

**The Initial Public Offerings and Market Trading at the Nairobi Securities Exchange,
Kenya**

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Abstract

Initial public offerings play a key role in enhancing capital formation, visibility, and investor opportunity through rational pricing and trading. However, the reality at the Nairobi Securities Exchange (NSE) often diverges due to market inefficiencies, speculation, and limited transparency. IPOs frequently lead to short-term volatility and inconsistent post-listing financial performance. Despite research on IPO pricing and firm-specific factors, there remains a critical gap in understanding the interconnected effects of IPOs on stock volatility, firm performance, and investor behavior within Kenya's unique market context. This fragmented knowledge hinders strategic decision-making by firms, misguides investors, and challenges regulators aiming to enhance market stability and promote sustainable economic growth. The study was anchored on signaling theory and efficient market hypothesis and adopted a systematic review of literature. The study found that Initial Public Offerings (IPOs) significantly impact short-term market volatility, driven by speculation and information asymmetry, though volatility tends to stabilize over time. While IPOs provide capital access, their effect on financial performance is mixed, not guaranteeing universal improvements in profitability or efficiency. Furthermore, IPOs strongly influence investor decisions, often fueled by speculative interest and perceived short-term gains, challenging rational analysis due to limited data. The study recommends intensifying investor education, promoting transparency in IPO processes and company communications, and strengthening regulatory oversight to foster market stability and confidence.

Keywords: *Initial Public Offerings, Market Trading, Volatility, Investor Decisions*

INTRODUCTION

The stock market plays a vital role in the economic development of a nation by serving as a platform for companies to raise capital and for investors to generate wealth (Megaravalli, 2023). A well-functioning stock market encourages business expansion, innovation, and job creation by providing access to funding through the issuance of shares (Alqahtani & Boulanouar, 2022). Stock market trading is essential for maintaining liquidity and price discovery, allowing investors to buy and sell securities with ease and confidence (Reber & Gold, 2022). The performance of the stock market is often seen as a barometer of a country's economic health, reflecting investor sentiment, corporate earnings, and economic trends. Strong market performance can boost consumer and business confidence, while poor performance may signal economic challenges (Biswas & Joshi, 2023). Therefore, a robust and transparent stock market is crucial for promoting financial stability, encouraging investment, and supporting sustainable economic growth.

Global stock market volatility related to Initial Public Offerings (IPOs) is a prominent challenge, primarily stemming from the unique characteristics of newly public companies and associated

investor behavior (Qian, Ritter & Shao, 2024). IPOs often generate considerable excitement and media attention, leading to rapid price fluctuations, particularly in their initial trading days, making it difficult for investors to ascertain a company's true value. This short-term instability is frequently exacerbated by information asymmetry, where early investors or insiders possess more knowledge than the general public, contributing to speculative trading and potential overvaluation risks (Duong, Goyal & Veeraraghavan, 2022). Moreover, IPOs can induce volatility by reallocating capital as investors shift funds from existing stocks to new offerings, potentially depressing prices of established companies in similar sectors.

Initial Public Offerings (IPOs) also play a part in investor decisions by creating a unique investment opportunity often characterized by high hype and the potential for short-term gains, drawing in both speculative and long-term oriented capital (Megaravalli, 2023). Investors must weigh perceived opportunities against inherent risks like information asymmetry and potential overvaluation, leading to complex decision-making processes. Concurrently, IPOs substantially affect the financial performance of issuing firms; while they provide access to considerable capital for expansion and debt reduction, potentially boosting liquidity and visibility, they also introduce new costs associated with public compliance and pressure to meet market expectations (Likitrachoen, 2024). This can lead to a mixed bag of outcomes, where some firms improve profitability and efficiency, while others struggle to sustain initial gains, underscoring the multifaceted impact of going public on a company's financial health (Reber & Gold, 2022).

Globally, Initial Public Offerings (IPOs) significantly impact stock market trading, though the nature of this influence varies by region (Biswas & Joshi, 2023). In the United States, IPOs create notable short-term stock market volatility, particularly on listing day, by drawing capital away from existing stocks, a phenomenon supporting the downward-sloping demand curve hypothesis (Ahmed & Koy, 2023). European markets, in contrast, experience increased trading volumes and investor interest due to foreign IPOs, enhancing market diversification and liquidity, demonstrating the growing importance of cross-border listings (Cieřlik & Sosnowski, 2024). Meanwhile, in emerging markets like China and Indonesia, the financial performance of firms post-IPO presents a mixed picture; while IPOs can boost market perception and provide capital, they often do not translate into sustained operational efficiency or profitability, with some studies showing improvements in liquidity but declines in profitability ratios (Gao, Long & Zhao, 2021; Khan, 2022; Ramadhan, Mutasowifin & Viana, 2021). This diverse global evidence underscores that while IPOs serve as crucial capital-raising tools, their effects on market stability, firm performance, and investor dynamics are complex, context-dependent, and rarely uniformly positive across all metrics.

Beyond the global context, regional studies in East Africa provide nuanced insights into IPO performance. In Tanzania, Munisi (2019) found a significant increase in financial performance for companies on the Dar es Salaam Stock Exchange (DSE) after their IPOs, though results varied based on specific performance measurements. This suggests that IPOs generally do not deteriorate performance in this market, offering valuable information for investors and regulators. Meanwhile, studies on the Nairobi Securities Exchange (NSE) in Kenya present a more complex picture. Mburugu, Nyamute, and Mwangi (2020) observed varied long-run performance for Kenyan IPOs, with outcomes differing significantly based on the measurement method used, highlighting inconsistencies. Complementing this, Simiyu, Thadeus, and Ferdinand (2019) revealed that IPO pricing and firm-specific characteristics, such as pricing differential, play a substantial role in determining long-run stock returns at the NSE, emphasizing the importance of strategic planning for sustained post-IPO performance.

Statement of the Problem

Ideally, Initial Public Offerings (IPOs) represent a crucial stage in a company's lifecycle, providing an efficient mechanism for capital formation, enhancing corporate visibility, and offering new, liquid investment opportunities to the public (Munisi, 2019). In a perfectly efficient market, the pricing and subsequent trading of IPOs would rationally reflect a company's fundamental value, leading to stable stock performance that aligns with long-term financial health (Karki, Bhattarai & Sanjel, 2024). Investors, in turn, would make well-informed decisions based on transparent and complete information, contributing to a robust and predictable market environment that fosters sustainable growth for both companies and the broader economy (Chaudhary, 2024).

However, the reality of IPOs at the Nairobi Securities Exchange (NSE), like many emerging markets, often deviates from this ideal. Empirical evidence suggests that newly listed stocks frequently experience significant short-term volatility, influenced by speculative trading, information asymmetry, and investor overreaction rather than purely fundamental factors. Furthermore, the impact of IPOs on the financial performance of firms is inconsistent, with some studies highlighting improvements in liquidity and capital access (Khan, 2022), while others indicate challenges in maintaining profitability and efficiency post-listing (Gao, Long & Zhao, 2021). This mixed financial outcome can be attributed to various factors, including market characteristics, strategic planning, and post-listing operational dynamics. Consequently, investor decisions regarding IPOs at the NSE are often driven by a combination of speculative interest and the promise of quick gains, with limited historical data and "silent periods" leading to reliance on market sentiment and rumors, rather than comprehensive financial analysis.

Despite existing research, including studies by Mburugu, Nyamute, and Mwangi (2020) which highlighted varied long-run performance of Kenyan IPOs, and Simiyu, Thadeus, and Ferdinand (2019) who identified firm-specific variables and pricing strategies as key predictors of long-run stock performance at the NSE, a significant gap remains in comprehensively understanding the intricate interplay between IPOs, market trading, and their simultaneous impact on stock volatility, firm financial performance, and investor decisions at the Nairobi Securities Exchange. While these valuable contributions shed light on individual aspects, there is a lack of integrated research that analyzes how these three critical dimensions interrelate and influence each other within the unique institutional and economic context of Kenya. This fragmented understanding creates challenges for companies seeking to optimize their public listing strategies, for investors aiming to make sound investment choices amidst volatility and uncertainty, and for regulators striving to formulate effective policies that ensure market stability, foster financial growth, and protect investor confidence in the Kenyan capital market.

Objectives of the Study

The general objective of the study was to investigate the effect of initial public offerings on Market trading at the Nairobi Securities Exchange, Kenya. The specific objectives were;

- i. To examine the effect of initial public offerings on stock volatility among firms listed at the Nairobi Securities Exchange, Kenya
- ii. To determine the effect of initial public offerings on financial performance of firms listed at the Nairobi Securities Exchange, Kenya
- iii. To establish the effect of initial public offerings on investor decisions among the Nairobi Securities Exchange, Kenya

Literature Review

Theoretical Framework

A theoretical framework is a structured foundation of concepts, models, and theories that explains the relationships between key variables in a study. It guides the research by providing a lens through which the researcher interprets data and connects the study to existing knowledge. This study was anchored on the signaling theory and efficient market hypothesis.

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) was developed by economist Eugene Fama in 1970. Fama proposed that financial markets are "informationally efficient," meaning that asset prices at any given time fully reflect all available information (Woo, Mai & Wong, 2020). As a result, it is impossible to consistently achieve returns higher than average market returns on a risk-adjusted basis, since market prices should only react to new, unpredictable information. EMH is categorized into three forms: weak, semi-strong, and strong (James & Valenzuela, 2020). The weak form asserts that current prices reflect past trading information, the semi-strong form incorporates all publicly available information, and the strong form suggests that prices reflect even insider or confidential information. According to this theory, neither technical analysis nor fundamental analysis can give an investor an edge over the market in the long run (Kumar, Soni & Yadav, 2020). Thus, under EMH, price changes are random and follow a "random walk," making it challenging to outperform the market consistently through active trading strategies.

Efficient Market Hypothesis was used to explain the behavior of market trading following Initial Public Offerings (IPOs) at the Nairobi Securities Exchange (NSE), Kenya. According to the semi-strong form of EMH, stock prices quickly adjust to all publicly available information, including the details released during an IPO. This means that any pricing of newly listed shares reflects the company's public fundamentals and investor expectations (Woo et al., 2020). At the NSE, IPOs often attract high investor demand, sometimes resulting in underpricing and rapid price increases once the shares start trading. However, EMH suggests that these price movements are short-lived, as the market rapidly incorporates all available information, correcting any mispricing. Over time, the stock's price should stabilize and reflect its intrinsic value. Therefore, while IPOs may cause temporary fluctuations in trading volumes and prices due to investor excitement or information gaps, EMH explains that these effects diminish as the market becomes fully informed and returns to an efficient state.

Signaling Theory

Signaling Theory was developed by Michael Spence in 1973 as part of his work on job market signaling, which later earned him a Nobel Prize in Economics. The theory addresses how individuals or organizations with more information (insiders) can communicate or "signal" that information to those with less (outsiders) in markets characterized by information asymmetry (Rudy & Cavich, 2020). In finance, Signaling Theory suggests that firms can convey positive private information to investors through observable actions, such as investment decisions or financial structuring (Wu & Reuer, 2021). For example, a company might issue dividends or undertake costly initiatives like an Initial Public Offering (IPO) to signal its strong future prospects. The key idea is that only firms with good underlying value are willing to send credible signals, as low-quality firms cannot afford the potential costs or risks (Yasar, Martin & Kiessling, 2020). Thus, investors interpret these signals to make informed decisions, helping to reduce uncertainty and asymmetry in financial markets.

Signaling Theory was used to explain the effect of Initial Public Offerings (IPOs) on market trading at the Nairobi Securities Exchange (NSE), Kenya. According to the theory, companies use IPOs not just as a means to raise capital, but also as a signal of their financial health and future growth potential. A firm that voluntarily lists its shares on the NSE may be seen as confident in its performance and willing to undergo public scrutiny, which signals quality to potential investors (Rudy & Cavich, 2020). This signal can attract heightened investor interest, leading to increased trading volumes and potential price surges shortly after the IPO. In the Kenyan market, several companies have used IPOs as a platform to build investor trust and gain visibility. However, for the signal to be effective, it must be credible—backed by strong fundamentals and transparency. Thus, Signaling Theory helps explain why some IPOs at the NSE generate high investor demand and sustained market activity.

Conceptual Framework

A conceptual framework is a diagrammatic representation that visually illustrates the relationships among key concepts or variables in a research study. As shown in Figure 1, the independent variable in this study was initial public offerings and the dependent variable was market trading.

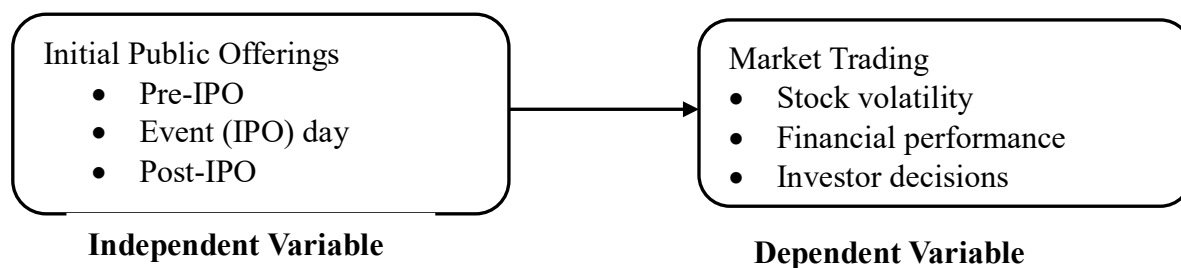


Figure 1: Conceptual Framework
Empirical Literature

Initial Public Offerings and Stock Volatility

In the United States, Ahmed and Koy (2023) investigated the effect of Initial Public Offerings (IPOs) on stock market volatility. Specifically, it aims to analyze how IPO announcements influence the volatility of stock prices in the broader market, using the S&P 500 index as a benchmark. The study adopted a quantitative approach using the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model to measure changes in market volatility. The study found that IPOs significantly affect stock market volatility in the U.S., with the most substantial impact occurring on the first day of the IPO announcement. There was a notable negative impact on other stock prices within the S&P 500 during the first five days, indicating that IPOs can disrupt short-term market stability. While a downward effect persists on the tenth day, it was not statistically significant. These results support the downward-sloping demand curve hypothesis, suggesting that the introduction of new stocks temporarily displaces capital from existing stocks, leading to short-term volatility.

In Europe, Cieřlik and Sosnowski (2024) examined effect of initial public offerings (IPOs) of foreign companies on stock markets. Using the panel Autoregressive Distributed Lag (ARDL) methodology, the study examined the long- and short-term relationships between various institutional factors and IPO activities of foreign companies on regulated European stock markets from 2010 to 2022. The study revealed that the initial public offerings (IPOs) of foreign

companies had a significant impact on stock market activity in Europe. These IPOs contributed to changes in market dynamics, including increased trading volumes and heightened investor interest. The findings suggested that foreign company IPOs played an important role in shaping market performance and liquidity on regulated European stock exchanges during the period studied. Moreover, the presence of these foreign IPOs was associated with greater market diversification and enhanced opportunities for investors. This effect demonstrated the growing importance of cross-border listings in integrating European financial markets.

Virtanen (2024) examined the initial underpricing and long-term performance of both Initial Public Offerings (IPOs) and Seasoned Equity Offerings (SEOs) specifically within the Nordic markets, encompassing Denmark, Finland, and Sweden. The study utilized a data sample comprising 153 IPOs and 157 SEOs. It employed the event study methodology to evaluate both the initial underpricing and the long-term performance of these offerings. Event windows were used to analyze both immediate (e.g., one day, one week) and extended (e.g., one month, three months) impacts on stock performance. The results indicated distinct performance patterns in the Nordic markets. Contrary to global trends, IPOs did not exhibit significant initial underpricing, but they did show modest long-term underperformance, suggesting an initial market over-optimism. SEOs, on the other hand, demonstrated minimal initial underpricing but significant long-term underperformance, pointing towards negative market adjustments over time. Specifically, Cumulative Average Abnormal Returns (CAARs) for IPOs across various event windows did not show statistically significant abnormal returns. In contrast, SEOs consistently exhibited significant negative returns over longer periods.

Likitratcharoen (2024) investigated how stock returns are affected when the "silent period" or lockup agreement for Initial Public Offerings (IPOs) expires in various firms in the Stock Exchange in Thailand. The study employed an event study methodology to test for Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR). The findings revealed that investors had better access to information during the final event (when all stock could be sold) compared to the first event (when only 25% could be sold). Small companies listed on MAI exhibited larger gaps in recognized information than larger companies listed on SET. In conclusion, the study found consistency with the hypothesis of efficient markets during the lockup agreement period generally, but also identified inefficiencies in certain sectors. Therefore, the technology and industrial sectors on SET, and the agriculture and food sector on MAI, showed inefficiencies in both events. Moreover, negative return rates were observed across all industry sectors on the SET. However, the study did not find statistically significant changes impacting forecasts, with the exception of positive findings in the property and construction sector.

Simiyu, Thadeus and Ferdinand (2019) examined the effects of initial public offerings on the long run performance of stocks listed at Nairobi Securities Exchange Market. The research employed a descriptive research design and focused on companies that conducted IPOs on the NSE between 2000 and 2013. Secondary data were collected from the NSE, Capital Market Authority (CMA), company annual reports, and other market sources. The regression analysis revealed that 51.5% of the variation in long-run share performance was jointly explained by the selected variables. Specifically, a unit increase in the pricing differential between the IPO offer price and the first-day closing price led to a 0.068 increase in long-run performance. Firm age had a negative effect (-0.371), while firm size, number of shares issued, and subscription rate had varying degrees of positive or negligible effects. The regression model was statistically significant, indicating a meaningful relationship between IPO pricing factors and long-run stock

performance. The study concluded that IPO pricing and firm-specific characteristics play a substantial role in determining long-run returns, and it recommended strategic planning to sustain stock performance post-IPO.

Initial Public Offerings and Financial performance

In China, Gao, Long and Zhao (2021) investigated firm performance after going public in the context of an emerging stock market. Specifically, it aims to explore whether Initial Public Offerings (IPOs) contribute significantly to a firm's operational and market performance. The study adopted a quantitative approach by applying comprehensive regression models to analyze the relationship between IPOs and firm performance. It evaluates both operating performance (using indicators such as return on assets, return on sales, and debt-to-assets ratio) and market performance. The results indicated that firms generally experience growth in the first three years following their IPOs. However, this growth is not sustained beyond the third year, particularly in terms of profit-related indicators. While IPOs appear to contribute positively to market performance, their impact on operating performance is minimal or even negative. Industry-adjusted analysis reveals that IPOs are negatively associated with return on assets, return on sales, and debt-to-assets ratios. The findings suggest that IPOs may enhance perceived market value but do not necessarily translate into long-term operational efficiency or profitability.

In Indonesia, Khan (2022) looked at the impact of an Initial Public Offering (IPO) on a company's financial performance. The study utilized a quantitative approach by conducting a comparative analysis of financial performance indicators before and after the IPO. The sample included companies that launched their IPOs in 2018. The findings of the study revealed a mixed impact of the IPO on company financial performance. There was an increase in the current ratio, quick ratio, and debt-to-equity ratio after the IPO, suggesting improved liquidity and capital structure. However, the debt ratio, ROI, and ROE showed a decline post-IPO. The t-test results indicated that these changes were statistically significant for most indicators, meaning the null hypothesis (H_0), which assumes no difference before and after the IPO, was rejected. An exception to this was the debt ratio, where the t-test showed no significant difference, leading to the acceptance of the null hypothesis. This suggests that, while IPOs have a noticeable impact on several financial metrics, they do not significantly alter a company's debt ratio.

Similarly, Ramadhan, Mutasowifin and Viana (2021) analyzed the differences in average financial performance before and after an Initial Public Offering (IPO). The study utilized the Wilcoxon signed ranks test and the MANOVA test as its research methods. These tests were applied to the financial statements of 48 companies that conducted IPOs in 2019. The results of the study indicated mixed changes in financial performance following an IPO. There was an observed improvement in liquidity and solvency ratios, suggesting better financial health in these areas. However, profitability and activity ratios showed a decrease in performance. The Wilcoxon signed ranks test confirmed that there were significant differences in the ratios of profitability, solvency, liquidity, and activity. Furthermore, the MANOVA test provided evidence that, simultaneously, the ratios of profitability, solvency, liquidity, and activity exhibited differences between the pre-IPO and post-IPO periods.

Jovian, Zukhri and Nugroho (2022) conducted a study to determine whether there are significant differences in financial performance before and after companies listed on the Acceleration Board of the Indonesia Stock Exchange carry out an Initial Public Offering (IPO) in 2020. The research employed a quantitative approach using secondary data from financial reports of companies listed on the Acceleration Board that conducted IPOs in 2020. The study revealed that there were no statistically significant differences in the financial performance indicators—liquidity (current

assets), solvency (debt to equity ratio), and profitability (return on assets and return on equity)—when comparing the periods before and after the companies conducted their Initial Public Offerings (IPO) on the Acceleration Board of the Indonesia Stock Exchange in 2020. This suggests that going public through an IPO did not immediately impact the financial health or operational efficiency of these companies in measurable terms during the timeframe studied.

Among companies listed on the Dar es Salaam Stock Exchange (DSE) in Tanzania, Munisi (2019) investigated the differences in financial performance, specifically comparing their performance before and after their Initial Public Offerings (IPOs). The study measured company financial performance using various financial performance ratios. To test the hypothesis regarding the difference between pre-IPO and post-IPO financial performance, a significance test was employed. This test analyzed the difference between the mean scores of financial performance before and after the IPOs. The findings indicated a significant difference in financial performance between the pre-IPO and post-IPO periods. Specifically, the study revealed a significant increase in financial performance after IPOs. The research found no significant evidence to suggest that pre-IPO performance was higher than post-IPO performance. However, the study also noted that the results were contingent on the specific performance measurements used in the data analysis. These findings are considered valuable for various stakeholders, including current and potential investors in developing countries' stock exchanges, particularly the DSE, and have policy implications for stock market regulators, shareholder monitoring, and the governance of listed companies, as they suggest that the performance of listed companies does not deteriorate after IPOs.

In a different study, Mburugu, Nyamute and Mwangi (2020) investigated the long-run performance and effects of Initial Public Offerings (IPOs) within the Kenyan stock market. The researchers employed a descriptive survey research design for this study. The target population comprised 64 listed companies on the Kenyan stock market. The study found varied long-run performance of IPOs in the Kenyan stock market. Using Mean Adjustment Buy Hold Returns (MABHR), IPOs collectively slightly over-performed by 0.17%, though individual companies showed significant divergence (e.g., Home Afrika over-performing by 1.12%, while Safaricom underperformed by -0.44%). Conversely, using Cumulative Abnormal Returns (CAR), IPOs collectively underperformed by 0.49%. Specific companies like Access Kenya over-performed by 0.61% under CAR, while others like Home Afrika significantly underperformed. These inconsistent results, depending on the measurement methodology, led to a recommendation for the NSE to implement policies for more consistent IPO performance.

Initial Public Offerings and Investor decisions

In Canada, Jiang and Beamish (2022) investigated how IPOs influence SMEs' foreign investment decisions during their internationalization process. To isolate the effects of IPOs, the researchers employed a difference-in-differences design. The analysis yielded strong evidence indicating that SMEs significantly accelerate the pace at which they establish new foreign subsidiaries after going public. Additionally, the results revealed subtle but notable changes in both the geographical location of investments and the ownership patterns of subsidiaries in the post-IPO period. The study concludes that an IPO serves as a crucial precursor to foreign expansion for SMEs, providing a novel explanation for the variations observed over time in the speed, direction, and level of commitment within the SME internationalization process.

Chaudhary (2024) investigated investor perceptions of Initial Public Offerings (IPOs) in Kathmandu District, Nepal, focusing on factors such as quality management, company goodwill, company performance, company sector, and market information, and how these factors influence

investment decisions. The research employed a descriptive and causal comparative research design. The study found that quality management and company goodwill played pivotal roles in shaping investor perceptions and were significant predictors of investment decisions. In contrast, company performance, sector, and market information did not have significant effects on investment decisions. These results indicate that investors tend to prioritize internal credibility and trust in management over external market data when evaluating IPO opportunities. This suggests that companies aiming to attract investors through IPOs should focus on building a strong reputation and demonstrating transparent, capable leadership to influence investor behavior effectively.

Karki, Bhattarai and Sanjel (2024) explored the dynamics influencing investment decisions in Initial Public Offerings (IPOs) and the perceptions of over-subscription among Nepalese investors. The research adopted a quantitative design and utilized a structured questionnaire distributed to 150 respondents. It was based on a theoretical framework that incorporated firm-specific and general factors. Data were analyzed to determine the influence of various factors on IPO investment decisions. The study found that factors such as a company's corporate profile, financial position, IPO size, short-term returns, market rumors, goodwill, and sector performance significantly influenced IPO investment decisions among Nepalese investors. Investors placed strong emphasis on short-term returns and the financial health of the company, indicating a preference for immediate gains and financial stability. These results suggest that perceptions of over-subscription are closely tied to these factors, as they shape investor expectations and behaviors.

Enow (2024) investigated the phenomena of overreaction and underreaction among investors to new information in the stock market, specifically focusing on selected Initial Public Offering (IPO) stocks on the Frankfurt Stock Exchange. The research sought to understand how these behavioral biases might lead to mispricing in IPOs. The study utilized a Threshold GARCH model to analyze its data. The sample consisted of eight Initial Public Offerings that were listed on the Frankfurt Stock Exchange starting from 2017. The findings of this study revealed the presence of both overreaction and underreaction in the selected IPO stocks. This was evidenced by statistically significant leverage coefficients in some cases. These results suggest that the high risk associated with investing in IPOs may not always be adequately compensated by the level of return. The study further implies that investors could potentially minimize their risk in IPO investments by incorporating a risk coefficient into their pricing strategies.

RESEARCH METHODOLOGY

The study employed a systematic review of literature to explore the relationship between Initial Public Offerings (IPOs) and market trading at the Nairobi Securities Exchange (NSE), Kenya. A systematic review is a structured, transparent, and reproducible method of identifying, evaluating, and synthesizing existing research relevant to a specific question (Tekinerdogan & Catal, 2021). The process began with the formulation of a clear research question focused on how IPOs influence stock market activity, such as trading volumes, price movements, and investor behavior at the NSE. A comprehensive search strategy was then developed using predefined keywords including “Initial Public Offerings,” “market trading,” “Nairobi Securities Exchange,” and “stock performance,” across multiple databases like Google Scholar, JSTOR, and ScienceDirect.

Inclusion and exclusion criteria were applied during the screening phase to ensure relevance and quality of sources. Studies published between 2010 and 2024 and focusing on emerging markets or specifically the NSE were prioritized. Abstracts and full texts were reviewed, and eligible

studies were critically appraised for methodological quality and relevance using standardized tools (Ritterbusch & Teichmann, 2023). Data were extracted using structured templates and synthesized through narrative analysis to identify recurring patterns, market trends, and theoretical explanations. This approach provides a reliable evidence base for understanding the post-IPO trading environment and supports the development of sound policy and investment strategies in Kenya's capital markets (Nsanzumuhire & Groot, 2020). The systematic review method minimizes bias, enhances transparency, and contributes to a more nuanced understanding of IPOs and their market implications.

RESULTS AND DISCUSSION

Initial Public Offerings and Stock Volatility

Initial Public Offerings (IPOs) are a pivotal event in the lifecycle of a company, often triggering significant shifts in stock market behavior. Ahmed and Koy (2023) highlighted the impact of IPOs on market volatility in the United States, particularly their disruptive influence in the short term. By applying the GARCH model to the S&P 500 index, the study revealed that IPO announcements create substantial volatility, especially on the first trading day, and exert a dampening effect on other stock prices in the following days. This supports the downward-sloping demand curve hypothesis, where capital shifts from existing stocks to new entrants. Similarly, Cieřlik and Sosnowski (2024) observed that foreign IPOs in Europe increase trading volumes and investor attention, altering market dynamics. These results indicate that IPOs do not merely introduce new investment opportunities—they actively reallocate resources and can destabilize or invigorate market behavior, depending on the region and institutional context.

Beyond short-term volatility, IPOs can influence long-term stock performance and market efficiency. Virtanen (2024) found in the Nordic markets that IPOs did not follow the global pattern of significant underpricing but instead showed modest long-term underperformance. This implies initial investor optimism may eventually give way to realistic valuations. In contrast, SEOs exhibited consistent long-term negative returns, possibly reflecting market corrections. In Thailand, Likitratcharoen (2024) focused on IPO lockup expirations and uncovered nuanced inefficiencies across sectors during these events. Particularly, smaller firms and certain industries showed pronounced abnormal returns, pointing to information asymmetries and investor speculation. These findings emphasize that post-IPO periods can vary widely in performance and volatility, shaped by regional characteristics and market structure.

In emerging markets, IPO effects may be more pronounced due to evolving regulatory and institutional frameworks. Simiyu, Thadeus, and Ferdinand (2019) examined IPOs at the Nairobi Securities Exchange and identified pricing strategies and firm-specific variables as key predictors of long-run stock performance. While firm age negatively influenced returns, factors such as subscription rate and issue size had positive or minimal effects. The statistically significant regression model confirmed the relevance of careful IPO planning to sustain performance. These insights reinforce that IPOs are more than market entry events—they are complex processes with both immediate and lasting implications for investors and markets. Whether through short-term volatility spikes or gradual performance shifts, IPOs reflect deeper market sentiments, institutional maturity, and strategic financial planning.

Overall, Initial Public Offerings (IPOs) influence overall stock market performance by altering market dynamics through investor sentiment, capital allocation, and liquidity. When a company goes public, it introduces new investment opportunities, which can attract a large influx of capital from institutional and retail investors. This often leads to increased trading volumes and a short-term boost in market liquidity. Additionally, the anticipation and hype surrounding IPOs

can drive speculative behavior, causing price swings that contribute to broader market volatility. Over the long term, successful IPOs can enhance market performance by expanding the investment universe and increasing sectoral representation. Conversely, underperforming IPOs may dampen investor confidence, potentially leading to market corrections. Therefore, IPOs act as both catalysts for growth and sources of risk, depending on investor perceptions and post-listing performance.

Initial Public Offerings and Financial performance

Initial Public Offerings (IPOs) have long been considered strategic financial events intended to enhance a firm's capital base and market visibility. However, empirical evidence on their impact on financial performance presents mixed results across different contexts. Gao, Long, and Zhao (2021), in their study of Chinese firms, found that while IPOs positively influenced market performance in the short term, their effect on operational efficiency was minimal or even negative, especially after three years. This finding aligns with the broader observation that although IPOs can boost investor perception and share valuation, they may not lead to sustained improvements in return on assets or profitability. Similarly, Khan (2022) found that in Indonesia, firms experienced improved liquidity and capital structure post-IPO, as reflected in the increased current and quick ratios. Nevertheless, key profitability metrics such as ROI and ROE declined significantly, highlighting the challenge IPOs pose to maintaining long-term financial efficiency despite initial market enthusiasm.

Other regional studies echo these inconclusive findings. For instance, Ramadhan et al. (2021) reported that while Indonesian firms showed improvements in liquidity and solvency after IPOs, their profitability and activity ratios declined, a result further confirmed through Wilcoxon signed ranks and MANOVA tests. These findings suggest that IPOs may temporarily strengthen financial stability but do not guarantee improved performance across all dimensions. Similarly, Jovian et al. (2022) discovered no significant differences in liquidity, solvency, or profitability for companies listed on Indonesia's Acceleration Board, indicating that some IPOs may be neutral in terms of financial impact. Meanwhile, in Tanzania, Munisi (2019) observed a significant improvement in firms' financial performance post-IPO, but emphasized that outcomes depended on the specific indicators used, reinforcing the idea that IPO impact is highly context- and metric-dependent. This variability underscores the importance of adopting a nuanced approach when evaluating IPO effectiveness.

In the Kenyan context, Mburugu, Nyamute, and Mwangi (2020) found that IPO performance varied widely depending on the measurement approach. While the Mean Adjustment Buy Hold Returns (MABHR) suggested a marginal over-performance of 0.17%, the Cumulative Abnormal Returns (CAR) indicated an overall underperformance of 0.49%. These results reflect inconsistencies in IPO outcomes, even within the same market, calling into question their reliability as a growth strategy. The mixed results across countries highlight the multifaceted nature of IPOs—while they may offer firms an avenue to improve liquidity and access capital, they do not inherently guarantee profitability or efficiency gains. Factors such as market maturity, firm readiness, industry characteristics, and investor confidence all play roles in determining the success of IPOs. Therefore, policymakers and investors should view IPOs not as a universal solution to financial growth, but rather as a complex process that requires strategic planning, post-listing performance monitoring, and supportive market regulations to yield sustainable financial outcomes.

Overall, an Initial Public Offering (IPO) can significantly affect a firm's financial performance both positively and negatively. Conceptually, an IPO provides the firm with access to substantial

capital, which can be used to invest in growth, reduce debt, or improve infrastructure, potentially enhancing long-term financial performance. It also increases the firm's visibility and credibility, attracting new customers and business opportunities. However, the costs associated with going public—such as underwriting fees, increased regulatory compliance, and the pressure to meet short-term earnings expectations—can strain resources and impact profitability. Moreover, the shift in focus from private to public ownership often brings new strategic priorities and scrutiny, which can disrupt internal operations. Thus, while IPOs offer financial growth opportunities, they also introduce new challenges that can influence firm performance in complex ways.

Initial Public Offerings and Investor decisions

Initial Public Offerings (IPOs) play a significant role in influencing investor decisions and firm behavior, especially during international expansion. Jiang and Beamish (2022) explored the relationship between IPOs and the foreign investment strategies of small and medium enterprises (SMEs) in Canada. Their difference-in-differences analysis demonstrated that IPOs significantly increase the speed at which SMEs establish foreign subsidiaries, marking a shift not only in the intensity of international activities but also in investment destinations and ownership structures. This suggests that going public provides firms with enhanced financial resources, visibility, and credibility—elements that facilitate bolder international strategies. From the investors' perspective, the post-IPO performance of a firm's international ventures may serve as a critical indicator of long-term growth potential. Therefore, investor decisions are likely influenced not only by the immediate performance of the IPO but also by the strategic trajectory it enables, particularly in terms of global expansion and sustained competitive advantage.

In a different context, Chaudhary (2024) investigated how investor perceptions in Nepal are shaped by specific internal and external factors during IPO evaluations. The study found that investors placed the most trust in a company's quality of management and goodwill, considering these as key determinants of IPO investment decisions. Interestingly, external indicators such as overall market information, company performance, and sectoral classification did not significantly influence investor behavior. These findings highlight a trust-based investment approach, where intangible assets like leadership credibility and reputation hold more weight than quantitative performance data. Companies aiming to attract investment during IPOs should therefore prioritize transparency, ethical governance, and relationship-building to earn investor confidence. This insight reflects a growing investor tendency to prioritize long-term stability and institutional reliability over fluctuating market metrics, a pattern that may also resonate with more risk-averse investors.

Complementing this, Karki, Bhattarai, and Sanjel (2024), as well as Enow (2024), offered insights into behavioral and strategic influences on IPO investment decisions. The former found that financial health, IPO size, short-term return prospects, and sector performance significantly shaped investor choices in Nepal, reflecting a strong preference for immediate returns and company fundamentals. Moreover, the perception of over-subscription—linked with expectations of high demand and limited supply—was a key driver of investment enthusiasm. Meanwhile, Enow's study on German IPOs uncovered investor behavioral biases, including overreaction and underreaction to market signals, leading to potential IPO mispricing. These biases, captured through the Threshold GARCH model, point to emotional rather than purely rational investment behavior. Together, these studies reveal that while some investors are driven by logical assessments of financial data, others are influenced by market psychology and perceived opportunity windows. This combination of rational analysis and behavioral bias underscores the complexity of investor decision-making in the context of IPOs.

Initial Public Offerings (IPOs) significantly influence investor decisions by introducing a new, often volatile, investment opportunity to the market. Conceptually, IPOs create a perception of exclusivity and potential high short-term returns due to phenomena like underpricing, which can attract speculative investors driven by the "hot issue" market phenomenon and fear of missing out (FOMO). However, the inherent information asymmetry, lack of historical trading data, and regulatory silent periods mean investors operate with less transparency compared to established public companies, leading to heightened risk perception. This dynamic often results in a dichotomy where some investors chase initial gains, potentially overreacting to hype, while others, more cautiously, consider the long-term performance challenges often associated with IPOs, such as aftermarket underperformance once lock-up periods expire and more information becomes available. Thus, IPOs engage a complex interplay of speculative interest, information gaps, and perceived risk-reward profiles that shape diverse investment behaviors.

Conclusions and Recommendations

Conclusions

The study concludes that IPOs significantly influence short-term market volatility, with newly listed stocks exhibiting heightened price fluctuations immediately after listing. This volatility can be attributed to speculative trading, information asymmetry, and investor overreaction during the post-IPO period. However, the analysis also indicates that volatility tends to stabilize over time as market participants gain more information and confidence in the newly listed firms. These findings highlight the importance of investor education, transparent IPO processes, and robust regulatory oversight to foster market stability and investor confidence in the NSE.

The study also concludes that Initial Public Offerings (IPOs) have mixed effects on financial performance of firms listed at the Nairobi Securities Exchange (NSE). While IPOs conceptually offer access to capital for growth and increased visibility, empirical studies highlight inconsistencies in financial outcomes depending on the metrics used. This implies that IPOs do not universally guarantee improved profitability or efficiency, even if they enhance liquidity or capital structure. Therefore, for companies listed at the NSE, the impact of IPOs on financial performance is not a straightforward positive or negative, but rather a complex interplay of strategic planning, market characteristics, and post-listing operational dynamics, requiring a cautious and context-specific evaluation.

The study further concludes that Initial Public Offerings (IPOs) significantly influence investor decisions at the Nairobi Securities Exchange (NSE), often driven by a combination of speculative interest, information asymmetry, and the promise of short-term gains. Investors are typically drawn to the novelty and perceived high returns of new listings, leading to heightened trading volumes and potential oversubscription. However, this decision-making process is frequently challenged by limited historical data and the "silent period," necessitating reliance on market sentiment and rumors. As such, investor decisions in the IPO market at the NSE reflect a complex interplay between rational financial analysis and behavioral biases, with initial optimism often being a key driver, which may or may not align with long-term performance.

Recommendations

The Capital Markets Authority (CMA) and market participants should intensify investor education campaigns, particularly focusing on the unique risks and dynamics associated with newly listed IPOs. This can help mitigate speculative trading and investor overreaction by equipping investors with a better understanding of post-IPO price fluctuations. In addition, investors should adopt a cautious and analytical approach when evaluating IPOs. They should move beyond market hype and initial liquidity, meticulously analyzing a company's financial

health across various metrics (e.g., profitability, efficiency, liquidity) and understanding the long-term strategic plans of the firm, rather than assuming guaranteed post-IPO financial improvement. Further, companies going public should strive for greater transparency in their prospectus and investor communications, providing realistic projections and clear insights into their business models. Managing investor expectations effectively, rather than fueling speculative interest, can contribute to more stable post-listing performance and build long-term investor confidence.

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