Firms

The research conducted by Eneh, Onyekwelu, and Igweonyia (2019) aimed to determine the impact of corporate reserves on the financial performance of Nigerian oil and gas companies. The study utilized an ex post facto research design and found that depreciation provision, amortisation fund,

employee benefit, and return on equity did not significantly influence the equity reserves of these companies. The study was supported by agency theory, pecking order theory, and signalling theory. Similarly, Shahwan et al. (2022) investigated the effect of equity reserves on the performance of businesses during the COVID-19 pandemic, revealing a negative impact on both financial and non-financial aspects.

Yarba (2019) focused on equity reserves as an alternative financing channel for Turkish nonfinancial firms during economic stress. Harford et al. (2003) discovered that cash reserves positively impact business investment decisions during recessions. Almustafa and Kalash (2022) found an inverse relationship between cash reserves and financial leverage in MENA markets. Lastly, Oganda et al. (2018) highlighted the negative correlation between reserves and the performance of Kenyan commercial banks, suggesting a need for diversification and reduction of cash reserves.

Conceptual Framework



Conceptual Framework

RESEARCH METHODOLOGY

A research design serves as a blueprint for conducting research, ensuring data collection is sufficient to address research questions (Kothari, 2004). The study utilized a descriptive approach to describe study variables and their relationships. This design was chosen to articulate the link between equity financing and shareholder value generation effectively. The research focused on the target population of fifty-nine companies listed on the NSE from 2012 to 2021. The study aimed to

understand the impact of delisting, mergers, and collapses on the Kenyan market, excluding five companies due to insufficient data (Sekaran, 2005; NSE, 2022).

The study utilized a census sampling method due to the manageable size of the population, including all 59 NSE-listed firms (NSE, 2022). Taber (2018) defines a research instrument as a tool for data collection, measurement, and analysis. NSE financial reports provided ten years of panel data. The secondary data came from the databases of the NSE's audited annual financial reports and span a period of ten years (2012-2021). The data analysis process involved using a descriptive method with STATA software (Mehmetoglu & Jakobsen, 2016). Panel data was collected and analyzed using inferential statistics, correlation analysis, and descriptive statistics. Panel data regression analysis was used to explain interrelationships between variables. Descriptive statistics produced quantitative data with mean and standard deviation, presented in tables and figures for clarity.

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon_{it} \dots \dots \dots (1)$$

Where;

Y_{it} = Shareholder Value Creation (SVC)

X_{1it} = Ordinary Share Capital (OSC) i in period t

X_{2it} = Retained Earnings (RE) i in period t

X_{3it} = Equity Reserves (ER) i in period t

ϵ_{it} = Error term

β_0 = Shareholder value creation in situations where the other predictor is zero.

β_1, β_2 and β_3 , are the regression co-efficient

t- Time period of the study (10 years)

ϵ_{it} = is the random error that accounts for any other variable that may affect shareholder value creation but is not captured in this model.

For the purpose of this study, the diagnostic tests consisted of the following: tests for multicollinearity, heteroskedasticity, autocorrelation, normality, and the Hausman test (Kosack, Page, & Klatser, 2017).

Finding of the Study

Multicollinearity a regression analysis issue due to highly correlated predictors, was assessed using VIF to gauge correlation strength in study variables. VIF values above 10 and low tolerance indicate multicollinearity. Results showed VIF values between 1 to 5 for all three independent variables, indicating moderate correlation levels.

Variable	VIF	1/VIF
EquityRese-s	1.59	0.628377
OrdinarySh-1	1.48	0.676389
RetainedEa-s	1.24	0.804035
Mean VIF	1.44	

An auto-correlation test using the Wooldridge F-Test found significant serial dependence among the study variables ($\chi^2 = 229.23$, $p < 0.05$), leading to the rejection of the null hypothesis. This suggests the presence of serial correlation in the data set. To address this, an investigation was conducted to identify any missing explanatory variables.

lags (p)	chi2	df	Prob > chi2
1	229.231	1	0.0000

The Breusch-Pagan Cook-Weisberg test was used to test for heteroscedasticity. The results showed a significant chi-square value of 12.46 ($p < 0.05$). This suggests that the null hypothesis of homoscedasticity was rejected, indicating the absence of homoscedasticity in the error term.

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: OrdinaryShareCapital RetainedEarnings EquityReserves

F(3 , 586) = 12.46

Prob > F = 0.0000

The fixed effect regression model fitting process employed robust standard errors to mitigate the potential for model bias arising from heteroscedasticity.

```
Fixed-effects (within) regression      Number of obs   =    590
Group variable: Company              Number of groups =    59

R-sq:                                Obs per group:
    within = 0.2255                    min =         10
    between = 0.5767                   avg =        10.0
    overall = 0.4876                    max =         10

F(3,58) = 6.11
corr(u_i, Xb) = 0.3743                 Prob > F = 0.0011
```

(Std. Err. adjusted for 59 clusters in Company)

ShareholderValueCr-n	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
OrdinaryShareCapital	-.9474751	.400356	-2.37	0.021	-1.748875 - .1460754
RetainedEarnings	.1492118	.0371503	4.02	0.000	.0748474 .2235763
EquityReserves	.0875064	.0375662	2.33	0.023	.0123094 .1627034
_cons	2055294	338454.8	6.07	0.000	1377803 2732785
sigma_u	5771909.2				
sigma_e	3786119.9				
rho	.69916449	(fraction of variance due to u_i)			

The study utilized Pearson correlation coefficient to assess the impact of ordinary share capital, retained earnings, and equity reserves on shareholder value in NSE-listed companies. Results showed that ordinary share capital, retained earnings, and equity reserves all positively and significantly influenced shareholder value creation. Ordinary share capital had a 12.53% positive correlation, retained earnings had a 76.6% positive correlation, and equity reserves had a 21.36% positive correlation with shareholder value creation.

	ShareholderValueCr-n	OrdinaryShareCapital	RetainedEarnings	EquityReserves
ShareholderValueCr-n	1.0000			
OrdinaryShareCapital	0.1253*	1.0000		
	0.0023			
RetainedEarnings	0.7660*	0.3420*	1.0000	
	0.0000	0.0000		
EquityReserves	0.2136*	0.5567*	0.4239*	1.0000
	0.0000	0.0000	0.0000	

The study utilized Feasible Generalized Least Squares (FGLS) to account for autocorrelation and heteroscedasticity in the panel data set. The analysis revealed that 57.7% of shareholders' value creation among firms listed at NSE between 2012 and 2021 was influenced by ordinary share capital, retained earnings, and equity reserves. This implies that factors other than these accounted for only 42.3% of value creation. Specifically, ordinary share capital had a negative impact, retained earnings had a positive impact, and equity reserves had a negative impact on shareholders' value creation. These effects were statistically significant.

$$Y = 143,806 - 0.3699X_{1it} + 0.2903X_{2it} - 0.0494X_{3it} + \epsilon_{it}$$

Cross-sectional time-series FGLS regression

Coefficients: generalized least squares

Panels: homoskedastic

Correlation: no autocorrelation

Estimated covariances	=	1	Number of obs	=	590
Estimated autocorrelations	=	0	Number of groups	=	59
Estimated coefficients	=	4	Time periods	=	10
			Wald chi2(3)	=	928.48
Log likelihood	=	-10002.15	Prob > chi2	=	0.0000

ShareholderValueCr-n	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
OrdinaryShareCapital	-.3698997	.0964863	-3.83	0.000	-.5590094	-.1807899
RetainedEarnings	.2903012	.0099043	29.31	0.000	.2708891	.3097133
EquityReserves	-.0493519	.021201	-2.33	0.020	-.0909051	-.0077987
_cons	143805.7	274194	0.52	0.600	-393604.7	681216

Summary, Conclusion, and Recommendations

The study examined the relationship between ordinary share capital, retained earnings, equity reserves, and shareholders' value creation for firms listed at NSE. It found that there is a positive and statistically significant relationship between ordinary share capital and shareholders' value creation. Issuing more ordinary shares is an advantageous way for listed firms to enhance shareholder value as it is a cheaper financing option compared to debt. Retained earnings also have a positive and statistically significant relationship with shareholders' value creation. Firms that hold more retained earnings are able to increase shareholder value by increasing net income and profitability. Retained earnings represent the profit available for use in investments and other business activities. Equity reserves also have a positive and statistically significant relationship with shareholders' value creation. These reserves are set aside for contingencies and dividends, and maintaining a higher level of equity reserves leads to increased shareholder value creation among listed companies.

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