

Herding Behaviour and Stock Market Performance at the Nairobi Securities Exchange, Kenya

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Abstract

Herding behaviour has increasingly attracted attention within behavioral finance due to its influence on investment decision-making and stock market outcomes. Unlike traditional finance theories that assume investors make rational decisions based on available information, behavioural finance suggests that investors frequently imitate the actions of other market participants, particularly under conditions of uncertainty. Such collective investment behaviour may distort price discovery, increase market volatility, and reduce market efficiency. This study examined the influence of herding behaviour on stock market performance at the Nairobi Securities Exchange, Kenya. The study was anchored on Behavioral Finance Theory and adopted a positivist research philosophy, quantitative research approach, and descriptive and correlational research designs. The target population comprised 68,500 retail investors trading through licensed investment banks and brokerage firms, from which a sample of 398 respondents was selected using simple random sampling. Primary data were collected using structured questionnaires that were subjected to validity and reliability testing before the main survey. Quantitative data were analysed using descriptive statistics, Pearson Product Moment Correlation, and simple linear regression analysis. The study achieved a response rate of 361. The findings established that herding behaviour exhibited a positive and statistically significant relationship with stock market performance. Regression analysis further demonstrated that herding behaviour significantly predicted stock market performance, leading to the rejection of the null hypothesis. The study concluded that herding behaviour significantly influences trading activity, price movements, market liquidity, and overall stock market performance at the Nairobi Securities Exchange. The study recommends strengthening investor education programs, improving market information dissemination, and enhancing financial literacy initiatives to encourage independent investment decision-making and improve market efficiency.

Keywords: *Herding behaviour, behavioural finance, retail investors, stock market performance, Nairobi Securities Exchange, Kenya.*

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1. Introduction

Stock markets play a fundamental role in mobilizing savings, facilitating capital formation, enhancing liquidity, and supporting economic growth by enabling businesses to access long-term financing while providing investors with opportunities to accumulate wealth through equity investments (Mishkin & Eakins, 2022; International Monetary Fund, 2024). According to the Efficient Market Hypothesis (EMH), stock prices are expected to fully reflect all publicly available information because investors make rational decisions based on objective evaluation of market information (Fama, 1970; Malkiel, 2023). However, empirical evidence increasingly demonstrates that investor behaviour is often influenced by psychological, emotional, and cognitive factors that cause deviations from rational decision-making. Consequently, behavioural finance has emerged as an important theoretical perspective for explaining investment decisions and market anomalies that traditional finance theories cannot adequately explain (Kahneman, 2011; Thaler, 2018). Behavioural biases influence trading decisions, stock price movements, market volatility, and overall market performance, particularly in markets characterized by information asymmetry and significant retail investor participation (Barberis, 2018; Baker et al., 2023).

Among the behavioural biases identified in behavioural finance, herding behaviour has attracted considerable attention because of its influence on collective investment decisions and market outcomes. Herding behaviour refers to the tendency of investors to imitate the actions of other market participants rather than relying on independent analysis of available financial information (Bikhchandani & Sharma, 2021; Chang et al., 2022). Such behaviour is often driven by uncertainty, perceived informational advantages of other investors, and fear of making incorrect investment decisions. Consequently, synchronized trading decisions may amplify stock price fluctuations, increase market volatility, and weaken price discovery, resulting in temporary deviations of market prices from underlying economic fundamentals (Chen et al., 2021; Hwang & Salmon, 2022). Empirical evidence from developed and emerging markets consistently shows that herding behaviour contributes to speculative trading and influences stock market performance, particularly during periods of economic uncertainty and heightened investor sentiment (Shiller, 2022; Kumar & Goyal, 2024).

In Africa, expanding financial inclusion, technological innovation, and increased retail investor participation have strengthened the relevance of behavioural finance in explaining stock market dynamics. Studies conducted in Egypt, Ghana, Nigeria, and South Africa have reported that herding behaviour significantly influences trading patterns, market volatility, and investment performance, particularly during periods of macroeconomic and political uncertainty (Abdallah & Fayed, 2022; Mensah & Nketiah, 2023; Kapingura & Ikhide, 2022). Similarly, the Nairobi Securities Exchange (NSE) has experienced fluctuations in trading volumes, market capitalization, and stock prices despite ongoing regulatory reforms and technological advancements (Capital Markets Authority, 2024; Kenya National Bureau of Statistics, 2023). While macroeconomic conditions partly explain these fluctuations, increasing retail investor participation has heightened concerns regarding the influence of herding behaviour on stock market performance (Kamau & Mwangi, 2022; Waweru & Ochieng, 2023).

Despite growing interest in behavioural finance, existing studies in Kenya have primarily focused on macroeconomic and institutional determinants of stock market performance, with limited attention devoted to the specific influence of herding behaviour among retail investors

(Ngugi & Nyaga, 2022; Nyaga & Kirui, 2024). Moreover, many studies have examined behavioural biases collectively, providing limited empirical evidence on the independent contribution of herding behaviour to stock market performance. This study therefore examined the influence of herding behaviour on stock market performance at the Nairobi Securities Exchange, Kenya, with the aim of contributing empirical evidence to behavioural finance literature and providing insights for investors, regulators, and financial institutions seeking to enhance market efficiency and investment decision-making.

1.1 Problem Statement

Efficient stock markets are expected to facilitate capital formation, enhance liquidity, promote price discovery, and allocate financial resources efficiently by ensuring that stock prices reflect available information and underlying economic fundamentals (Fama, 1970; Mishkin & Eakins, 2022). However, behavioural finance literature demonstrates that investors frequently deviate from rational decision-making due to psychological influences, resulting in collective investment behaviour that distorts market efficiency and influences stock market performance (Kahneman, 2011; Thaler, 2018). Globally, episodes of excessive market optimism and pessimism have increasingly been attributed to investor sentiment and herd behaviour rather than changes in economic fundamentals (Shiller, 2022; Baker et al., 2023).

Within emerging financial markets, herding behaviour is particularly prevalent because retail investors often operate under conditions of information asymmetry, limited financial literacy, and heightened uncertainty. Instead of conducting independent analysis, investors frequently imitate prevailing market trends or the decisions of perceived informed investors, leading to synchronized trading, speculative investment, temporary asset mispricing, and increased market volatility (Bikhchandani & Sharma, 2021; Chang et al., 2022). These behavioural tendencies reduce market efficiency by causing stock prices to deviate from their intrinsic values (Chen et al., 2021; Hwang & Salmon, 2022).

The Nairobi Securities Exchange (NSE) has experienced persistent fluctuations in trading volumes, stock prices, and market capitalization despite continued regulatory reforms. Market capitalization increased only marginally from approximately KES 2.6 trillion in 2020 to KES 2.8 trillion in 2023, while the NSE All Share Index declined by about 8.5% in 2022 before a modest recovery, suggesting that market performance cannot be fully explained by macroeconomic fundamentals alone (Capital Markets Authority, 2024; Kenya National Bureau of Statistics, 2023). Despite increasing retail investor participation, existing studies in Kenya have largely focused on macroeconomic and institutional determinants of stock market performance, with limited empirical attention devoted to the independent influence of herding behaviour (Kinyua & Omondi, 2022; Nyaga & Kirui, 2024). This conceptual and empirical gap necessitated the present study, which examined the influence of herding behaviour on stock market performance at the Nairobi Securities Exchange, Kenya.

1.2 Research Objective

To establish the influence of herding behaviour on stock market performance at the Nairobi Securities Exchange, Kenya.

1.3 Research Hypothesis

H₀₁: Herding behaviour has no statistically significant influence on stock market performance at the Nairobi Securities Exchange, Kenya.

2. Literature Review

2.1 Theoretical Review

This study was anchored on Behavioral Finance Theory, which explains why investors often deviate from rational decision-making by relying on psychological, emotional, and social influences when making investment decisions. Unlike traditional finance theories, particularly the Efficient Market Hypothesis (EMH), which assume that investors process information objectively and that security prices fully reflect available information, Behavioral Finance Theory argues that cognitive limitations and behavioural biases significantly influence investment decisions and financial market outcomes (Thaler, 2021; Barberis & Thaler, 2022). The theory therefore provides an appropriate framework for explaining the influence of herding behaviour on stock market performance.

Behavioral Finance Theory emerged to address market anomalies that could not be explained by rational choice models, including speculative bubbles, excessive market volatility, stock market crashes, and persistent deviations of stock prices from their intrinsic values (Fama, 1970; Shiller, 2022). Drawing on principles from psychology and economics, the theory posits that investors frequently rely on heuristics and behavioural shortcuts when making financial decisions under uncertainty (Kahneman, 2011; Thaler, 2018). One of the key behavioural biases explained by the theory is herding behaviour, whereby investors imitate the actions of other market participants based on the belief that others possess superior information or investment expertise rather than undertaking independent financial analysis (Bikhchandani & Sharma, 2021; Chang et al., 2022). Such collective behaviour often results in synchronized buying or selling, increased market volatility, and temporary deviations of stock prices from their fundamental values (Hwang & Salmon, 2022; Chen et al., 2021).

The theory further suggests that persistent herding behaviour weakens market efficiency by encouraging speculative trading, reducing informational efficiency, and amplifying market fluctuations, particularly in emerging capital markets characterized by information asymmetry and limited investor sophistication (Baker et al., 2023; Kumar & Goyal, 2024). Although critics argue that the theory places greater emphasis on psychological factors than on macroeconomic and institutional influences, it remains one of the most widely accepted frameworks for explaining investor behaviour and financial market anomalies (Barberis & Thaler, 2022; Fama, 2021). The theory was therefore appropriate for this study because it explains how retail investors at the Nairobi Securities Exchange may imitate prevailing market trends under conditions of uncertainty, thereby influencing trading activity, stock price movements, market liquidity, and overall stock market performance.

2.2 Empirical Review

2.2.1 Herding Behaviour and Stock Market Performance

Herding behaviour is one of the most widely investigated behavioural biases in finance because it explains investors' tendency to imitate the actions of other market participants instead of relying on independent financial analysis. The behaviour is common during periods of uncertainty when investors perceive others to possess superior information or investment expertise. Consequently, investment decisions become driven by prevailing market trends rather than objective evaluation of economic fundamentals, influencing stock price movements, market volatility, and overall stock market performance (Bikhchandani & Sharma,

2021; Chang et al., 2022). Psychological factors such as fear of missing profitable opportunities, uncertainty, and overreliance on peer decisions further reinforce herd behaviour, resulting in synchronized buying and selling that weakens market efficiency and contributes to temporary asset mispricing (Chen et al., 2021; Hwang & Salmon, 2022).

Evidence from developed markets consistently demonstrates that herding behaviour significantly influences stock market performance. Bikhchandani and Sharma (2021) reported that investors frequently imitated prevailing market trends during periods of uncertainty, thereby amplifying stock price fluctuations. Similarly, Chen et al. (2021) found that synchronized trading increased market volatility and temporary deviations of stock prices from intrinsic values, while Hwang and Salmon (2022) observed that herd behaviour intensified during periods of financial instability, contributing to inefficient price discovery. Collectively, these studies demonstrate that herding behaviour remains an important behavioural determinant of stock market performance across developed capital markets.

Comparable findings have been reported in emerging economies. Rahman and Santos (2021) found that Indonesian retail investors relied heavily on market sentiment instead of independent financial analysis, resulting in synchronized investment decisions and increased market volatility. Likewise, Wibowo et al. (2022) established that information asymmetry and limited financial literacy strengthened herd behaviour, while Lima and Rodrigues (2022) reported that economic uncertainty intensified collective investment behaviour and speculative trading in Brazil. These findings suggest that herding behaviour becomes more pronounced in emerging markets characterized by evolving institutional structures and expanding retail investor participation.

Evidence from Africa also confirms the influence of herding behaviour on stock market performance. Abdallah and Fayed (2022) found that Egyptian investors increasingly exhibited herd behavior during periods of macroeconomic uncertainty, while Mensah and Nketiah (2023) reported similar findings in Ghana, where investor imitation contributed to market volatility and reduced price efficiency. In Kenya, Kamau and Mwangi (2022), Ngugi and Nyaga (2022), and Waweru and Ochieng (2023) observed that retail investors frequently relied on peer influence, market sentiment, and corporate news when making investment decisions, significantly affecting trading activity and stock market performance at the Nairobi Securities Exchange. Despite these findings, limited empirical studies have isolated the independent effect of herding behaviour using primary data from retail investors in Kenya. This study addressed this conceptual and contextual gap by examining the influence of herding behaviour on stock market performance at the Nairobi Securities Exchange, thereby contributing localized empirical evidence to the behavioural finance literature.

2.3 Conceptual Framework

The conceptual framework illustrates the proposed relationship between the independent and dependent variables, as presented in Figure 1.

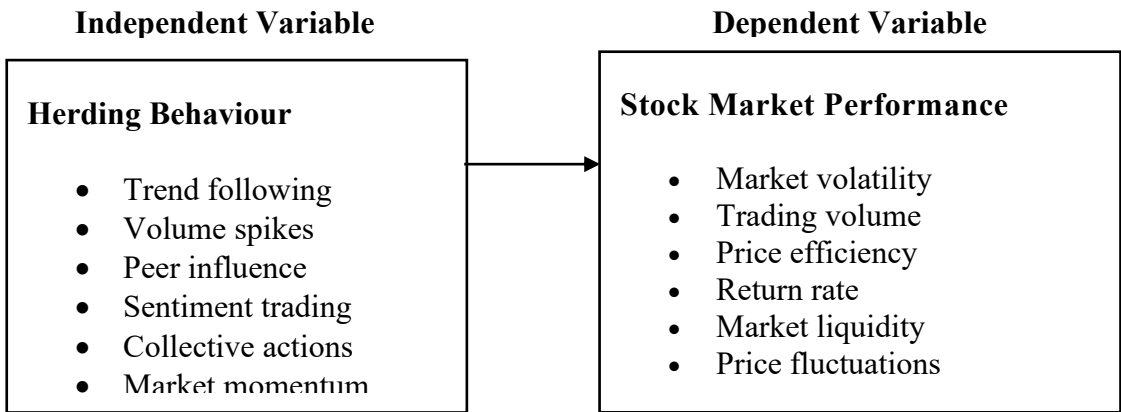


Figure 1: Conceptual Framework

3. Methodology

The study adopted a quantitative research approach using descriptive and correlational research designs to examine the influence of herding behaviour on stock market performance at the Nairobi Securities Exchange, Kenya. The descriptive research design was used to examine the behavioural characteristics of retail investors, while the correlational research design established the relationship between herding behaviour and stock market performance (Fowler, 2021; Creswell & Creswell, 2023).

The target population comprised 68,500 retail investors holding Central Depository System (CDS) accounts within ten active investment banks and stock brokerage firms participating in trading at the Nairobi Securities Exchange. Retail investors constituted the respondents because they were directly involved in investment decision-making and therefore possessed adequate knowledge of behavioural biases influencing stock market performance. Simple random sampling was employed to select a sample of 398 respondents, determined using Yamane's (1967) sample size formula. Data were collected using a structured questionnaire comprising demographic information and five-point Likert-scale items measuring herding behaviour and stock market performance. A pilot study involving approximately 10% of the sample (40 respondents) was conducted to assess instrument validity and reliability. Content validity was established through expert review, while reliability was assessed using Cronbach's Alpha, with a minimum acceptable coefficient of 0.70 (Hair et al., 2021; Saunders et al., 2022).

The collected data were coded and analysed using Statistical Package for the Social Sciences (SPSS) Version 27. Descriptive statistics were used to summarize the study variables, while Pearson Product Moment Correlation and simple linear regression examined the relationship and predictive influence of herding behaviour on stock market performance. Prior to inferential analysis, diagnostic tests for normality, heteroscedasticity, multicollinearity, autocorrelation, and linearity confirmed that the data satisfied the assumptions of regression analysis. Statistical significance was evaluated at the 5% significance level ($p < 0.05$) (Gujarati & Porter, 2020; Field, 2021).

4. Results and Discussion

4.1 Response Rate

The study targeted 398 retail investors drawn from selected investment banks and brokerage firms participating in trading activities at the Nairobi Securities Exchange. Of the distributed questionnaires, 372 were completed and returned, representing a response rate of 93.5%, while 26 questionnaires were not returned, representing 6.5%. After data screening, 11 questionnaires were excluded due to incomplete responses, leaving 361 usable questionnaires for analysis, representing an effective response rate of 90.7%. According to Babbie (2021), response rates exceeding 70% are considered adequate for quantitative survey research because they minimize non-response bias and enhance the reliability of statistical analysis. Consequently, the achieved response rate was considered satisfactory for subsequent descriptive and inferential statistical analyses.

Table 1: Response Rate

Response Category	Frequency	Percentage (%)
Returned questionnaires	372	93.5
Unreturned questionnaires	26	6.5
Total distributed questionnaires	398	100.0

The high response rate was attributed to effective coordination with participating investment banks and brokerage firms, prior authorization from the relevant institutions, and continuous follow-up during data collection. Following data screening, 361 questionnaires were confirmed suitable for statistical analysis. The high participation rate enhanced the representativeness of the sample and increased confidence in the reliability and generalizability of the study findings regarding herding behaviour among retail investors at the Nairobi Securities Exchange.

4.2 Descriptive Analysis of Herding Behaviour

The study examined respondents' perceptions of herding behaviour as a behavioural bias influencing stock market performance at the Nairobi Securities Exchange. The findings indicated general agreement that herding behaviour significantly influenced investment decisions among retail investors. Market momentum recorded the highest mean score ($M = 4.02$, $SD = 0.791$), suggesting that investors were highly influenced by prevailing market trends when making investment decisions. Similarly, trend following recorded a mean score of 3.94 ($SD = 0.842$), indicating that many respondents relied on observable market movements rather than conducting independent financial analysis. Reactions to volume spikes also recorded a relatively high mean score ($M = 3.88$, $SD = 0.903$), demonstrating that unusual trading activity influenced investors' buying and selling decisions.

The findings further revealed moderate agreement regarding the influence of collective behaviour on investment decisions. Following the actions of other investors recorded a mean score of 3.81 ($SD = 0.874$), while peer influence recorded a mean of 3.76 ($SD = 0.957$). These findings suggest that retail investors frequently considered the actions and opinions of other market participants when making investment decisions, reflecting the presence of synchronized trading behaviour within the Nairobi Securities Exchange.

Sentiment trading recorded the lowest mean score ($M = 3.69$, $SD = 1.011$), indicating that although emotions and prevailing market sentiment influenced investment decisions, they were comparatively less influential than market momentum and trend following. Nevertheless, respondents generally agreed that sentiment remained an important behavioural factor affecting trading decisions. Strengthening investor financial literacy and promoting independent investment analysis would therefore help reduce excessive reliance on collective market behaviour and improve investment decision-making.

The aggregate mean score of 3.85 ($SD = 0.896$) confirmed overall agreement that herding behaviour significantly influenced investment decisions among retail investors. These findings support Behavioral Finance Theory, which argues that investors frequently rely on psychological cues, social interactions, and the observable actions of other market participants rather than objective financial information when making investment decisions under conditions of uncertainty (Thaler, 2018; Barberis & Thaler, 2022).

Table 2: Descriptive Analysis of Herding Behaviour (N = 361)

Statement	N	Mean	SD
I engage in trend following when making investment decisions.	361	3.94	0.842
I react to volume spikes in actively traded stocks.	361	3.88	0.903
My decisions are influenced by peer influence.	361	3.76	0.957
I rely on sentiment trading when evaluating investments.	361	3.69	1.011
I follow collective actions of other investors.	361	3.81	0.874
Market momentum affects my investment decisions.	361	4.02	0.791
Aggregate Mean / SD		3.85	0.896

4.3 Descriptive Analysis of Stock Market Performance

The study examined respondents' perceptions of stock market performance at the Nairobi Securities Exchange using indicators of market volatility, trading volume, price efficiency, return rates, market liquidity, and price fluctuations. The findings indicated general agreement that these market conditions significantly influenced investment decisions among retail investors. Price fluctuations recorded the highest mean score ($M = 4.12$, $SD = 0.748$), suggesting that changes in stock prices strongly influenced respondents' trading strategies. Similarly, market volatility recorded a mean score of 4.08 ($SD = 0.771$), while return rates recorded a mean of 4.01 ($SD = 0.796$), indicating that investors closely considered market uncertainty and expected returns when making investment decisions. Trading volume also recorded a relatively high mean score ($M = 3.94$, $SD = 0.842$), demonstrating that active market participation influenced investor behaviour.

The findings further revealed moderate agreement regarding the influence of market liquidity and price efficiency on stock market performance. Price efficiency recorded a mean score of 3.87 ($SD = 0.904$), while market liquidity recorded the lowest mean score of 3.83 ($SD = 0.917$). These findings suggest that retail investors considered efficient pricing mechanisms and adequate market liquidity important in supporting investment decisions and facilitating trading activities. However, the comparatively lower mean for market liquidity indicates that investors perceived liquidity conditions to be less influential than price movements and market volatility.

The aggregate mean score of 3.98 (SD = 0.830) confirmed overall agreement that stock market performance was influenced by changing market conditions, trading activity, and investor behaviour. These findings support Behavioral Finance Theory, which posits that stock market performance is shaped not only by economic fundamentals but also by investor psychology, market sentiment, and collective behavioural responses that influence trading decisions and price movements (Thaler, 2018; Barberis & Thaler, 2022).

Table 3: Descriptive Analysis of Stock Market Performance (N = 361)

Statement	N	Mean	SD
Market volatility affects stock performance.	361	4.08	0.771
Trading volume influences market outcomes.	361	3.94	0.842
Price efficiency reflects market conditions.	361	3.87	0.904
Return rate determines investment decisions.	361	4.01	0.796
Market liquidity affects trading behaviour.	361	3.83	0.917
Price fluctuations influence my strategies.	361	4.12	0.748
Aggregate Mean / SD		3.98	0.830

4.4 Bivariate Correlation Analysis

The results presented in Table 4 indicate a statistically significant positive relationship between herding behaviour and stock market performance ($r = 0.541$, $p < 0.05$). This suggests that increased investor imitation, trend following, peer influence, sentiment trading, collective investor actions, and market momentum are associated with improved stock market performance. The findings imply that retail investors who exhibit higher levels of herding behaviour are more likely to influence trading activity, market liquidity, stock price movements, and overall market performance than investors who rely primarily on independent financial analysis.

The positive and statistically significant relationship further demonstrates that herding behaviour is an important behavioural determinant of stock market performance. Investors who follow prevailing market trends and the actions of other market participants are more likely to make synchronized investment decisions that influence market dynamics and price movements. These findings are consistent with previous empirical studies, which established that herding behaviour contributes to speculative trading, increased market volatility, synchronized investment decisions, and changes in stock market performance (Baker et al., 2022; Nofsinger, 2022).

The findings also support Behavioral Finance Theory, which argues that investment decisions are frequently influenced by psychological factors, social interactions, and collective market sentiment rather than purely objective evaluation of financial information (Thaler, 2018; Barberis & Thaler, 2022). The results therefore demonstrate that herding behaviour plays a significant role in shaping stock market performance at the Nairobi Securities Exchange.

Table 4: Pearson Correlation Analysis

Category	X ₁	Y
Herding Behaviour (X₁)		
Pearson Correlation	1	
Sig. (2-tailed)		
N	361	
Stock Market Performance (Y)		
Pearson Correlation	.541**	1
Sig. (2-tailed)	.000	
N	361	361

Correlation is significant at the 0.05 level (2-tailed).

4.5 Bivariate Linear Regression Analysis

The hypothesis examined whether herding behaviour significantly influences stock market performance at the Nairobi Securities Exchange. The null hypothesis (H_{01}) stated that herding behaviour has no statistically significant influence on stock market performance. The model summary results presented in Table 5 indicate a correlation coefficient (R) of 0.541, suggesting a moderate positive relationship between herding behaviour and stock market performance. The coefficient of determination ($R^2 = 0.293$) indicates that approximately 29.3% of the variation in stock market performance is explained by herding behaviour. The adjusted R^2 value of 0.291 further confirmed the stability of the regression model after adjusting for sample size. These findings suggest that investor imitation, trend following, peer influence, sentiment trading, and collective trading behaviour significantly contribute to stock market performance.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.541	.293	.291	.614

a. Dependent Variable: Stock Market Performance

b. Predictors: (Constant), Herding Behaviour

The ANOVA results presented in Table 6 further confirmed the validity of the regression model. The findings revealed an F-statistic of 149.287 with a p-value of 0.000, indicating that the model was statistically significant at the 95% confidence level. This implies that the relationship between herding behaviour and stock market performance was not due to chance but represented a genuine predictive relationship.

Table 6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	56.284	1	56.284	149.287	.000
Residual	135.351	359	.377		
Total	191.635	360			

a. Dependent Variable: Stock Market Performance

b. Predictors: (Constant), Herding Behaviour

The regression coefficients presented in Table 7 indicate that herding behaviour had a positive and statistically significant influence on stock market performance ($\beta = 0.612$, Beta = 0.541, $t = 12.218$, $p = 0.000$). This implies that a one-unit increase in herding behaviour results in a corresponding 0.612-unit increase in stock market performance, holding other factors constant. Since the significance level was below 0.05, the null hypothesis (H_{01}), which stated that herding behaviour has no statistically significant influence on stock market performance at the Nairobi Securities Exchange, was rejected. The findings demonstrate that investor imitation, trend following, peer influence, and collective trading behaviour significantly influence stock market performance among retail investors.

Table 7: Regression Coefficients

Predictor	Unstandardized Coefficients (β)	Std. Error	Standardized Coefficient (Beta)	t	Sig.
Constant	1.284	.214	–	5.999	.000
Herding Behaviour	.612	.050	.541	12.218	.000

Dependent Variable: Stock Market Performance

5. Conclusion

The study concluded that herding behaviour has a positive and statistically significant influence on stock market performance at the Nairobi Securities Exchange. The findings established that investor imitation, trend following, market momentum, peer influence, and sentiment-driven investment decisions significantly influence trading activity, stock price movements, market liquidity, and overall market performance. Both correlation and regression analyses confirmed that herding behaviour is a significant predictor of stock market performance, leading to the rejection of the null hypothesis. The study therefore concludes that herding behaviour is an important behavioural determinant of stock market performance, demonstrating that investment decisions within emerging capital markets are shaped not only by economic fundamentals but also by psychological and social influences.

6. Recommendations

The study recommends that the Capital Markets Authority, the Nairobi Securities Exchange, investment banks, and brokerage firms strengthen investor education programmes to encourage independent investment analysis and reduce excessive reliance on herd behaviour. Investor education initiatives should emphasize behavioural finance principles, critical evaluation of

market information, portfolio diversification, and evidence-based investment decision-making to minimize irrational trading behaviour and improve market efficiency.

The study further recommends that investment advisors and financial institutions incorporate behavioural finance into investor advisory and financial literacy programmes. Equipping retail investors with the knowledge and skills to recognize and manage behavioural biases will promote rational investment decisions, improve the quality of portfolio management, and reduce excessive market volatility associated with synchronized trading behaviour.

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