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## Factors Influencing Capital Growth of Investment Banks in Kenya

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### Abstract

*Investment banks play a crucial role in provision of financial services such as equity and debt underwriting, mergers and acquisitions and financial restructuring for government corporations, private companies and individuals. They contribute significantly to the Gross Domestic Product particularly in developed countries. Despite this contribution, investors in the investment banking industry continue to portend great risks associated with stagnated capital growth. To be successful in the aforementioned functions, they have to maintain a sustainable capital growth. However, Kenyan investment banks have experienced scanty capital growth while operating in infant and inefficient financial and capital markets. Therefore, it was necessary to carry out a study on the factors influencing capital growth of investment banks in Kenya. The study was guided by cost management, risk management, and Capital Markets Authority regulations as independent variables and capital growth as dependent variable. Systematic review research design was adopted. Data was collected from previous research studies and published peer reviewed journals. These sources were selected through purposive sampling technique. Meta-analysis analysis was applied in data analysis to establish the determinants of capital growth in Kenyan investment banks. Findings indicated that capital growth in investment banks was dependent on cost management, risk management, and Capital Markets Authority regulations.*

**Keywords:** Investment banks, cost management, risk management, capital markets authority regulations, capital growth

### 1. Introduction

According to Ritter, (2003), investment banks are financial institutions engaged in investment banking and brokerage services, including equity as well as debt underwriting, and merger and acquisition services. They play a crucial role in the capital raising process for firms thus it is important to maintain adequate capital growth. They furthermore engage in placement of securities in money and capital markets for corporate of government issuers as well as corporate finance activities such as financial advising. Capital growth means increase in returns on assets (ROA) and returns on investments (ROI) by corporate organizations (Hakansson & Ziemba, 2011). Investment banks obtain their funds through issuing shares (equity financing) and returns from their activities as a result of utilizing shareholders money and are termed as return on equity.

Capital growth is one of the most fundamental investment objectives for financial organizations and is directly linked to their overall performance (Hakansson *et al.*, 2011). Investment banks invest in shares and other financial securities which earn dividends and interests in case of bonds. Return on Equity (ROE) is used to assess how efficiently the investment by shareholders is being used to produce profits, and it can be compared between similar companies to give an idea of the relative performance and efficiency of a firm (Saunders & Cornett, 2011). The higher the return on equity, the more efficiently it is using its money. Scanty growth in earnings usually lead to pressures from investors thus need for improved performance to enhance capital growth.

According to Naceur and Kandil (2009), sustainable capital growth can allow investment banks to endure market and operational risks they are prone to in order to absorb the potential losses and protect the shareholders' funds. It has a direct impact on the level of revenue and acts as a buffer in cases where adverse situations occur within the institution. Furthermore, it establishes liquidity and minimizes the chances of distress within a banking institution. Investment banks ought to put in place the processes to control financial exposures that can lead to capital inadequacies and losses. As such, appropriate risk management practices are a necessity to identify, analyse, assess, monitor and control risks and uncertainties (Anand & Galetovic, 2006). Hughes and Mester (1998) described efficient cost management practice as one of the methods enhancing capital growth. Therefore, investment banks have to control costs as much as possible in their processes so as to achieve adequate net returns on assets, investments and equity.

Sevaes and Zenner (1996) opined that appropriate asset management practices influence capital growth in investment banks. Therefore, Asset management determines stability, strength and performance of investment banking industry. Adequate capital is required so as to ensure that insolvency risk and the consequent system disruptions are minimised in investment banks. Regulatory capital is a standardised calculation for all banks, however some would wish to hold the minimum level of capital that supplies adequate protection, since capital is an expensive form of funding, and it also dilutes earnings (Ngugi & Amanja, 2006).

### 1.1. Investment banks' Capital growth Perspectives

Investment banks evolved over the world as a result of new needs created by the development of the financial sector and existence services offered by the commercial banks and to some extent development banks (Barber, 2007). Investment Banks play an important and vital role in the financial system and in the global economy in general increases the attention of the regulatory supervisors on the banks management and operations, especially on the level of Capital (Madura, 2015). The most essential requirement for investment banks and other financial institutions is adequate and sufficient capital thus they have to keep balance between capital and available risk in its assets in order to guarantee its stability. Despite fee growth from the Investment Banking and Securities offering traditional underwriting and advisory services, both cyclical and structural influences on trading activity have ultimately harmed revenue for operators over the world due to low level of capital intensity.

Investor uncertainty and lack of confidence contribute to low capital input thus inadequate performance. Risk management is key to sustainable capital growth especially when managing debts. Mackenzie and Symon (2014) asserted that lack of proper risk management led to sub-prime mortgage defaults in United States of America (U.S.A) which stimulated significant media, political and public scrutiny of investment banking industry. As a result, many investors lost confidence in investment banking sector contributing to decreased returns. Turnbull and Moustakatos (1996) found that earnings of investment banks stagnated in United Kingdom due to fierce competition from commercial banks that are more established than them. Capital markets dynamism resulted to increasing competition that led investment bankers into more costly marketing strategies for competitive success in London, U.K. For instance, additional competition from commercial banks on obtaining affordable funding for the profitable projects challenged to high cost of finance. A fairly large number of investment banks therefore believed that they had problems in finding affordable funding options unlike Commercial banks who are legally permissible to take deposits (Ellis & Michaely, 2011).

Farina (2010) noted in the study 'strategizing in investment banking network' that world will continue to depend on investment banking services such as raising capital, managing risk and facilitating trade in Italy. However, viability of the investment banking business model has been under scrutiny and banks have been struggling to achieve sustainable capital growth in Italy. Investment Banks have undertaken retrenching measures and restructuring but are still unable to reach adequate returns on equity. These institutions have to restructure appropriately, embrace innovation and strictly focus on what they can do best in order to perform well.

Growth of Investment banking industry creates a great deal of benefits to the economy (Walsh, 2003). They enhance the development of emerging domestic financial markets in the country in terms of mobilizing funds and providing innovative financial assistance and services. They promote securities markets, and especially equity markets, which is a key function in improving the efficiency of domestic financial systems (Caporale, 2004). Relationships in Investment Banking between investment banks and firms provide banks with access to firm-specific information that can be used to structure deals or price securities. Additionally, investment banks occupy an important position at the center of an information network, enabling them to link investors and borrowers.

Investment banking in Africa is yet to have a significant impact since the continent is still developing in terms of financial and capital markets (Donwa & Odia, 2010). This industry is still dominated by foreign investment banks which are well established thus very few African companies can cope with the competition. For instance, in South Africa, investment bank Morgan Stanley Dean Witter had the largest fund totaling nearly half a billion in the year 2000. Most African Countries lack a well-developed financial infrastructure which deters their efforts to gain a meaningful share in the capital markets (Odetayo & Sajuyigbe, 2012). African countries will have to rely on the private equity asset class to fund the transformation of the continent. Many governments lack investor friendly policies to attract fund managers and investors thus transformation in that sense is inevitable to pave way for establishment and effective operation of investment banks.

Yartey and Adjasi (2007) asserted that, there are laws and rules for regulation and supervision of investment banks, but the real challenge is the shortage of experienced supervisors and the absence of a strong tradition favoring compliance with the rules and discouraging regulatory forbearance in Nigeria. Regulations and supervisions of the financial system play a great role in determining both its stability and the extent of services provided. The presence of strong corporate governance mechanisms also helps boost investor confidence in regulatory issues. Strict ethical and conduct of business rules could be developed for members of African stock exchanges. Rules must follow international best practices but at the same time reflect local structures and needs.

Nyakerario (2007) found that investment banks had scanty capital growth due to low private capitals flows and inappropriate portfolio investments which deters effective stock market development in Africa. Even though capital flows to country have been increasing recently, they are still at very low levels. In particular, portfolio investment accounts for a minor share of capital flows to Uganda with little share of the total capital flows (Rau, 2000). Therefore, they need to do more to attract capital flows especially portfolio flows. Sustained economic growth, quality public institutions and infrastructure, trade liberalization, and efficient capital markets are important for attracting capital flows. Attracting portfolio capital flows into stock markets goes hand in hand with opening up markets for foreign investor participation. Apart from the injection of fresh capital, opening up markets to foreign participants help to increase trading and liquidity of markets.

In Kenya, investment banks are part of the financial system that provides funds for long term development. It is market for securities, where companies and governments can raise long-term funds (Ngugi & Amanja, 2006). Capital markets brings together lenders (investors) and borrowers (companies that sell securities to public) of capital. A typical capital market comprises of several institutions, namely: banks, insurance companies, mutual funds, mortgage firms, finance companies and stock markets. They are regulated by Capital Markets Authority and Central Bank Kenya. Capital

Markets Authority is therefore charged with the responsibility of developing aspects of Investment Banks to facilitate effective operation of stock market and brokerage services. This enables wider participation of the general public in stock market, to create, maintain and regulate a market in which securities can be issued and traded in an orderly, fair, and efficient manner (Saunders & Cornett, 2003).

Investment banking industry in Kenya has encountered difficulties in a bid to improve capital bases, reduce operational costs, and improve assets quality employ revenue diversification strategies. They work with a diverse range of clients from governments, public and private companies looking to structure and execute equity financing. They offer advice on and execute project finance transactions that involve equity and debt packages especially within the infrastructure sector such as: transportation, power and energy and also work with clients in the industrial and manufacturing sector to raise funding for expansion and upgrading of factory facilities (Riubi, 2012). These firms like Dyer and Blair have extensive experience executing initial public offerings, secondary offerings, government privatizations and private placements.

Capital markets in which investment banks operates have faced reduced investor's lack of confidence due to insecurity and political intolerance. This means that trading in the Nairobi Securities Exchange has reduced translating to decrease in earnings by investment banks (Kimani & Olweny, 2011). It is not easy to operate in a market where major companies, such as Kenya airways are making huge losses thus their securities, are very unattractive therefore becoming risky for investment banks to trade them. Most Investment Banks tend to be undeveloped, and are small and illiquid, exhibiting pricing volatility, low returns leading to insufficient capital growth. They lack macroeconomic outlook in conditions of uncertainty, thus when there are unstable macroeconomic conditions, the issue of equity is negatively affected (Riubi, 2012). Nairobi Securities Exchange (NSE) has to endure high maintenance costs due to regular training of staff to keep up with dynamic industry which is costly. Investment banks trade shares and bonds of few companies which are listed in the NSE thus limited supply of securities leading to low returns. Therefore, the Capital Markets Authority as the regulatory agency must alter its approach from the sometimes-heavy-handed type of control to a more proactive, creative and supportive role in order to assist in the creation of a more vibrant and forward-looking capital market environment.

### *1.2. Statement of the Problem*

Investment banking sector contributes to the Gross Domestic Product particularly in developed countries. Performance of investment banks is an indicator of general economic health of Country and wellness of capital markets. In developing Countries, investors in investment banking industry continues to portend great risks associated with stagnated capital growth that deters sustainable capital growth. Sustainable capital growth is required in order to operate effectively, indicate prudent utilization of shareholders' funds and provide protection against failure. Kenyan investment banks have experienced scanty capital growth mostly associated with inefficient financial and capital markets. This is furthermore contributed by low returns on assets and investments thus difficult to deliver sustainable returns to investors. Failure to adopt proper risk and cost management practices means that investment banks can not easily reduce operational costs and employ revenue diversification strategies for improved returns. The supply of long-term securities is limited compared to their demand partly due to few listed companies. Few companies mean little earnings for investment banks because they have to underwrite and trade securities of only listed firms. This is compounded by the lengthy listing procedures need for compliance hence discouraging many interested companies. To address the existing problem, the researcher sought to determine the factors influencing capital growth of investment banks in Kenya.

### *1.3. Objectives of the Study*

The study focused on the capital growth of investment banks and was further guided by aspects of cost management, risk management, and Capital Markets Authority regulations.

#### *1.4. Specific Objectives of the Study*

Specific objectives include the following:

- To assess the effect of cost management on capital growth of investment banks in Kenya.
- To establish the influence of risk management on capital growth of investment banks in Kenya.
- To find out the effect of Capital Markets Authority regulations on capital growth of investment banks in Kenya.

#### *1.5. Research Questions*

- What is the effect of cost management on capital growth of investment banks in Kenya?
- Do risk management influence capital growth of investment banks in Kenya?
- Do government regulations influence capital growth of investment banks in Kenya?

#### *1.6. Purpose of the Study*

The study will provide crucial information to enhance the growth of investment banking industry. It will also provide an insight on the capital growth challenges facing investment banks in Kenya and how best to strategically deal with these problems. The Capital Markets Authority and Nairobi Securities Exchange can use the findings of the study to draft legal framework that will guide the investment banking industry in particular and the financial services industry in general to grow more innovatively and with minimal risks. Investors will find it important in understanding the issues that

drive them to seek advices of investment banks and make appropriate decisions. Other researchers and scholars will obtain much needed guidance to further undertake more studies in the field of investment banking.

## 2. Literature Review

Literature review outlines theoretical review, conceptual framework, review of study variables and empirical review.

### 2.1. Theoretical Review

The study was guided by theories; profits theory of investment and capital growth theory. These theories enhanced understanding the effect of cost management, risk management and Capital Markets Authority regulations on capital growth of investment banks in Kenya.

#### 2.1.1. The Profits Theory of Investment

Profits theory of investment was introduced by Jorgenson (1963) in the review 'Capital theory and investment behavior'. Profits theory of investment describes the financing of investments in an organization. It regards the undistributed profits as source of internal funds for funding investments. Therefore, investments depend on the profits which on the other hand depend on the level of revenue. According to this theory, profits relate to the level of current and previous profits' levels. High income and profits may lead to high levels of retained earnings (Blanchard, Rhee, & Summers, 1993). As such, retained earnings are of great importance to investment banks. With high levels of retained earnings, the cost of capital is low and thus optimal capital stock is large. This is the essence of reinvesting extra profit for increasing organization's capital. Profits theory of investment is relevant to the study since capital growth is a function of expected profits. If the aggregate profits in the economy and business profits are rising, they may lead to the expectation of their continued increase in the future leading to consistency in capital growth of investment banks. For each level of profits, there is an optimal capital stock. The optimal capital stock varies directly with the level of profits. The interest rate and the level of profits, in turn, determine the growth of capital stock.

#### 2.1.2. Capital Growth Theory

Capital growth theory was introduced by Hakansson and Ziemba (1995). Capital growth theory is useful in the analysis of many dynamic investment situations, with many attractive properties. In the basic reinvestment case, the growth-optimal investment strategy leads to more capital in the long run than any other investment policy which does not converge to it. It asymptotically minimizes the expected time to reach a given level of capital. According to capital growth theory, investors have to be more risk-tolerant in order to achieve sustainable capital growth. The goal of capital growth propels the investors to maximize capital appreciation of an investment portfolio over the long term through an asset allocation geared to securities with high expected returns. The proportion of equity capital to the total portfolio depends on the investment goals and risk management as practiced by the investors. Effective capital growth is a sustainability strategy for investors with a long-time horizon (Guzman, 2000). Investment banks have long term goals of continuing to serve the clients. They need to have effective capital growth in order to serve their customers better in underwriting of new stock issues, mergers and acquisitions, and offering investment advisory services.

### 2.2. Conceptual Framework

Conceptual Framework illustrates the relationship between cost management, risk management and Capital Markets Authority regulations and capital growth of investment banks in Kenya.

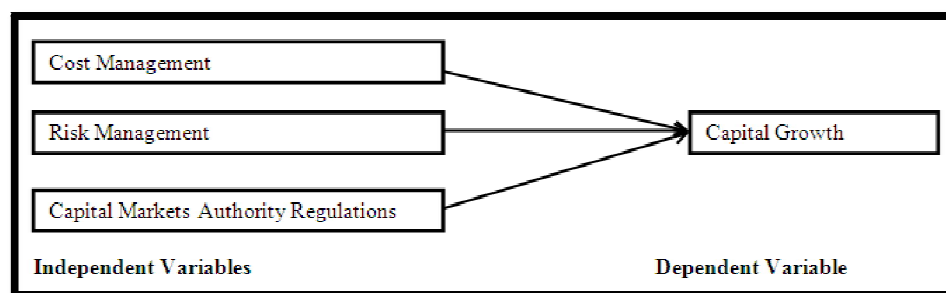


Figure 1: Conceptual Framework

### 2.3. Review of Study Variables

The study variables reviewed include risk Cost management, risk management and Capital Markets Authority regulations.

#### 2.3.1. Cost Management

Cost management is the process of planning and controlling costs incurred by an organization. According to Savaes and Zenner (1996) cost management allows investment banks to predict impending expenditures and ensure that they are within the levels that they can be absorbed. Implementing a cost management structure for investment banks enable them to keep their over-all budget under control. Decreasing financial costs contributes to enhancement and

increase of the worth of the organization. Investment banks therefore, ought to manage their costs efficiently to survive in highly uncertain world (Rau, 2000).

Investment Banks institutions that have efficient cost management systems perform well and in a consistent manner in the capital markets in the long run. Cost of capital is a form of cost that affects capital growth of investment banks. These organizations finance their operations through debt and equity. The cost of the debt is the interest rates while dividends paid to the equity shareholders are a cost to the investment bank. Reduction in interest rates encourages industrialists to start more and more ventures and that, in turn, create opportunities for investment banks. Therefore, investment is strongly influenced by interest rates. High interest rates make it more expensive to borrow. The marginal efficiency of capital states that for investment to be worthwhile, it needs to give a higher rate of return than the interest rate (Rasedie & Srinivasan, 2011). Cost of capital is affected by market opportunities, capital provider's preference, risk, and inflation. These costs are also influenced by the forces of capital demand. For instance, when the demand for capital increases, the cost of capital also increases.

### 2.3.2. Risk Management

Risk is a major component that affects the operations and behaviors of investment banks (Ngugi & Amanja, 2006). Risk makes the financial system a complicated industry hence making the services of investment banks essential in the capital and financial markets. Moreover, risk management does not mean the full elimination of risk from the operations of the investment bank but can be minimized and controlled (Donwa & Odia, 2010). Effective risk management is carried out for the purpose of maintaining adequate capital. To maintain adequate capital, the investment bank must keep on growing its capital consistently to cater for all emerging needs.

Risks in investment banks are caused by fluctuations in the economic conditions such as interest rates, exchange rates and even changes in government policies. Developed countries such as United States of America have policies that are favorable to investment banking industry which makes it attractive. If the business where investment is required has a high level of risk, the return required by the investor would also be very high to compensate the risk. Investors may not opt for a too high cost of capital because it may put the viability of the business at stake. Therefore, risk management plays a key role in making decisions concerning transactions in the capital markets. Investment banks facilitates investments in a manner that returns will be maximized. High risk investments are associated with high returns. Investors always want maximum returns for their capital thus investment banks carry out effective risk management to ensure that maximum returns are achieved in risky environment (Riubi, 2012). Return obtained from advisory services leading to maximum returns for investors promote their capital growth.

### 2.3.3. Capital Markets Authority Regulations

Capital Markets Authority regulations influence the capital growth of investment banks (Kimani & Olweny, 2011). CMA primary concern is sufficient capital to buffer an investment bank against large losses so that customers are not at risk, with the possibility of further disruption in the financial system being minimized. Legal and broader institutional environment plays an important role in the development of the financial markets. Laws and enforcement mechanisms that protect investors, clearly define property rights and support private contractual arrangements are crucial for adequate functioning of financial markets. Capital Markets Authority regulations protect creditors and investors who are associated with deeper and more active financial markets, increased valuations, lower concentration of ownership and control, greater dividends payout (Ngahu, 2017).

Regulatory environment can be an impediment to capital growth of investment banks. The licensing fee charged to investors may discourage them thus denying the investment banks opportunity to serve them and earn revenue that would have promoted their capital growth. Therefore, in order to facilitate capital growth among investment banks particularly in the emerging capital markets, the capital markets authority regulations ought to be favorable. They should have regulations which are not prohibitive in nature (Ngeno, 2018). Capital Markets Authority enacts policies that affect the development of the capital growth of investment banks. Lack of proper regulation for investment banks implies that the investors are not well protected thus low levels of investments and consequently inadequate capital growth for investment banks.

## *2.4. Empirical Review*

The researcher reviewed empirical studies that are related to cost management, risk management, Capital Markets Authority regulations and capital growth of investment banks.

Ngahu (2017) carried out a study on the factors influencing investment decisions in equity stock among retail investors in Kenya. Regression findings indicated that stock affordability had a beta coefficient of 0.327 and p-value was less than 0.05 significance level. As such, the price of stock had a significant influence on investment decisions among investors. Moreover, third party's opinion had beta coefficient of 0.327 and probability value of 0.042 implying that the relationship was significant at 95% confidence level. However, information (B= -0.070; p < 0.395) had a negative but insignificant influence on investments decisions. Findings further revealed that herding behavior had beta value of 0.043 with p-value meaning that the relationship with investment decisions was insignificant among equity stock investors at Nairobi securities exchange.

Ngeno (2018) investigated the determinants of financial performance of investment banks in Kenya. Findings indicated that the organization's size and financial leverage had insignificant negative effect on profitability of investment banks. Additionally, the relationship between liquidity and profitability of investment banks was not statistically significant. However, operating efficiency had a negative and significant effect on Return on Assets which is a measure of

financial performance. The coefficient of determination was 0.496 implying that 49.6% of variation in financial performance of investment banks.

Kachilia (2016) did a study on investigation into the investment Banking Business in Kenya. The findings revealed that 38.7% of the respondents noted that reputational challenges deterred growth of investment banks in Kenya. 34.4% further stated limited number of professionals determine the extent of performance of investment banking business. Furthermore, challenges of limited resources for training of investment banking professionals, market indiscipline, and competition and information asymmetry had a significant effect on performance of investment banking business.

Mwamba (2003) investigated the challenges facing Investment Banking in Kenya. Findings revealed that both internal and external factors have the biggest impact to the investment banking industry. Internal factors included weak policies, poor management and low capitalization, while external factors included high inflation, high interest rates, poor governance and political instability. The challenges facing investment banking included technological changes, demographic factors, lack of active trading market and globalization.

Ruibi (2012) carried out a research on impact of investment banking on economic growth in Kenya. The study revealed that efficient investment banking in the general economy strives to; improve their capital bases, reduce operational costs, improve assets quality by reducing the rate of nonperforming loans, employ revenue diversification strategies as opposed to focused strategies and keep the right amount of liquid assets. Indeed the descriptive analysis of these factors by number of investment banking showed that large investment banks perform better than the small and medium investment banks hence superior in their contribution to economic growth.

Kamuti and Omwenga (2017) assessed the factors influencing investment decisions in Nairobi Securities Exchange using a case of Dyer & Blair Investment Bank Limited. Findings indicated that financial statements conditions had a positive effect on investment decision making at NSE. There was a positive correlation between market information and investors' investment decision making. Ndiege (2012) investigated the factors influencing investment decision in equity stocks at the Nairobi securities exchange. The results showed that decisions to invest in equity stocks are influenced by the amount of expected dividends, capital appreciation and affordability of shares.

A study by Rau (2000) on the determinants of the market of the investment banks found a strong positive relation between market share of an investment bank in any one year and the percentage of deals it had completed in the past. It was also revealed that the market share of investment banks was positively related to their ability to complete the deal with investors who are their clients. Chepkoiwo (2011) carried out a study on factors affecting the development of emerging capital markets. Findings established that macro-economic, social-cultural, legal, regulatory and Institutional factors affected development of stock market. It was further noted that stock market development is determined by stock market liquidity, institutional quality, income per capita, domestic savings and bank development.

### **3. Research Methodology**

Research methodology includes research design, sampling design and data analysis.

#### *3.1. Research Design*

Systematic review research design was adopted. Systematic research design identifies existing research about a well-defined topic of investigation, usually derived from practice-based problem (DeMatteo, Marczyk, & Festinger, 2005). This design involves selecting and critically evaluating the contributions of each identified study, analyzing and carefully synthesizing the data, and reporting the evidence in a way that facilitates clear conclusions. It assisted in addressing the existing research problem using existing studies related to capital growth of investment banks. It was suitable to the study as it applied to the evaluative process of analyzing the existing literature.

#### *3.2. Sampling Design*

Sampling is the process of selecting a sample of the items for the study in such a way that the items selected represent the population (Bordens & Abbott, 2002). Purposive sampling design was adopted to select journal articles containing information that was related to cost management, risk management, Capital Markets Authority regulations and capital growth of investment banks.

#### *3.3. Data Analysis*

Quinlan, Babin, Carr, and Griffin (2019) defined data analysis as the process of breaking complex information into smaller elements that can be easily clarified and understood. Empirical studies related to cost management, risk management and Capital Markets Authority regulations were analyzed through Meta-analysis. Meta-analysis systematically evaluates and summarizes the results from a number of individual empirical studies, thereby, increasing the overall sample size and the ability of the researcher to study the area of interest. Its purpose is to not simply summarize existing knowledge, but to develop a new understanding of a research problem using synoptic reasoning. It analyzes the differences in the results among studies and increasing the precision by which effects are estimated. It was appropriate for analyzing different empirical studies to establish the effect of cost management, risk management and Capital Markets Authority regulations on capital growth of investment banks.

#### 4. Findings and Discussions

The researcher aimed at assessing the factors that influence capital growth in investment banks. Previous empirical research works were reviewed to find out the effect of risk management, cost management and Capital Markets Authority regulations on capital growth of investment banks. The study sought to answer the following questions:

- What is the effect of cost management on capital growth of investment banks in Kenya?
- Do risk management influence capital growth of investment banks in Kenya?
- Do government regulations influence capital growth of investment banks in Kenya?

The study by Ngahu (2017) on the factors influencing investment decisions in equity stock among retail investors indicated that the price of stock had a significant influence on investment decisions. The price of stock is determined by the management of costs among the investment banks. They ought to ensure that they are cost effective in order to avail the stock to investors at affordable rates. Capital growth of investment banks has a direct link to the level of stock successfully acquired by the investors. Ndiege (2012) noted that decisions to invest in equity stocks are influenced by capital appreciation and affordability of shares. Deviations from capital appreciation area risk that needs to be managed to promote capital growth among investment banks.

A study Ngeno (2018) investigated the determinants of financial performance of investment banks in Kenya and found that operating efficiency had a negative and significant effect on Return on Assets. Operating efficiency is an element of cost management among investment banks. Cost reduction promotes ROA which is a requisite for capital growth. Mwamba (2003) analyzed the challenges facing Investment Banking in Kenya and found that high interest rates affected performance of investment banking industry. Moreover, Mwamba (2003) also noted that investment banks faced challenges of lack of active trading markets, poor policies and political instability. Capital Markets Authority is meant to facilitate and promote trading markets for investors. However, if this does not happen, the resultant consequence is few trading markets and few opportunities for increasing capital among investment banks.

A study by Kamuti and Omwenga (2017) found that financial statements conditions and market information affected investment decision which determines the level of capital growth. Market information assist investment banks to manage risks through risk forecasts and taking proactive actions. Chepkoiwo (2011) established that legal, regulatory and institutional factors affected development of stock market. Stock markets in Kenya are regulated by Capital Markets Authority and their regulations were found to have an effect on capital growth of investment banks.

#### 5. Conclusions

Based on the study findings, it can be concluded that capital growth of investment banks in Kenya is influenced by the cost management. Investment banks incur costs in their operations particularly when financing their activities. Financing Organization through debt leads to interest costs. Higher interest rates deter their bid for capital growth. The price of stock determines the level of revenue to the investment banks. These prices depend on the cost incurred by issuance. As such, investment banks that are not operationally efficient encounter difficulties in growing their capital. Risk management is a determinant of capital growth among investment banks. It prevents losses hence availing an opportunity for capital growth. Capital Markets Authority regulates the operations of investment banks. Capital growth is hindered by unfavorable regulations which do not support the investors.

#### 6. Recommendations

- Investment banks are recommended to create and implement appropriate cost management strategies to enhance capital growth.
- Investment banks should consider adopting effective risk management practices as one of their core activities.
- Investment banks should work closely with Capital Markets Authority to promote establishment of favorable regulations on the capital markets operations. This is likely to attract more investors who will require the services of investment banks.

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