EFFECT OF QUARTERLY CHANGES IN REPORTED CASHFLOWS ON EQUITY SHARE RETURNS OF BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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Abstract: In financial markets and value relevance theory, it is expected that figures reported in financial statements and the subsequent changes in such figures should impact the share prices and therefore the market equity share returns of the reporting companies. Whereas banks are under an obligation to release their quarterly financial reports including the cash flow statement, it has been observed that quarter to quarter information from individual banks change widely yet the effect of such quarterly changes on share prices, hence share returns and investor value, is not yet clear, especially for listed banks at NSE. Accordingly, this study sought to examine the effect of quarterly changes in reported net cash flows on the equity share returns of commercial banks listed at the NSE. The study was evaluated in the context of value relevance theory and efficient market hypothesis. It is designed as a panel descriptive survey of all the 11 banks listed at the Nairobi Securities Exchange over a 5 year period spanning January 2015 through December 2019. In the findings, the study fails to reject the null hypothesis consistent with the general functional fixation hypothesis where investors focus on profits rather than cash flows in decision making. The study recommends that investor education should be instituted given that investors seem to be giving little attention to cash flows reported in financial statements and are instead focused on other statement parameters yet cash flows should play a fundamental role in investor decision making. Given that the study was only for 5 years and that it focused only on listed commercial banks, it is recommended that similar studies could be carried out not only for other segments of the NSE, the entire NSE, other financial markets and indeed for longer study periods to check if the findings could consistent with those reported here.

Keywords: equity share returns; net cash flows, commercial banks, Nairobi Stock Exchange

I. Introduction

In the strict sense of the word, a cash flow is a change in cash and cash equivalent over a specified period of time reflecting cash payments and receipts of cash. Such a change may lead to increases in cash and cash equivalents for the organisations (cash inflows) or decreases in cash and cash equivalents (cash outflows). Generally, cashflows arise from cash flows from operating activities, investing activities and financing activities (Hirshleifer, Hou & Teoh, 2009).

Shareholders' equity is also called common equity. It is the capital of a business attributable to the ordinary shareholders of a business and usually incorporates the ordinary share capital at par, the ordinary share premium, the revenue reserves, the capital reserves and the earnings retained on a company's books of accounts (Leuz & Verrecchia, 2005).

Equity share returns are also called firm market returns and it relates to the returns realized by investors of a specified securities market and is often taken as the difference between the security prices at the end of a specified investing period and the security prices at the beginning of that period. It can be reflected as the percentage change in security prices over a specified investing period (Hirshleifer, Hou & Teoh, 2009).

Firm market returns reflect the change in share prices over time and is usually indicated as value relevance. Evaluating the effect of periodic change on market value falls under the empirical scope of value relevance. This is taken as the ability of accounting numbers communicated in financial statements to influence market share prices and therefore equity share returns of the reporting firms (Dechow, Ge & Schrand, 2010). Francis and Schipper (1999) recognises value relevance with respect to the ability of reported financial information to accurately portray firm value as shown by stock market share prices. Dechow, Ge and Schrand (2010) reckon that value relevance measures are often derived from the statistical correlation among financial statement numbers on one hand and market prices and other values on the on the other. Security prices and equity security market returns are therefore critical in the measurement of effect of accounting information on market value (Dechow, Ge & Schrand, 2010).

The returns usually can be measured in a number of ways (Perotti & Wagenhofer, 2014). The two most applied methods are the ratio approach and the logarithmic approach. Perotti and Wagenhofer (2014) indicate that in the ratio approach, returns are taken as the ratio of the change in prices between the start and the end of the period under consideration to the equity security price at the start of than period. This can then be converted to a percentage by multiplying by a hundred. They further show that in the logarithmic approach, returns are taken as the difference between the natural logarithm of prices at the end and the period and the natural logarithm of the prices at the beginning.

Contextually, equity securities are traded at the Nairobi Securities Exchange (NSE). From a historical perspective, NSE (2020) indicates that the NSE was formed in 1954, comprising a voluntary organization of stockbrokers enrolled under the Societies Act. The business of shares trading was restricted only to the resident European community though Africans and Asians were not permitted to deal in securities. NSE (2020) further indicates that in 1963 upon Kenya's independence Africans and Asians were permitted to deal in securities.

The Capital Markets Authority' (CMA) was formed in 1989 to regulate trading and other activities of the capital markets in Kenya (NSE, 2020). The NSE (2020) further indicates that in February 2001, basic reformation of the capital market of Kenya took place and divided the market into four independent market segments: the Main Investments Market Segment, the Alternative Investments Market Segment and the Fixed Income Securities Market Segment. On Monday, 11 September 2006 live trading on the automated trading systems of the Nairobi Stock Exchange was implemented (NSE, 2020). It is on the background of this that NSE is currently trading as a robust capital market for which is it possible to relate earnings smoothness with financial performance of listed companies.

From a contextual empirical point of view there are several studies that have related various financial aspects with market performance. Musyoki (2012) for instance examines the predictability of accounting earnings using changes in share prices of companies listed at the Nairobi Stock Exchange in the finance and investment sector. The study covered the period between the year 2001 and 2005. The data was obtained from the Nairobi Stock Exchange, where the information selected were Earnings per share, Dividend yield, Price to earnings ratio and the share price. These information was standardized using logarithm and analyzed using the SPSS program. He used the ordinary least squares regression approach was used to come up return function for hypothesis testing. The study involved analysis of eleven companies< the findings suggest that all of them had

positive change towards the accounting earnings in relation to the share price. Further, the results indicate that the relationship between accounting variables and the Nairobi Stock Exchange information indicated mixed results, with some companies showing a strong positive correlation and others weak correlation. This is in line with the findings of Owido *et al.* (2013) that pointed towards a very low level of efficiency at the NSE.

II. Literature and Hypothesis

Whereas banks are under an obligation to release their quarterly financial condition (financial performance, financial position and financial adaptability) information, it has been observed that quarter to quarter information from individual banks change widely yet the effect of such quarterly changes on share prices, hence share returns and investor value, is not yet clear, especially for listed banks at NSE. This problem arises from the confounding aspects of both theoretical and empirical literature.

From the theoretical perspective, there are numerous theories that explain the value relevance of financial information reported in financial statements. Chief among these are the efficient market hypothesis and the functional fixation theory. Efficient market hypothesis (EMH) is a rational behavior theory that was advanced by Fama (1970). The theory asserts that share prices in the stock market are always reflective of the information about the company that they represent. The extent of reflection of this information in the prices is dependent on the market efficiency with highly efficient markets instantaneously adjusting for new information affecting the company fundamentals while less efficient markets taking some time to only adjust for historical firm information (Fama, 1970). In line with this theory, it is expected that information regarding changes in the financial condition of a firm (financial performance, financial position and financial adaptability) should be adjusted by the market forces of demand and supply into the share prices of the reporting business entity. Based on this line of argument, the study expects that if information with respect to changes in reported financial condition is analyzed by investors, then it should finally be reflected in the share prices.

If this information about changes in financial condition is adjusted in the share prices, it will obviously affect the equity share returns of the affected companies such that positive changes in financial condition should improve share returns while negative changes should depress share returns. It is in line with this view that the study is grounded in the efficient market hypothesis. The theory presupposes a positive relationship between changes in financial condition and equity share returns.

Efficient market hypothesis is useful in explaining how new information is incorporated in security prices. It is important that markets be efficient since it helps to provide accurate signals to company managers as they carry out their stewardship responsibility towards corporate wealth and shareholder wealth maximization. This is true given that investor wealth is indicated in the share prices. Accurate share pricing will accordingly promote informed corporate and investor decision making and thereby benefit a wide range of stakeholders in a business. In corporate decision making and ultimate public reporting, managers need the assurance that their actions and subsequent reports will be accurately signaled into the security prices. It is essential that business stewards receive appropriate feedback with respect to their decisions, and there may be no better feedback than the attendant change in prices (Fama, 1970).

Sloan (1996) first came up with this theory which is rooted in investor psychology and behavioural biases. In this context, investors are biased against cash flows are instead fixated on evaluation of profitability. It explains that investors are often naive and they barely interpret the true cash flow implications of reported financial statement data and merely concentrate on the actual reported earnings. They may therefore not really understand the true earnings quality of the information they read and would not sufficiently price cash flow information in their demand and supply decisions for equity securities.

Sloan (1996) implies that the equity security returns and therefore the value relevance of financial statement data does not actually depend on all the available data but rather on the narrow fixation by investors on the reported profits and similar performance numbers. The actual profits act to distract investors from a keen analysis of the financial statements in their entirety which thereby biases the quality of information used for equity securities buy, hold or sell decisions. It can then be null hypothesised that periodic changes in reported cash flows have no effect on share returns of companies listed at stock markets.

In a nutshell, the theory predicts that share prices do not reflect the true fundamental value of a firm given that they are based on functionally fixated numbers especially earnings numbers at the expense of a vast quantity of other metrics indicating the financial performance, financial position and financial adaptability of the reporting entities. Investors largely fail to analyse the cash flow component of the reported earnings and the trends that emerge from the reported earnings (Sloan, 1996). This theory is useful in explaining the behaviour of sentiment oriented technical traders within financial markets. Although it emphases on the effect of naïve investors on share prices and equity returns, it fails to explain the effect of informed investors who carry out careful fundamental analysis since such investors undertake extensive evaluation and may in some markets in fact provide the biggest proportion of market traders. The theory also fails to explain the precise manner in which financial statement information and by implication the changes thereof affect security prices. The fact that it is rooted in behavioural biases and investor irrationality makes it hard to be modelled into security pricing models.

From an empirical point of view, numerous studies have been undertaken to evaluate the value relevance and pricing effect (return effect) of numbers reported in financial statements. Olugbenga and Atanda (2014) study the effect of financial accounting information on stock prices in Nigeria. They use secondary data based on 66 public companies and rely on time series analysis approach exploiting ordinary least squares (OLS) analysis method. The findings reveal that financial accounting information of Nigerian public companies quoted at the Nigeria Stock Exchange has an effect on share prices and therefore the value of these companies. The study also reveals that the time series pattern of value relevance of financial statement information is a function of the existing environmental conditions in the country. In this aspect, the findings show that the effect of accounting information on value was weak during environment of political crisis (1992 to 1998) and worldwide financial crisis (2005 to 2009) and strong during the periods of stability within the time scope of the study of 1990 to 2009. Although the study sheds light on the structural moderating effect of operating environment, it fails to focus on cash flow changes. It seems to support the hypothesis of DeFond *et al.* (2007) which theorized that the market structure orientation affects the extent financial information is priced by the securities markets.

In Sri Lanka, Vijitha and Nimalathasan (2014) appraised the value relevance of financial statement information. They checked the extent to which accounting information affects share prices of manufacturing companies quoted on the Colombo Stock Exchange (CSE). The study's time scope was 5 years covering the period 2008 through 2013. The focus of the study was earnings per share, asset value, return on equity and the price earnings ratio accounting information and the extent this information was priced on the stock market and thereby reflecting the extent it affected market values. The study finds that accounting values have a positive effect on the market values of companies on the stock market as indicated by the equity security prices. The findings suggest that accounting information is priced by stock markets. This finding supports the efficient market hypothesis of Fama (1970) under which fundamental information is ultimately reflected in share prices. At the very basic level, the relevance of accounting information on share value addresses the extent to which accounting information is priced by the stock market (Omokhudu & Ibadin, 2015). The history of value relevance studies can be traced back to the seminal work of Ball and Brown's (1968).

Omokhudu and Ibadin (2015) evaluated the effect of accounting information on firm value using Nigeria as a proxy for an emerging market. The research relied on a pooled data that spanned the 1995 to 2013 study period based on the modified Ohlson (1995) model. The study examined four facets of accounting information incorporating cash flows from operating activities, earnings, book value and dividends per share. The study used two window periods of three months and six months after year end of the year to peg price as dependent variable of the study. The findings of the study suggest that earnings from operations, cash flow from operating activities and dividends per share affect firm value while it failed to reject the null hypothesis for the book value.

At the Nairobi Securities Exchange, Oluoch, Namusonge and Onyango (2015) sought to find out the effect of accruals quality, which is an aspect of cash flows and earnings quality on the share returns of companies quoted on that exchange. Covering a span of 21 years of January 1993 through December 2013, it evaluated the census of all the 66 quoted firms by purposively settling on 39 firms that met their analysis criteria. The study relied on secondary data from financial statements, the stock market prices and the central bank data on risk free rates of return. Based on the modified four factor asset pricing model, the hypothesis was tested by assessing the statistical significance of the accruals indicator coefficient. The findings indicate that accruals quality has a negative effect on equity security returns at the NSE. The study is instrumental in revealing the pricing effect of accounting information at the NSE although it does not specifically consider the periodic changes in such information especially changes in net cash flows yet it is clear that cash flows have a significant effect on investor decisions.

From a reverse perspective, Musyoki (2012) evaluated the reverse effect of share prices on accounting numbers focusing on earnings of firms listed at the finance and investment segment of the Nairobi Securities Exchange. The study uses dividend yield data from these companies and reported in their profit and loss accounts. It also uses earnings per share computed from both the income statement and the balance sheet and share prices derived from the NSE database. The study is done over a 5 year period of January 2001 through December 2005. Musyoki (2012) uses ordinary least squares and normalizes the data using natural logarithms. The findings indicate that the effect of share prices on accounting numbers is wide and varied ranging from a strong positive effect and to weak causation. In addition to this, equity security prices had a positive effect on accounting earnings. This study is instrumental in showing the reserve effect of share prices on earnings and general accounting information. This is important because traditionally, studies focus on how accounting information affects share prices yet theoretically the reverse could also be true especially in regimes of earnings management. The study however only focuses on earnings and fails to take into account the changes in such earnings nor the cash flows and their changes thereof which have been shown to greatly impact investor decisions.

In Kenya, Nganga (2006) sought to find out the quality of financial numbers reported in financial statements using earnings as a proxy of these numbers based on 48 companies listed at the Nairobi Stock Exchange. The study's period was five years of 2000 to 2004. In the study, the null hypothesis was that quality of earnings among the listed companies is poor. The research design used in the study was a cross sectional survey which took the value of the listed companies computed on the basis of on monthly stock returns. The study employed a time series auto-correlation of earnings per share on the monthly stock returns. In addition, Nganga (2006) uses paired t-statistics to examine the statistical difference between EPS and equity security market returns. The findings revealed that the auto-correlations for share returns were positive in all the sixteen lags used in the study. On the other hand, the findings showed that the autocorrelations of earnings per share had mixed results that reflected both negative and positive coefficients. In a nutshell, the study whereas NSE data is

reliable, the same could not be ascertained for the earnings quality of the reported income statement numbers. It also established that EPS and stock prices were significantly different from each other. The study is limited by its reliance on the statistical difference between EPS and equity returns to establish reliability of accounting numbers. Better measures like abnormal accruals, earnings variability or earnings persistence would have provided better results.

Drawing from the foregoing literature, the objective of this study is to evaluate the effect of quarterly change in financial statement cash flow position on the equity share returns of banks listed at the Nairobi Securities Exchange. It is null hypothesized that quarterly change in net cash flows has no significant effect on the equity share returns of banks listed at the Nairobi Securities Exchange

III.   Research Methodology

The study covers the banking segment comprising a census of all the 11 banks listed at the Nairobi Securities Exchange (public banks) in Kenya over a 5 year period from January 2015 to December 2019. To identify changes in reported financial conditions which are derived from earnings before interest and tax (EBIT), net cash flows, asset base and shareholders' equity, the study uses quarterly data which is published by listed banks in Kenya as a requirement for continued listing at the NSE. The period and study units translate into 220 firm quarter observations. This is considered long and adequate enough to provide reliable results of testing the effect of changes in reported financial condition on quarterly equity security returns of these banks in Kenya. It also coincides with the period the NSE has experienced vibrant activity which is necessary for evaluating market performance of public companies. It relies on a panel descriptive survey.

Secondary share prices data from the stock market and the quarterly net cash flow information of the banks listed at the NSE is used. The model used in the analysis is specified in equation 1:

$R_i = \beta_0 + \beta_1 \triangle QNCFR_i + e$ --(1)

R_i = Equity security Quarterly returns

$\triangle$QNCFR= Change ratio in bank net cash flows ratio between quarter t and quarter t+1

The measurement of variables is based on quarterly reported financial information in financial statements and at the Nairobi Securities Exchange. To measure quarterly equity share returns, the ratio of the change in prices between the start of the quarter (period t-1) and the end of the quarter (period t) to the market price at period t-1 is used. This is indicated in equation 2. This is also obtainable as the natural logarithm of the share price at the end of the quarter less the natural logarithm of the price at the start of the quarter.

$$R_i = \frac{P_t - P_{t-1}}{P_{t-1}} = LnP_t - LnP_{t-1}$$ --------------------------------------(2)

To measure quarterly change in net cash flow (NCF) ratio, the change in NCF between the start of the quarter (period t-1) and the end of the quarter (period t) to the NCF at period t-1 is used.

$$\triangle QNCFR = \frac{NCF_t - NCF_{t-1}}{NCF_{t-1}}$$ $- - - - - - - - - - - - -$ (3)

To test the second null hypothesis that quarterly change in net cash flows has no significant effect on the equity share returns of banks listed at the Nairobi Securities Exchange and using equation 1, t-statistic and p-value are used. Here the null hypothesis is that β_1 the, the coefficient of $\triangle Q$NCFR is not significantly different from zero.

$$H_{01}: \beta_1 = 0$$

This hypothesis is tested by checking out the statistical significance of coefficient of $\triangle Q$NCFR in the regression output of the model (1) at 95% confidence interval. The t-statistic of the output is compared with the critical student t-distribution value for a two tail test at 0.05 level of significance. The p-value is used to complement the findings from the t-statistic.

IV.   Results and Discussion

The findings are presented as both descriptive and inferential findings. The descriptive findings evaluate the measures of central tendency, measures of dispersion as well as composite measures that relate these attributes of the dependent and independent variables. The descriptive findings with respect to the quarterly equity stock returns are reported in Table 1.

Table 1: Quarterly Equity Stock Returns Descriptive Statistics

Statistic	QESR
Mean	0.03071
Median	0.01875
Std Dev	0.05821
Range	0.26932
CV	1.89569
Confidence Level (95%)	0.02724

The findings indicate that the average return at NSE for the banks was 3% while standard deviation was 5.8%. When these two are related, they provide a coefficient of variation of 1.896 indicating that there was wild variability in the returns over the study period. This could be attributed to the length of time used in the study which is relatively long especially because the reporting unit of time is a financial quarter rather than a financial year.

With respect to quarterly change in net cash flows ratio, the descriptive statistics are indicated in table 2.

Table 2: Quarterly Change in NCF Ratio Descriptive Statistics

Statistic	QCNCFR
Mean	0.10548
Median	0.10007
Std Dev	0.04860
Range	0.17400
CV	0.46075
Confidence Level (95%)	0.02275

The findings reveal that on average there was a quarterly change of 10.548% which is also very close to the median of 10%. With a standard deviation of 0.0486 and a CV of 0.46075, it implies that there was limited volatility in cash flows over the study period. This could be because companies take time to grow their cash flows and that the time scope of this study was not adequate enough for enhanced growth.

The test of hypothesis that periodic changes in cash flows do not significantly affect returns on the stock market was tested based on the regression model. The model output to check its stability and suitability for use in the study are reflected in Table 3.

Table 3: Model Parameters

Model Suitability	
R Square	0.66655
Standard Error	0.03783
F	7.49612
Signif. F	0.00159
Observations	220

With an R-square of 0.66655, 66.7% of the changes in the dependent variable are explained by the model with the remaining 33.3% dependent on other factors outside this model. Since the F ratio of the model of 7.496 is greater than the significance F of 0.0016, it implies that the model is stable and that it can be used in the analysis of the effect of changes in cash flows on the equity security market returns of commercial banks listed at the NSE.

The explanatory power of the models used by Khanji and Siam (2015) who evaluated how cash flows affect share prices of commercial banks listed at Amman Stock Exchange in Oman provide some contrasting results to the findings indicated in this study. For Khanji and Siam (2015) who studied the effect of operating, investing and financing cash flows on stock prices, the coefficients of determination was found to be 0.18 for effect of operating cash flows on share prices, 0.23 for effect of investing cash flows on share prices and 0.11 for effect of operating cash flows on share prices. The seemingly low coefficients could be attributable to the operating environment that is predominantly Muslim as opposed to NSE that is predominantly liberal. The functional fixation theory of Sloan (1996) also seems to hold sway in the Amman Stock Exchange among the listed banks on that stock market.

The findings on the coefficient of determination compares favourably with that reported by Chepkwony (2014) who reported a coefficient of determination of 0.893 which indicated that the model variables explained 89.3% of the association with stock returns. The high r-square is however associated with the fact that the study had four variables being free cash flows, debt ratio, firm size and dividend payout ratio. The extra variables of debt ratio, dividend payout and firm size could explain why the model has a higher explanatory power compared to that reported in this study. Further, the study relied on influence of free cash flows on stock returns amongst the other three variables while in the current study, the research revolves around the quarterly changes in net cash flows of banks quoted at the NSE. In Addition, the Chepkwony (2014) model reports the entire NSE listed companies while in this study the focus is only on the listed commercial banks, one of the segments at the NSE.

With this conclusion that the study regression model was stable for use in the study, it was then was used in the analysis and the findings are reflected in table 4.

Table 4: Regression Output

	Coefficients	Std Error	t Stat	P-value	Lower 95%
Intercept	0.00150	0.02623	0.05722	0.95513	-0.05440
QCNCFR	0.09309	0.19178	0.48542	0.63439	-0.31567

The study fails to reject the null hypothesis consistent with the general functional fixation hypothesis where investors focus on profits rather than cash flows in decision making. The findings contradict those of Omokhudu and Ibadin (2015) whose facet of net cash flows from operating activities was found to have a positive effect on market share returns and was therefore found to be value relevant.

The findings also contradict those of Chepkwony (2014) who evaluated the effect of free cash flows, dividend payout, debt ratio and firm size of firms quoted at the NSE for all the listed firms at the NSE over a five year period spanning 2009 through 2013. Chepkwony (2013) found that there is a positive association between the four variables (free cash flows included) on stock returns. This contrast could be because the entire NSE was used as opposed to the banking sector alone that has been adopted in this study. In addition, whereas Chepkwony (2014) uses annual data, this current study relies on quarterly financial reports. Most importantly, whereas Chepkwony (2014) focuses on financial condition (free cash flows, debt ratio, dividend payout and firm size), this current study is radically different because its focus is the change in financial condition over time particularly quarterly changes in the reported net cash flows. This becomes clearer because when Chepkwony (2014) goes for segmental analysis, the results from the banking segment reveal that free cash flows have no effect on stock returns. This goes on to support the functional fixation hypothesis of Sloan (1996) which presupposes that cash flows and their periodic changes may seldom have an effect on stock returns given that stock investors may be functionally fixated on earnings to the exclusion of cash flows which in turn will not be reflected in the stock returns.

The findings in this study are however consistent with those of Hellström (2006) whose findings revealed that the accounting information from a transitional economy (Czech Republic) is less value relevant than that from a well-functioning (Swedish) economy where accounting information positively impacts share prices. This could imply that the operations of the NSE mirror those of politically transitioning economy which is largely true because the period covered corresponds to the time Kenya was implementing a new constitution following the amendment to the old one done in the year 2010.

Also consistent with the findings in this current study and the functional fixation theorization of Sloan (1996), little support was found on the effect of three categories of cash flows on share prices over the four years of 2010 to 2013 that the study covered. This may imply that investor in Jordan scarcely analyze cash flows in their stock investment decisions. The difference between Khanji and Siam (2015) with the current study however emanate from the fact that whereas Khanji and Siam (2015) evaluate the separable effect of operating, investing and financing cash flows, this study evaluates the aggregate effect of all the net cash flows combined. More importantly, whereas Khanji and Siam (2015) evaluate the effect of these cash flows, the current study is concerned with periodic changes (quarterly) rather than static cash flows.

Some studies have yielded mixed findings. While studying the seven pharmaceutical companies listed on the Indonesia Stock Exchange, Yuliarti and Diyani, (2018) evaluated the effect of several variables being firm size, return on equity, market book ratio, cash flows from operating activities, cash flows from investing activities and cash flows from financing activities on stock returns. The findings are mixed. Whereas they show cash flows from financing activities have a negative effect on stock returns, those from operating and investing activities have no effect on stock returns. The negative effect reported by the effect of financing cash flows on returns could be attributed to the financing structure of pharmaceutical companies. As for investing and operating activities, the findings are consistent with those found in the current student which is in harmony with the functional fixation hypothesis

V. Summary and Conclusion

The study sought to establish if quarterly changes in reported net cash flows of banks listed at the NSE are priced by investors at that stock market. In essence, it tried to establish the value relevance of changes in reported net cash flows cash flows. In Kenya, it is mandatory for banks to provide quarterly financial reports,

the periodic changes were based on this reporting frequency. The study relied purely on secondary data and used a panel regression model in the analysis.

In the findings, the study fails to reject the null hypothesis consistent with the general functional fixation hypothesis where investors focus on profits rather than cash flows in decision making. The study recommends that investor education should be instituted given that investors seem to be giving little attention to cash flows reported in financial statements and are instead focused on other statement parameters yet cash flows should play a fundamental role in investor decision making. Given that the study was only for 5 years and that it focused only on listed commercial banks, it is recommended that similar studies could be carried out not only for other segments of the NSE, the entire NSE, other financial markets and indeed for longer study periods to check if the findings could consistent with those reported here.

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