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Effect of Leverage on Financial Performance of Selected Companies Listed in the Nairobi Securities Exchange, Kenya

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ABSTRACT
A high number of firms especially quoted companies have registered declining financial performance in the recent years contrary to the stakeholders' expectations. Poor financial performance of quoted companies adversely affects the economic growth of the Kenyan economy. Majority of these firms have been facing financial difficulties. The management of these companies is concerned whether the firm financial structure affects their performance. Financial structure of a company is important for the management and stakeholders as it defines the various modes of financing that the company uses to support its investments and operations. The general objective of this study was to investigate the effect of financial structure on performance of selected companies listed at (NSE), Kenya. The specific study objective was to determine the effect of leverage on the performance of Companies listed on the Nairobi Securities Exchange (NSE). Causal or explanatory research design was employed in the study due to the nature of problem and available. Quantitative data was used. Multivariate tests using panel data model examined the effects of the independent variable on company's financial performance. Data was collected for 30 selected companies for the period 2007-2015. The study adopted positivist philosophy as it focused on objectivity and fits a quantitative study with objective of testing hypotheses. Various diagnostic tests including, Auto-correlation test, Normality test, Heteroscedasticity test, Unit root test and Test for pooling were carried out. Regression coefficients were used to test for significance using t-statistic at 5% level of significance and conclusions drawn. The coefficient of determination (R^2) was used to rank the explanatory variable's contribution to the response variable. The study utilized secondary panel data contained in the annual reports and financial statements of selected companies. The research contributed to the existing literature of international business and finance by jointly testing the effects of leverage on performance of selected companies listed at the (NSE), Kenya. Breach-Pagan lagrange multiplier (LM) test was used showing that there were no panel effects (implying that ordinary least square should be used (pooling). Therefore, the data was pooled. The study found out that Leverage had significant positive effect on financial performance of selected companies listed at NSE, Kenya. The recommendations of the study were that managers of the selected companies listed at NSE, Kenya could utilize the various sources of finance since financial structure has a positive effect on the performance of the listed firms. The proportion of leverage could be increased in financing the companies due to its high contribution to performance.
Keywords: Equity, financial performance, leverage, liquidity risk, financial risk, liquidity and under- investment.

INTRODUCTION

The health and survival of any organization points to management's ability to efficiently and effectively use the company's resources which contribute to the country's economy (Naser & Mokhtar, 2004). Therefore, owing to the implications that financial performance has on these organizations, firm's financial performance has raised a lot of interest and concerns to the management and other stakeholders of all organizations. Measuring financial performance of a firm assists the firm's management obtain information about the use of finances and funds flow within and outside the organization. Besides, the managers can make best decisions from the information on firm's performance (Almajali *et al*., 2012).

Firm's performance plays the role of increasing the market value of a firm in addition to leading towards the growth of the whole industry and ultimately towards the overall prosperity of the economy. This explains why in corporate finance literature, assessing the determinants of performance of listed financial firms has gained great importance despite it having received little attention particularly in developing economies (Ahmed *et al.*, 2011). These companies provide the mechanism for risk transfer and channeling the funds in an appropriate way to support the business activities in the economy.

According to Almajali *et al.*, (2012), financial report related factors are the focus of financial performance. These focus on the financial structure of firms. These are factors relating to liquidity, leverage and equity of a firm. Shubita & Alsawalhah (2012) noted that it is difficult to determine the optimal financial structure of a firm as this entails analysis of their risk and profitability among other factors. Almajali *et al.,* (2012) studied financial performance of Jordanian Insurance Companies listed at Amman Stock Exchange during period (2002 – 2007). The results showed that the leverage, size and liquidity have a positive statistical effect on the financial performance of Jordanian Insurance Companies. The financing decisions are also affected by the environments within which the firms operate and which exhibit high degree of instability. The study period starting 2007 was characterized with harsh economic climate because of the financial crisis that faced the world. Past studies on financial structure relationship with financial performance have concentrated on investigating the direct relationship between financial structure and financial performance of companies and mainly investigating one component of financial structure at a time. However, authors documented different results and explained various rationales in this respect. Some authors found (Abor, 2010) positive leverage-performance relationship, while others believe conversely and described debt as negative connotation. Mwangi *et al.,* (2014) concluded that increased financial leverage has a negative effect on performance.

It is argued that, contingency and situational factors result to contradictions and inconsistencies in the various studies that looked at the relationship between the various components of financial structure and performance Jermias (2008). According to O'Brien, (2003), misleading conclusions can be made while studying variables' direct relationship with performance. This would apply for Leverage, Liquidity and Equity to performance where studies are done individually. This would also apply to this study if a direct financial structure-performance relationship is studied. Firm size is one of the areas that has received little attention and hence less researched despite its ability to moderate the Financial Structure-performance relation and it is viewed as significant factor that can affect the firm's relation with its external environment (Ezeoha, 2008). The role of large firms is more critical in corporate environment as they have more capacity to influence their stakeholders. The firms also play significant role in commercializing innovative ideas provided by small firms and therefore it is important to consider firm size's moderation effect while studying the relationship between financial structure and performance Mouhammed & Waheed (2016).

Financial Structure

According to Titman, Keown and Martin (2011), financial structure is capital structure plus a firm's non-interest bearing liabilities like accounts payables and accruals. It shows how companies finance their assets using the resources available (Moyer, McGuigan & Kretlow, 1999). Generally, firms can finance their assets fully or in part by using either equity capital, long term financial debt or liabilities and short term debt and other short term liabilities, Moyer *et al*., (1999). The way firms finance their assets with permanent short term debt, long term debt, preferred stock and common equity describe their capital structure, Moyer et al., (1999).

Capital structure on the other hand refers to how a firm finances its assets with permanent short term debt, long term debt, preferred stock and common equity (Moyer et al., 1999). Titman et al. (2011) defines capital structure as owners' equity and interest bearing debt including short term bank loans. Both definitions therefore exclude noninterest bearing short term debt. Other scholars have provided various definitions of financial and capital structure with one thing in common that it is the mix of debt and equity used by firms to finance their operations without regard to the nature of debt. The various components of financial structure which constitute the study variables include leverage, liquidity and equity. Financial leverage is the first independent variable of the study. It shows the degree to which a company uses fixed-income securities such as debt and preferred equity. The more debt financing a company uses, the higher its financial leverage. A high degree of financial leverage means high interest

payments, which negatively affect the company's bottom-line and earnings per share. Although increasing financial leverage might enable a firm to increase its value by profiting from tax shields on debt (Modigliani and Miller, 1963), higher financial leverage might lead to higher expected direct and indirect financial distress costs, which decrease the firm's value (Ross et al., 2002).

According to the tradeoff theory, the optimum financing mix coincides with the level of financial leverage at which the benefits and costs of debt financing are exactly balanced. Businesses use debt because it offers them potential to increase the volume of their operations and increase the average ROE and ROA through tax savings. In many authorities, interest on debt is an allowable expense against profits. The use of debt will have this effect only if the rate of return on the investment or assets is greater than the rate of return on the debt (Watkins, 2002). The study will use a ratio of Non-Current Assets to Total Net Assets as a measure of firms' leverage in this study. Liquidity is the second independent variable of the study. Liquidity of a company is a financial measurement that is primarily associated with company performance and the firm's ability to meet its short-term obligations. Geczy et al., (2006) argues that liquidity ratios measure a business' ability to meet the payment obligations by comparing the cash and near cash with the payment obligations. Liquidity-based variables rest on the assumption that firms are more likely to forego positive net present value projects and thus suffer from underinvestment when their cash holding are low. When a firm uses more current assets, it means that it can generate internal inflows which can then be used to finance its operating and investments activities. Therefore, if a negative relation is confirmed, that is an implication that firms finance their activities following the financing pattern implied by the pecking order theory. Firm with high liquidity can generate high cash inflows and in turn, can employ the excess cash inflow to finance their operations and investment activities. Therefore, they use less debt compared to those firms that have low liquidity as suggested in pecking order theory. As for low liquidity firms, they tend to go for debt in financing their activities (Suhaila & Wan Mansor, 2008).

Liquidity of a company which is expressed as a ratio of current assets to current liabilities is a measure a company's ability to provide sufficient cash to cover its short-term obligations (debt). The most common liquidity ratios include; the current ratio and the quick ratio. The current ratio indicates the extent to which the claims of short-term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the liabilities. A current liability represents money a company owes and is due in the near future- less than one year. A current asset, on the other hand, is cash or others short-term assets that can be converted into cash soon (i.e. less than a year). By dividing the current assets by the current liabilities, we can determine whether a company can pay off its short-term debt (current liabilities). It also shows the working capital management by the firm. The study will adopt current ratio as the measure of firms' liquidity. The trade-off theory predicts a positive relationship between liquidity and the debt level (Hasan, eternal, 2009)

Owners' Equity constitutes the third independent variable of the study. Equity capital is that part of capital which is free of debt and represents ownership interest in a firm (Moyer et al., 1999). It is therefore that amount contributed by the owners and normally includes ordinary share capital, preferential capital, retained earnings and reserves. Like debt providers, equity providers also earn returns in form of dividends from the profits generated by the firm (Titman *et al*., 2011). Preference shareholders receive their dividends at an agreed rate before the ordinary shareholders and any un-appropriated profit is retained for firm's expansion programs (Titman *et al*., 2011). Suffice to say that a good financial performance leads to a high retention. If a firm reports a loss, then it has a retained loss which reduces the shareholders' funds. In terms of measurement of equity, preference stock, ordinary stock and retained earnings will be used. The study used the ratio of Owners' Equity to Total Net assets to measure for firm's equity.

According to Dare and Sola (2010), Ishaya and Abduljeleel (2014) when firms combine debt and equity in their capital structure, they enjoy the benefits of combined debt and equity. The cash flows generated are shared between equity and debt providers. Financial structure decisions assist in maximizing shareholders' wealth due to their impact on sustainability and ability to satisfy external objectives of a firm (Ishaya & Abduljeleel, 2014). The concept of Assets structure also becomes important in this study. The financial structure of a firm determines the asset structure of a firm and by extension the firm size. Asset structure has been defined using various aspects by different scholars based on the direction of the study. According to Koralun-Bereźnicka (2013) asset structure is a combination of the various asset components which were identified as: financial fixed assets; tangible fixed assets; current assets; and current investments and cash in hand and at bank. This affects the financial structure of a company significantly. A similar approach is taken by Schmidt (2014), where asset structure is described in terms of: current assets; long term investments and funds; Property, Plant and Equipment; intangible assets; and others assets. The assets structure is comprised of total assets, which gives the firm size.

According to Lievenbruck and Schmidt (2014), firm size has important economic impact in any financial policies and hence an important predictor of the financial performance as it helps in achieving economies of scale. Larger firms show better profitability while smaller firms do not have the ability to compete with larger firms in this

regards. The size of the firm is represented by total net assets and computed as natural log of total net assets. This will be used as the moderating variable of the study to evaluate if its introduction can enhance performance.

Financial Performance

A firm's financial performance refers to a firm's ability to generate new resources from day to day operations over a given period (Bora, 2008). It involves enhancing shareholders' wealth and profit making which are among the major objectives of a firm (Pandey, 2005). Accounting ratios derived from the balance sheet and income statement and also from data on stock market prices, are used to measure how better off a shareholder has become over time (Berger & Patti, 2002). The growth in firms' sales, the improvement in their profit margin, their capital investment decisions and capital structure decisions mainly influence the shareholder's wealth (Arnott & Asness, 2003). Various indicators have been used to measure the financial performance of the firms by various scholars. The various ways of measuring company's financial performance are reflected in the company's ratios of Return on Investment (ROI), Return on Assets (ROA), Return on Equity (ROE), value added, among others which measure whether the owners 'objectives are being met; the objectives of increasing shareholders' wealth through investing in business. Therefore, financial performance is a general measure of a firm's overall financial health over a given period, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

A study by Okwo et al., (2012), used operating profit margin to measure financial performance of firms within the brewery sector. Olatunji et al., (2014) used Net profit of the commercial banks as the measure of their financial performance. A study by Wamugo *et al., (*2014), on the relationship between capital structure and performance of non-financial listed firms, used ROA and ROE as the indicators of Firm performance. The current study developed an all profitability ratios index for financial performance by computing a simple average for return on assets, return on equity and profit margin (return on sales) of the firms under study. This approach was also taken by the study on the effects of asset structure on the financial performance of listed manufacturing firms where an evaluation of financial performance of these firms was through the use of ROA and ROE (Mawih, 2014).

The Nairobi Securities Exchange

According to NSE (2015), trading in securities was informal, manual and was purely on a gentleman's agreement until 1954 when the Nairobi Stock Exchange was constituted as a voluntary association of stockbrokers registered under the Societies Act. From the first privatization of 20% government stake in Kenya Commercial Bank (KCB) in 1988, NSE has grown in trading volumes, boosted by among others efficient settlement of deals though automated trading system introduced in in September 2006. The market capitalization of the already demutualized (on July 2014) NSE as at the last day of trading in 2014 was over sh. 2.2 Trillion with 64 firms listed. The Nairobi 20-Share Index had as at end of 2014 surpassed the 5000 points mark, an indication of the huge capital mobilization through NSE. Bonds of sh. 494 billion were issued in 2014 up from sh. 253 billion in 2013 (NSE, 2015). Nairobi Securities Exchange plays an important role in the process of economic development and helps in mobilizing domestic savings which bringing about the reallocation of financial resources. It has also facilitated transfer of securities between shareholders by making long-term liquid. It also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares. Companies can also raise extra finance which is essential for expansion and development. Nairobi Securities Exchange also enhances the inflow of international capital. They can also be useful tools for privatization programs.

Statement of the Problem

The period starting 2007 saw majority of companies experiencing financing difficulties due financial crisis that hit most parts of the world including Kenya. Management of these companies was concerned with whether the companies' financing decisions affected their financial performance and especially at that time when majority of the companies were facing financial crisis. The components of financial structure include leverage, liquidity and equity, liquidity being current assets minus current liabilities. Majority of studies investigating the effect of financial structure on performance have investigated individual components of financial structure at a time and therefore failing to link all the components of financial structure and their effect on financial performance in one study. Similarly, majority of the studies used measures of profitability, ROA, ROE, ROS and others to proxy for financial performance and failed to come up with a unique measure of financial performance, which generated mixed results.

Studies done so far, for instance, focused on the effects of financial leverage on performance alone (Mwangi *et al.,* 2014) and measured performance as either ROA or ROE. Haq, Sohail, Zaman and Alam (2011), in their studies examined the influence of liquidity on return on assets while Ishaya and Abduljeleel (2014) studied the direct effect of debt on profitability and equity and profitability. The existing literature in Kenya lacked a specific study that investigated the effect of leverage on financial structure on financial performance for listed companies in Kenya. The need to study leverage, as an element of financial structure and its effect on financial performance of NSE Listed Companies motivated this study.

Objectives of the Study

The main objective of the study was to investigate the effect of financial structure on performance of selected companies listed at (NSE), Kenya. The Specific objective of the study was to determine the effect of leverage on performance of selected companies listed at NSE, Kenya.

METHODOLOGY

This study adopted a positivism research philosophy. The philosophy focuses on objectivity, where the researcher is independent of the research project, free of bias and personal value, without influence on the data or research results Creswell (2003). The study adopted a causal or explanatory research design due to the nature of problem and availability of data. The study targeted all the 39 selected companies listed under selected sectors of Nairobi securities exchange, Kenya as at 31st December 2016. These companies were drawn from seven sectors of the economy comprising of Agricultural sector, Commercial services sector, Telecommunications sector, Automobiles sector, Manufacturing and Allied sectors, Construction and Allied sector and Energy and Petroleum sector of NSE. Census sampling was done for all the thirty-nine firms in these seven sectors. The study was also guided by a panel regression model that involved analyzing the explanatory variables and the moderating variable to analyze the effect of financial structure on financial performance of selected companies listed at NSE, Kenya. A research permit obtained from National Commission for Science, Technology and Innovation allowed for the utilization of secondary data from published financial statements of selected companies listed on the NSE, Kenya. The data consisted of time series (years 2007 to 2015) and cross-sections (companies). The study used descriptive statistics, correlation analysis and panel linear multiple regression analysis. Regression coefficients were tested for significance using t-statistic at 5% level of significance and conclusions drawn.

THEORETICAL LITERATURE REVIEW

This study was underpinned by capital Structure theories. These theories included, the pecking order theory, the stakeholder theory, Modigliani and Miller theory, agency cost theory and the trade-off Theory. The pecking order theory by Myers (1984) posit that in designing their capital structure, businesses should first use internally generated funds, followed by external debt and finally the external equity. The stakeholder theory by Freeman (1984) looks at the equilibrium of stakeholder interests as the main determinant of corporate policy while the Modigliani and Miller theory by Modigliani and Miller (1958), states that, without taxes and under assumptions of perfect markets, capital structure financing decisions are irrelevant since the value of the levered firm is equal to the value of the unlevered firm. The agency theory on the other hand by Jensen and Meckling (1976), argues that a firm's optimal capital structure will depend on the value of debt which helps mitigate conflicts among stakeholders. This theory is based on the various forms of financial structures that may exist in a company, as well as the various financial performance measures. The Trade-off theory advocates that firms' management should emphasis favorable liquidity level to balance the costs and benefits of cash holdings. The cost of cash holdings is the low yield of these liquid assets because of liquidity premium and tax disadvantages (Ajao & Small, 2012).

Empirical Literature Review

Empirical Literature is reviewed in this section. Zikmund, Babin, Carr and Griffin (2010), indicated that empirical literature review is a directed search of published works, including periodicals and books that discuss theories and present empirical findings by other scholars that are relevant to the research topic under study. It therefore provides a platform for analyzing the variables, their relationships and to critique the findings where necessary.

Effect of Leverage on Performance

Researchers have reported various empirical findings on the effect of financial structure and performance.

Mwangi *et al.,* (2014) studied the relationship between capital structure and performance of non-financial companies listed in the Nairobi Securities Exchange in Kenya. The study employed an explanatory non-experimental research design. A census of non-financial companies listed in the Nairobi Securities Exchange, Kenya was taken. The study used secondary panel data contained in the annual reports and financial statements of listed non-financial companies for the period 2006-2012. The study concluded that increased financial leverage has a negative effect on performance. However, the study only considered leverage and did not study other components of financial structure that influence performance like firm size, liquidity and integrate in the study. Khalid *et al.,* (2014) investigated non-financial firms listed on Karachi Stock Exchange. The used panel data spans from 1988-2008. The study found that in Pakistan leverage has positive significant impact on corporate performance. Almajali *et al.,* (2012) studied financial performance of Jordanian Insurance Companies listed at Amman Stock Exchange during period (2002 – 2007). The results showed that the leverage, size and liquidity have a positive statistical effect on the financial performance of Jordanian Insurance Companies.

Hasan *et al*., (2014) investigated Bangladeshi firms listed in Dhaka Stock Exchange during the period 2007 to 2012. They used ROA, EPS and Tobin's Q to measure performance. They found that there is significant negative

correlation between ROA and Capital leverage. While there is no significant relationship between leverage and firm's performance as measured by ROE and Tobin's Q. They associated the negative relationship to higher cost of debt and strong covenants attached to the use of debt. Mahmoudi (2014) conducted a study using panel data from cement firms listed at the Tehran Stock Exchange for a period from 2008 to 2011. He investigated the effects of leverage on firm's profitability measured by ROA and ROE. He found a significant negative relationship between leverage and firm profitability. Siahaan *et al.,* (2014) conducted a study research on listed firms at the Indonesia Stock Exchange. The firms were clustered into two, 30 firms as the large listed firms and another cluster of 30 firms listed as small firms. He found that large firms had an insignificant positive relationship between leverage and firm value but a significant negative relationship for small firms.

Tsuji (2013) studied the relationship between firm capital structure and profitability in the Japanese machinery firms listed on Tokyo Stock Exchange using panel data from 1981-2011. The results showed that leverage has a negative relationship with profitability. Dogan (2013) investigated firm profitability of 200 companies listed at the Istanbul stock exchange using data from 2008 to 2011 by a multivariate regression model. He found that liquidity was positively related to profitability as measured by ROA while leverage was negatively related to profitability. Abbasali and Esfandiar (2012) investigated the impact of capital structure on the financial performance of companies listed in the Tehran Stock Exchange and tested a sample of 400 firm. They concluded that there was a significant negative relationship between debt ratio and financial performance of companies, and a significant positive relationship between asset turnover, firm size, asset tangibility ratio, and growth opportunities with financial performance measures. The study tested all sectors and did not isolate the financial sectors whose objective in use of derivative is both for risk hedging and for speculation to make profits.

Abdul (2012) studied the relationship between capital structure decisions and the performance of firms in Pakistan. ROA, GM, and Tobin's Q were used to measure firm performance and he concluded that financial leverage had a significant negative relationship with firm performance while there was negative but not statistically significant relationship between financial leverage and firm performance when measured as return on equity (ROE). Majority of these studies looked at the effect of Leverage on specific measures of profitability and performance mainly ROA, ROI, ROE, Tobin Q, EPS and Profit Margin but failed to obtain an average measure of financial performance to take care of the various stakeholders' interests. Additionally, majority of these studies looked at leverage as the only component of financial structure and failed to incorporate other components in their studies. This is the gap that this study aims to cover by incorporating the various components of financial structure in the study and taking care of all stakeholder interests by incorporating various measures of profitability in measuring financial performance.

RESULTS

Leverage, as a component of the financial structure of a firm focus on the ratio of long term debt to total net assets. The computed ratios for the companies, sectors, industry aggregates and 9-year annual averages are presented in Tables 1, 2, 3 and Figures 1, 2 and 3. From the table, the mean value for leverage for the 9-year period is 0.2515 (25.15%) and the standard deviation of 0.2096. Leverage represents the organizations debt ratio measured as Total Non-Current Liabilities to Total Net Assets. According to this finding, 25.15% is relatively moderate average.

Table 1: Companywide Average for Leverage

Company	Mean	Std. Dev	Median	Maximum	Minimum	Skewness	Kurtosis
1	0.157778	0.067598	0.15	0.23	0.06	-0.23616	1.5507
2	0.227778	0.059745	0.2	0.35	0.18	1.154179	2.930124
3	0.256667	0.018028	0.25	0.28	0.24	0.528005	1.5
4	0.213333	0.033166	0.22	0.28	0.17	0.714707	2.868285
5	0.213333	0.047697	0.23	0.27	0.13	-0.65165	1.986898
6	0.186667	0.020616	0.19	0.22	0.15	-0.07062	2.66263
7	0.165556	0.086039	0.18	0.29	0.02	-0.46702	2.29643
8	0.248889	0.295992	0.06	0.76	0	0.741998	1.977781
9	0.05	0.020616	0.05	0.07	0	-1.63428	5.122837
10	0.437778	0.120497	0.47	0.65	0.22	-0.10106	2.946871
11	0.666667	0.153216	0.62	1.06	0.57	2.139515	6.171369
12	0.025556	0.018105	0.02	0.07	0.01	1.781823	5.266375
13	0.031111	0.025712	0.03	0.07	0	0.150986	1.674617
14	0.305556	0.124108	0.29	0.47	0.09	-0.12347	2.165259
15	0.283333	0.043012	0.29	0.33	0.21	-0.74202	2.197407
16	0.561111	0.070966	0.53	0.65	0.47	0.02845	1.332876
17	0.168889	0.047813	0.15	0.27	0.13	1.375447	3.297053
18	0.067778	0.040859	0.08	0.11	0	-0.71696	1.940829
19	0.457778	0.080588	0.45	0.6	0.3	-0.21217	3.490987
20	0.067778	0.041767	0.05	0.12	0.02	0.154922	1.328254
21	0.594444	0.366166	0.53	1.52	0.31	2.000421	5.847376
22	0.523333	0.158588	0.56	0.81	0.25	0.106328	2.84724
23	0.231111	0.17546	0.25	0.51	0.06	0.410924	1.738537
24	0.232222	0.039299	0.24	0.27	0.17	-0.46411	1.733402
25	0.386667	0.322102	0.21	0.76	0.09	0.212927	1.115424
26	0.248889	0.13779	0.21	0.54	0.06	1.020853	3.46562
27	0.226667	0.064031	0.27	0.29	0.12	-0.47506	1.631953
28	0.104444	0.045308	0.1	0.17	0.02	-0.23058	2.669263
29	0.107757	0.015632	0.11	0.13	0.09	0.182324	1.855769
30	0.096667	0.049244	0.11	0.15	0	-0.79345	2.551228
Industry Aggregate	**0.251518**	**0.209637**	**0.21**	**1.52**	**0**	**1.634733**	**7.755598**

Source: Survey Data (2018).

Table 1 gives the various descriptive statistics for leverage in all the 30 companies that were studied for the period 2007-2015. Kenya Airways had the highest average debt ratio with an annual mean of 66.67% while Nation Media Group Ltd had the lowest average debt ratio with annual mean of 2.55%. The industry aggregate for leverage was 25.15%, with a standard deviation of 0.209637, a minimum of 0, maximum of 1.52 and a positive skewness of 1.6347. This showed there was great variation in use of leverage in financing activities within the industry. This further indicated that the firms were lowly geared over the period and relied heavily on internal financing to finance their assets. The companies had a positive long-term debt to total net assets throughout the period. Majority were to the right tail. Kurtosis of 7.755598 indicates that there were fewer values around the mean.

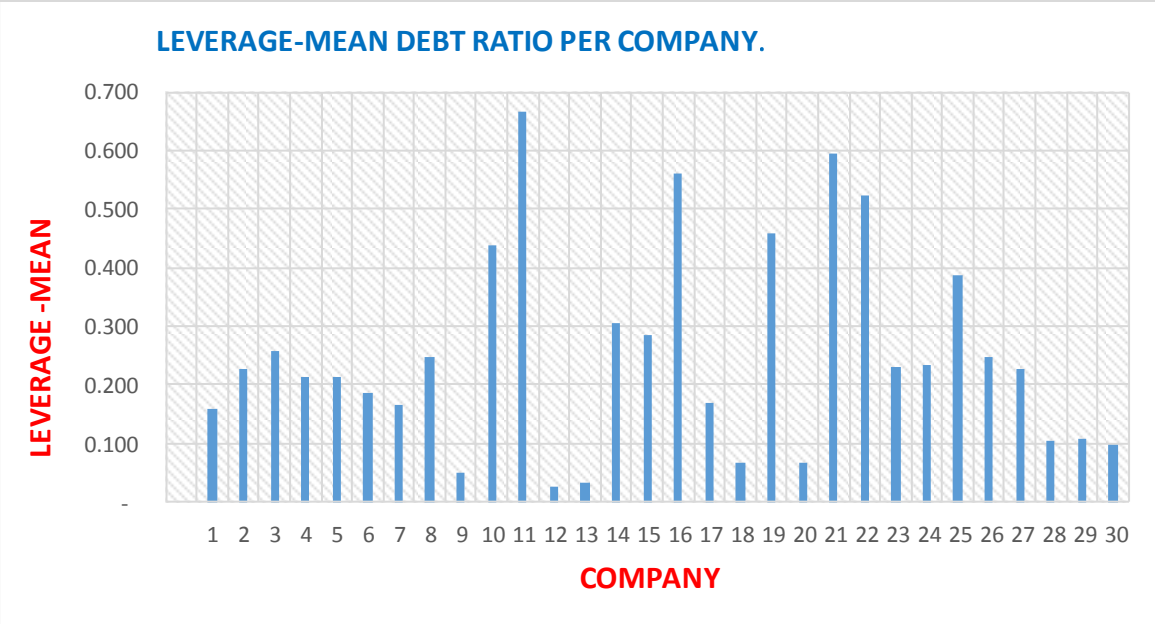

Figure 1: Leverage – Trend for debt ratio for selected companies

Figure 1 above shows that the general trend for the thirty (30) companies under study indicated that for the period 2007 to 2015, there were significant variations among companies in use of leverage from company to company.

Table 2: Sector Wise Average for Leverage

SECTOR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
Agricultural	0.209259	0.05323	0.22	0.35	0.06	-0.36825	3.947583
Automobiles	0.154815	0.190452	0.06	0.76	0	1.920895	6.153192
Commercial Services	0.291667	0.244114	0.29	1.06	0	0.640471	3.052407
Construction & Allied	0.313889	0.213452	0.285	0.65	0	0.106357	1.466832
Energy & Petroleum	0.354167	0.301694	0.32	1.52	0.02	1.55478	7.141258
Manufacturing & Allied	0.217774	0.170348	0.18	0.76	0.02	2.00723	6.571843
Telecommunications	0.096667	0.049244	0.11	0.15	0	-0.79345	2.551228

Source: Survey Data (2018)

Table 2 above gives the various descriptive statistics for leverage in all the 7 sectors that were studied for the period 2007-2015. This shows the variation in use of leverage in financing activities within the selected sectors.

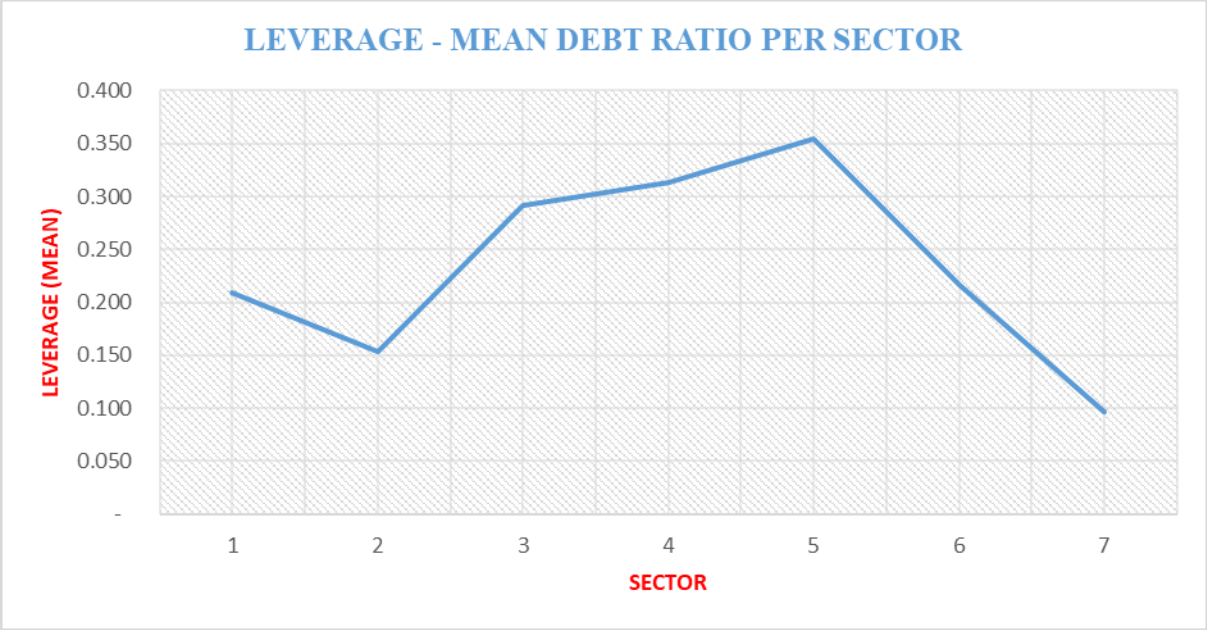

Figure 2: Sector Trend Analysis for Leverage

As shown in figure 2, The Energy and Petroleum sector had the highest level of leverage over the period at 35.42% which was above the selected companies' average of 25.15%. This means that the sector used more debt than other sectors in financing their investments. The Telecommunication sector had the lowest usage of leverage at 9.67% which was below all the companies' average.

Table 3: 9-Year Industry Annual Average for Leverage

YEAR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
2007	0.235327	0.157348	0.19	0.65	0.01	0.844944	3.108132
2008	0.261	0.180809	0.235	0.65	0	0.521344	2.208325
2009	0.258667	0.1732	0.235	0.68	0	0.520378	2.520551
2010	0.271667	0.216828	0.225	0.81	0.02	1.040721	3.208418
2011	0.244	0.170347	0.21	0.62	0	0.854302	2.817566
2012	0.249	0.19992	0.22	0.74	0	0.98167	2.970204
2013	0.242333	0.201882	0.2	0.76	0.01	1.019461	3.094234
2014	0.241333	0.2119	0.185	0.74	0	0.953047	2.894108
2015	0.260333	0.342591	0.13	1.52	0	2.230828	7.840901

Source: Survey Data (2018)

Table 3 gives the 9-year industry annual averages for the entire period under study 2007-2015. This shows that there were variations in use of leverage over the years. On average companies financed their investments 25% by leverage.

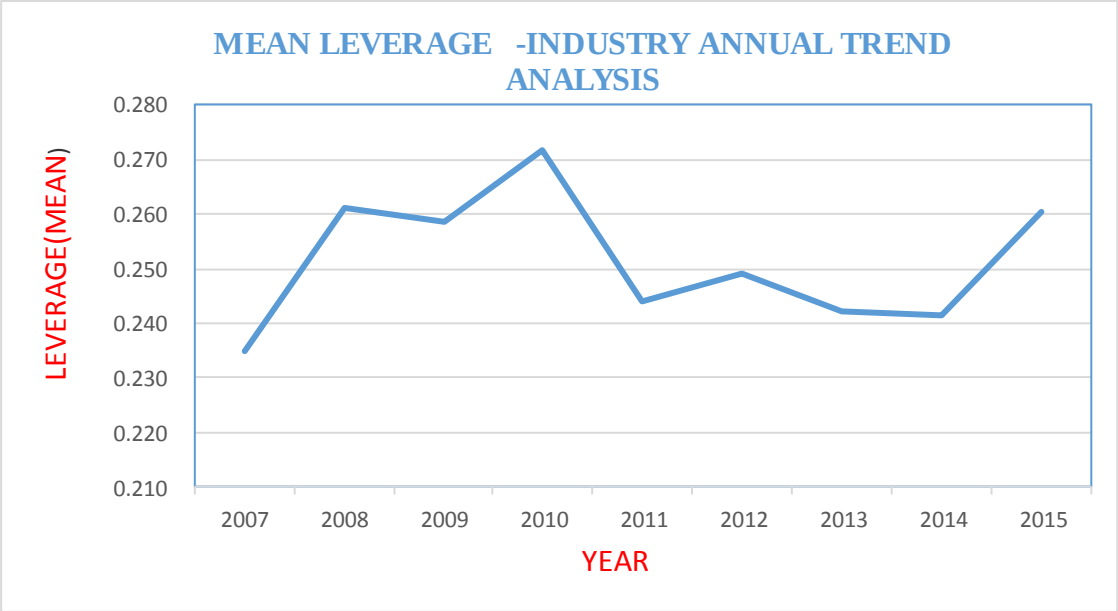

Figure 3: 9-Year Industry Annual Trend analysis for leverage for the 30 companies

Figure 3 shows the 9-year industry trend Annual average analysis for leverage. Year 2010 had the highest annual average of 0.271667 while year 2007 had the lowest annual average of 0.2353. This could be associated with the 2007/2008 financial crisis that hit world making the cost of borrowing very high.

Return on Assets

The dependent variable of the study was financial performance which can be measured as ROA, ROE, ROS or a composite of the three (ROA, ROE and ROS) as is the case in this study. The first case is where financial performance is measured as Return on Assets (ROA). Return on Assets as a component of the financial performance of a firm focus on the ratio of Net income (profit after tax) / Total Net Assets. The computed ratios for the companies, sectors, industry aggregates and 9-year annual averages are presented in tables 4, 5, and 6 and figures 4, 5 and 6. ROA represents returns as a proportion to total assets. Showing the rate of return on assets employed. According to these findings, a return on assets of 7.03% was achieved.

Table 4: Companywide average for Return on Assets

Company	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
1	0.025556	0.103333	0.04	0.21	-0.13	0.161708	2.556865
2	0.12	0.05099	0.13	0.19	0.04	-0.29402	2.127681
3	0.04	0.071589	0.05	0.14	-0.08	-0.09323	2.086222
4	0.197778	0.182741	0.18	0.51	0	0.4713	1.883606
5	0.048889	0.056001	0.05	0.14	-0.01	0.415689	1.814884
6	0.165556	0.073673	0.16	0.3	0.05	0.43359	2.689366
7	0.1	0.04899	0.1	0.16	0.03	-0.2774	1.848633
8	-0.15333	0.31269	-0.15	0.45	-0.62	0.438795	2.792225
9	0.044444	0.059815	0.06	0.14	-0.06	-0.37198	2.5887
10	-0.39333	0.940612	-0.04	0.13	-2.83	-2.23525	6.368709
11	-0.02444	0.107134	0.03	0.07	-0.25	-1.05674	3.051574
12	0.234444	0.121769	0.28	0.34	-0.07	-1.94166	5.601018
13	0.161111	0.101667	0.15	0.4	0.05	1.425622	4.597447
14	0.093333	0.066144	0.08	0.19	-0.04	-0.54399	3.127788
15	0.041111	0.022608	0.04	0.08	0.01	0.061478	2.323281
16	0.062222	0.060782	0.07	0.12	-0.09	-1.89711	5.702566
17	0.174444	0.054109	0.17	0.26	0.1	0.062696	1.817859
18	0.101111	0.035512	0.11	0.16	0.03	-0.45189	3.368283
19	0.083333	0.132853	0.07	0.36	-0.08	0.831541	3.145794
20	0.047778	0.347411	0.11	0.28	-0.86	-2.28265	6.606198
21	0.033333	0.029155	0.02	0.1	0.01	1.512281	4.07699
22	0.046667	0.014142	0.04	0.07	0.03	0.34375	1.828125
23	0.065556	0.050772	0.08	0.14	-0.01	-0.36291	2.130315
24	0.323333	0.065574	0.36	0.41	0.24	-0.1746	1.387135
25	0.29	0.068374	0.33	0.38	0.19	-0.25633	1.55053
26	-0.03889	0.232725	0.03	0.23	-0.5	-0.95768	2.795312
27	-0.3	0.894763	0.1	0.14	-2.58	-2.12601	5.971915
28	0.074444	0.025055	0.07	0.12	0.05	0.8787	2.393551
29	0.21627	0.081216	0.206377	0.416394	0.142258	1.777043	5.373259
30	0.228934	0.063005	0.215474	0.326406	0.149823	0.328447	1.70598
Industry Aggregate	0.070322	0.291843	0.085	0.51	-2.83	-6.70269	62.832

Source: Survey Data (2018)

Table 4 gives the various descriptive statistics for Return on Assets (ROA) in all the 30 companies that were studied for the period 2007-2015. On average, all the companies recorded positive ROA save for 5 companies, Marshals EA Ltd, Express Kenya Ltd, Eveready Limited, Kenya Airways and Mumias sugar Ltd that recorded negative ROA. Table 4 further shows that here were significant variations among companies in their performance per company as measured by ROA for the period 20007-2015.

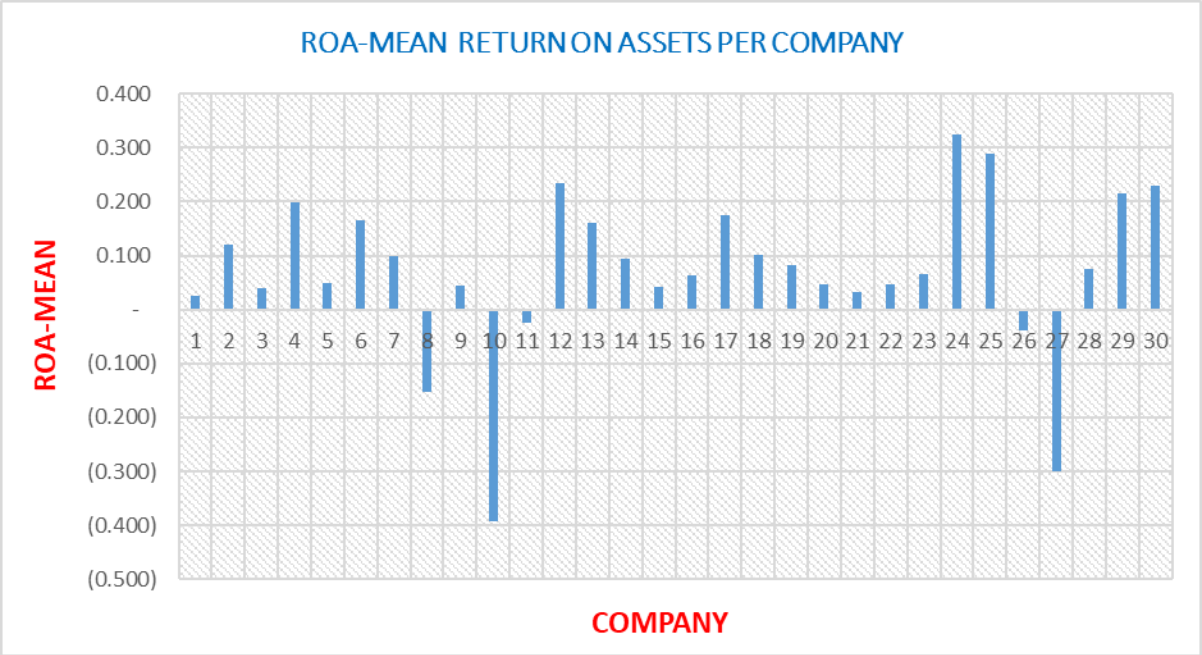

Figure 4: ROA-Trend for all selected companies

Figure 4 shows that the general trend for the thirty (30) companies under study indicated that for the period 2007 to 2015, there were significant variations among companies in their performance per company as measured by ROA.

Table 5: Sector wise Average for ROA

SECTOR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
Agricultural	0.09963	0.116311	0.08	0.51	-0.13	1.054886	5.118943
Automobiles	-0.00296	0.210235	0.06	0.45	-0.62	-1.10654	4.956849
Commercial Services	0.018704	0.42584	0.06	0.4	-2.83	-5.72364	38.65008
Construction & Allied	0.105278	0.087586	0.105	0.36	-0.09	0.224278	4.297573
Energy & Petroleum	0.048333	0.168972	0.06	0.28	-0.86	-4.34149	24.73279
Manufacturing & Allied	0.094193	0.422946	0.147359	0.416394	-2.58	-4.94252	31.08652
Telecommunications	0.228934	0.063005	0.215474	0.326406	0.149823	0.328447	1.70598

Source: Survey Data (2018)

Table 5 gives the descriptive statistics for each sector. Telecommunication sector has the highest mean of 0.2289 while Automobile sector had the lowest mean of negative ROA of 0.00296.

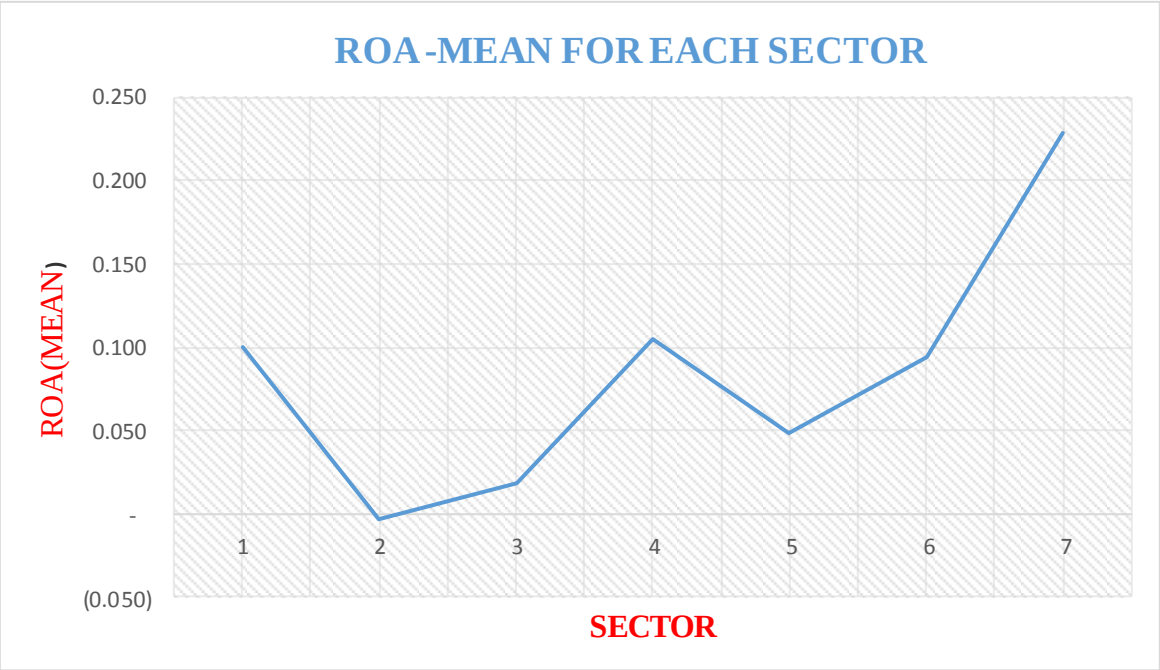

Figure 5: Sector Trend analysis for ROA

Figure 5 shows that majority of Sectors recorded positive Return on Assets over the period. This fluctuated from sector to sector with telecommunication sector recording the highest Return on Assets.

Table: 6: 9-Year industry annual average for ROA

YEAR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
2007	0.133241	0.102748	0.11	0.4	-0.01	0.760954	2.974458
2008	0.108356	0.114998	0.12	0.38	-0.25	-0.57347	5.34775
2009	0.116374	0.112749	0.1	0.4	-0.15	0.264047	3.640082
2010	0.100922	0.178189	0.095	0.51	-0.62	-1.78296	10.74811
2011	0.099939	0.194149	0.11	0.45	-0.64	-1.93103	8.881111
2012	0.067883	0.239279	0.08	0.416394	-0.86	-2.0335	9.131051
2013	0.077122	0.135679	0.08	0.36	-0.37	-0.86878	5.634207
2014	-0.11798	0.719465	0.055	0.38	-2.83	-3.24587	12.11893
2015	0.047037	0.209425	0.04	0.41	-0.69	-1.17656	6.453199

Source: Survey Data (2018)

Table 6 gives the 9-year industry annual averages for the entire period under study 2007-2015. This shows that there were variations in performance as measured by ROA over the 9-years period.

Figure 6: 9-year annual average trend analysis

Figure 6 show the 9-year Annual Trend analysis for ROA for the period showing a consistence decline in ROA from 2007 and a performance dive in 2014. This is an indication that on average the selected firms were not performing well in the said period.

Return on Equity

The second case is where financial performance is measured as Return on Equity (ROE). Return on Equity as component of the financial performance of a firm focus on the ratio of Net income (profit after tax) / Total Equity (Shareholders' funds). The computed ratios for the companies, sectors, industry aggregates and 9-year annual averages are presented in tables 7, 8 and 9, and figures 7, 8 and 9. ROE represents returns as a proportion to Total Equity. According to these findings, an aggregate return on Equity of 10.19%, and standard deviation of 0.555942, a maximum of 4.28 and a minimum of -5.51 was achieved and which was relatively moderate return on shareholders' funds. The firms had positive return on equity. A return of 15% which is above the borrowing rate of 14.4% would be ideal. However, a weighted average cost of capital would be used to set the level of returns required by each company depending on the composition of financing sources.

Table 7: Companywide Average for ROE

COMPANY	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
1	0.025556	0.103333	0.04	0.21	-0.13	0.161708	2.556865
2	0.12	0.05099	0.13	0.19	0.04	-0.29402	2.127681
3	0.04	0.071589	0.05	0.14	-0.08	-0.09323	2.086222
4	0.197778	0.182741	0.18	0.51	0	0.4713	1.883606
5	0.048889	0.056001	0.05	0.14	-0.01	0.415689	1.814884
6	0.165556	0.073673	0.16	0.3	0.05	0.43359	2.689366
7	0.1	0.04899	0.1	0.16	0.03	-0.2774	1.848633
8	-0.15333	0.31269	-0.15	0.45	-0.62	0.438795	2.792225
9	0.044444	0.059815	0.06	0.14	-0.06	-0.37198	2.5887
10	-0.39333	0.940612	-0.04	0.13	-2.83	-2.23525	6.368709
11	-0.02444	0.107134	0.03	0.07	-0.25	-1.05674	3.051574
12	0.234444	0.121769	0.28	0.34	-0.07	-1.94166	5.601018
13	0.161111	0.101667	0.15	0.4	0.05	1.425622	4.597447
14	0.093333	0.066144	0.08	0.19	-0.04	-0.54399	3.127788
15	0.041111	0.022608	0.04	0.08	0.01	0.061478	2.323281
16	0.062222	0.060782	0.07	0.12	-0.09	-1.89711	5.702566
17	0.174444	0.054109	0.17	0.26	0.1	0.062696	1.817859
18	0.101111	0.035512	0.11	0.16	0.03	-0.45189	3.368283
19	0.083333	0.132853	0.07	0.36	-0.08	0.831541	3.145794
20	0.047778	0.347411	0.11	0.28	-0.86	-2.28265	6.606198
21	0.033333	0.029155	0.02	0.1	0.01	1.512281	4.07699
22	0.046667	0.014142	0.04	0.07	0.03	0.34375	1.828125
23	0.065556	0.050772	0.08	0.14	-0.01	-0.36291	2.130315
24	0.323333	0.065574	0.36	0.41	0.24	-0.1746	1.387135
25	0.29	0.068374	0.33	0.38	0.19	-0.25633	1.55053
26	-0.03889	0.232725	0.03	0.23	-0.5	-0.95768	2.795312
27	-0.3	0.894763	0.1	0.14	-2.58	-2.12601	5.971915
28	0.074444	0.025055	0.07	0.12	0.05	0.8787	2.393551
29	0.21627	0.081216	0.206377	0.416394	0.142258	1.777043	5.373259
30	0.228934	0.063005	0.215474	0.326406	0.149823	0.328447	1.70598
Industry Aggregate	**0.101907**	**0.555942**	**0.125**	**4.28**	**-5.51**	**-3.3967**	**57.59233**

Source: Survey Data (2018)

Table 7 gives the various descriptive statistics for Return on Equity in all the 30 companies that were studied for the period 2007-2015. On average, all the companies recorded positive ROE save for 5 companies, Marshals EA Ltd, Express Kenya Ltd, Kenya Airways, Eveready Limited and Mummies Sugar Ltd that recorded negative ROE. BAT Kenya Ltd had the highest Return on Equity of 32.33% while Express Kenya Ltd had the lowest ROE of negative 39.33%. This shows that there were significant variations among companies in their Return on Equity.

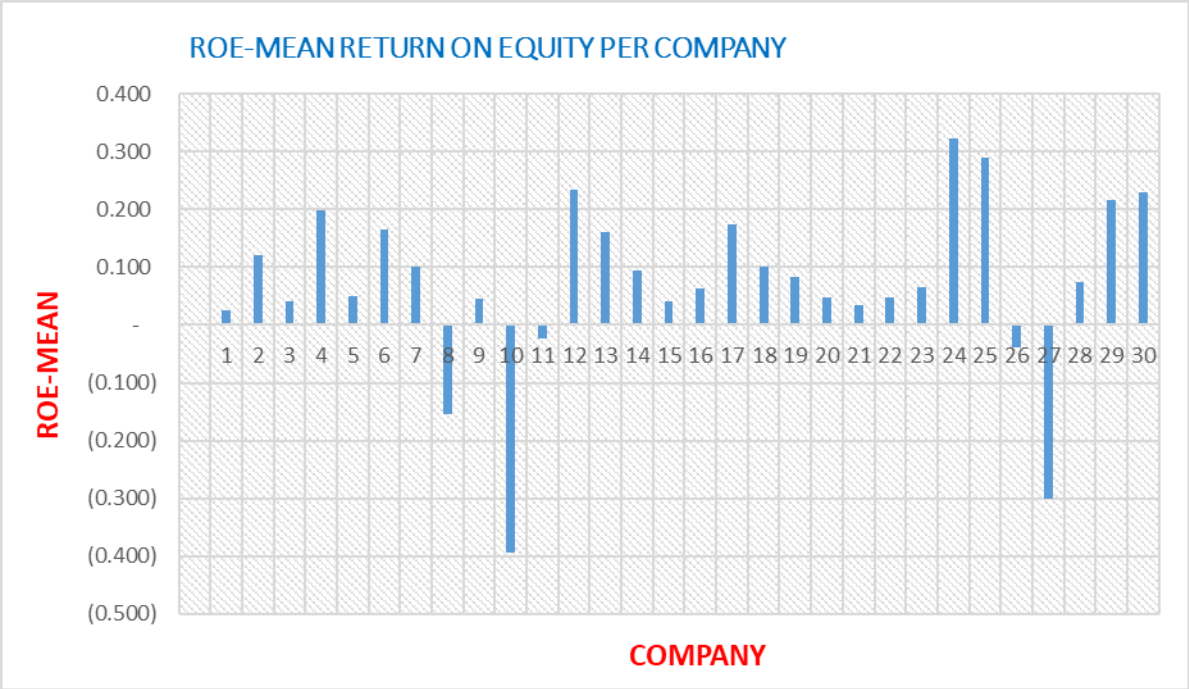

Figure 7: Trend for ROE for all the selected companies

Figure 7 shows that the general trend for the thirty (30) companies under study indicated that for the period 2007 to 2015, there were significant variations among companies in their Return on Equity.

Table: 8: Sector wise Average for ROE

SECTOR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
Agricultural	0.127407	0.145941	0.105	0.63	-0.15	0.95766	4.69978
Automobiles	-0.08815	0.550056	0.06	0.45	-2.6	-3.73167	17.4901
Commercial Services	0.061667	0.991779	0.1	4.28	-5.51	-1.95044	25.49569
Construction & Allied	0.157222	0.135364	0.16	0.52	-0.21	-0.46997	4.735643
Energy & Petroleum	0.061944	0.19651	0.09	0.29	-0.97	-4.11178	22.59022
Manufacturing & Allied	0.176881	0.586464	0.19	1.77	-3.13	-3.1373	20.90123
Telecommunications	0.249268	0.057544	0.242209	0.326406	0.173957	0.251158	1.593649

Source: Survey Data (2018)

Table 8 shows the descriptive statistics for each sector for ROE. Telecommunication sector has the highest mean of 0.249268 while Automobiles sector had the lowest mean of negative ROE of -0.08815. These shows there were variations on return on equity among various sectors.

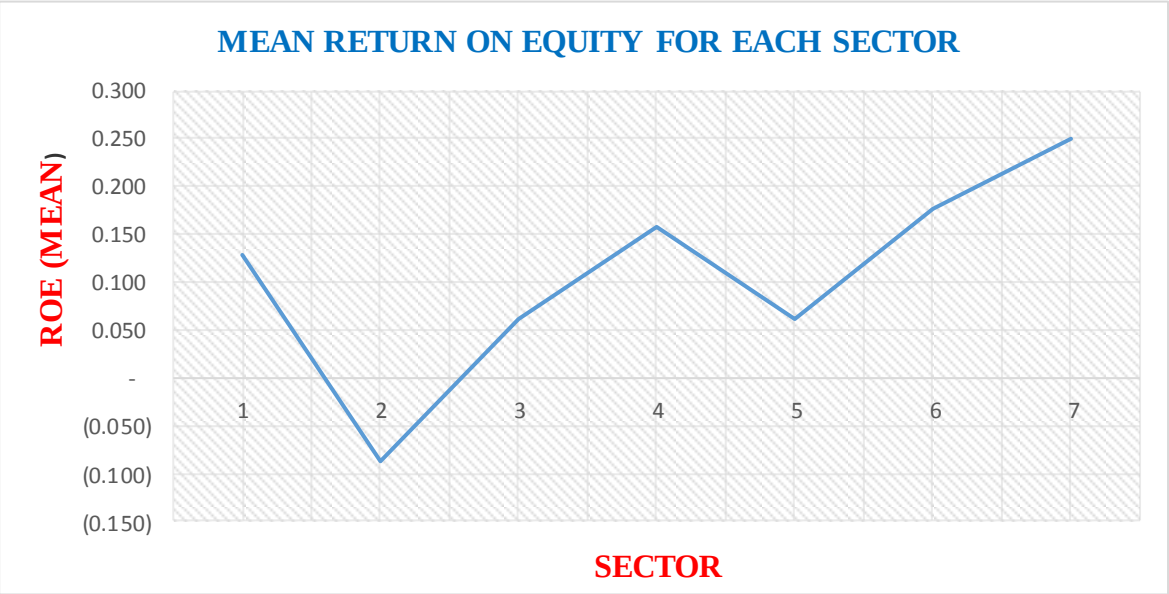

Figure 8: Sector Trend Analysis for ROE

Figure 8 show that the Commercial Services sector operated at a loss over the period since the sector recorded a negative ROE. The rest of the sectors had positive ROE though this fluctuated from sector to sector.

Table 9:9-Year Industry Annual Average for ROE

SECTOR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
2007	0.178923	0.131877	0.165	0.52	-0.01	0.65753	2.971682
2008	0.130945	0.198004	0.15	0.46	-0.7	-2.39215	11.67032
2009	0.147726	0.156501	0.135	0.48	-0.25	-0.43394	4.154081
2010	0.079051	0.525665	0.165	0.63	-2.6	-4.57768	24.12277
2011	0.119663	0.30109	0.165	0.48	-1.21	-3.07672	14.17323
2012	0.138926	0.409371	0.125	1.77	-0.97	1.445454	11.10327
2013	0.120313	0.226118	0.1	0.95	-0.39	1.275489	8.029802
2014	-0.20423	1.18691	0.08	0.76	-5.51	-3.61928	15.59031
2015	0.205847	0.819405	0.07	4.28	-0.78	4.220825	21.90669

Source: Survey Data (2018)

Table 9 gives the 9-year industry annual averages for the entire period under study 2007-2015. This shows that there were variations in performance as measured by ROE over the years.

Figure 9: 9-Year Industry Annual Trend Analysis for ROE

Figure 9 show the 9-Year industry annual trend average analysis for ROE showing a performance dive 2014. Year 2015 had the highest annual average of 20.58% while year 2014 had the lowest of negative 20.42%.

Return on Sales (Profit Margin)

The third case is where financial performance is measured as Return on Sales or Turnover (ROS). Return on Sales as a component of the financial performance of a firm focus on the ratio of Net income (profit after tax) / Total Sales (Turnover). The computed ratios for the companies, sectors, industry aggregates and 9-year annual averages are presented in tables 10, 11 and 12, and figures 10, 11 and 12. ROS represents returns as a proportion to Total Sales. According to these findings, an aggregate return on Sales of 7.56%%, with a standard deviation of 0.447362, a minimum of -5.74 and a maximum of 0.88 was achieved and which was fairly low return on Sales.

Table 10: Companywide Average for ROS

COMPANY	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
1	-0.00222	0.411879	0.1	0.42	-0.87	-1.11579	3.233803
2	0.176667	0.056125	0.18	0.27	0.09	0.006999	2.160053
3	0.028889	0.082681	0.02	0.15	-0.12	-0.18688	2.412029
4	0.294444	0.293262	0.27	0.88	0	0.882838	2.713415
5	0.203333	0.233238	0.17	0.61	-0.04	0.50195	1.900322
6	0.455556	0.275595	0.65	0.69	0.09	-0.47513	1.378612
7	0.06	0.027839	0.07	0.09	0.01	-0.8849	2.336629
8	-0.18111	0.411322	-0.19	0.69	-0.71	0.842063	3.378915
9	0.03	0.041231	0.03	0.1	-0.04	-0.19294	2.664576
10	-0.74	1.888558	-0.03	0.08	-5.74	-2.40879	6.931019
11	-0.02	0.094604	0.02	0.07	-0.23	-1.2364	3.66681
12	0.136667	0.075333	0.16	0.2	-0.05	-1.86406	5.427264
13	0.164444	0.080949	0.19	0.27	0.05	-0.15291	1.520384
14	0.058889	0.052068	0.05	0.11	-0.06	-1.3024	4.082959
15	0.077778	0.037006	0.09	0.12	0.02	-0.63015	2.075143
16	0.087778	0.110655	0.11	0.18	-0.2	-2.22959	6.511737
17	0.152222	0.040242	0.15	0.23	0.11	0.682605	2.488708
18	0.038889	0.021473	0.04	0.09	0.01	1.436854	4.986537
19	0.148889	0.284932	0.07	0.85	-0.11	1.800852	5.303219
20	0.01	0.016583	0.01	0.03	-0.03	-1.56993	5.095041
21	0.265556	0.138032	0.18	0.51	0.14	0.768965	2.080938
22	0.081111	0.019003	0.09	0.1	0.05	-0.39882	1.682663
23	0.007778	0.00441	0.01	0.01	0	-1.33631	2.785714
24	0.117778	0.044096	0.11	0.22	0.08	1.493418	4.278924
25	0.187778	0.059954	0.2	0.28	0.11	0.054019	1.810795
26	-0.01444	0.071783	0.01	0.06	-0.15	-0.8085	2.297317
27	-0.31222	0.897089	0.1	0.14	-2.55	-1.99468	5.507713
28	0.043333	0.059161	0.02	0.2	0.02	2.411801	6.936429
29	0.54279	0.121577	0.49908	0.841436	0.430776	1.807189	5.262992
30	0.166942	0.034319	0.159101	0.225736	0.11802	0.285267	2.038099
Industry Aggregate	**0.075584**	**0.447362**	**0.09**	**0.88**	**-5.74**	**-8.89517**	**111.4538**

Source: Survey Data (2018)

Table 10 above gives the various descriptive statistics for Return on Sales (ROS) in all the 30 companies that were studied for the period 2007-2015. On average, all the companies recorded positive ROS. However, several companies posted a negative ROS. They included Marshals EA Ltd, Express Kenya Ltd, Eveready Limited, Kenya Airways and Mumias sugar Ltd. This shows that there were significant variations in return on sales among companies that were studied.

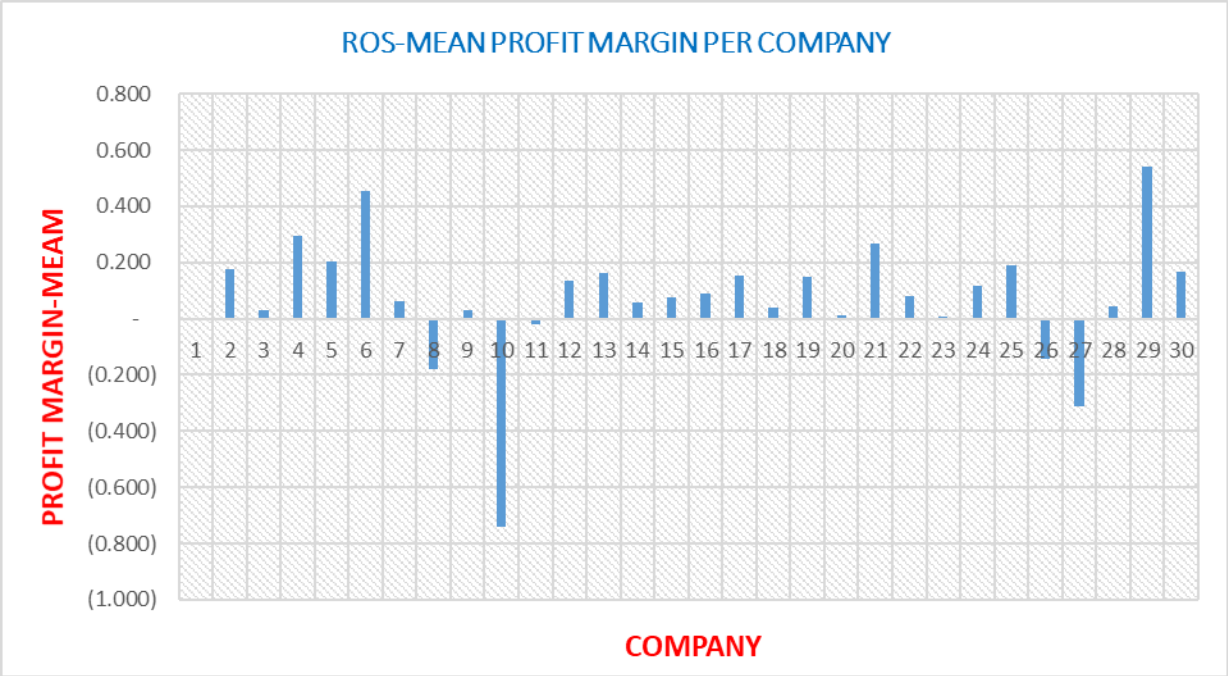

Figure 10: Trend for ROS for all the selected companies

Figure 10 shows that the general trend for the thirty (30) companies under study indicated that for the period 2007 to 2015, there were significant variations among companies in their Return on Sales.

Table 11: Sector wise Average for ROS

SECTOR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
Agricultural	0.192778	0.290403	0.135	0.88	-0.87	-0.38951	5.485037
Automobiles	-0.03037	0.254505	0.03	0.69	-0.71	-0.44794	5.823845
Commercial Services	-0.0537	0.801045	0.07	0.27	-5.74	-6.80951	48.8193
Construction & Allied	0.106944	0.155229	0.11	0.85	-0.2	2.847493	16.07764
Energy & Petroleum	0.091111	0.125829	0.04	0.51	-0.03	1.920489	6.227383
Manufacturing & Allied	0.094169	0.438285	0.11	0.841436	-2.55	-4.1464	26.16088
Telecommunications	0.166942	0.034319	0.159101	0.225736	0.11802	0.285267	2.038099

Source: Survey Data (2018)

Table 11 above shows the descriptive statistics for each sector for ROS. Agriculture sector has the highest mean of 0.192778 while Commercial Services sector had the lowest mean of negative 0.0537.

Figure 11: Sector Trend Analysis for ROS

Figure 11 show that the Automobile sector and commercial services sector operated at a loss over the period since the sectors recorded a negative ROS. The rest of the sectors had positive ROS though this fluctuated from sector to sector.

Table 12: 9-Year Industry Annual Average for ROS

YEAR	MEAN	STD. DEV	MEDIAN	MAXIMUM	MINIMUM	SKEWNESS	KURTOSIS
2007	0.105852	0.10814	0.09	0.549837	-0.03	2.279383	10.53967
2008	0.122009	0.173338	0.085	0.61	-0.19	1.193641	4.407075
2009	0.112138	0.122467	0.095	0.463734	-0.2	0.355968	4.533807
2010	0.143483	0.227071	0.11	0.65	-0.57	-0.22821	5.353073
2011	0.145753	0.221615	0.11901	0.69	-0.51	0.279955	5.76007
2012	0.093419	0.336048	0.08	0.88	-0.87	-0.28198	5.884412
2013	0.083273	0.217507	0.085	0.68	-0.48	-0.10207	5.429669
2014	-0.18505	1.166644	0.045	0.66	-5.74	-4.04356	18.95774
2015	0.059371	0.30387	0.035	0.85	-0.84	-0.28939	5.184023

Source: Survey Data (2018)

Table 12 above gives the 9-year industry annual averages for the entire period under study 2007-2015. This shows that there were variations in performance as measured by ROS over the years.

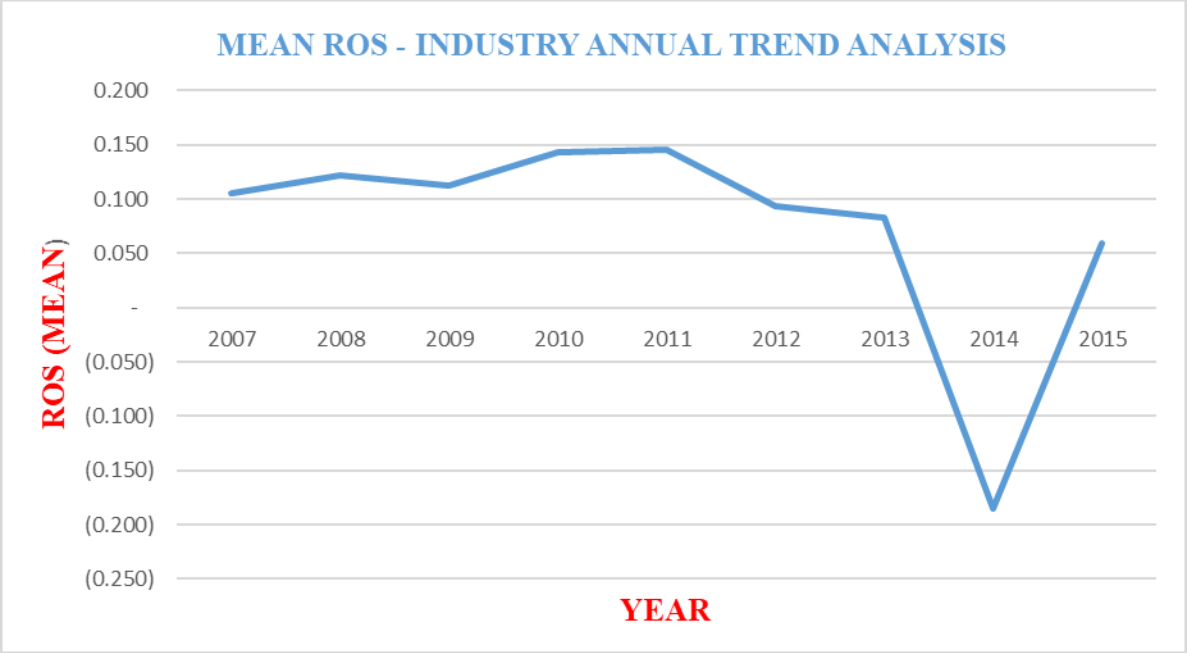

Figure 12: 9-Year Trend analysis for all companies on ROS

Figure 12 show the 9-year industry trend analysis for ROS which has shown a gradual increase over the period 2007 -2011 and major decline of ROS by 2014 recording a negative return on sales for that year.

The overall objective of the study was to investigate the effect of financial structure on performance of selected companies listed at (NSE), Kenya. The findings supported the overall relationship with an explanation of 83.9% about financial performance measured as a composite of ROA, ROE and ROS. The models were found to be significant at 5% level of significance. The study employed causal and explanatory research designs with a census of 30 firms or 81.08% of the target population.

Diagnostic tests were performed to support the application of the appropriate method used to analyze the nature and the degree of the relationships. Conclusions on the statistical significance of leverage on financial performance, measured as a composite index for ROA, ROE and ROS was drawn. The study established that leverage has a positive and significant effect on financial performance of selected companies listed at NSE, Kenya. This implies that the higher the leverage, the higher the performance holding other factors constant. These findings were inconsistent with the capital structure irrelevance theory that was first postulated by Modigliani & Miller (1963). It is also in conflict with the pecking order theory that implies that there is a negative effect of leverage on firm's profitability.

CONCLUSIONS

The research concluded that leverage, as an element of financial structure of selected companies listed at NSE, Kenya affects the financial performance of companies listed in the Securities exchange. The results concluded that the leverage had a positive and significant effect on financial Performance. The study further concluded that reliance on leverage enhanced firms' financial structure's power to explain the variations in financial performance. Therefore, leverage had a positive and significant effect on financial performance.

RECOMMENDATIONS

A study should be undertaken on the effect of financial structure on performance for companies that have not been listed at NSE, Kenya targeting the same industries and compare results found with those of the listed companies. Further studies should be undertaken to analyze financial decisions and their effect on performance across industries, sectors and countries within the region. A similar study can also be done by looking at similar data in different countries or other proxies e.g. sales growth for firm size.

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