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Margaret Wanjiru MAGUTA

Dr. Nebat GALO

Prof. Joseph Masinde WABWIRE

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Growth Opportunities and Financial Stability of Manufacturing Firms Listed at the Nairobi Securities Exchange, Kenya

By: Margaret Wanjiru MAGUTA [1], Nebat GALO (PhD) [2] and Joseph Masinde WABWIRE (PhD)[3]

Abstract

Financial stability is a fundamental enabler of sustained operational performance for every corporate entity. A firm's ability to remain financially stable depends on how well it anticipates, monitors and integrates growth opportunities into its financial planning and decision-making processes. Existing literature provides mixed findings on the direct influence of growth opportunities. Thus, the general objective was to establish the influence of growth opportunities on financial stability. This study was anchored on real options theory. This study employed positivism philosophy and both descriptive and causal research design were adopted as a framework to guide the study. The study employed a census approach that included all the nine listed manufacturing firms at the NSE for a period of fifteen years. This yielded a balanced panel data set comprising of 135 firm-year observations. Secondary data were obtained from the firms' audited annual financial reports using a structured data collection sheet. Data was analysed using descriptive statistics which explain the features of study variables and inferential statistics which were used to test hypothesis. Correlation analysis was used to determine the strength and direction of the relationships among the variables. Prior to model estimation diagnostic tests were performed to establish data suitability and model reliability. Panel regression model was employed to estimate direct effect allowing for a comprehensive analysis of relationships while controlling for unobserved heterogeneity across entities and over time. Hypothesis was tested using t-test at 5% significance level using STATA version 18. The findings signify that growth opportunities positively affected financial stability ($\beta = 0.4476$, $p = 0.000$). Thus, firms with more growth opportunities were more likely to have higher levels of financial stability. The few manufacturing firms could result to small sample bias in the estimation. Sampled manufacturing firms for studies in developed markets span for over decades. Thus, comparing results in this study with other related studies may not be feasible. The research is one of the first studies to investigate direct influence of growth opportunities on financial stability of manufacturing firms listed at the NSE. Findings add to literature on investment and portfolio management and provide useful insights for researchers and practitioners interested in emerging capital markets.

Keywords: *Growth Opportunities, Financial Stability, Manufacturing Firms and Nairobi Securities Exchange.*

[1]*PhD Candidate, Department of Business Administration, Chuka University, e-mail: magutamaggy@gmail.com, ORCID: 0009-0000-0349-9140*

[2]*Senior Lecturer, Department of Management Science, Chuka University, e-mail: galonebat@gmail.com, ORCID: 0000-0002-7423-9503*

[3]*Professor, Department of Management Science, Chuka University, e-mail: jmasinde@chuka.ac.ke, ORCID: 0009-0002-5070-3815*

1. INTRODUCTION

1.1 Background

From a broad perspective, Growth opportunities reflect a firm's potential for future expansion and profitability (Levine, 2021). From an investment perspective, growth opportunities refer to the firm's prospective investment possibilities that are expected to generate returns above its cost of capital (Mabandla & Marozva, 2025). Ottoo (2020) viewed growth opportunities from a strategic point of view as the ability to invest in projects under variability, with those options creating value because of flexibility such as timing in future investments. Further, growth opportunities can be seen as initiatives that enable a business to expand its operations, increase revenue and strengthen its presence in the market (Jesika et al., 2023; Bernardo et al., 2007). Growth opportunities can directly affect financial stability by influencing a firm's capacity to generate future earnings, maintain liquidity, and sustain long-term operations (Athaya, 2024). Firms that have growth opportunities often see higher profitability, more demand in the market and better cash flow. When firms experience high growth opportunities, they will be more profitable, market demand will increase and the firm will generate more cash flow which will enhance firms' financial position and result in a decline in financial bankruptcy likelihood. However, drastic growth may result in a decline in financial stability when firms overinvest in projects, borrow excessively or experience variability in returns resulting in increased financial risk (Rahmandad, 2012).

Growth opportunities were evaluated by Mysaka and Derun (2021) using measures that incorporate external market prospects and operational efficiency in firms. Asset turnover ratio signified firms' effectiveness in generating revenue by proper utilization of resources. Tobin's Q reflected firms' ability to meet investor expectations of growth opportunities above the current asset base. Earnings per share reflected justifiable growth and increased shareholder wealth maximization. Further, Chandra et al., (2022) viewed growth opportunities using change in total assets because a rise in total assets reflects investment in working capital and fixed assets which are determinants of growth prospects and increase in assets justifies sustainable expansion of the firms' operations. Denicolai et al. (2015) assessed growth opportunities using change in total assets since they reflect increase in resource base over a period. Growth opportunities were evaluated in this study using change in total assets since they reflect a company's ability to invest in operations and allow for comparison across cross-sectional units and time for long-term expansion.

Allen and Wood (2006) perceived financial stability as the ability to support its operations, fulfil financial responsibilities and endure variability in cash flows and market conditions without resulting in bankruptcy. Kálmán (2023) viewed financial stability as the ability to meet long-term and short-term responsibilities while improving sustainable growth. Financial stability is also about having cash flow to cover operating costs, pay back debt and fund future investments. This helps avoid distress (Obaid et al., 2024). Firms that are financially stable tend to attract investor confidence, secure better credit terms, and enjoy a competitive edge (Sofiyan, 2024). Similarly, stable firms are more resilient to economic shocks resulting to better positioning to exploit growth opportunities. Financial Instability significantly increases the risk of default, insolvency, or regulatory sanctions.

Nairobi Securities Exchange (NSE) was established in 1954 and is the principal stock exchange of Kenya based in Nairobi. It provides a regulated, automated trading platform for equities, bonds, derivatives, and exchange-traded funds, serving as a key African bourse for capital raising and investment (Murgor & Saxunova, 2022). For domestic and foreign investors wishing to learn about Kenya's and Africa's economic expansion, the NSE provides a top-notch trading platform (Lu et al., 2021). The following sectors are used by the NSE to categorize its listed companies: Agriculture, Vehicles and Accessories, Banking and Finance, Commercial and Services, Construction and Associated Industries, Energy and Petroleum, Insurance, Investment, Investment Services, Manufacturing and Associated Industries, Telecommunication and Technology, and Real Estate Investment Trusts (NSE, 2025). Manufacturing firms listed on the NSE are publicly traded companies that operate in sectors outside the financial services industry (Shikumo, 2021). Manufacturing firms typically begin by registering with the Business Registration Service under the Companies Act 2015, securing necessary permits such as environmental approvals from the National Environment Management Authority (NEMA) and obtaining operating licenses from county governments. The role of manufacturing firms in an economy is multifaceted since the firms create value addition through processing raw materials into higher-value products, which enhances competitiveness in both local and international markets.

Manufacturing firms contribute to reduction of unemployment rate and creation of jobs (Shiferaw & Hailu, 2016). According to KAM (2024), manufacturing firms listed at the NSE are transparent

and responsible since they adhere to regulation standards and corporate governance issues thus attracting key stakeholders and resulting in the development of financial markets. Manufacturing firms contributed to Kenya's economic growth by 7.6% being a decline from 9.2% (KAM,2024). The expectation under Manufacturing Agenda 2030 is that manufacturing firms will contribute by 20% to economic growth. Manufacturing firms are capital intensive and require investment in fixed and current assets to support production processes. Financial expansion, liquidity and operational efficiency require stable cash flows since variability in cash flows result in production disruptions, understocking and inability to meet debt obligations (KAM, 2025). Fabris (2020) concluded that financial stability differs across the manufacturing firms because they deal with production process, competition from imports and variability in cash flows. According to CMA (2024), 30% of manufacturing firms listed at the NSE dispensed negative profits between 2020 and 2024 which indicated increased earnings uncertainty and variability in cash flows which reduces the ability to meet short-term and long-term obligations as they fall due. Further, NSE report (2024) indicates that the average debt-equity ratio increased from 45% in 2018 to 60% in 2024 signifying over reliance in leverage to cater for growth and financial operations.

Manufacturing investment spending decreased by 18%, indicating financial warnings caused by funding restrictions and bankruptcy (NSE, 2024). Additionally, currency depreciation has increased costs for firms with foreign currency-denominated debts, high interest rates have raised borrowing costs, affecting highly leveraged firms and consumer purchasing power constraints have impacted firms reliant on domestic demand. Manufacturing firms listed at the NSE face several challenges that affect their financial stability since many firms struggle to access affordable long-term financing for expansion, Fluctuations in economic growth and consumer demand create operational challenges, compliance costs and regulatory changes can impact profitability, increased competition from imports and multinational corporations and need to continuously invest in technology to remain competitive.

Whetyningtyas et al. (2025) examined the impact of growth prospects and profitability on firm value among healthcare companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022 using the ordinary least squares (OLS) regression model. Growth opportunities were viewed in terms of changes in total assets over time. The sample of 36 healthcare companies was

selected using purposive sampling. The Statistical Package for the Social Sciences (SPSS), Version 25, was used to examine the data. The results suggest that firms with higher growth opportunities experienced a decrease in market value. Investor confidence declined due to increased financing needs, variability in returns, overinvestment in assets, decline in profitability since investors perceived increase in growth prospects was risky. These findings differ with real options theory postulations that increased growth prospects have a negative effect on firm value. The theory postulates that growth prospects provide strategic options to invest, abandon and enlarge projects based on prevailing economic conditions.

Sardo and Serrasqueiro (2018) sought to examine whether financial performance was affected by growth opportunities of non-financial firms listed in 14 Western European countries between 2004 to 2015. This signifies low to moderate levels of growth prospects; firms are advantaged by enhanced financial performance due to improved growth prospects and increased sales potential. The research focused on non-financial firms in 14 Western European countries since they offer a wide cross-sectional signal whereas the study did not incorporate unique capital-intensive nature of manufacturing firms. In contrast, a study on manufacturing firms listed on the Nairobi Securities Exchange would address a more industry-specific context where firms are typically more asset-intensive, more sensitive to production and logistics constraints and often operate under different financial market development conditions.

Using secondary data from the financial report for the fiscal year 2015 to 2017, Melastiani and Sukartha (2021) investigated the relationship between growth opportunities and financial performance of banking companies listed on the Indonesia Stock Exchange. A sample of 22 companies were chosen using the purposeful sampling technique, and the data was analyzed using structural equation modeling using partial least squares. The study demonstrates that intellectual capital moderates the relationship between growth opportunities and financial performance. Structural Equation Modeling using Partial Least Squares is primarily suited for cross-sectional analysis, so applying it to a small panel dataset may fail to properly capture temporal dynamics, such as lagged effects, shocks or changes in firm behavior across the three years therefore there was need for another model that capture long panel data structure such as fixed effects model and random effects model.

Hermuningsih (2013) investigated how profitability, growth opportunities, and capital structure shape firm value using Structural Equation Modeling on 150 Indonesian listed companies between 2006 and 2010. Purposive sampling method was used to select samples which consisted of 150 companies. The findings revealed that financing structure, profitability and growth prospects positively affected firm value, signifying that strong growth prospects are essential for investors to decide on long-term variability in returns. However, the study focused on a single indicator of performance as a market-based outcome and did not examine financial stability, which is a multidimensional concept covering current ratio, solvency ratio and return on assets.

1.2 Objective of the Study

To examine the effect of growth opportunities on financial stability of manufacturing firms listed at the NSE

1.3 Hypothesis of the Study

Upon the analysis of the foregoing empirical literature and the underlying theoretical perspectives, the study proposed one hypothesis:

H01: There is no statistically significant effect of growth opportunities on financial stability of manufacturing firms listed at the NSE.

2. METHODOLOGY

The research focused on manufacturing firms listed on the Nairobi Securities Exchange which the principal securities market in Kenya. Positivism is particularly relevant because cash flow variability can be translated into a composite index, financial stability measured through financial metrics such as financial stability index. The study employed a descriptive and causal research design within a longitudinal panel-data framework. A census approach was adopted where all the 9 listed manufacturing firms for fifteen years were undertaken yielding 135 firm-year observations. The study used a secondary data collection sheet as the research instrument for gathering information on total assets, current assets, current liabilities, total debt and total equity over 15 years period.

The annual reports for the period between 2010 and 2024 were collected from the NSE website. The researcher collected data upon obtaining the necessary permits; ethical clearance from the Chuka University Ethics Committee and secure a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). Secondary data was obtained from the published financial statements, annual reports and NSE website and was guided by secondary data collection sheet. The process of analysing and presenting the data began with data processing, screening data for accuracy, completeness and free from error, editing and coding data in an excel sheet (Khan, 2022). This step involved detecting and correcting missing values, outliers and any errors in data entry. Once cleaned, the data was systematically coded and imported into Stata (Version 18) for statistical analysis. Data was analysed using descriptive statistics and inferential statistics.

Descriptive statistics such as mean, standard deviations, minimum, maximum, skewness and kurtosis were used to summarize key study variables and describe the characteristics of the data (Mishra et al., 2019). A correlation analysis was used to examine the strength and direction of the linear relationship among study variables (Alford & Teater, 2025). It helped to determine whether variations in one variable are associated with changes in another. The correlation coefficient ranges from –1 to +1 and where –1 indicates a perfect negative relationship, +1 indicates a perfect positive relationship and 0 indicates no linear relationship between the variables. A principal component analysis was used to calculate financial stability index. Data was presented using graphs and tables. To test the study hypotheses, panel ordinary least squares model was employed to assess the effect of the independent variables on the dependent variable. Diagnostic tests such as linearity, normality, heteroscedasticity, autocorrelation and multicollinearity were conducted to assess the appropriateness of the model. A Hausman test was conducted to determine the preference between fixed effects (FEM) and random effects (REM) models (Bollen & Brand, 2010).

3. RESULTS

3.1 Data Capture Rate

This study focused on manufacturing firms listed at the NSE as of 31st December 2025. The target population comprised of nine manufacturing listed firms observed over the period 2010 to 2024.

Filtering process was undertaken to ensure that only manufacturing firms with 15-year observations were selected for analysis. Two firms were excluded from the analysis due to incomplete data over the study period: one firm was under receivership for part of the study period, while the other had missing observations for several years. Consequently, the final sample had seven manufacturing firms observed over a 15-year period yielding 105 observations. Secondary data was extracted from annual reports of sampled firms on the NSE and CMA websites. Data was processed, screened for accuracy and completeness, edited and coded in an excel sheet before importing it into STATA 18 and Eviews Version 13 software packages for analysis.

3.2 Descriptive Statistics

Growth Opportunities are a firm's prospective investment possibilities that are expected to generate returns above its cost of capital (Bernardo *et al.*, 2007). Growth Opportunities were measured in terms of the annual percentage change in total assets of manufacturing firms listed on the NSE from 2010 to 2024. This measure reflects the extent to which a firm's asset base increases or decreases over time, thereby indicating its ability to invest in productive resources, expand its operations and pursue future investment opportunities. A high percentage for annual increase in total assets signifies strong growth opportunities because it could signify an increase in investment in non-current assets, current assets and current liabilities and increase in normal production capacity. Table 1 shows the descriptive statistics for growth opportunities.

Table 1: Growth Opportunities

Year	N	Mean	SD	Min	Max	Skewness	Kurtosis
2010	7	-0.0156	0.1309	-0.2060	0.1986	0.1933	2.3851
2011	7	0.0456	0.1338	-0.1547	0.2297	-0.1906	1.8259
2012	7	0.1361	0.1414	-0.0204	0.4203	1.1240	3.5511
2013	7	0.2522	0.6386	-0.2107	1.6423	1.7169	4.4645
2014	7	0.0440	0.1265	-0.1264	0.2542	0.4378	2.2512
2015	7	0.0608	0.2603	-0.4404	0.4341	-0.7438	3.5007
2016	7	0.0145	0.1201	-0.1882	0.1335	-0.6045	1.9975
2017	7	0.0498	0.1622	-0.2864	0.2133	-1.3685	3.8270
2018	7	-0.0010	0.1336	-0.2574	0.1719	-0.8474	3.2116
2019	7	-0.0182	0.2630	-0.5669	0.2220	-1.4050	3.8971
2020	7	-0.0075	0.1139	-0.2150	0.1320	-0.7070	2.6613
2021	7	-0.1079	0.1586	-0.4036	0.0299	-0.9191	2.6237
2022	7	0.0107	0.2142	-0.3834	0.2220	-0.8123	2.5947
2023	7	-0.0691	0.3231	-0.7865	0.1184	-1.8670	4.7843
2024	7	0.1533	0.2443	-0.0186	0.6890	1.7648	4.5904
Total	105	0.0365	0.2110	-0.2843	0.34075	-0.2819	3.2111

Table 1 shows that manufacturing firms listed at NSE experienced low and rapid changes in growth opportunities over the 15 years. The yearly average shows substantial changes in total assets. Growth opportunities had a mean of -0.0156 in 2010 signifying a slight decrease in the total assets of manufacturing firms listed at NSE. Nevertheless in 2011 change in total assets increased with a mean of 0.0456 and 0.1361 in 2012. This increase shows that there was improvement in growth prospects for the firms. In 2013 the manufacturing firms experienced the highest mean of 0.2522, revealing that the firms had the highest increase in total asset base. Change in Total assets decreased to 0.0440 in 2014 and remained relatively low in 2015 and 2016. There was a low improvement in 2017 even though growth opportunities declined negatively from 2018 to 2020 which signifies periods where some firms had reduction in the changes in total assets. This decline was more experienced in 2021 since it is the period with the lowest changes in total assets base of -0.0107 and declined to -0.0691 before increasing to 0.1533 in 2024. This increase could indicate new investment, asset growth and expansion projects among manufacturing firms.

The lowest value for changes in total assets was -0.7865 which was recorded in 2023, and it represents that some manufacturing firms had significant reductions in their total asset base. However, the highest value of changes in total assets was 1.6423 which was recorded in 2013, and it signifies that there was significant total assets expansion by some manufacturing firms. In 2013,2015,2019,2023 and 2024 had high standard deviations suggesting significant deviations in growth prospects among the firms across the years. The aggregate skewness coefficient was -0.2819 signifying a slight negatively skewed distribution suggesting that large deviations in total assets happened in some observations. Kurtosis value of 3.2111 was close to the standard normal distribution value of 3 indicating that growth opportunities distribution was close to normal distribution although it had few outliers.

3.3 Correlation Analysis

A correlation analysis was performed to determine the strength and direction of the linear relationship between the growth opportunities and financial stability. The results are shown in Table 2.

Table 2: Correlation Analysis of Growth Opportunities and Financial Stability

Variables	(1)	(2)
(1) GO	1.000	
(2) FSI	0.313***	1.000
	(0.001)	

**** p<0.01, ** p<0.05, * p<0.1*

The Pearson correlation coefficient between growth opportunities and financial stability is 0.313 as presented in Table 2, it shows positive but moderate relationship between the two variables, meaning that firms with greater growth opportunities have higher levels of financial stability. The positive coefficient implies that as growth opportunities increase, financial stability also tends to increase. The associated p-value of 0.001 is less than the 5% significance level and therefore the relationship was statistically significant leading to the rejection of the null hypothesis that there is no linear association between growth opportunities and financial stability. Although the relationship was statistically significant, the magnitude of the correlation (r = 0.313) indicates a moderate association between GO and FSI.

3.4 Growth Opportunities and Financial Stability

The objective was to evaluate the direct effect of growth opportunities on the financial stability of manufacturing firms listed at the NSE. Growth opportunities were proxied by change in total assets.

The analysis was guided by the following null hypothesis;

H_{O3}: There is no statistically significant effect of growth opportunities on financial stability of manufacturing firms listed at the NSE

The following regression model was adopted;

$$FS_{it} = \beta_0 + \beta_1 GO_{it} + \varepsilon_{it}$$

3.5 Diagnostic Tests

In this section, only the diagnostics, which include normality test, heteroskedasticity, autocorrelation and Hausman test for specification for the model.

3.5.1 Normality Test

The normality of the residuals for model was done using Jarque Bera is shown in Table 3.

Table 3 : Normality test for Growth Opportunities

Model	Chi-square	P-value
Growth Opportunities	1358	0.0001

Normality of the explanatory variables is not a standard assumption of OLS or panel regression. What is more relevant for inference is the behavior of the residuals. The test resulted in a chi-square statistic of 1358 and a p-value of 0.0001 as shown in Table 3. At the 5% significance level, the p-value is less than 0.05, so the null hypothesis that the data are normally distributed is rejected. This finding indicates that the distribution of Growth Opportunities significantly deviates from normality. Therefore, Growth Opportunities variable is not normally distributed. The departure from normality may be attributed to skewness, excess kurtosis or the presence of outliers in the data. Panel-Corrected Standard Errors estimation technique was used to reduce the influence of extreme observations.

3.5.2 Heteroscedasticity Test

Modified Wald Test for Groupwise Heteroskedasticity was applied to test the null hypothesis of homoscedasticity of the disturbance terms at 5% level of significance. The results are shown below in Table 4.

Table 4:Modified Wald Test for GO

Model 1	Chi-square	P-value
GO	1783.16	0.0000

The Modified Wald test for groupwise heteroscedasticity was performed to check if the error variance is constant across firms in the growth opportunities model. Accordingly, there is a heteroscedasticity since the calculated value of chi-square is 1783.16 at the level of significance of 0.0000 which is less than 0.05. Thus, we reject the null hypothesis of Modified Wald test for groupwise heteroscedasticity which suggests that error variances are not equal across firms. The presence of heteroscedasticity violates one of the classical regression assumptions and may result in biased standard errors, unreliable hypothesis tests, and misleading statistical inferences. Thus Panel-Corrected Standard Errors model was used to obtain efficient and reliable estimates.

3.5.3 Autocorrelation Test

Autocorrelation was tested using Wooldridge Test as shown in Table 5.

Table 5: Wooldridge Test for GO

Wooldridge test for autocorrelation in panel data
H0: no first order autocorrelation
F(1,6) = 10.025
Prob > F = 0.0194

The test resulted in an F-statistic of 10.025 and a p-value of 0.0194 as shown in Table 5. The result rejects the null hypothesis of no first-order autocorrelation at the 5% significance level since the p-value is less than 0.05, therefore, there is autocorrelation in the model's residuals. The existence of autocorrelation implies that the error terms are correlated over time and as a result PCSE was adopted to correct for the existence of autocorrelation.

3.5.4 Hausman Test

Hausman test for specification was employed to choose between the Fixed effects model and random effects model. The test results are displayed on Table 6.

Table 6: Hausman Test of GO

	GO
Chi-square test value	6.3907
P-value	0.0115

Table 6 presents the Hausman specification test which produced a chi-square statistic of 6.3907 with a p-value of 0.0115. The result rejects the null hypothesis that the random effects estimator is appropriate since the p-value is lesser than the 5% significance level (0.05). This suggests that there is a statistically significant difference between the fixed effects and random effects coefficient estimates, indicating that the unobserved individual-specific effects are correlated with the explanatory variables. Thus, the fixed effects model is preferred as it provides consistent and unbiased parameter estimates.

3.5.5 Panel Corrected Standard Errors Model

Panel corrected standard error model was conducted to correct for heteroscedasticity and autocorrelation and the results are shown in Table 7.

Table 7: PCSE for Growth Opportunities and Financial Stability

Variable	Coefficient	Std. Error	t-statistic	P>|t|
GO	0.4476	0.0639	7.0027	0.0000
Constant	-0.0163	0.0152	-1.0770	0.2842
R-squared=0.8822				
Wald Chi-square (1) =103.7811				
Prob > Chi-square=0.0000				

The model has an R-Squared of 0.8822, implying that 88.22% of the variation in financial stability is explained by growth opportunities. This indicates that the model has very high explanatory power, with only 11.78% of the variation attributable to other factors not included in the model. The Wald Chi-square statistic of 103.7811 with a corresponding p-value of 0.0000 indicates that the overall regression model is statistically significant. The findings demonstrate that growth opportunities exert a positive and statistically significant influence on financial stability. Table 7 shows that manufacturing firms that had strong growth prospects were likely to enhance their financial position because of the better investment opportunities for creating more cash flows, attraction of more investors, expansion in operations and enhanced profitability. The results revealed that manufacturing firms that focus on growth prospects enhance financial performance and meet their short-term and long-term obligations. The constant term was negative and insignificant, indicating that when growth opportunities were zero, financial stability was -0.0163 ($\beta = -0.0163$, $t = -1.0770$, $p = 0.2842$). Though the constant term was insignificant there is not sufficient evidence to justify that the negative constant term represented a significant effect on financial stability.

Growth opportunities had a positive and statistically significant effect on financial stability ($\beta = 0.4476$, $t = 7.0027$, $p = 0.0000$). These results revealed that holding other factors constant, a unit increase in growth opportunities results to 0.4476 unit increase in financial stability. The null hypothesis that there was no significant relationship between growth opportunities and financial stability was rejected. The results imply that increase in growth prospects improve financial

stability. The findings imply that firm managers should detect, come up and view growth prospects as an essential part of the long-term financial options. Investing in research and development, generating new products, expansion activities, advanced technology and partnerships that provide investment options for growth prospects. These strategies provide competitive edge while enhancing financial stability. Further, the management should detect variations in the market, assign resources to investment options on need basis and preserve financial expansion for competitive advantage.

The linear regression equation is presented as follows:

$$\widehat{\mathrm{FS}} = -0.0163 + 0.4476\mathrm{GO}$$

4. DISCUSSION

The results of the hypothesis demonstrate that growth opportunities had a positive effect on financial stability. The findings imply that firms with stronger growth opportunities are likely to contribute more significantly to economic development through increased investment, employment creation, innovation, and productivity growth. Consequently, policymakers should create an enabling business environment that encourages investment, entrepreneurship, innovation, and access to capital. Policies that foster growth opportunities can strengthen firms' resilience, promote sustainable industrial development, and enhance overall economic stability. Further, the findings suggest that managers should treat growth opportunities as strategic resources that directly contribute to financial stability. Managers should continuously scan the business environment for profitable investment opportunities, allocate resources efficiently to high-value projects, and maintain sufficient financial flexibility to exploit emerging opportunities. This study concluded that growth opportunities positively affected the financial stability of listed manufacturing firms and revealed that firms with increased changes in total assets were more likely to enhance forthcoming revenue capacity, increase cash flow and improve financial capacity. The results concur with real options theory which viewed growth prospects as investment options that allow firms to accept investing in profitable investments and enhance future financial stability.

According to Real Options Theory, firms with strong growth opportunities possess flexibility in making investment decisions, which enhances financial stability because managers can postpone irreversible investments during periods of economic uncertainty and commit resources when

conditions become favourable. This flexibility reduces the risk of financial distress by allowing firms to preserve liquidity and avoid overinvestment in unfavourable conditions. However, excessive pursuit of growth opportunities may also undermine financial stability if firms undertake risky expansion financed through debt or overestimate future returns, thereby increasing financial pressure and exposure to cash flow problems. The theory suggests that high-growth opportunities firms adopt conservative financing strategies to preserve future flexibility. Consistent with Real Options Theory, managers should view investment decisions as options that can be exercised, delayed, expanded, or abandoned depending on market conditions. By adopting a proactive investment strategy and preserving strategic flexibility, firms can improve long-term financial stability while maximizing shareholder value.

The findings of the current study are consistent with those of Sardo and Serrasqueiro (2018), who examined the effect of growth opportunities on the financial performance of non-financial firms and found that improved growth prospects and increased sales potential enhanced financial performance. Similarly, the findings concur with those of Hermuningsih (2013), who established that financing structure, profitability, and growth prospects positively influenced firm value. These studies support the argument that growth opportunities can improve firm performance and contribute to financial stability. However, the findings differ from those of Whetyningtyas et al. (2025), who found that firms with higher growth opportunities experienced a decline in market value. This difference may be attributed to the distinct outcome variables examined, since the current study focused on financial stability, whereas Whetyningtyas et al. (2025) examined market value. Consequently, although growth opportunities may enhance a firm's financial stability by strengthening its operational capacity and potential to generate future cash flows, they may not necessarily translate into higher market value.

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