EFFECT OFREINVESTMENT EARNING ON PERFORMANCE OF REAL ESTATE DEVELOPMENT PROJECTS IN KILIMANI, WESTLANDS SUB COUNTY, NAIROBI COUNTY, KENYA

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ABSTRACT

The performance of real estate projects has been dropping significantly in the recent past with most of the buildings remaining delayed for years. This is despite the recorded increase in foreign direct investment and most recently the focus by the government on housing as one of the big-four agendas. It is on this background that the study seeks to answer the question; what is the influence of Reinvestment Earning on the performance of real estate development projects? The study was anchored by arbitrage pricing theory. Descriptive research design was used while the target population was the real estate companies in Kilimani area, Nairobi County. There are forty-eighty registered real estate companies in this area. The units of observation were the directors, finance officers and investment managers from the forty-eight companies. This made a total of one hundred and forty-four respondents. Purposive sampling method was employed where the company directors, finance officers and investment managers were purposively picked. The data was collected using structured questionnaires and analyzed through descriptive and inferential statistical analysis techniques. The study obtained a response rate of 81.3% which was considered adequate for analysis. The findings revealed that reinvested earnings significantly and positively influenced the performance of real estate development projects in Kilimani area, Westlands Sub-County. Government policy was also found to significantly moderate the relationship between reinvested earnings and performance of the real estate development projects. The study concluded that through reinvested earnings, the real estate development projects performed better. It is therefore recommended that the real estate development companies through their management embrace FDIs through reinvested earnings so as to steer the performance of their development projects.

Keyword: *Reinvested earning, foreign direct investment, real estate development, project performance*

1.0 INTRODUCTION

Foreign Direct Investment has become an area of concern to many developing nations due to economic benefit it presents to the host nation. Following this, developing nations are putting in place policies such as subsidies to foreign firms and imports duties exemptions to encourage the inflow of foreign direct investment (Estrin, & Uvalic, 2013). Al-Hadi et al. (2017), define foreign direct investment as an investment made to acquire a long term investment in a foreign enterprise with the view of having a voice in enterprise management. One of the aspects of foreign direct investment is re-invested earnings. These are the portion of earnings invested back into new projects by the owners. The re-invested earnings are measured portions of total funds spent on development projects. This study used Net Income, Cash Dividends and Stock Dividends as the indicators for measuring this variable. Foreign direct investment can take three forms of Horizontal Foreign Direct Investment which occurs when a company

undertakes the same activities abroad as home, vertical foreign investment where different stages of activities are added abroad and Conglomerate where a company expands its operations abroad through either green field or acquisition (Mahama, 2015).

Reinvested earnings or as simply known as retentions refers to the part of trading profits which is not distributed in the form of dividends but is retained by directors for future expansion of the company (Mostafa & Boregowda, 2014). Campbell (2012) notes that the prime idea behind earnings retention is that the more the company retains the faster it has chances for growth. Reinvested earnings are usually recorded under shareholders' equity on the balance sheet (Dinayak, 2014). Also related with periodically reinvested earnings is the accumulated retained earnings, which are computed by adding net income to (or subtracting any net losses from) beginning reinvested earnings and subtracting any dividends paid to shareholders (Mostafa & Boregowda, 2014). Earnings retained are the most important sources of financing growth of a firm. The level of internal funds conveys information about growth prospects of companies (Jangili and Sharad, 2011).

Better financially performing firms' pay lower dividends, reinvest more of their earnings, and provide a greater percentage of their total returns in the form of capital gains (Etcherling, Eierle and Ketterer, 2015). Companies with a few major investment opportunities would limit paying out a larger percentage of their earnings. For this reason, higher dividends are paid in stable, low-growth industries. By contrast, high-growth companies with lots of investment opportunities are likely to pay low dividends because they have profitable uses for the capital. So, growth is likely to place a greater demand on internally generated funds. Higher financially placed firms use less debt (Ball, Gerakos, Linnainmaa, and Nikolaev, 2015). This is because conflicts of interest between debt and equity holders.

Kenya's economy is plagued by inadequate resources for long term development, high poverty level, low capacity utilization, high level of unemployment and other millennium development goals (MDGs) which have proven difficult to achieve by 2020, hence promotion and facilitation of technology transfer through FDI assumed a prominent place in the strategies of economic revival and growth being advocated by the policy makers at the county, national, regional and international levels because it is considered to be the key to bridging the technology and resource gap of under developed countries and avoiding further buildup of debt (Bhaskar et al., 2017).

1.1 Statement of the Problem

One of the aspects of FDI is the reinvested earnings which is the funding through the preferred or common stock (Mitullah, 2010). Re-invested earnings encompasses investing back the earnings from the industry through purchase or development of more property. Through investing back the earnings, the foreign investors expand their investment in the country which means long continued operation and this could affect the local investors and the overall independence of the real estate sector (Kioleoglou, 2015). The foreign investment through reinvested earning and real estate relationship has been viewed in the same light with some studies exploring the effect of reinvested earning in specific sectors of the economy and other examining the effect of reinvested earning on foreign real estate investment (Alfaro, 2003; Fereidouni and Masron, 2012). However, there remains gaps in the areas which touches on its influence on performance of real estate development project hence the subject of tis paper.

1.2 Objectives

The objectives of this paper are to:

i) To assess how reinvestment earning influences performance of real estate development projects in Kilimani, Westlands sub county, Nairobi County, Kenya;
ii) To assess how government policy moderates the relationship between reinvestment earnings and performance of real estate development projects in Kilimani, Westlands sub county, Nairobi County, Kenya.

LITERATURE REVIEW

2.1 Theoretical Framework

The paper has been anchored by the pecking order theory. The theory was proposed by Myers and Majluf (1984). The theory argues that organizations are more inclined to accept internal funding rather than use external funding. If they must use external funding, many firms prefer to use debt over equity and they only choose to seek equity if all the other options are exhausted. Thus due to information asymmetry most of the organizations lack an optimum debt to equity ratio. The enterprises use a traditional approach for divided and to maximize their value they choose to seek for debt financing (Abhijit, 2013).

The theory further argues that any profitable organizations prefer to seek internal funding rather than seek equity or debt funding. This is despite the fact that debt is seen as less expensive compared to equity. Myers and Majluf (1984) argue that the asymmetry of information disturbs the firm value and also affects the wealth of the firm's stakeholders. In this study, pecking order theory is used to explain the influence of reinvested earnings as component of FDI on the performance of real estate development projects.

2.2 Re-invested Earnings and Performance of Real Estate Development Projects

Hanlon (2015) states that managers retain cash under their control and grow the firm rather than pay the cash to shareholders. Thus, as the stock of FDI becomes more mature, undistributed cash holdings are likely to be utilized to compensate for the growth of existing firms or for new investments in the existing market. Furthermore, the assumption of reinvested earnings as marginal investments in the host country implies a perception of higher reinvested earnings being a good signal of higher long-run confidence on the part of existing investors, while a repatriation of earnings may mean the reverse. Thus, reinvested earnings may also stand for an important policy means to attract potential foreign investments in the existing market. Yet, unlike the irreversible equity investments, Multinational Firms (MNF's) part of their earnings undistributed to the shareholders are "hot money" by their very nature, and thus they are more likely exposed to the risks and uncertainties in the market.

Kayam (2009) investigated the home country factors that encourage FDI outflows for 65 developing and transition countries for the 2000–2006 periods. Finally, she concluded that small market size, trade conditions, costs of production, and local business conditions within the home country are the major push factors that cause FDI outflows. Moreover, Buckley et al. (2007) examined the determinants of Chinese FDI outflows. They found that Chinese FDI outflows are highly correlated with political risks experienced in the country, cultural proximity with the host country, and the host country's natural resources endowments. On the other hand, Tolentino (2008) examined the relationships between home country-specific macroeconomic factors and FDI outflows of China and India for the period between 1982 and 2006. He had an interesting conclusion, arguing that country-specific factors of China such as the interest rate, openness to international trade, income per capita, human capital, technological capability, exchange rate, and exchange rate volatility do not have a significant effect on FDI outflows in China, while India's technological capability results in FDI outflows in India.

Edwards, Kravet and Wilson (2013) conducted a study on the relationship between reinvested earnings and foreign cash acquisitions' profitability. According to the US tax laws, there is an incentive for the organization in the US meant to avoid foreign earnings repatriation as the government has put up more charges for any repatriated foreign earnings. As pointed out in ASC 740, taxes on foreign earnings are treated differently. Incentives are higher so that firms can designate foreign earnings in terms of permanently reinvested earnings and delay the recognition of the deferred tax liability that comes as a result of repartition of the US tax which leads to a higher after tax income. Consistent with expectations, the study observed that organization that showed high earnings that were termed as PRE and which were held as cash did not make more acquisitions that were profitable by making use of their cash consideration compared to organizations that had high levels of PRE that were considered as cash.

Masum (2014) carried out a study on the reinvested earnings and their impact on stock prices. The researcher focused on commercial banks listed in Dhaka Stock Exchange, Bangladesh. The aim of the study was to unveil the effect of dividend value, price to book value and net assets value as aspects of reinvested earnings on the prices of the stocks. The study employed ex-post facto research design and targeted 14 commercial banks listed at Dhaka Stock Exchange, Bangladesh. The findings revealed that reinvested earnings had a direct link with the prices of

stocks of the commercial banks listed at the Dhaka Stock Exchange. According to Masum (2014), the more an organization is capable to retain more earnings, the more its ability to reinvest and diversify its revenues for enhanced performance.

In Nigeria, Yemi and Seriki (2018) carried out a study on reinvested earnings and firms' market value. The sample data was extracted from 75 non-financial firms listed on the Nigeria stock Market during the period 2003 to 2014. The unbalanced panel data (cross-sectional and time series) used to examine the relationship was obtained from the annual financial statements of the various firms. Two basic approaches descriptive and multiple regression models were used to determine the relationship between the underlying variables. The study found that retained earnings; earnings per share, dividend pay-out had a significant effect on the value of firms. According to Yemi and Seriki (2018), through retained earnings, the firms' market value increased in that this relied on the ability of the firm to effectively pay dividends and encourage shareholders to contribute to firm financing as well as creating other opportunities for expansion.

Thuranira (2014) did a study on the effect of reinvested earnings on the returns of firms listed at the Nairobi Securities Exchange. The study aimed at unveiling effect of the dividend policy and cost of equity as determinants of reinvested earnings on the returns of the firm. The researcher used a descriptive research design and had a census of 61 companies listed at the NSE as at 2014. The study found that reinvested earnings had a significant influence on the return of the firm listed and NSE. According to Thuranira (2014), net asset value per share, price to book value and dividend yield positively influences the returns of firms listed at NSEs.

2.3 Government Policy and Performance of Real Estate Projects

The government policy stands to be the key determinant of how effective FDIs flow in the country and their overall contribution to the economy (World Bank, 2015). The major aspects of government policy attached to FDI include the restrictions, the openness of the boarders as well as internal policies aimed at providing guidelines on how FDI are carried out with limitations and benefits. The openness of a country to FDI is primarily assessed in terms of policies that create (or eliminate) border barriers for investors, measured by indicators of statutory restrictions to FDI and multilateral agreements that create areas of free trade and/or capital movements among signatory countries. However, tariff and non-tariff barriers to trade in goods and services are also considered, because they may affect the choice of MNEs between exporting and investing abroad as well as the choice between horizontal and vertical FDI.

Although formal international agreements on FDI have been far less extensive than on international trade, global negotiations and regional free-trade agreements often cover some aspects of international investment as well (for example capital-market liberalization within the European Union and provisions on commercial presence in the GATS), generally leading to lower barriers to FDI. Moreover, a number of bilateral investment treaties have been signed among OECD countries, aiming at curbing barriers to FDI. A new set of indicators of FDI restrictions was assembled by the OECD to summarize and quantify such barriers and their evolution over time. The indicators, which are described in detail in Golub (2003), cover mainly statutory barriers, ignoring most of the other direct or indirect obstacles impinging on FDI, such as those related to corporate governance mechanisms and/or hidden institutional or behavioral obstacles that discriminate against foreign firms.

Tariff barriers can also indirectly affect bilateral FDI relationships. Vertical FDI aimed at re-importing to the home country or exporting to third-party countries the final or intermediate goods produced by foreign affiliates can be depressed by high bilateral tariffs between the host and investor country or between the host and third-party countries. On the other hand, high bilateral tariffs can generate so-called "tariff-jumping" behaviour by MNEs (Sauve and Steinfatt, 2003).

2.4 Conceptual Framework

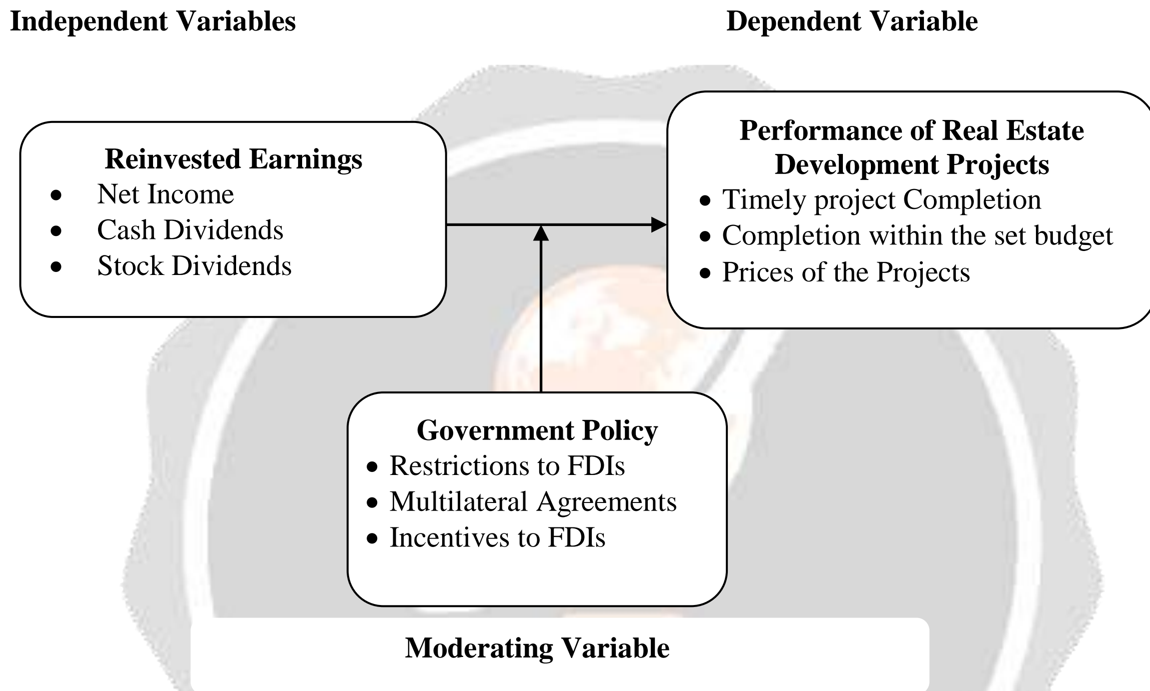

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The paper used a descriptive survey research design. This is a study design that systematically describes the characteristics of the study objects in all aspects. It gives a wide range of information on the research phenomenon that the research seeks to focus on (Babbie, 2012). The target population for this study was real estate companies in Kilimani area, Westlands Sub-County, Nairobi County. According to the Nairobi City County and the real estate agents board, there are 48 real estate companies in Kilimani area, Westlands Sub-County. The study specifically targeted the company directors and finance/investment personnel in the 48 companies.

A purposive sampling was used where a director, a finance officer and an investment manager from each of the 48 companies were surveyed. This totaled to 148 respondents for the study. This study employed primary data. A self-administered questionnaire was used to collect the primary data. Questionnaires were dropped at the respondent's working places through use of research assistants and the researcher who also picked the questionnaires at an agreed date. Descriptive statistics were used to analyse the quantitative data. Under the descriptive statistics, mean, standard deviation, percentages and frequencies were used which were generated by use of Statistical Package for Social Scientists (SPSS). The findings were presented in form of frequency tables which are easily interpretable and thus making the findings profound.

4.0 FINDINGS

4.1 Introduction

The study had a sample of 144 respondents drawn from 48 real estate development companies in Kilimani area, Westlands Sub-County, Nairobi County. The respondents were surveyed using a structured questionnaire. A response rate of 81.3% was achieved where 117 respondents gave back their questionnaires dully filled for analysis. This therefore makes the study appropriate to make conclusions and recommendations since according to Creswell (2014), a response rate of 30-60% in a study is adequate for making conclusions and recommendations.

4.2 Reinvested Earnings and Performance of Real Estate Development Projects

The study sought to assess the influence reinvested earnings on the performance or real estate development projects in Kilimani area, Westlands Sub-County. The descriptive results are as summarized on Table 1. The second objective of the study was to establish the influence of reinvested earnings on the performance of real estate development projects in Kilimani area, Westlands Sub-County. The study established that most of the companies reinvested their net income in on-going projects to ensure their successful completion. The companies did not channel their dividends to the on-going projects to facilitate their completion and the management did not uphold cash dividends as a key source of financing their projects. Moreover, the findings revealed that the stock dividends from the companies' shareholders were not directed to the company's projects. The respondents however stated that most of the expansion projects sustained by the surveyed companies were as a result of reinvested earnings. The inferential analysis of the study model revealed that reinvested earnings had a significant and positive influence on the performance real estate development projects in Kilimani area, Westlands Sub-County. As the results portray, it is evident that the aspect of reinvested earnings have been mildly adopted in most of the surveyed firms. The findings are in line with those by Jangili and Sharad (2011) who established that through continued focus on the internal funding such as reinvested earnings enables the organization to run smoothly thus achieving the expected results.

Table 1: Descriptive Statistics on Reinvested Earnings

Statement	Mean	Std. Dev.
Our company has reinvested most of the net income in the ongoing projects to ensure their successful completion	3.64	1.27
The net income is reinvested in other new projects to expand the operations of the firm	3.50	1.34
The net income from the companies investments has been equitably invested back to the company's projects	2.61	1.28
The cash from the dividends by the company are channeled to the ongoing projects to facilitate their completion	2.74	1.43
Cash dividends are upheld by the management as a key source of financing the ongoing projects	2.21	1.95
There is a framework for monitoring cash dividends to ensure they are channeled to the project needs of the company	3.42	1.29
The stock dividends from the company's shareholders are directed to the company's ongoing projects	3.80	0.99
There are ongoing projects that stock dividends can be attributed to	3.59	1.19
Through the reinvestment of earnings our company is able to finance its projects to success	3.75	1.09
Most of the expansion projects that have sustained the company haven been as a result of the reinvested earnings.	3.73	0.99

4.3 Government Policy and Performance of Real Estate Development Projects

The study sought to establish the moderating effect of government policy on the relationship between reinvested earnings and the performance of real estate development in Kilimani area, Westlands Sub-County. The describe analysis of the findings are as summarized in Table 2. The findings revealed that majority of the respondents felt

that the minimization of the restrictions by the government on FDIs had enhanced the contribution and availability of foreign investors in the real estate sector and the most of the foreign investors had complied with the government regulations and policies. According to Golub (2003), government policies influence the way of doing business such as the duration of approvals, easy of obtaining licenses and other operational requirements.

Table 2: Descriptive Statistics on Government Policy

Statement	Mean	Std. Dev.
The restrictions by the government on FDIs have enhanced the contribution and availability of foreign investors in the real estate sector	3.94	0.94
There are fewer restrictions for new entrants into FDIs to encourage their investments	3.84	0.92
Most of the foreign investors in our company have complied with the government regulations and policies	3.42	0.98
The multilateral agreements between the government and other governments is friendly and has led to increase in FDIs	3.90	0.98
The foreign investors in our company are majorly as a results of multilateral agreement between the Kenyan government and their respective governments	3.80	0.73
The foreign investors in our company have received incentives from the government which have influenced their continued investment in real estate	4.07	0.82
The government policy has played a significant role in determining the extent of FDIs and their contribution to the real estate projects	3.68	1.03
The time taken to obtain building plan approvals from county governments affects the completion of the projects	3.64	1.05
Time taken to obtain completion and occupation certificates affects the success of the real estate projects	4.11	0.82

4.4 Performance of Real Estate Development Projects

The study sought to assess the performance of real estate development projects in Kilimani area, Westlands Sub-county. The respondents were asked to indicate their level of agreement on specific statements on project performance based on Likert's scale. Table 3 shows the findings. As the findings portray, majority of the respondents agreed that most of the projects in their respective companies had been completed within the set timelines. Most of the respondents further stated that the number of projects completed by their respective companies had increased over time. The respondents further stated that majority of the projects in their respective companies had been completed within the set budget and that the projects completed met the quality expectations of the customers.

Table 3: Descriptive Statistics on Performance of Real Estate Projects

Statement	Mean	Std. Dev.
Most of the real estate projects in our company have been completed within the set timelines	4.00	0.92
There has been an increase in the number of projects completed by our company over the last five years	3.94	0.90
The company has more recorded an increase in the sold units over the last five years	3.93	0.87
Majority of the real estate projects by our company have been completed with the set budget	4.11	1.03
The real estate projects completed by our company meets the quality expectations of our customers	4.23	0.89
There are more investors willing to enroll in our company due to the outstanding performance record	3.94	1.08

4.5 Hypothesis Testing

The findings revealed that reinvested earnings had a Beta (β) coefficient of 0.167 an indication that a unit change in the reinvested earnings would lead up to 16.7% increase in the performance of real estate development projects. The P-value for the variable was 0.009 which is less than the standard p-value of 0.05. This implies that reinvested earning significantly and positively influences the performance of real estate development projects.

Table 4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.064	2.574		-.802	.424
	Reinvested Earnings	.167	.063	.176	2.653	.009
a. Dependent Variable: Performance of Real Estate Development Projects						

CONCLUSION AND RECOMMENDATIONS

The study sought to establish the influence of reinvested earnings on the performance of real estate development projects in Kilimani area, Westlands Sub-County. The study concluded that reinvested earnings were integral in steering the performance of real estate development projects. Reinvesting the earning trough investing back the net income, cash dividends and stock dividends to the companies' projects enabled the projects to proceed smoothly and meet the expected output.

The real estate companies through their management can ensure the performance of their projects by reinvesting the earnings to the ongoing projects. Rather than diversifying the revenues to other unknown risks, the companies can reinvest the revenues to the ongoing projects so as to steer their performance. The government ought to speed the process of licensing the real estate companies and offering compliance and completion certificates as a move towards enhancing the ability of these companies to implement their projects timely as well as enhancing the timely sales of the completed units. The government should be supportive to these companies since they also play a critical role in economic growth and development.

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