DECLARATION

I declare that, this project is my own original work and has not been presented for award of any degree in any university.

Signed: ___________________________       Date  ________________

Charles Katua Kithandi
D53/OL/CTY/24718/2014

This research project has been submitted for examination with my approval as the university supervisor.

Signed: ___________________________       Date  ________________

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DEDICATION

This project is dedicated to my dear parents Mr. Frederick Mbindyo and Mrs. Loise Mutiwa for their love, support, and encouragement.

May Almighty Lord bless you all.
ACKNOWLEDGEMENT

I thank the Almighty God for the strength and good health that he has continually given as I pursue my education. Through His abundance favor and grace this research proposal has been a success. I recognize and thank my supervisor Dr. Gerald Atheru who guided me all along the process. It is through his support, patience and tireless efforts that has brought this research proposal this far. I thank my dear parents for their spiritual, financial and emotional support throughout my studies. Lastly but not least, I sincerely appreciate my classmate, lecturers and the entire Kenyatta University fraternities who have been of great help in my academic journey and who have always helped me make this proposal and my academic goals a reality.
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OPERATIONAL DEFINITION OF TERMS

Capital Structure: The particular distribution and application of equity and debt that make up firm’s finances.

Equity capital: The debt free capital such as retained earnings.

Debt Capital: Capital from loan borrowings.

Debt Capital loaned to a firm and is repayable in near future.

Debt Ratio: The ratio of total debt i.e. both short term debt and long-term debt to total assets. This ratio is expressed as a percentage or decimal.

It shows the proportion of debt that has been utilized to finance a company's assets.

Financial Leverage: It refers to application of debt financing and borrowed capital in an attempt to increase firm’s operations and profitability.

Financial performance: This refers to the general well-being of a firm as far as finance is concerned over a certain period of time

Interest coverage ratio: This shows the ability of a firm to pay interest expenses for all outstanding debt

Return on assets: A ratio that shows firms ability to generate earnings from its assets

Return on equity: A ratio that indicates proportion of income generated in relation to shareholders equity.
<table>
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<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>D/E</td>
<td>Debt Equity Ratio</td>
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<td>ICR</td>
<td>Interest Coverage Ratio</td>
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<td>KENGEN</td>
<td>Kenya Power Generation Co. Ltd</td>
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<td>MBVE</td>
<td>Market Book Value of Equity</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<td>P/E</td>
<td>Price/Earnings Ratio</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<td>ROI</td>
<td>Return on Investment</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>STDTA</td>
<td>Short Term debt to total assets ratio</td>
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ABSTRACT

The main objective of a firm is maximization of shareholders wealth. In attempt to achieve this objective the shareholders appoint management board to oversee the firm’s operations. The management board then utilizes the firm’s capital components of debt and equity at their disposal to achieve this objective. The puzzle of financial managers is the optimal capital structure mix of debt and equity that will ensure the main objective of maximization of shareholders wealth is achieved. One of the key indicators of a firm that is achieving this objective is improved financial performance. In attempt to improve the financial performance of a firm the financial managers may have to increase the company’s debt component. This use of debt by a firm to finance and increase its operation to improve financial performance of the firm is referred to as financial leverage. This means that financial leverage is a form borrowing (debt) or a loan that is given to a firm to finance its operations. The proceeds of debt/borrowings are usually reinvested to earn a greater return as compared to the cost of debt financing/interest. This research was directed towards assisting the financial managers in determining whether financial leverage affects financial performance. Financial leverage measurement includes use of debt ratio, debt-equity ratio and interest coverage ratio which are vital since they directly affect the financial performance of firms. This study was anchored on the following research objectives; to establish the effect of debt ratio, debt-equity ratio and interest coverage ratio on financial performance of energy and petroleum sector companies listed in the Nairobi Securities Exchange. The study was anchored on the following theories; Modigliani-Miller theorem, the Pecking Order Theorem and the Trade-off Theorem. The study utilized census since the population size is small. All the five companies from the energy and petroleum sector listed in the Nairobi Securities Exchange were studied. Energy and petroleum sector is a key sector and player in industrialization of any nation and a key support sector of all other sectors in any economy. The study utilized secondary data that was mainly collected from the published financial statements of these companies. Explanatory research design was used. Quantitative secondary data was collected and analyzed using statistical package for the social sciences. This data was also represented using measures of central tendency such as mean, frequencies, percentages and measures of dispersion such as standard deviation. The study ran a multiple regression equation to determine the relationship between the variables in the study and to estimate the models for the study. Descriptive statistics was used to analyze data. In order to draw a conclusion and make recommendations, the analyzed data was further presented in tables, charts and graphs. On the effect of debt ratio on return on assets the study indicated that as the debt ratio increased the return on assets decreased. On the effect of debt equity ratio on return on return on assets the study indicated that as debt equity ratio increased the return on assets decreased. In summary the results indicated that there is a negative relationship between financial leverage and financial performance of petroleum and energy sector firms listed in the Nairobi Securities Exchange.
CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Firms use either debt/financial leverage or owners’ capital to finance a firm. Financial leverage refers to application of debt financing and borrowed capital in an attempt to increase firm’s operations and profitability. Financial leverage is majorly measured through expressing long term liabilities to equity of a firm. A firm is considered leveraged when the firm is partially financed by both debt and equity. Most firms survive with a significant liquidity level which is mainly achievable through use of debt. Many companies use debt to leverage their profits and capital. This means companies are likely to use debt/leverage to increase assets which in turn increase production and profits.

Debt bears a fixed cost. This means that when a firm increases debt level, the financial leverage level increases. Leverage is the use of borrowed funds for investment purposes (Gatsi, Gadzo & Akoto, 2013). When firm’s management increases the firms profit by using debt element it is an indication of quality corporate governance (Singapurwoko & El-Wahid, 2011). Firm’s investments can be finance by use of either debt or equity. When a firm uses fixed-charged funds especially preference capital and debt along with the shareholder’s equity this is referred to as financial leverage or gearing (Moses and Steve, 2010). When a company’s capital structure is made of only shareholders / owners’ equity only it’s said to be unlevered firm whereas when a firm’s capital structure is made of both debt and owners’ equity it is said to be levered (Olweny and Mamba, 2011). Financial leverage can be informed of a loan or inform of debt (other
borrowing). Financial leverage proceeds are reinvested to earn a greater return more than interest expense and cost incurred due to debt acquisition. (Cheng and Tzeng, 2010). This means that if a company’s marginal rate of return on asset is higher than the company’s marginal rate of interest expense payable on the debt, then the company should increase the debt level since it will also increase return on equity. Contrary, when the company’s return on asset is lower than the interest rate payable on debt/loan acquisition, the firm should not borrow since borrowing will reduce the firms return on equity, (Athanasoglou, Brissimis and Delis, 2006).

Leverage gives room for increased returns to the investor if available, however it can lead to greater potential loss especially when the investment becomes worthless and the borrowed amount have to be paid with the interest, (Andy et al., 2002). This leads to potential financial risk that may lead to financial loss, (Pandey; 2008). The degree of this potential financial risk is associated to the company’s capital structure.

A firm’s financial structure in most instances consist of preferred stock, common equity and the long term and short-term liabilities. This means that the means and ways in which a company finances its assets then constitutes to the company’s financial structure. Consequently, if the company’s short-term liabilities are excluded from the company’s financial structure we obtain the company’s capital structure. In other words, the company’s long-term liabilities consisting of preferred stock, common equity, and long-term debt/loan is referred as capital structure (Banice Olive, 2012). Therefore, the main objective of financial management in a company is structuring the company’s capital structure components in a manner that ensure maximization of shareholders wealth as the key measure of management’s performance. This study will therefore analyze the effects of financial leverage on financial performance which is an indicator of shareholders wealth maximization, (Molyneuxand Thorton, 1992).
1.1.1 Financial Leverage

Financial leverage is the company’s ability to utilize fixed financial charges to increase the earnings before interest and tax of a company’s earnings per share. In the event that a company does not utilize fixed cost bearing securities, earnings before interest and tax will change and consequently lead to change in earnings per share. If a firm has no fixed financial charges especially preference dividend and interest it’s an indication of financial leverage (Pandey, 2019). Financial leverage gives a firm the ability to magnify its earnings before interest rate and tax thus increasing earnings per share (Saleem, Rahman & Sultana, 2014).

Organizations may supplement the shareholders equity by employing debt. Additional financing requirements may therefore be achieved by increasing the owners’ claim through issuing of ordinary shares or use of retained earnings or by increasing creditors claim through borrowing. Electing to utilize both equity and debt culminates into a firm’s capital structure. The ratio between equity and debt is signified by the term capital structure. Leverage refers to the debt component in a firm’s capital structure (Pandey, 2009).

Eminence of leverage is associated with firm’s capital structure and its relationship with ability to to service interest of various stakeholders. The manner in which the firm’s capital structure is formed impacts firm’s governance and consequently the flexibility a company has in passing critical decisions (Jensen, 1986). Financial leverage is the portion of the firm’s capital financed with debt (Ward & Price, 2006). It follows that highly indebted firms have higher leverage in their capital structure. It in addition reflects the proportion of capital shareholders and creditors have contributed.

Leverage could also be viewed as that portion of a firm’s fixed costs which exposes the firm to risks. Financial leverage which indicates a measure of financial risk refers to a long-term
financing with fixed financing charges on the company’s assets. Higher financial leverage means higher financial risk and inherently high capital cost to the firm. Capital structure according to Firer, Ross, Westerfield & Jordan (2004) implies the relative amount of debt and utilized by a company to finance its operational activities.

Leverage is measured using various ratios. Within the capital structure of the firm, the ratios indicate the ability of the firm to satisfy the interests of its various stakeholders and to quantify debt the firm has. The financial statements provide information used to derive the ratios which mainly focus on the firm’s stockholders’ equity and liabilities to debt holders. In addition, they are used to assess the ability of the firm to service its fixed payments associated with its debts. Harris and Artur (1991) cautioned that different outcomes and hence likely divergent interpretations could be encountered when different measures of leverage are used. Unlike the markets leverage that fluctuates very frequently, book leverage is favored as a measure of leverage (Myers, 1977).

1.1.2 Financial Performance
Financial performance refers to firm’s ability to achieve its financial goals and objectives (Yahaya & Lamidi, 2015). Kajirwa (2015) deduced that a firm’s financial performance is depended on firm’s assets utilization in carrying out its income generating business activities.

Financial performance can also be explained as the firm’s general wellbeing, that is, the availability and generation of more finances by a firm over a certain period of time. Financial analyst mostly uses financial performance as a measure to gauge and compare performance of different firms either in the same industry or different industries. This is a key tool in making sound investment decisions. Financial performance is, in summary, is a crucial objective that firms especially the profit-oriented firms desire or aim at to achieve (Yahaya & Lamidi, 2015).
Financial performance is a key measure of the performance of any firm. Firm’s ability to make and increase profits depends on the business activities and business capacity. Business capacity is the competence of the financial management to source finances when required from the cheapest source/right source to finance firm’s assets. Business activity refers to the company’s efficiency in utilization of assets to increase production capacity. (Vijayalakshmi & Manoharan, 2014). When a firm is making great profits it is able to tolerate high debt levels since it has higher ability to meet financial obligations arising from debt acquisition. This means that the profit earning firms are more likely to add more debt in the capital structure as compared to firms making losses, this shows that financial performance is key in making financial leverage decisions. Financial performance is measured in terms of return on equity expressed as a ratio of earnings before interest and taxes to total equity.

Financial performance is more attached to components of firm’s financial statements. The financial performance is a crucial measure of economic success of a firm such as how the firm is achieving set financial goals and shareholders wealth maximization objective (Xu & Wanapee, 2014). Firms shareholders and stakeholders are mainly concerned about financial performance before they can inject capital or finances in to the firm (Nyamita, 2014).

Financial performance of a company is characterized by the company’s competitiveness: firm’s business potentiality, ability to pay financial obligation, social corporate responsibilities, increased sales and production, high profits, (Dufera, 2010). Increase in prices and sales are not indicators of financial performance, sales are not determinant of improved financial performance of a firm (Kalio & Maghanga, 2012).
1.1.3 Financial Leverage and Financial Performance

Various empirical and theoretical explanations have attempted to explain leverage and firm’s performance are related. Theoretically, the pecking order hypothesis which contends that companies have an order of preference when it comes to sourcing finances. The order of financing is based on cost related to such finance types and their availability (Mukras and Mule, 2015). The Modigliani and Miller theory (1958) affirms that in any perfect market, firm’s value is not depended on the firm’s capital structure mix of equity and debt. The Trade-off theory proposes that an ideal structure of capital is only reached there is a balance between the cost of debt financing and the debt benefits to the firm (Raza, 2014). Agency theory supports that the leverage can be used as a solution to any agency problem that might arise (Jensen, 1976).

Jafari and Moghadam (2015) examined the importance of leverage on firm’s performance. The study results showed that firm’s financial performance and leverage had a significant positive relationship. The study also found out that firms with high levered firms were more profitable compared to less levered firms. Rehman (2013) did a study on financial leverage and financial performance. The conclusion of the study was that a positive correlation exists between debt-equity ratio and sales growth and return on assets. The study also found that a negative relationship exist between debt-equity ratio and earnings per share.

Similarly, Wald (2000) in his study observed that firms with high amounts of profits are likely to have lower debt/leverage levels as compared to firms with low profits, since these firms will tend to use their earnings/profits to finance their investments before undertaking external financing. In his study he also noted that stock prices are a reflection of firm’s financial performance, that is, when stock prices increase the firms tend to issue equity in place of debt, this helps to maintain the leverage levels low.
Similar findings were reported by Wald (1999), Sheel (1994), Sunder and Myers (1999) and Gu (1993). The most key determinant of a company’s debt level / leverage is financial performance which adversely affects the return on asset ratio, (wald, 2000). Negative relationship exists between the return on assets ratio (debt to assets ratio) and the non-debt tax shield, and also between a company’s leverage behavior and its profitability.

1.2 Statement of the problem

It is indicated by Dittmar (2004) argued that debt level in a firm determines the amounts of fixed costs paid by the firm. This fixed cost associated with the debt/borrowed finances is referred to as cost of debt which is generally called interest amount. Padron and Santana (2005) asserts that companies that borrow so much from their creditors incur high cost of debt hence lowering the profits/net income. This supports research findings by SooCheong and Eunj (2005) who concluded that their financial leverage/debt affect company’s financial performance and income levels.

Kenya’s listed firms mainly consider four key elements of debt financing, these elements are: tax considerations, business risk, shareholders risk, and the need for financial flexibility. Listed firms adopt more debt so that they can enjoy less income tax. However; the firm is more exposed to financial risks, Nduati (2010). Debt is worthwhile and helpful if a company will increase its profits levels and increase return on equity/shareholders upon acquisition of debt, Kale (2014). He further explains that most local firms utilize debt for their future plans because fixed cost of debt is usually predetermined, and this enables the firm to plan since the cost is apparent.

Mahira (2011) did a study on the effect of firm financial performance and its financial leverage on capital structure in the automobile sector companies in Pakistan. The study found out that
financial leverage and firm’s financial performance have no significant effect on the firm’s capital structure. Akhtar (2012) did a study the impact of leverage on corporate financial performance applied on oil and energy companies’ sector. The study showed that financial leverage leads to improved performance. Maltona (2012) carried out a study to examine and determine the relationship between financial leverage on return on assets. The study involved firms in the three economics sectors of Kuwait. In conclusion the study found out that a positive relationship exists between financial leverage and return on assets.

Adongo (2012) studied the effect of financial leverage on financial performance and risk of firms listed at the Nairobi Securities Exchange. All the 58 firms listed at the NSE as at 2011 were not covered in this study. The results were based on a sample while 15 firms were excluded from the same sample. The study did not factor in firm size which is an important consideration for a firm that finances its projects using financial leverage. The results found that financial leverage and risk adjusted returns had a significant relationship.

Nduati (2010) investigated on the relationship between leverage and financial performance of listed firms. It was found that there was a positive correlation between leverage and financial performance. Kale (2014) examined the impact of financial leverage on firm performance: the case of non-financial firms in Kenya. The findings showed existence of a significant relationship between leverage and return on assets in non-financial firms in Kenya.

The above studies show that little has been done in relation to financial leverage and financial performance of energy and petroleum sector companies listed firms in the Nairobi Securities Exchange. Further, the studies did not factor in liquidity which is important in establishing whether firms that utilize financial leverage are able to meet their financial obligations. This
study therefore attempted to establish the relationship between financial leverage and financial performance of the energy and petroleum sector companies in the Nairobi Securities Exchange.

1.3 Objectives of the study

1.3.1 General Objective
The general objective of the study was to establish the influence of financial leverage on the financial performance of energy and petroleum sector companies listed in the NSE.

1.3.2 Specific Objectives
The study was guided by the following objectives;

(i) To establish the effect of debt ratio on return on assets of energy and petroleum sector companies listed in the NSE

(ii) To examine the influence of debt-equity ratio on return on assets of energy and petroleum sector companies listed in the NSE

(iii) To examine the influence of interest coverage ratio on return on assets of energy and petroleum sector companies listed in the NSE

1.4 Research Questions
The study sought to answer the following research questions;

(i) What is the effect of debt ratio on the return on assets of energy and petroleum sector companies listed in the NSE?

(ii) How does debt-equity ratio influence return on assets of energy and petroleum sector companies listed in the NSE?

(iii) How does interest coverage ratio influence return on assets of energy and petroleum sector companies listed in the NSE?
1.5 Significance of the Study

This study is helpful to listed firms as it shows the impact of cost of financing and financial leverage to profitability and financial performance. The research findings will be useful in guiding firms listed in the NSE especially in maintaining a balance between debt and equity, that is, it will guide listed companies in areas of financial management and financial decision making. This study will help firms understand the importance of maintaining optimal capital structure that maximizes market value and shareholders wealth of companies listed in NSE.

The study will also help companies in other sectors of the economy to learn how to utilize financial leverage and how its impacts on profitability. The findings of this study might be used as a reference point to firms seeking to finance their projects using financial leverage. The study also adds to the existing body of knowledge on the significance use of financial leverage to the firm and how this contributes to financial performance of the firm. Future researchers and academicians interested in this area of study or other related topics will use the findings of this study as a reference point. In addition, this study can be used as a basis for further research.

1.6 Scope of the Study

The study was carried out on all the energy and petroleum companies listed with the NSE. The population consisted of the energy and petroleum companies listed with the NSE. Secondary data was obtained from published financial statement of these companies. The study sought to determine the role of financial leverage on the financial performance of energy and petroleum listed companies in NSE.
1.7 Limitations of the Study

Creative accounting greatly affects the quality of financial accounting information. Creative accounting is where management of a firm misrepresents facts about the financial position of a company with an aim of showing that the firm is in a better financial position. This limitation was handled by using audited published financial statements sourced from Capital Markets Authority. Audited financial statements provide more reliable and accurate information.

1.8 Organization of the Study

The study comprises of three chapters: chapter one, chapter two and chapter three. Chapter one comprises of the following subsections: background of study, statement of the problem, objectives of the study both the general objective and specific objectives, research questions, significance of the study, scope of the study and limitations of the study.

Chapter two comprises of theoretical review, empirical review, and summary of literature review, research gaps and conceptual framework. Theoretical review discusses theories that the study is anchored on. Empirical review discusses previous studies done concerning financial leverage and financial performance. Chapter four entails the data analysis, presentation and interpretation while chapter five comprises of summary of findings, conclusions and recommendations.

Chapter three discusses the research methodology that will be used to carry out the study. The chapter comprises of the following: the research design, the target population, the sampling procedures and design, data collection instruments and data collection procedures, data analysis and presentation and ethical consideration.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on financial leverage and financial performance of firms. It contains summary of the information and research findings from previous scholars in the field of financial leverage and firm’s financial performance. This chapter contains four major sub sections: the theoretical review section, empirical review section, summary the research gaps section and the conceptual framework section.

2.2 Theoretical Framework

This section covers the theories from earlier scholars that support the relationship between financial leverage and financial performance of the firm. These theories include: Modigliani-Miller theorem, Pecking Order Theory and Trade-off Theory.

2.2.1 Modigliani-Miller Theorem

Modigliani-Miller (1958) argues that the firm’s value is measured assets associated risk and revenue generation capacity of the assets. This theorem further argues that the firm’s market value is not affected by investment financing decisions or dividend distribution decisions. A firm can decide to finance its investments through issuance of shares, borrowed capital or retained earnings/reinvesting profits. This theory assumes that in an imperfect market the choice between use of equity or debt to finance firm’s investment make no difference. This theorem states that value of any firm is not associated or depended with the financing decision made or capital. Therefore, the firm’s capital structure is an irrelevant proxy in determining the firm’s Value. Therefore, whether a firm is highly levered or lowly levered, the capital structure mix has no significant effect on the firms value, (Modigliani & Miller, 1963).
Modigliani and Miller also argue that future growth prospect of a firm affect market value of the firm while investment risk does not affect market value of the firm. This means that when a firm company has high future growth prospects, the market value of the firm will be higher, and its stock prices will be higher. This means that investors will be more attracted by firms that have high growth prospects as compared to those with low growth prospects, Miller, 1977). This theory assumes that under no tax regime, the capital structure component does not affect the value of the firm. It also argues that both equity holders and debt holders in a firm have the same interest and priority in the firm, that is, they both should have equal share of earnings. The proponent also argues that debt holders of a firm have a upper hand in claiming the earning of a firm hence increasing cost of debt which increases expenses and reduces earnings before interest and tax (EBIT) which is associated with the third variable of this study: ICR.

In summary, the main argument of this theorem is that: Under a perfect market, value of the firm is not affected by the capital structure mix of debt and equity. This argument is associated with the first and second variable of this study (debt ratio and debt equity ratio). This theory also argues that the financial leverage / debt level of a firm is in directly proportional to the firm’s cost of equity.

Therefore, an increase in debt level implies higher risks to equity shareholders which in turn results to increase in cost of equity. This argument is also associated with the first and second variable of this study (debt ratio and debt equity ratio).

2.2.2 Pecking Order Theory
The first proponent of this theory is Donaldson (1961). This theory was also modified by Myers and Majluf (1984).
The proponents argue that when a firm wants to invest, it has to make a decision on whether to source funds internally or externally. It further argues that a firm will prefer to utilize its internal financing in place of external financing.

The preference on internal sources of finance is because internal sources of finance have no fixed cost attached to them as compared to external financing. The internal source of finance includes retained earnings, internal borrowing and trade payables while external financing may include debt, debentures and loan. He further argues that a firm prefers to use internal financing first, when these finances are depleted, the firm will then issue debt. Equity financing should only be issued after a firm has exhausted its debt financing option.

This theory further states that a firm has three financing option: debt, retained earnings and equity, (Myers 1984) A firm would first prefer to use retained earnings since they have no interest of cost attached to them, that is, no adverse selection problem. Both debt financing and equity financing have adverse selection problem though equity has the more serious adverse selection problem than debt. This means that issuance of equity is riskier than issuance of debt hence any external investor will expect higher returns on equity as compared to debt.

Any firm would prefer to fund all its projects by utilizing retained earnings, hence retained earnings is the best source of finance compared to both debt and equity, while debt is a better source of finance as compared to equity. (Harris & Raviv, 2003). A firm should issue securities with low informational cost before issuing securities with high informational cost; hence a firm should therefore utilize short term debt to exhaustion before issuance of long term debt, (Baskin, 2002).
This theory argues that a firm does not first consider optimal capital structure mix but instead considers internal financing over external financing.

The pecking order theory assumes that optimal capital structure is not the starting point of making sound financing decisions. Firms sound financing and investment decisions start with considering the available internal finances before considering the external finances. It is when internal finances are inadequate that a firm will decide to acquire external funds. Firms decide which external sources of finance to use by weighing cost of information and benefit of financing source, (Akerlof, 1970). External investors consider the risk of failure of a firm in the market due to financing options hence resulting to the pecking order of firms financing as follows: Utilization of internal financing then followed by low risk debt finance and as a measure of last resort equity financing.

An external rational investor usually discounts firm’s stock prices especially when the firm issues equity instead of issuing debt. For a firm to evade these discounts, the firm should avoid issuing equity as much as possible. Most firms tend to follow the pecking order of firms financing when an investment opportunity arises. When no investment opportunity is available to the firm the firm will the firm retains more earnings hence building up a slack that will avoid raising external source of finance in future, Myers and Majluf model (1984). This theory assumes that a firm will have no optimal capital structure mix due to adverse selection and the fact that firms prefer internal financing to external financing.

This theory is relevant to this study since it majorly talks about internal sources of finance and external sources of finance which are basically debt and equity components of a firm, hence its associated with the first and second variable of this study (debt ratio and debt equity ratio).
2.2.3 Trade-Off Theory

This theory was proposed by Myers (1984). The trade-off theorem of capital structure argues that a firm’s choice of debt and equity use in the capital structure is arrived at by balancing the costs of financing and the benefits of financing. In other words, optimal capital structure is only possible when there is a trade-off between financing benefits and financing costs. The cost of financing should be offset against the benefits of financing.

Some researchers have used the term trade-off to describe several related theories. A rational decision maker or investor weighs the benefits against cost of any action or plan and the same case applies when it comes to sourcing of finances. Therefore, firms must ensure a balance and trade-off between marginal benefits of financing and marginal costs of financing.

The trade-off theory was developed from a debate on the Modigliani-Miller theorem. MM theorem argued that when corporate tax is added to a firm it creates a debt benefit since debt increases financing costs which reduce earnings hence reducing taxes. Where a firm’s objective is linear function cost of debt cannot be offset hence debt financing is 100%.

This theory acknowledges that firms can only be financed either through debt or equity or both, (Kraus & Litzenberger, 1973). The trade-off theorem further argues that firm’s capital structure is based on two key concepts, that is, financial distress cost and agency cost. Debt financing is advantageous because of tax benefits associated with debt. Debt financing costs includes financial distress: both bankruptcy and non-bankruptcy cost, (Fama & French, 2002).

In summary the key argument of tradeoff theory is that, a firm decides on how much Debt level and Equity level to employ by striking a balance between financing cost and financing benefits.
This argument is associated with the first and second variable of this study (debt ratio and debt equity ratio).

2.3 Empirical Literature Review

This section stipulates the three objectives which include debt ratio, debt-equity ratio and interest coverage ratio and their influence on financial performance of a firm.

2.3.1 Debt ratio and financial performance of firms in energy and petroleum sector

Debt ratio is financial ratio used to measure the extent to which a firm has financed its assets using debt/borrowings. Debt ratio is expressed by taking short-term debt and long-term debt divided by total assets of a firm. The higher the debt ration the higher a firm is leverage thus the higher the financial risk and vice versa however it is important to note that leverage is an important tool for a firm to grow, (Mungai, 2010). This ratio varies greatly across firms in different industries due to difference in capital intensive requirements of these industries, Akhatar, et al (2012)

Ezeamama (2010) defines debt ratio as financial leverage ratio that measures the total creditors’ funds in relation to total assets held by the firm. Computation of debt rationis done by taking total liabilities of a company and dividing them with total assets of that company.

Mahnoor (2010) did a study on impact of financial leverage on firms’ performance in Fuel and Energy sector in Iraq. The study applied debt ratio (DR) as a proxy to measure financial leverage. return on equity (ROE) and Return on asset (ROA) / were used as proxies to measure firms’ performance. Through application of least squares method, the study results showed that debt ratio and firms return on assets have a significant positive relationship.
Hamza Khaled (2012) did on the impact of capital structure on financial performance of firms listed in Libya. The study sampled firms in all sectors in Libya inclusive of energy sector. Two firms were randomly selected from each sector. The study showed that total debt measured using debt ratio (DR) significantly affected both return on equity and return on assets of sampled firms.

Abegunde Orimogunje (2012) did a study on the relationship between capital structure and corporate financial performance of firms in Nigerian energy sector. Using regression model, the study showed that debt ratio statistically and negatively affects return on assets.

Akhatar, et al (2012) studied the relationship between financial leverage and financial performance of Fuel and Energy sector in Pakistan. The results of the study showed that debt ratio positively affect return on assets (ROA) and return on equity (ROE) of companies in fuel and energy sector in Pakistan. In general, the study showed that the majority of financial performance indicators statistically and positively affected the financial leverage indicators.

Mikhailov (2013) studied the effects of financial leverage and corporate governance on financial value of petroleum sector firms in Russia. The study used data for the year between 2009 and 2011. The study concluded that debt ratio (DR) positively affect return on assets (ROA) and financial value of Russian. In general, the study concluded that large board size negatively affects the value of Russian firms while financial leverage, firm size and return on assets positively affects the value of Russian firms.

Hoi Seon Yoon (2014) studied the relationship between financial leverage and financial performance of petroleum firms listed in Kuwait. With support of statistical evident the study
results showed that sales growth and return on assets were dependent on financial leverage indicators in particular debt ratio.

Mahmoudi (2014) did a study on effects of leverage on financial performance of firms listed in Tehran Stock exchange between the years 2008 to 2011. In the study he measured leverage using debt ratio (DR) which was statistically tested for a relationship with return on equity and return on assets. In the study Mahmoudi also studied part of the energy sector companies in Tehran stock exchange. The study showed that debt ratio statistically and significantly had a negative relationship with both return on asset ratio and return on equity ratio.

Mustafa Zuthimalim et al (2015) studied effect of financial leverage on financial performance of fuel and energy sector companies in Algeria. Using both primary and secondary data Mustafa found out that debt ratio (DR) had insignificant negative relationship with return on assets (ROA).

Amenophis Hanbal (2015) did a study on the relationship between financial leverage and financial performance of petroleum and mining sectors firms in Egypt. Using data from both listed and non-listed companies in Egypt Its was established that statistically return on equity and return on assets had no existing significant relationship.

Zulaika (2016) did a study on the effect of financial leverage on financial performance fuel and petroleum sector firms in Angola. In his study he analyzed the financial statements of these firms from the year 2011-2015. The study results showed debt ratio (DR) has a negative relationship with return on asset ratio (ROA).
2.3.2 Debt Equity Ratio and financial performance of firms of firms in energy and petroleum sector

The Debt Equity Ratio is a financial ration that indicates the extent to which a firm has used shareholders equity to finance the firm’s assets. This ratio is a measure of financial leverage of a firm. The debt equity ratio is computed by taking a firm’s total liabilities and dividing them by the total shareholders’ equity of the same firm.

Debt equity ratio can be applied in both personal and corporate financial statements. In this case, equity refers to the difference between individual’s / corporation liabilities and individual’s / corporation assets.

Given that debt equity ratio is used to measure firm’s total debt in relation to the total value of firm’s equity, in most instances it will gauge how debt has been used as a means of financial leveraging, that is, extent to which borrowed funds have been used to fund firm’s projects. Whe the debt equity ratio is high it indicates that the company has been aggressive in using debt to finance its operation and growth. This aggressive use of debt comes with high levels of risk which may lead to increase in interest expense and volatile earnings as well, (Adongo, 2012).

Mahnoor (2010) did a study on impact of financial leverage on firms’ performance in Fuel and Energy sector in Iraq. The study applied debt equity ratio (DER) and debt ratio (DR) as proxies to measure financial leverage and financial performance respectively. Through application of least squares method, the study results showed that debt equity ratio has insignificant positive impact on the firms’ financial performance.

Shehla, Benish , Atiya and Haleema (2012) carried out a study on relationship between financial leverage and financial performance fuel and energy sector in Pakistan. The study used gearing
ratio and debt equity ratio as a measure of financial leverage. In measuring financial performance, the study used several variables including: Return on assets (ROA), return on equity (ROE), dividend cover ratio (DCR), net profit margin, and earnings per share (EPS) among others. The study found out that debt equity ratio (DER) is negatively related to return on assets (ROA) and positively related to return on equity (ROE).

Hoi Seon Yoon (2014) studied the relationship between financial leverage and financial performance of petroleum firms listed in Kuwait. In the study debt equity ratio (DER) and debt ratio (DR) were used as the measure for financial leverage while return on assets (ROA) was used to measure financial performance of these firms. The results of the study showed a positive relationship of debt equity ratio (DER) and return on assets (ROA) and sales growth of petroleum firms listed in Kuwait. The study concluded that financial leverage positively affects financial performance of listed Petroleum firms in Kuwait.

Mustafa Zuthimalim et al (2015) studied effect of financial leverage on financial performance of fuel and energy sector companies in Algeria. The study involved firms listed in Algiers stock exchange and those not listed in the Algiers stock exchange from the fuel and energy sector. The study used debt ratio, debt equity ratio and interest coverage ratio as a measure financial leverage and return on asset as an indicator of financial performance. The study found an insignificant negative relationship between debt equity ratio and return on asset ratio, thus concluding that DER is not a significant measure of financial performance of pharmaceutical firms.

Amenophis Hanbal (2015) did a study on the relationship between financial leverage and financial performance of petroleum and mining sectors firms in Egypt. The study applied both
use of least squares method and regression model to test the relationship. The study concluded that DER has no significant negative effect on both return on assets and return on equity.

2.3.3 Interest Coverage Ratio and financial performance of firms in energy and petroleum sector

The interest coverage ratio is a financial debt ratio that is used to measure the ability of a firm to pay interest on all outstanding debts. The interest coverage ratio is measured by taking firm’s earnings before interest and taxes (EBIT) of a certain period and dividing them total interest payable by the firm on all its outstanding debt.

In other words, this ratio measures how many times a firm is able to pay interest on debt from its earnings. This ratio will also measure the firm’s ability to meet its interest on debt obligation when they fall due. Therefore, this ratio is a measure of solvency of a company. This ratio also measures a company’s marginal safety in regard to interest payment of a certain period.

When the interest coverage ratio is low, it indicates the company debt burden is low and high chances of interest payment default and consequently high chances of bankruptcy. Low interest coverage ratio also indicates the company has fewer earnings that can be used to pay for interest. The recommended interest coverage ratio for any company is above 1.5, when the ICR is below 1.5 therefore it is an indication that the company’s ability to pay interest on debt is questionable. When ICR is below 1 it shows that interest payments are more than its earnings (EBIT).

Adongo (2012) studied the effect of financial leverage on financial performance and risk of firms listed at the Nairobi securities exchange. The study adopted research design. The study involved fifty-eight sampled from companies listed in NSE excluding banks. The study period was the year 2007 to the year 2011. This study concluded that there is insignificant relationship between
risk, returns and financial leverage. The conclusion of this study was contrary to the hypothesis of the study. The hypothesis of the study had implied existence of a significant relationship between firm’s profitability, financial risk, sales growth and financial leverage of listed firms in NSE.

Mustafa Zuthimalim et al (2015) studied effect of financial leverage on financial performance of fuel and energy sector companies in Algeria. The study used debt ratio, debt equity ratio and interest coverage ratio as proxy to measure financial leverage and return on asset as a proxy to measure financial performance. The results indicated existence of insignificant positive relationship between interest coverage ratio and return on asset.

Tasneem (2016) did a study on the responsiveness of financial leverage on financial performance of energy sector in South Africa. The study results showed that Interest coverage ratio (ICR) has statistically supported negative relationship with return on assets (ROA) and return on investment (ROI).

Zulaika (2016) did a study on the effect of financial leverage on financial performance fuel and petroleum sector firms in Angola. In his study he analyzed the financial statements of these firms from the year 2011-2015. The study results showed that interest coverage ratio (ICR) has an insignificant positive relationship with return on assets (ROA) however these firms didn’t use ICR in making financing decisions. This means that debt levels/ financial leverage have insignificant effect on firm’s financial performance
2.4 Summary of Literature Review and Research Gaps

From the above literature, studies have been carried out in relation to financial leverage, capital structure, and financial performance. However, the empirical findings have found mixed results, for example:

Mahmoudi (2014) and Amenophosis (2015). The hypothesis for this study projects a negative relationship between financial leverage and financial performance of listed firms. This is supported by the theories anchoring this study which are: Modigliani-Miller theorem, Pecking Order Theory and Trade-off Theory.

Most studies in the local setting for example Adongo (2012) that have investigated the relationship between financial leverage and financial performance in the context of listed firms are inconclusive of all sectors and have relied on a sample to make generalization on the findings. No current study that has been done specifically on energy and petroleum sector in Kenya. This creates a need to investigate the relationship between financial leverage and financial performance of energy and petroleum companies listed at the Nairobi Securities Exchange.

Table 2:1 Research Gaps

<table>
<thead>
<tr>
<th>Author</th>
<th>Title</th>
<th>Findings</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manhoor (2011)</td>
<td>The impact of financial leverage on firms’ performance in Fuel and Energy sector in Iraq.</td>
<td>Positive relationship between financial leverage and financial performance</td>
<td>Influence of ICR on financial performance was not covered and only Iraq companies were considered</td>
</tr>
<tr>
<td>Shehla, Benish, Atiya, Haleema (2012)</td>
<td>The relationship between financial performance</td>
<td>Positive correlation between financial performance</td>
<td>Only Pakistan companies were considered</td>
</tr>
<tr>
<td>Study</td>
<td>Findings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Akhatar, et al (2012)</td>
<td>The relationship between leverage and financial performance of top 100 SMEs in Kenya have a positive relationship with the financial leverage indicators. Only Pakistan companies were covered.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adongo (2012)</td>
<td>Effect of financial leverage on financial performance or risk of firms listed at the NSE. There is an insignificant relationship between returns adjusted by risk and financial leverage. Out of 58 firms 24 were excluded and a short period considered. This contradicted with the study hypothesis.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.5 Conceptual Framework

Independent Variables

Financial Leverage

- Debt Ratio
- Debt /Equity Ratio
- Interest Coverage Ratio

Dependent Variable

Financial Performance

- ✓ Return on Assets
- ✓ Return on Equity

Figure 2:1 Conceptual Framework

Source: Researcher (2017)
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the methodology that was used in carrying out the study. It also includes description of the source and type of data, the intended target population and sapling design that was used in the study. It also shows data collection and validation procedures, tools used in data analyzes and presentation.

3.2 Research Design
Research design refers to a general plan showing overview of activities that will be undertaken during the study. The study used descriptive research design. Explanatory research design is used to explain out what, where, when and how of a phenomenon, Cooper & Schindler (2003), Research design is good since it is able to observe & measures variables as they are and without influencing them. This design also enables generalization of findings to other firms. This design enables a researcher to carry out intense investigation on research variables hence enabling drawing of conclusion and recommendation from the study.

The research proposal focuses on the influence of financial leverage on the financial performance of energy and petroleum companies listed with the NSE. Using this design, the financial statements of the selected firms were intensely analyzed to enables solve the research questions and the research objectives.

3.3 Target Population
Population is defined as a set of cases, individuals or objects that have similar characteristics, (Mugenda & Mugenda, 2003). The population for the study consisted of five firms that are
currently listed with the NSE from the energy and petroleum sector in Kenya (NSE, 2015). These firms are Kenol Kobil, Kenya Power, Total Kenya Ltd, Umeme and KenGen.

3.4 Sampling Design
Sampling techniques refers to a wide range of methods that facilitate reduction of amounts of data to be collected from all elements. Due to a small target population, all the companies listed with the NSE from energy and petroleum sector were included in the study to provide information on financial leverage and allow access to secondary data within the firms’ financial statements. The study applied census survey.

3.5 Data Collection Instruments
The study used secondary data from the firms’ financial statements. Secondary data refers to the data that has already been collected before this study. Secondary data was collected from research centers, the NSE annual handbook, companies’ libraries, and internet among others. In other words, secondary data is data collected from preexisting sources mainly from published materials such as annual financial statements, journals, academics research papers among others. Financial statements mainly used were income statement and statement of financial position of the firms under study.

3.6 Data collection procedures
Data collection procedures are the steps carried out by the researcher while collecting data using data collection instruments (Ng’anga, 2012).

Secondary data was sourced from annual reports from years 2012 to 2016. The data was obtained from published financial statements of firms in the energy and petroleum sector listed in the NSE.
3. 7 Data Analysis and Presentation

Descriptive statistics were used to analyze quantitative data. Statistical package for social sciences (SPSS, version 22) was used to analyze and present data in terms of frequencies, means, percentages and standard deviations.

The data was also presented using graphs, bar charts and pie charts. Findings were tallied up and variation percentages computed as well as interpreting and describing data in line with study objectives and research questions.

The study also ran a multiple linear regression analysis to determine the relationship between the dependent and independent variables. The multiple regression equation was;

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \]

Where;

\( Y \) = Financial performance of energy and petroleum firms listed with the NSE measured by ROA

\( \beta_0 \) - intercept coefficient

\( \varepsilon \) – error term (extraneous variables)

\( X_1 \) – Debt Ratio

\( X_2 \) – Debt-Equity Ratio

\( X_3 \) – Interest coverage ratio

\( \beta_1, \beta_2, \text{and} \beta_3 \) = regression coefficients
3.8 Ethical Considerations

In carrying out the study, informed consent from all participants of the study was obtained. Those not willing to be involved in the study were not forced or coerced or be under any obligation to do so.

Respondent’s confidentiality was highly considered by not publishing their names. All Information gathered from the respondent’s and any other source was purposely used for this academic study. An authorization letter to conduct this study was also gotten from Kenyatta University and any other research authorities.
CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction
This chapter discusses the research findings of the study based on data collected. The study sought to explain and determine the relationship between financial leverage and financial performance of the energy and petroleum sector companies listed in the Nairobi Securities Exchange. The study utilized secondary data collected from published financial statements of the firms from energy and petroleum sector listed in NSE. The secondary data obtained was used to compute debt ratio, debt-equity ratio, interest rate coverage ratio and return on asset ratio. The data used was for a period of five years, that is, from 2012 – 2016.

4.2 General Information
The researcher analyzed data of Kenyan firms in the Energy and Petroleum industry listed on the Nairobi Securities Exchange which included Kenol Kobil, Kenya Power, Total Kenya Ltd, Umeme and KenGen. Secondary data was used which was mainly sourced from the financial statements submitted to the Capital Markets Authority by the firms for last five financial years ranging from 2012 to 2016.

4.2.1 Profit Before Tax
The study sought to find out the profit before tax made by the 5 companies for the five-year period (2012-2016). Profit after tax was calculated as a natural logarithm of the firms’ annual profit before tax as tabulated below;
Table 4.1: Profit Before Tax for 2012-2016

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Kenol Kobil</td>
<td>-8,964,664</td>
<td>563,918</td>
<td>1,520,820</td>
<td>2,782,421</td>
<td>3,538,256</td>
</tr>
<tr>
<td>Kengen</td>
<td>4,045,190</td>
<td>4,026,924</td>
<td>4,157,948</td>
<td>8,690,</td>
<td>11,264,044</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>-64,301</td>
<td>2,084,517</td>
<td>2,276,005</td>
<td>2,618,696</td>
<td>3,935,363</td>
</tr>
<tr>
<td>Kenya Power</td>
<td>8,506,693</td>
<td>6,424,340</td>
<td>11,015,850</td>
<td>12,253,574</td>
<td>12,082,397</td>
</tr>
<tr>
<td>Umeme</td>
<td>60,921,000</td>
<td>115,272,000</td>
<td>101,674,000</td>
<td>160,982,000</td>
<td>152,084,000</td>
</tr>
</tbody>
</table>

Source: CMA, 2018

4.2.2 Net Profit After Tax

The study sought to find out the Net profit after tax made by the 5 companies for the five-year period (2012-2016). Net profit after tax was calculated as a natural logarithm of the firms’ Net profit after tax as tabulated below;

Table 4.2: Net Profit for 2012-2016

<table>
<thead>
<tr>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Kenol Kobil</td>
<td>-6,284,575</td>
<td>558,419</td>
<td>1,091,284</td>
<td>2,014,974</td>
<td>2,413,207</td>
</tr>
<tr>
<td>Kengen</td>
<td>2,822,600</td>
<td>5,224,704</td>
<td>2,826,323</td>
<td>11,517,327</td>
<td>6,743,492</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>-202,142</td>
<td>1,312,277</td>
<td>1,424,088</td>
<td>1,615,003</td>
<td>2,234,292</td>
</tr>
</tbody>
</table>
4.2.3 Interest Expense / Finance Cost

The study sought to find out the Interest expense made by the 5 companies for the five-year period (2012-2016). Interest expense was calculated as a natural logarithm of the firms’ annual Interest expense / finance Cost as tabulated below;

Table 4.3: Interest expense for 2012-2016

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenol Kobil</td>
<td>2351,185</td>
<td>1,671,759</td>
<td>1,707,116</td>
<td>883,408</td>
<td>352,165</td>
</tr>
<tr>
<td>Kengen</td>
<td>2,972,308</td>
<td>3,000,802</td>
<td>2,587,519</td>
<td>3,010,659</td>
<td>3,132,187</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>1,554,715</td>
<td>278,695</td>
<td>272,336</td>
<td>39,428</td>
<td>26,834</td>
</tr>
<tr>
<td>Kenya Power</td>
<td>1,216,272</td>
<td>2,480,659</td>
<td>4,008,832</td>
<td>4,964,942</td>
<td>5,811,275</td>
</tr>
<tr>
<td>Umeme</td>
<td>33,054,000</td>
<td>22,579,000</td>
<td>22,436,000</td>
<td>53,063,000</td>
<td>69,301,000</td>
</tr>
</tbody>
</table>

Source: CMA, 2018

4.2.4 Total Assets

The study sought to find out the total assets made by the 5 companies for the five-year period (2012-2016). Total assets were calculated as a natural logarithm of the firms’ annual total assets as tabulated below;
Table 4.4: Total Assets for 2012-2016

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenol Kobil</td>
<td>32,684,166</td>
<td>28,121,673</td>
<td>23,915,166</td>
<td>17,377,103</td>
<td>24,201,705</td>
</tr>
<tr>
<td>Kengen</td>
<td>163,144,873</td>
<td>188,673,282</td>
<td>250,205,524</td>
<td>342,519,995</td>
<td>367,248,796</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>32,980,604</td>
<td>39,984,165</td>
<td>32,541,800</td>
<td>34,225,035</td>
<td>36,185,372</td>
</tr>
<tr>
<td>Kenya Power</td>
<td>134,131,983</td>
<td>177,157,755</td>
<td>220,926,514</td>
<td>272,286,082</td>
<td>297,542,180</td>
</tr>
<tr>
<td>Umeme</td>
<td>755,933,000</td>
<td>888,906,000</td>
<td>1,211,939,000</td>
<td>1,774,869,000</td>
<td>2,191,859,000</td>
</tr>
</tbody>
</table>

Source: CMA, 2018

4.2.5 Total Debt

The study sought to find out the total debts made by the 5 companies for the five-year period (2012-2016). Total debt was calculated as a natural logarithm of the firms’ annual total debt/liabilities as tabulated below;

Table 4.5: Total Debt for 2012-2016

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Kenol Kobil</td>
<td>26238441</td>
<td>21455379</td>
<td>16584670</td>
<td>8821464</td>
<td>14336554</td>
</tr>
<tr>
<td>Kengen</td>
<td>93075322</td>
<td>114714766</td>
<td>173495851</td>
<td>200925904</td>
<td>194506114</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>18787928</td>
<td>24605105</td>
<td>16116377</td>
<td>16625289</td>
<td>16836082</td>
</tr>
</tbody>
</table>
4.2.6 Total Equity

The study sought to find out the total equity made by the 5 companies for the five-year period (2012-2016). Total equity was calculated as a natural logarithm of the firms’ annual total equity as tabulated below;

**Table 4.6: Total Equity for 2012-2016**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenol Kobil</td>
<td>6445725</td>
<td>6666294</td>
<td>7330496</td>
<td>8555639</td>
<td>9865151</td>
</tr>
<tr>
<td>Kengen</td>
<td>7006951</td>
<td>73958516</td>
<td>76709673</td>
<td>141594091</td>
<td>172742682</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>14192676</td>
<td>15379060</td>
<td>16425423</td>
<td>17599746</td>
<td>19349290</td>
</tr>
<tr>
<td>Kenya Power</td>
<td>43511553</td>
<td>47405675</td>
<td>54743822</td>
<td>59204080</td>
<td>65615837</td>
</tr>
<tr>
<td>Umeme</td>
<td>239447000</td>
<td>285765000</td>
<td>313712000</td>
<td>503775000</td>
<td>592052000</td>
</tr>
</tbody>
</table>

*Source: CMA, 2018*

4.2.7 Debt Ratio

The study sought to find out the debt ratio made by the 5 companies for the five-year period (2012-2016). Debt ratios were calculated by taking annual total debt and dividing it with annual total assets.
Table 4.7: Debt Ratio for 2012-2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenol kobil</td>
<td></td>
<td>0.80</td>
<td>0.76</td>
<td>0.69</td>
<td>0.51</td>
<td>0.59</td>
</tr>
<tr>
<td>Kengen</td>
<td></td>
<td>0.57</td>
<td>0.61</td>
<td>0.69</td>
<td>0.59</td>
<td>0.53</td>
</tr>
<tr>
<td>Total Kenya</td>
<td></td>
<td>0.57</td>
<td>0.62</td>
<td>0.50</td>
<td>0.49</td>
<td>0.47</td>
</tr>
<tr>
<td>Kenya Power</td>
<td></td>
<td>0.68</td>
<td>0.73</td>
<td>0.75</td>
<td>0.78</td>
<td>0.78</td>
</tr>
<tr>
<td>Umeme</td>
<td></td>
<td>0.68</td>
<td>0.68</td>
<td>0.74</td>
<td>0.72</td>
<td>0.73</td>
</tr>
</tbody>
</table>

Source: CMA, 2018

4.2.8 Debt Equity Ratio

The study sought to find out the debt equity ratio made by the 5 companies for the five-year period (2012-2016). Debt equity ratios were calculated by taking annual total debt and dividing it with annual total equity.

Table 4.8: Debt Equity Ratio for 2012-2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenol kobil</td>
<td></td>
<td>4.07</td>
<td>3.22</td>
<td>2.26</td>
<td>1.03</td>
<td>1.45</td>
</tr>
<tr>
<td>Kengen</td>
<td></td>
<td>1.33</td>
<td>1.55</td>
<td>2.26</td>
<td>1.42</td>
<td>1.13</td>
</tr>
<tr>
<td>Total Kenya</td>
<td></td>
<td>1.32</td>
<td>1.6</td>
<td>0.98</td>
<td>0.94</td>
<td>0.87</td>
</tr>
</tbody>
</table>
4.2.9 Interest Coverage Ratio

The study sought to find out the interest coverage ratio made by the 5 companies for the five-year period (2012-2016). Interest coverage ratios were calculated by taking annual earnings before interest and tax/profit before tax and dividing it with annual total interest expense/finance cost.

Table 4.9: Interest Coverage Ratio for 2012-2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenol kobil</td>
<td>-3.81</td>
<td>0.34</td>
<td>0.89</td>
<td>3.15</td>
<td>10.05</td>
</tr>
<tr>
<td>Kegen</td>
<td>1.36</td>
<td>1.34</td>
<td>1.61</td>
<td>2.89</td>
<td>3.6</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>-0.04</td>
<td>7.48</td>
<td>8.36</td>
<td>66.42</td>
<td>146.66</td>
</tr>
<tr>
<td>Kenya Power</td>
<td>6.99</td>
<td>2.59</td>
<td>2.75</td>
<td>2.47</td>
<td>2.08</td>
</tr>
<tr>
<td>Umeme</td>
<td>1.84</td>
<td>5.11</td>
<td>4.53</td>
<td>3.03</td>
<td>2.19</td>
</tr>
</tbody>
</table>

Source: CMA, 2018
4.3 Descriptive Analysis

Table 4.10: Descriptive statistics of variables

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR</td>
<td>0.47</td>
<td>0.8</td>
<td>0.65</td>
<td>0.10</td>
</tr>
<tr>
<td>DER</td>
<td>0.87</td>
<td>4.07</td>
<td>2.11</td>
<td>0.93</td>
</tr>
<tr>
<td>ICR</td>
<td>-3.81</td>
<td>146.66</td>
<td>11.34</td>
<td>31.04</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.19</td>
<td>0.12</td>
<td>0.03</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Source: Author, 2018

From the table 4.10, Debt Ratio (DR) measured registered a minimum of 0.47 with a maximum of 0.8, mean of 0.65 and standard deviation of 0.10. For Debt Equity Ratio (DER), the minimum was 0.87 with a maximum of 4.07, mean of 2.11 and standard deviation of 0.93. Interest Coverage Ratio (ICR) posted a minimum of -3.81, maximum of 146.66, mean of 11.34 with standard deviation of 31.04. Return on Assets (ROA), posted a minimum of -0.19, maximum of 0.12, Mean of 0.03 and standard deviation 0.06.

4.4 Correlation Matrix

Correlation measures the extent to which two variables are associated. Correlation is a number that ranges from -1 to +1 used to measures the extent or degree of association between variables.
Table 4.11: Correlation matrix of variable

<table>
<thead>
<tr>
<th></th>
<th>DR</th>
<th>DER</th>
<th>ICR</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DER</td>
<td>0.966**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICR</td>
<td>-0.510**</td>
<td>-0.404*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>-0.349</td>
<td>-0.458*</td>
<td>0.169</td>
<td>1</td>
</tr>
</tbody>
</table>

The results of the correlation matrix showed that, there was a positive relationship between ICR and ROA as shown by 0.169 and a negative relationship between DR, DER and ROA as indicated by -0.349 and -0.458 respectively.

4.5 Regression Analysis

Regression analysis model involves the researcher identifying the relationship between dependent variables and independent variables. A multivariate regression model was used to determine the relationship between the dependent and independent variables.

Table 4.12: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.617a</td>
<td>0.38</td>
<td>0.292</td>
<td>0.04655</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), ICR, DER, DR
The results of the model summary in the above table 4.12 indicates that the R-square is 0.38, which means that the independent variables (DR, DER & ICR) explain 38% of the variation in the dependent variable (ROA). This implies that DR, DER and ICR account 38% of the changes or variations of ROA; the remaining 62% is explained by other independent variables not factored in the study.

**Table 4.13: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.028</td>
<td>3</td>
<td>0.009</td>
<td>4.294</td>
<td>.016b</td>
</tr>
<tr>
<td>Residual</td>
<td>0.046</td>
<td>21</td>
<td>0.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.073</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

b. Predictors: (Constant), ICR, DER, DR

The table 4.13 indicates that there is significant relationship between the variables (DR, DER, ICR) and the dependent variable (ROA), This is indicated by the F value and the significance value of 0.016 which is less than 0.05.
The study shows that there was significant negative association between ROA and DR as shown by \( r = -1.012 \) and significant negative association between ROA and DER as shown by \( r = -0.128 \). The study also showed that there was no association between ROA and ICR as shown by \( r = 0 \), this is also shown by the significance level of ICR being 0.272 (27.2%) which is more than 0.05 (5%). The findings also showed that DR and DER were significant variables in the study since their significance values are less than 0.05, that is, 0.026 & 0.007 respectively.

The findings also indicate that holding all the variables constant, ROA would be an autonomous value of -0.359. A unit increase in DR would lead to a unit decrease in ROA by -1.012, while a unit increase in DER would lead to a unit decrease in ROA by -0.128. A unit increase in ICR
would not affect ROA. The finding also indicate that DR had the greater effect on ROA than DER while ICR had no effect on ROA.

The regression model drawn from table 4.14 above is presented as shown.

\[ Y = -0.359 - 1.012X1 - 0.128X2 + 0X3 + \varepsilon \]

This can also be presented as follows
\[ Y = -0.359 - 1.012X1 - 0.1\times X2 + \varepsilon \]

Where;

\( Y \) = Financial performance of energy and petroleum firms listed with the NSE
\( \varepsilon \) = error term (extraneous variables)

\( X1 \) – Debt Ratio

\( X2 \) – Debt-Equity Ratio

\( X3 \) – Interest coverage ratio
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents major research findings and conclusions of the study in relations to the research questions and research objectives set out in the study. The findings of this study were compared to findings of previous studies.

This chapter also presents a set of recommendations and areas of further study.

5.2 Summary of the Findings
The purpose of the study was to determine the effect of financial leverage on the financial performance of energy and petroleum companies listed at the NSE. The research objectives were on the effect of debt ratio, debt-equity ratio and interest coverage ratio on return on assets of the firms. To analyze the relationship of the research variables the study employed descriptive research design.

Secondary data from published annual financial statements of the petroleum and energy sector companies listed in NSE. The study used data for a five-year period i.e. form 2012-2016

The study employed census since secondary data was collected from all the five energy and petroleum sector companies listed in the NSE.

5.2.1 Effect of debt ratio on the return on assets/financial performance
The study found that there was a strong negative relationship between debt ratio and the financial performance / return on assets of selected firms. This study is supported by a similar study by
Ahmad (2015), the study aimed at assessing the relationship of financial leverage and financial performance of firms in cement and manufacturing industry. The study was carried out in Pakistan. The study involved all industries in the cement and manufacturing industry. In conclusion the study found out that debt ratio and return on assets of the cement and manufacturing industry firms included in this study had a significant negative relationship.

Hamza Khaled (2012) did a study on the impact of capital structure on financial performance of firms listed in Libya. The study used both debt and equity components to determine if they affect financial performance. The results showed that debt levels of a firm measured by debt ratio affect had a negative effect on the profitability and firms value.

Abegunde Orimogunje (2012) did a study on the relationship between capital structure and corporate financial performance of firms in Nigerian energy sector. Using regression model the study showed that debt ratio statistically and negatively affects return on assets.

Mahmoudi (2014) in his study found that firms listed in Tehran stock exchange had a debt ratio that negatively affected both return on equity and return assets. The study included firms in all sectors and primary data from managers of listed firms in Tehran stock exchange. The study used data of firms that were listed between the years 2008 to 2011.

Zulaika (2016) did a study on the effect of financial leverage on financial performance fuel and petroleum sector firms in Angola. In his study he analyzed the financial statements of these firms from the year 2011-2015. The study results showed debt ratio (DR) has a negative relationship with return on asset ratio (ROA).

The results of this are however in contrast to some earlier studies such as Mahnoor (2010) who did a study on impact of financial leverage on firms’ performance in Energy and Fuel sector in
Iraq. The study applied debt ratio (DR) as a proxy to measure financial leverage. Return on asset (ROA) and return on equity (ROE) were used as proxies to measure firms’ performance. Through application of least squares method, the study results showed that debt ratio has significant positive impact on the firms’ financial performance.

Akhatar, et al (2012) in his study found out that debt ratio statistically and positively affected both return on assets and return on equity. The study was carried out in Pakistan. It involved all firms in Pakistan’s fuel and energy sector.

Mikhailov (2013) studied the effects of financial leverage and corporate governance on financial value of petroleum sector firms in Russia. The study used data for the year between 2009 and 2011. The study concluded that debt ratio (DR) positively affect return on assets (ROA) and financial value of Russian. In general, the study concluded that large board size negatively affects the value of Russian firms while financial leverage, firm size and return on assets positively affects the value of Russian firms.

Hoi Seon Yoon (2014) in his study found out that debt ratio and sales growth had a positive relationship with debt ratios of samples firms in Kuwait. The study involved firms in Kuwait petroleum industry.

Mustafa Zuthimalim et al (2015) in his study found out that debt ratio had statistically supported insignificant negative relationship with return on assets. His study involved firms listed in Algeria’s Energy sector.

Amenophis Hanbal (2015) did a study on the relationship between financial leverage and financial performance of petroleum and mining sectors firms in Egypt. The study focused on
both listed and non-listed firms in Egypt Stock Market. The study concluded that both return on assets and return on equity had no significant relationship with debt ratio of the sampled firms.

5.2.2 Effect of debt equity ratio on the return on assets/financial performance

The study found that there was a negative relationship between debt equity ratio and the financial performance / return on assets of selected firms. This study is supported by a similar study by Amenophis Hanbal (2015) who did a study on the relationship between financial leverage and financial performance of petroleum and mining sectors firms in Egypt. The study concluded that both return on assets and return on equity had no significant relationship with debt equity ratio of the sampled firms.

Mustafa Zuthimalim et al (2015) studied effect of financial leverage on financial performance of fuel and energy sector companies in Algeria. The study involved firms listed in Algiers stock exchange and those not listed in the Algiers stock exchange from the fuel and energy sector. The study found an insignificant negative relationship between debt equity ratio and return on asset ratio, thus concluding that DER is not a key proxy in measuring financial performance of pharmaceutical firms.

Shehla, Benish , Atiya and Haleema (2012) carried out a study in Pakistan Energy sector. The study. The study found out that debt equity ratio (DER) is negatively related to return on assets (ROA) and positively related to return on equity (ROE). The study concluded that financial leverage and financial performance are positively correlated.

The results are however in contrast to some earlier studies such as Mahnoor (2010) who did a study on impact of financial leverage on firms’ performance in Fuel and Energy sector in Iraq. The study applied debt equity ratio (DER) as a proxy to measure financial leverage and return on
asset (ROA) / return on equity (ROE) as a proxy to measure firms’ performance. Through application of least squares method, the study results showed that debt equity ratio has insignificant positive effect on the firms’ financial performance.

Hoi Seon Yoon (2014) In his study found out that both debt ratio and sales growth had a positive relationship with debt equity ratios of samples firms in Kuwait. The study involved firms in Kuwait’s petroleum industry.

Mikhail (2017) in his study found that DER is a key proxy in measuring financial performance. Debt equity ratio had statistically supported insignificant positive relationship with return on assets. He incorporated firms in Russian Oil industry in the study. Sampled firms from Russian Oil industry were used in the study.

5.2.3 Effect of Interest Coverage Ratio on the return on assets/financial performance.

The study found that there was a no significant relationship between Interest Coverage Ratio and the financial performance / return on assets of selected firms. This study is supported by a similar study by Hoi Seon Yoon (2014) who did a study in Kuwait. No significant relationship was found between return on assets and interest coverage ratio.

Mahmoudi (2014) in his study found that no significant relationship that could be supported statistically existed between Interest coverage ratio and debt ratio of listed firms in Tehran Stock exchange.

did a study on effects of leverage on financial performance of firms listed in Tehran Stock exchange between the years 2008 to 2011. The study showed that there is no significant relationship between Interest Coverage ratio and financial performance.
The results are however in contradicted some earlier studies such as Mustafa Zuthimalim et al (2015) who studied effect of financial leverage on financial performance of fuel and energy sector companies in Algeria. Secondary data from all Algerian firms in the energy sector was collected through financial statement upon analysis of the data it was concluded that interest coverage ratio and return on assets had insignificant relationship.

Tasneem (2016) did a study on the responsiveness of financial leverage on financial performance of energy sector in South Africa. The study results showed that Interest coverage ratio (ICR) has negative relationship with return on assets (ROA) and return on investment (ROI).

Zulaika (2016) did a study in in Angola. In his study he analyzed the financial statements of these firms from the year 2011-2015. The study results showed that interest coverage ratio (ICR) has an insignificant positive relationship with return on assets (ROA) however these firms didn’t use ICR in making financing decisions.

Ali et al (2017) did a study on financing decisions and financial performance of banking sector firms in Thailand. The study used interest coverage ratio as one among many proxies to measure financing decision while return on assets and return on investment were used as proxy to measure financial performance. The study found that financing decision affected financial performance, however interest coverage ration as a proxy had no significant effect on the financial performance of the firms in banking sector firms in Thailand.

Mikhail (2017) in his study found out that Interest coverage ratio has no statistically supported relationship with financial performance. His study incorporated listed firms in Russian Oil industry.
5.3 Conclusions

The research results showed that there is a negative relationship between financial leverage and financial performance of selected companies. Therefore, increase in debt financing by the firms means low profits. This could be explained by the assumptions that when firms use debt financing, they have more liabilities to pay hence lowering the firm profit.

The study showed that there is negative relationship between debt equity ratio, debt ratio and return on assets ratio. Therefore, if a firm wants to make more profits it has to reduce the amount of debt used in its capital structure. This also implies that when it comes to investment a firm should use retained earning first before it can shift focus to using debt. Its prudent to note that, a firm also needs to balance use of debt and equity since a firm with more equity will pay more dividends thus a firm should also employ use of external financing/debt so as to reduce dividend payouts. This implies that financial leverage and dividend payout of a firm are interdependent.

5.3 Recommendations

The results of the study showed that there is a negative relationship between debt ratio, debt equity ratio and return on assets ration of the selected firms. The results showed that financial leverage of a firm negatively affects the financial performance of the firm. This means that as firms rely more on financial gearing/leverage, their profits and financial performance declines.

Based on the research findings the researcher recommends the following:

Firms should strike a balance between use debt financing and equity financing. Excessive use of debt financing would imply low profits and poor financial performance of a firm. Debt financing increases liabilities to creditors hence lowering profits. Excessive use of equity financing
implies high dividend payouts hence reducing retaining earnings that would have been ploughed back to the business and earn revenue for the firm.

In line with a firm’s main objective which is shareholders wealth maximization, a firm should aim at increasing shareholders wealth through increasing percentage of retained earnings as compared to percentage of dividends payout. The retained earnings would then be reinvested into the business hence increasing shareholders wealth. Use of retained earnings reduces the need for financial leverage which is associated with high risks. Therefore, a firm should strike a balance between dividend payments and retained earnings.

Firms should use debt financing especially when the funds will be used to increase asset utilization. That is, firms should only borrow funds if the funds will be used to increase utilization of existing assets. In summary firms should strike a balance between the borrowing need and asset utilization.

5.4 Areas for Further Studies

Firm’s financial performance is measured using various proxies such as return on assets, return on investment, return on equity among others. The study use return on asset as the proxy to measure financial performance. Other researchers can examine the relationship between financial leverage and financial performance using other financial measurement proxies not applied in this study.

The study used secondary data, Other researchers should consider use of primary date to examine the relationship between financial leverage and financial performance. The study mainly focused on petroleum and energy sector, other researchers can consider other sectors in the economy like banking sector, manufacturing sector, education sector.
REFERENCES


Cheng, C. & Tzeng, C. (2010). *The Effect of leverage on firm value and how the firm financial quality influences on this effect*, National Chung Cheng University, Taiwan.


Suhaila, A. M. (2014). *The effect of liquidity and leverage on financial performance of commercial state corporation sin the tourism industry in Kenya*, Unpublished MBA Project, School of Business, University of Nairobi


APPENDIX I: INTRODUCTION LETTER FROM KENYATTA UNIVERSITY

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

FROM: Dean, Graduate School
TO: Charles Karua Kithandi
C/o Accounting and Finance Dept.

DATE: 22nd November, 2017
REF: D83/CL/CTY/24718/2014

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 15th November, 2017 approved your Research Project Proposal for the M.B.A Degree Entitled, “Financial Leverage and Financial Performance of the Energy and Petroleum Sector Companies Listed in the Nairobi Securities Exchange”.

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University’s Website under Graduate School webpage downloads.

Thank you,

HARRIET KABORE
FOR: DEAN, GRADUATE SCHOOL

cc. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Gerald Atheru
   C/o Department of Accounting and Finance
   Kenyatta University

Hi/Inn
APPENDIX II: RESEARCH APPROVAL LETTER BY NACOSTI

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Ref. No: NACOSTI/P/18/41903/22577

Date: 25th May, 2018

Charles Katua Kihandi
Kenyatta University
P.O. Box 43844-00100
NAIROBI

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Financial leverage and financial performance of the energy and petroleum sector companies listed in the Nairobi Securities Exchange,” I am pleased to inform you that you have been authorized to undertake research in Nairobi County for the period ending 24th May, 2019.

You are advised to report to the County Commissioner and the County Director of Education, Nairobi County before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a copy of the final research report to the Commission within one year of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.
APPENDIX III: DATA EXTRACTION TOOL / DATA COLLECTION SCHEDULE

Data will be collected from the followings:

<table>
<thead>
<tr>
<th>Data collection tool</th>
<th>Source</th>
<th>Data collected</th>
<th>Time frame (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total Liabilities</td>
<td>2016</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interest expense</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX IV: LIST OF FIRMS LISTED IN THE ENERGY AND PETROLEUM SECTOR IN KENYA

i) Kengen

ii) Kenolkobil Ltd

iii) KPLC Company Ltd

iv) Total Kenya

v) Umeme