

**EFFECT OF LEVERAGE ON FINANCIAL PERFORMANCE OF
INVESTMENT FIRMS LISTED AT THE NAIROBI SECURITIES
EXCHANGE**


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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

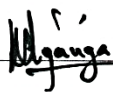
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DEDICATION

This research work is dedicated to my entire family.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CMA	Capital Markets Authority
DEA	Data Envelopment Analysis
GDP	Gross Domestic Product
NSE	Nairobi Security Exchange
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SPSS	Statistical Package for Social Sciences
UNCTAD	United Nations Conference on Trade and Development
VIF	Variance Inflation Factors

ABSTRACT

Investment firms and other companies listed at the NSE continue to face countless challenges recently that brought debates on financial leverage of these companies. Listed investment firms face challenges in choosing the most optimal financing decisions that will help them finance their business operations. The goal of the study was to see how financial leverage affected the performance of NSE-listed investment companies. The study's population included all 5 NSE-listed investment companies. Leverage, entail the total debt to total assets ratio in a particular year, was used as a predictor variable. Liquidity was assessed by current ratio, total assets natural log measuring company size, and age was gauged by duration the companies were in operation. Return on assets served as the response variable for financial performance. Secondary data was collected on a yearly basis for ten years (January 2011 to December 2020). The research variables were analyzed using a descriptive design. The results yielded a 0.467 R-square value, indicating that variations in the chosen independent variables account for 46.7 percent of changes in financial performance amongst investment firms, whereas other factors accounting for 53.3% of variance in financial performance amongst NSE listed investment firms. Independent variables recorded a good relationship with company performance ($R=0.683$) in this study. The F statistic was significant at 5% with $p<0.05$, according to the ANOVA results. This demonstrated that the overall model was effective in determining the variables' relationships. Leverage had a negative as well as statistically significant impact on financial performance, but liquidity as well as age had a positive as well as statistically significant impact on the performance of the NSE listed investment companies. In this research, the size of the firm had no statistical significance. This study recommends that NSE-listed investment companies should focus on achieving the best degree of leverage, improving liquidity positions, and improving age, as the three factors has a substantial impact on their financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The level of firms' financial leverage remains an intensely controversial issue in finance (Myers, 2001). Though the Modigliani and Miller (1958) theorem claimed that the amount of debt or equity a company has has no bearing on its behavior or performance, a number of studies have suggested that the amount of debt a company has a non-neutral influence on its behavior and performance (Jensen & Meckling, 1976). Ross (1977) for instance believes that a corporation with better projections can use more debt than one with worse prospects, because the latter's use of debt will increase the likelihood of bankruptcy due to debt-servicing expenses, which is an expensive consequence for management. As a result, having a higher amount of debt is linked to having a higher level of performance.

Jensen and Meckling (1976) also suggest that additional equity leads to dilution of an owner- manager's profit share, and hence entrepreneurial incentives, encouraging on-the-job consumption. Raising debt prevents the loss of incentive intensity because the entrepreneur can assume the advantages of higher profitability to a large extent. As a result of the entrepreneur or owner-manager not engaging in on-the-job consumption, more highly leveraged businesses become more successful.

Capital structure theories attempt to uncover if the mix of debt and equity matters, and if so, what the best capital structure would be. Modigliani and Miller's (1958) thesis stated that the cost of getting capital is unrelated to the sort of funds a business employs, and that there is no such thing as an ideal capital structure, hence the capital structure of a corporation is irrelevant or has no impact on its value. According to the trade-off

theory, a company's ideal capital structure requires a balance between the benefits-costs of borrowing and equity financing (Jensen & Meckling, 1976). Pecking order hypothesis suggest there is an information asymmetry problem between the agents of a business being managers, and shareholders being owners; to mitigate this issue, the company prefers to employ money created internal rather than external funds (Myers & Majluf, 1984).

Investment companies listed at NSE play an essential role in the Kenyan economy's growth and development since they enable the creation of jobs, increased GDP, and foreign exchange earnings among many countries (UNCTAD, 2008). Investment listed and other listed companies have recently encountered a slew of challenges that have sparked a debate over financial leverage among these firms. Listed investment firms face challenges in choosing the most optimal financing decisions that will help them finance their business operations. For this reason, finance managers of this firms usually have to make decisions on the type of debt to issue, whether to issue rights, float shares in the market through the initial public offer, or use retained earnings as a form of financing.

1.1.1 Financial Leverage

Financial leverage refers to external borrowing by a company to finance both short and long term deficit (Bierman, 1999). According to Kumar (2014), most of companies borrow money at some point so as to purchase assets, embark on large capital-intensive projects, or expand via research and development (Kumar, 2014). A firms' financial leverage is determined by the relative contributions of both equity and debt finance together with any other securities (Grossman & Hart, 1982). The investment of a firm can be financed through equity, debt or a combination of both.

In terms of company growth and economic expansion, financial leverage offers both advantages and downsides. Debt financing provides benefits such as a tax shield and the reduction of free cash flow difficulties by bolstering character of managers, whereas debt financing costs include agency expenditures and bankruptcy costs resulting from shareholder and debt holder conflicts (Fama & French, 2002). In order to increase performance, managers should aim to balance these costs and advantages of debt while initiating debt capital decisions (Kraus & Litzenberger, 1973).

Debt ratios are employed to assess financial leverage. Debt ratios are calculated by comparing an organization's total debt to its total assets. A low ratio implies that an organization is less reliant on debt, whilst a large proportion suggests that the organization is more reliant on debt. The debt-to-aggregate-capital ratio is another indicator of financial leverage. Nonetheless, the percentage of total debt to total assets is the commonly preferred technique of quantifying financial leverage, as utilized by numerous researchers to compute leverage in studies employing financial leverage to predict different variables (Abor, 2005).

1.1.2 Financial Performance

According to Almajali et al. (2012) it refers to a company's capacity to meet a variety of its financial objectives including profitability goal. Financial performance is the level which a company's financial objectives have been met or exceeded. According to Baba and Nasieku (2016), financial performance demonstrates how a firm uses assets to generate income and hence guides stakeholders in their decision-making. According to Nzuve (2016), the health of the banking sector is mostly determined by financial performance, utilized to determine individual banks' weakness and strength.

Furthermore, for regulatory considerations, the regulatory bodies have interest on the manner in which bank functions.

Purpose of financial performance is mostly on factors that have a direct impact on the financial statements (Omondi & Muturi, 2013). The key method of evaluation used by external stakeholders is the firm's performance (Bonn, 2000). As a result, the success of the company is employed as a metric. The firm's performance is defined by how well it achieves its goals. The financial performance of companies are outcomes of accomplishing both internal and external goals (Lin, 2008). Growth, competitiveness, and survival are some of the terms used to describe performance (Nyamita, 2014).

Financial performance measurements come in a variety of formats that must be combined. Return on Assets (ROA), company size, Return on Sales (ROS) and Return on Equity (ROE), are financial measures of performance, according to Ngatia (2012). Carter (2010) utilized Tobin's Q and ROA to gauge financial success, but Wang and Clift (2009) employed ROA and ROE. Performance is also determined through efficiency indicators including Data Envelopment Analysis (DEA), fixed asset turnover, total asset turnover ratio and ROA and efficiency are two well-known performance indicators; as a result, the performance of the listed firms will be calculated using these two indicators in this study. The profitability of a company is assessed by ROA, being the ratio of total outputs to total inputs. Efficiency is gauged by DEA, which is the ratio of total outputs to total inputs (Mwangi & Murigu, 2015).

1.1.3 Financial Leverage and Financial Performance

Theoretically expected relationship between the two study variables is well captured and illustrated by the trade-off theorem which proposes that business entities determine the ideal debt level by matching the debt costs and the debt benefits with the goal of

ensuring that the benefits are more than the costs. Jensen and Meckling (1976) suggest that cost is represented by agency costs and financial distress costs while Myers (1984) suggests that the tax allowance represents the benefits. Debt finance results in tax benefits given that the interest expenses on the debt is tax allowable hence it is expected that a firm with debt finance will face relatively a lower tax obligation compared to a firm that utilizes on equity finance (Frank & Goyal, 2011). However, as debt finance increases, other risks such as risk of bankruptcy and risk rating of the equity shares gradually set in. With increase in the risk levels, the equity shareholders as well as additional debt providers will demand more returns as a compensation for the increased risks. This, therefore, implies that theoretically, a positive link exists between the two study variables.

Agency theory by Jensen and Meckling (1976) asserted that managers who work to maximize wealth of the shareholders do not always work for firms on the contrary work towards pursuing their own self-interest. The agency theory states that, financing using debt is a key tool for controlling restriction tendency upon opportunistic behavior by managers for individual benefit. Financing using debt minimizes a firm's free cash flows through payments of interest that tend to be fixed, forcing managers to avoid investments which are negative and therefore work in shareholders' interest.

An earlier modification on the irrelevance of capital structure posited about its inconsequential effect in the determination of the value of the firm. This theory had its basis on the reasoning that tax shield is obtained by the use of debt. By laying basis on this assertion, companies' choice would be a capital structure that is all-debt. Brigham and Gapenski (1996), on the contrary differed positing that the Miller Modigliani (MM) model has truth only theoretically. This is due to the existence of bankruptcy invalidation effort of MM theory as forwarded by Maina and Kondongo (2013).

1.1.4 Investment Firms Listed at Nairobi Securities Exchange

The NSE, having launched in 1954, is tasked with listing companies and the issuance of securities that are purchased and sold by individuals and organizations, both domestic and international, via dealers and stockbrokers. It is Sub-Saharan Africa's fourth-largest country. It specializes in the trading of government and publicly traded securities. NSE's mission entail monitoring members as well as providing platform for trading of various securities. NSE is the primary trading center for companies seeking additional capital and purchase or selling of securities though rarely used due to the automated trading system's replacement. Members trade from the comfort of their offices thanks to a wide area network. The system is fast, transparent, and capable of handling massive quantities of transactions at once (NSE, 2019).

There are currently 5 investment firms listed at the NSE. Kiogora (2018) tested deviations in the capital structures of NSE quoted companies and made a conclusion that there were dissimilarities in capital structure amongst industries/sectors of firms listed. The study shows that specific industry/sector firms tend to have a similar range of the debt to total asset ratio. The study further shows that as leverage increases, the returns reported also increases thus a direct correlation exists between the study variables for NSE listed non-financial firms.

Investment companies listed on the NSE may effectively manage their financial leverage to reduce costs and effecitvely maximize their operations so as to improve their financial performance. In order to increase shareholder value in both investment businesses, financial leverage choices play a vital part in the entire firm strategy (Siddiquee, Khan, Shaem & Mahmud, 2009). An investment company can acquire a

competitive edge over its competitors by discovering ideal composition and quantity of long term debt and particular short term debt relative to equity (Haq & Zaheer, 2011).

1.2 Research Problem

A firm considering applying financial leverage has to carefully assess the costs and benefits thereof before adopting this financing strategy (Jensen & Meckling, 1976). Many companies apply a combination of both borrowed capital and equity capital but the optimum level or mix of the two that maximizes returns remains a puzzle to date since the works of Modigliani and Miller (1958) who suggested that various sources of business finance have no impact when determining firm's market value. Myers and Majluf (1984), through the pecking order theorem, argue that firms have a pre-determined order and preferences when sourcing for funds with internal sources coming first followed by external sources. The decisions on the financing method aim at achieving the lowest possible weighted average cost of capital and sending favourable market signals. Financial leverage is therefore a key element affecting financial results of many businesses.

The NSE's investment enterprises are critical to any country's economic progress and the delivery of its mandate of distribution, electricity generation, and transmission. Any country's economy will not flourish without a thriving investment industry. This study is critical because having the most optimum and advantageous financial leverage level for investment companies would assure growth of returns and reduce expenses associated with establishing the correct capital mix for investment firms. Financial experts argue in favor of debt usage, believing that debt finance may help improve a company's performance if it is bought at a low interest rate and the proceeds are put to good use (Juma, 2016).

Various empirical researches on the impact of financial leverage on financial performance have been conducted, but the results tend to be inconsistent. This can be explained by the different methodologies used as well as conceptualizing of variables. Different contextual backgrounds can also explain the differences in previous findings. Khan et al. (2017) undertook a longitudinal study in Pakistan on the influence of financial leverage on financial performance. The study concluded that financial leverage has no influence on financial performance measured as ROA and ROE. Thu-Trang (2019) focused on the influence of financial leverage on financial performance of 102 firms listed at the Ho Chi Minh Exchange, Vietnam. The findings were that financial leverage bears a significant influence on performance.

Locally, Gichuhi (2016) discovered minimal link between capital structure choice and financial performance of Kenyan publicly traded companies. Macharia (2016) discovered a modest negative link between capital structure and profitability of NSE-listed construction and associated industries. When Ogutu et al., (2015) determined that capital structure is inversely connected to performance, they affirmed this. The findings contradict those of Njeri and Kagiri (2015), who reported a favorable correlation between capital structure and financial performance of listed commercial banks. Makau (2019) using ordinary least squares concluded that leverage has a significant negative influence on ROA. It is evident that previous studies in this area have arrived at contradicting findings. The previous studies have also used various methodologies to achieve their objectives and this might explain the differences in findings. Different contextual backgrounds might also explain the differences.

Extant research both globally and locally lacked consensus which stirred the desire to focus deeper in this area. This study leveraged on these gaps by providing answer to

the question: What is the effect of financial leverage on financial performance among investment firms listed at the Nairobi Securities Exchange?

1.3 Research Objective

The study objective was to assess the influence of financial leverage on financial performance of investment firms listed at the Nairobi Securities Exchange.

1.4 Value of the Study

The findings of this study may help to improve our understanding of financial leverage theories and practices. It could add to the existing body of knowledge about the relationship between leverage and company financial performance, as well as fill a gap in knowledge about this relationship between variables which may be useful to future scholars.

The study aids investment businesses in comprehending the relationship between the two factors, which is critical in achieving the appropriate debt-to-equity ratio, which improves both financial performance and shareholder confidence.

This study could be more applicable to the government and other policymakers in formulating regulations and processes that may guide investment businesses in adopting financial leverage levels that will enhance their performance, which will in turn contribute to the sector's success.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter entails a detailed discussion of theories and reviews on various studies. The factors of financial performance and conceptual framework outlining the relationship between research variables is included as well.

2.2 Theoretical Framework

This entailed a discussion of tradeoff theory, capital structure irrelevance theory and market timing theory as well.

2.2.1 Tradeoff Theory

The theory was advocated by Myers (1984) emphasizing on a balance between tax savings that comes from debt, reduction in agent cost, financial distress costs and bankruptcy. Different authors use the term trade off theory to describe a number of theories that are related. Trade-off theory gave a suggestion on the modified MM proposition which insists that gains of tax shield are eroded by the firm's financial distress and agency costs.

This theory posits that every company has a ratio that is optimal of equity-debt that leads to maximization of firm value. The affirmation of the theory is that a company's capital structures are optimal and this can be determined by transacting off the costs-benefit of using either debt or equity. Benefits accrued from debt shield are hence measured against financial distress. Other costs to be mitigated include Agency cost and information asymmetry. The attainment of optimal point is when the benefits that

arise out of debt issues exactly diminishes the rise in the costs that come out of the issuance of more debt present value (Myers, 2001).

Authors in agreement with this theory include Sheikh and Wang (2010) who posited that trade off theory has an expectation of choosing a target capital structure that leads to firm value maximization by the minimization of the prevailing costs of market imperfections. Authors who oppose this theory posit that there is an assumption that each source of money has a return and cost of its own. These have an association with the company's capacity to earn and its insolvency, business and risks (Awan & Amin, 2014). Based on this theory, the performance of listed firms will not increase irrespective of the form of capital structure adopted (Chen, 2011). This theory has huge implications on the capital decisions firm managers make in carrying out firm operations. Firm managers can make use of the tradeoff theory to determine the debt-equity ratio to embrace in order to enhance shareholders value. However, this theory will not have an effect on firm performance and working capital relationship (Awan & Amin, 2014).

2.2.2 Capital Structure Irrelevance Theory

This theory was formulated by Modigliani and Miller (1958). It examines the role capital structure plays in firm's value determination. The argument of the theory is that in perfect market transaction, costs don't exist, taxes and bankruptcy exist, the firm that finances its operations using debt options has value similarity to that not using equity as it sources of capital financing. This theory has several angles to it which explain the value of firms.

The foremost of the proposition of the capital structure irrelevance is that the value of the firm is not determined by its debt and equity mix and the average cost of capital.

Another proposition is that there is no significant causal effect of firms leverage on the cost of capital that is weighted. The third proposition is that dividend policy adopted by a firm doesn't affect its value (Abdul *et al.*, 2013). Modigliani and Miller (1958) emphasize that debt finance leads to an increase in corporate value because interests on debt are tax deductible whereas there are no tax deductions on equity costs.

Capital structure irrelevance has greatly impacted on the development of financial economic theory as shown by Stern and Chew (2003). Another author in agreement also is Breuer and Gurtler (2008) who pointed out to a no arbitrage argument as proposed by the theory of Capital Structure Irrelevance. Modigliani and Miller (1958) held an assumption that every firm converge to a "risk class," firms in countries in the world with a semblance in income. However, Stiglitz (1969) offered a proof on the insignificance of this assumption; thereby showing it to be out of touch with the reality. Based on this theory, the performance of listed firms will not increase irrespective of the form of capital structure adopted. This is due to the tax cost implications associated with equity financing and the risk of bankruptcy associated with debt financing (Breuer & Gurtler, 2008). However, this theory will not have an effect on working capital and firm performance relationships.

2.2.3 Market Timing Theory

This theory by Baker and Wurgler (2002) contends that companies have the issuance of equity timed in that when there is a perception of stock price being overvalued they issue new stock and when undervalued they repurchase. The stock prices fluctuations affect firms' capital structure. The theory makes the assumption that economic agents exhibit rationality. Positive information releases by firms to issue equity directly have

the effect of reducing the asymmetry between management and shareholders. Reduction in information asymmetry converges with the rise in stock prices.

The theory makes certain propositions among them being the assumption on the irrationality economic agents (Baker & Wurgler, 2002). Consequently, irrational behavior causes firm stock mispricing. Issuance of equity is done by managers if they have a sense that its cost is abnormally low and repurchase if there is a sense that the cost is irrationally high. Another version of market timing does not have a requirement of market efficiency. There is no requirement for managers to predict the firm share returns successfully. The assumption made is that timing of the market can be done by managers.

Graham and Harvey (2001) argument agrees with the market timing theory. They studied manager's behavior and noted that managers admitted to have made a trial to equity market timing. Further evidence in agreement was provided by Baker and Wurgler (2002) who opined that timing the stock market has got an effect that is persistent on the firm capital structure. However, there have been many questions raised by other authors on the Market timing theory. A confirmation is made by Havokimian (2006) who opined that although the existence of market timing cannot be denied, it doesn't cause any effect on the long run power of the business entity and that rebalance of business leverage fractions toward several targets point usually occurs. Based on this theory, the performance of listed firms will increase depending on the form of capital structure employed. This is due to the financing cost linked to debt that drives the hierarchy involved in the corporate financing decisions. Managers of firms are also to a larger extent inclined to use equity instead of debt financing since they will be driven to raise more capital through equity issuance by timing the market.

2.3 Determinants of Financial Performance

Some elements inside and outside the company might have an influence on the firm's performance including financial leverage, the company's age, dividend decisions, the firm's liquidity, firm size, and organizational culture are just a few of the internal aspects. Management has no influence on external forces. They are factors outside firm control but require adequate strategies to solve (Athanasoglou, Brissimis & Delis, 2005).

2.3.1 Financial Leverage

This entails a proportion of debt to equity capital in the company. Pandey (2010) suggest that this ratio bear effect on the cost of capital and value of the firm. Amount of debt in a company determines its financial performance. Jensen (1986) posit that the quantity of debt finance accessible to managers reduces moral hazard behavior by reducing cash flow as it bolsters the pressure to perform, which in turn boosts financial performance of the company. As a result, large companies with significant debt are in a better position to succeed financially. Some scholars have looked at the relationship between business performance and leverage and discovered that having a higher leverage reduces competing interests that managers have with shareholders thereby improving performance because of this positive relation.

Baker (1973) consolidated the projected impact of risk on an industry's output as well as the relationship between industry gainfulness and influence. By analyzing data over a ten-year period, this relation was analyzed and measured on the basis of value to aggregate resources. A Lower leverage estimation suggested that obligation capital was being utilized more as compared to obligation to aggregate or to value resources. Profitability was gauged using net income. The inference from the study was that

conditions in the industry have an impact on the company's verdict to influence. Additionally, the study concluded that firms with higher obligatory capital registered more productivity.

2.3.2 Firm Size

The returns that a company earns is proportional to its size. The larger the company, the lower the average scale in production and the higher the efficiency in operational activities as a result of substantial economies of scale. Regardless of their size, huge corporations tend to lose focus on operations and strategies, resulting in a decrease in efficiency (Burca & Batrinca, 2015).

Larger companies have share in the market and a chance to diversify their portfolios more. They're also more prone to suffer from organizational slack if the company grows rapidly. The size of the company has a significant impact on the quantity of cash flow that can be invested. The number of employees, property owned, and sales volume are all important factors to consider when defining the firm's size (Almajali et al., 2012).

2.3.3 Firm Liquidity

Liquidity refers to a company's ability to meet its debt commitments in a year's time using cash or cash equivalents. These are assets that are short-term in nature and can be converted into cash quickly. The capacity of management to meet commitments without resorting to liquidation of financial assets is referred to as liquidity (Adam & Buckle, 2003).

Firms can use liquid assets to finance operations and invest in the scenario where external financing is unavailable, according to Liargovas and Skandalis (2008). Companies with a high level of liquidity are better prepared to deal with unexpected situations and financial demands. According to Almajali et al. (2012), liquidity may

have a significant influence on a company's efficiency; as a result, companies should seek to increase current assets while reducing liabilities. High liquidity levels, on the other hand, may be damaging to a corporation (Jovanovic, 1982).

2.3.4 Firm Age

As indicated by Sorensen and Stuart (2000) firms' performance may be affected by the age of the company. Organizational inertia was noted to be on older firms making them inflexible hence the changes that occur in changing environment may not be appreciated. However, as noted by Liargovas and Skandalis (2008), older firms have been in longer operation hence may have more skills hence possessing vast experience having relished the learning benefits and aren't easily prone to the newness liabilities, therefore compared to newer firms they tend to have superior performance.

Rendering to Loderer, Neusser, and Waelchli, (2009), a positive link exist between the company's age and performance. However, an observation is made that efficiency of the firm may decline at times due to the fact that knowledge, skills and abilities of older firms may become obsolete as the firms advances in age. Agarwal and Gort (2002) note that it could shed light why some firms are taken over yet they are older.

2.4 Empirical Review

Researches in regional, global and locally done had conflicting findings on the link between financial leverage and performance.

2.4.1 Global Studies

Ajibolade and Sankay (2013) carried out the study to determine whether working capital and financial leverage interact to produce synergetic effect on profitability. The study was based on two year panel data of manufacturing companies listed on the Nigerian stock exchange. Using Panel and Factorial-ANOVA estimation methods, the

study concluded that on individual basis, a positive significant association exist amongst financial leverage and profitability but no significant association amongst the composition of working capital (WC) and profitability. The study, however, demonstrated that as the company's WC composition synchronously interacts with the financial leverage, profitability is affected positively. Recommendation was that, financing decision should be considered in relation to working capital composition in order to optimize profitability and to sustain healthy liquidity position.

Enekwe et al. (2014) assessed how financial leverage impacts the financial performance of Nigerian pharmaceutical firms. The study relied on secondary data from 2001 to 2012 and sampled a three companies. The Pearson correlation and regressions models were employed in data analysis. The findings showed that both debt ratio and debt-equity ratio were negatively related to profitability which was given by ROA. The findings also showed that the interest coverage ratio positively impacted profitability of the selected companies in Nigeria. In contrast, the findings also showed that debt to equity ratio, debt ratio and interest coverage has a low impact on profitability of the Nigerian firms in the pharmaceutical industry.

Khan et al. (2017) conducted a longitudinal study in Pakistan. Between 2004 and 2009, 100 Pakistani firms listed at the KSE were studied. ROE, Tobin's Q and ROA and market capitalization were used to measure firm performance. Debt and equity attributed to the measure of financing decisions. Curiously, there was no significant impact created by leverage and firm's performance. ROA of firms with huge base of assets had a greater ROA. From the new added cost of capital, the Tobin Q suggested that the market value of firms' assets remained unaffected. Similarly, the market value

of firms remained unaffected. This paper affirmed with earlier papers that a firm's performance is unaffected by financial leverage.

Thu-Trang (2019) put his context in an emerging economy, Vietnam. This study was longitudinal on 102 firms listed at the Ho Chi Minh Exchange. With the measure of performance being ROA, and financial leverage utilizing total debt to total assets, long-term debt to total assets and short-term debts to total assets. The paper revealed a significant connection between financial leverage and firm performance. An increase in the use of debt was found to decrease firm performance. Firms should thus be cautious when deciding to use debt. This paper did not show if the firms that used more equity performed significantly better.

Doan (2020) did an investigation on how financial leverage impacts firm performance in Vietnam. The target population was firms quoted at the Ho Chi Minh Stock Exchange and a sample of 102 firms non-financial firms were sampled. The study period spanned from 2008 to 2018. To overcome the drawbacks of the model so as to ensure reliability and reliability, generalized method of moment is used. To measure firm performance ROA was used. Additionally financing leverage was measured employing three measures: short-term debt to total assets, long-term debt to total assets and total debt to total assets. The control variables comprise of inflation rate, economic growth and firm size. The study findings established that financial leverage has a relation with firm performance. The results were that firm performance declined as more debt was consumed.

2.4.3 Local Studies

Njeri and Kagiri (2015) on impact that financial structure had on banks' performance. Capital structure was gauged by debt to equity ratio whereas ROA, net profit margin

and ROE were employed in the measurement of financial performance. The study utilized the descriptive design with the aid of primary data obtained through the administration of questionnaires to thirty five participants who were primarily the branch managers of the listed banks. Data obtained was then analyzed using correlation and multiple regression analysis, where it concluded that 56.4 per cent of the financial performance of banks listed were as a result of the capital structure decisions. Because the study mainly relied on the opinions of branch managers as opposed to utilizing secondary data, findings may be limited to only responses as opposed to facts.

Mwangi and Birundu (2015) investigated the impact that capital structure had on the financial performance of SMEs in Thika from 2009 to the year 2011. The design selected was the descriptive design utilizing multiple regressions and correlation analysis. The observation made from the study was that capital structure, asset turnover and asset tangibility are not substantial influencers of the financial performance companies being studied.

Chahenza (2017) carried out a study on the same topic using the same variables for energy utility companies in Kenya. Seventeen firms in energy utility sector in Kenya formed the study population. The sample was the three big players in the sector, namely, KPLC, KenGen and Ketraco. The study measured capital structure using the debt ratio while profitability was given by ROE. Duration of study was seven years (2009-2016) and data collected on semi-annual basis. By applying the descriptive cross-sectional design and multiple linear regression model, the study findings indicated statistically insignificant relationship amongst the variables for the energy utility companies in Kenya within the period of study.

Ongombe and Mungai (2018) did a study on the influence of capital structure decision on financial performance of sugar milling firms in Kisumu County. All the 3 sugar manufacturing firms in Kisumu County were the targeted population by the study. Secondary data was utilized and was extracted from published financials for the period 2011-2015. Simple and multiple regression analysis together with correlation analyzed the data quantitatively so as to unveil the level of influence of each of the autonomous variables. Narrations and tables were employed in presenting data. The findings revealed that debt ratio negatively and insignificantly related with financial performance whereas debt-equity ratio recorded a substantial and negative impact on financial performance of sugar manufacturing companies in Kisumu County. Furthermore, it was established that WACC positively and significantly affected financial performance of sugar firms.

Mwaura (2017) carried out a similar study on NSE listed firms covering the period 2011-2016. The study population was 65 firms out of which 36 formed the study sample. The study applied secondary data acquired from the NSE Handbooks and published annual financial reports. The collected data was organized and analysis utilised SPSS and Regression Model. Findings showed that as debt ratio increases, the return on equity decreases (inverse relationship) hence concluding on a negative link between external long term borrowings and returns on investment.

2.5 Summary of Literature Review and Research Gaps

The chapter critically reviewed the documented relationships between financial leverage and financial performance. Scholars in the extant researches failed to agree on how financial leverage impacted financial performance and also capital structure on financial performance. Findings shows some of the different researchers' conceptual

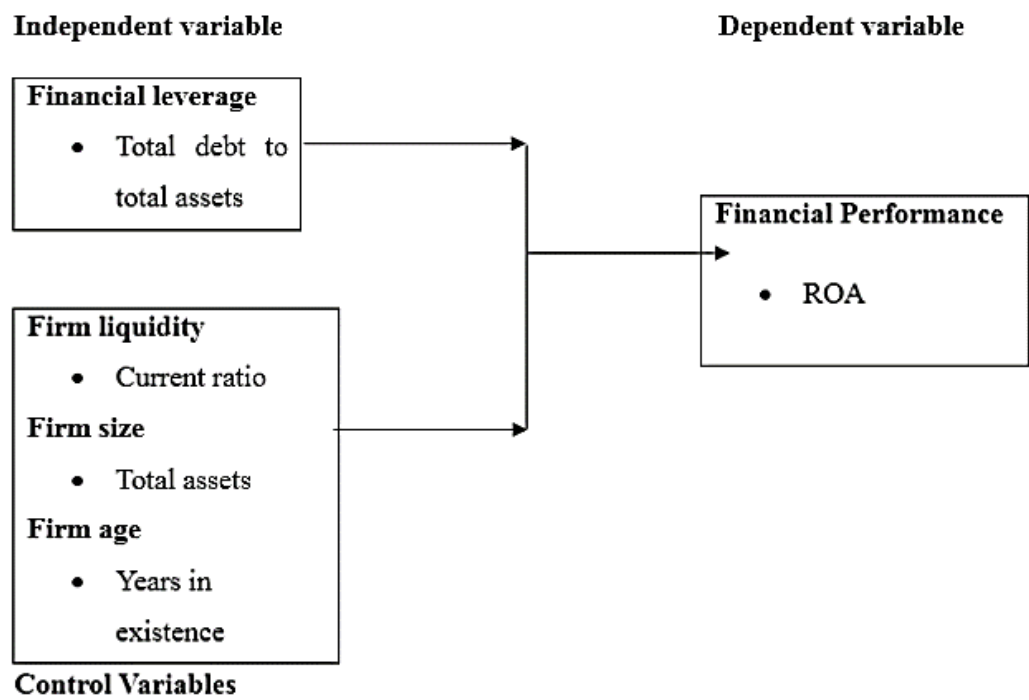
arguments on the link between the variables identified. Three main theories that underpin the link between financial leverage and financial success have been addressed in this review including capital structure irrelevance theory, trade-off theory and market timing theory.

Several relevant studies on the study variables were analyzed as part of the empirical review to identify research gaps and analytical approaches. Financial leverage has an impact on financial performance, according to the research evaluated. However, the results were mixed, with some research concluding that there is a strong beneficial association and others concluding that there is none. However, the research all used various procedures and data was obtained across different time periods, which might explain the disparities in the outcomes. The study contexts were also different with some studies focusing on a single sector and other focusing on several sectors. The operationalization of the study variables have also been varied and this can also explain the differences in previous studies. This study leveraged on these research gaps by giving answer to the question: What is the effect of financial leverage on financial performance among energy and petroleum firms listed at the Nairobi Securities Exchange?

2.6 Conceptual Framework

The model demonstrates the predicted link between the variables. Predictor variable was financial leverage measured by ratio of total debt to total assets for every year. Control variables were liquidity, size of the firm and firm age. Dependent variable featured financial performance as given by ROA.

Figure 2.1: The Conceptual Model



Source: Researcher (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In order to determine the impact of financial leverage on financial performance, a methodology was required to explain the study's approach. The research design, population, method of gathering data and analysis technique were all covered in this part.

3.2 Research Design

The study employed descriptive cross-sectional research design that aimed at finding out the how, where and what of an element. Design deemed suitable for the study because it describes in detail about a phenomena (Khan, 2008). This research method is proper when the researcher has knowledge of the topic under investigation but wants to learn more about the link between the variables being researched. Furthermore, descriptive research purpose to produce clear and genuine portrayal of variables under investigation, which aids in obtaining an answer to the questions investigated (Cooper & Schindler, 2008).

3.3 Population

According to Burns and Burns (2008), population refers to the total number of observations of interest confined in a group, like persons or events. Population entailed the five NSE-listed investment companies as of December 31, 2020(Appendix I). Sampling was not done due to the limited population.

3.4 Data Collection

Secondary data comprised annual reports for Individual selected investment companies from January 2011 to December 2020 were documented in a data collection sheet together with published annual financial reports of investment firms listed on NSE obtained from the Capital Markets Authority (CMA). Total debt, total assets, current liabilities, current assets, net income, depreciation, net fixed assets and years in existence were among the key data gathered.

3.5 Data Analysis

The data was analyzed by SPSS v.23. Graphs and tables were employed to depict the data quantitatively. The data was reported using descriptive statistics including percentages, frequency and mean. Multiple regressions, ANOVA, correlation by Pearson and coefficient of determination were some of inferential statistics undertaken.

3.5.1 Diagnostic Tests

The research framework was put through a series of diagnostic tests to see if it was applicable. Shapiro-Wilk and Kolmogorov-Smirnov tests of the residuals were used to determine normality. A non-significant result (a p –value of larger than 5%) was considered an indicator of normality for both tests. The tolerance and variance inflation factors (VIF) were also used to test for multicollinearity, with tolerance figure of larger than 0.2 and a VIF of greater than 10 indicating the existence of multicollinearity. The research also employed residual graph and Levene’s test while looking for heteroskedasticity, as well as serial correlation was done by the Durbin Watson test, with a result of 1.5 to 2.5 indicating that there is no auto-correlation (Khan, 2008)

3.5.2 Analytical Model

The regression model below was used:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon.$$

Where: Y = Financial performance given by the ratio of net income to total assets

α = y intercept of the regression equation.

$\beta_1, \beta_2, \beta_3, \beta_4$ = are the regression coefficients

X_1 = Financial leverage given by the ratio of total debt to total assets

X_2 = Firm liquidity as measured by current assets divided by current liabilities

X_3 = Firm size as measured by natural logarithm of total assets

X_4 = Firm age as measured by the number of years the firm has been in existence

ε = error term

3.5.3 Test of Significance

Parametric tests determined the overall model and individual variables' significance.

The F-test uncovered the overall model's significance and this was achieved utilizing ANOVA while a t-test uncovered the significance of each variable.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter analyzes CMA data to determine how financial leverage impacts listed investments firms' financial performance. Correlation and regression data were represented in tables utilizing descriptive statistics, as indicated in the segments below.

4.2 Descriptive Analysis

The average, minimum, maximum and standard variables are presented in this investigation. Table 4.1 displays the variable statistics. For all 5 investment companies whose data was gathered, SPSS was utilized in the analysis from 2011 to 2020.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev.
ROA	49	.0041	.4645	.093216	.0814725
Leverage	49	.1158	.9734	.512518	.2350510
Liquidity	49	.3156	6.5259	2.312880	1.4102121
Firm size	49	9.3433	19.6518	15.119073	4.2455738
Age	49	3.0000	53.0000	26.367347	18.7023772
Valid N (listwise)	49				

Source: Researcher (2021)

4.3 Diagnostic Tests

On the data gathered, diagnostic tests were run. To get variable information, the study used a 95% confidence interval or a 5% significance level. Diagnostic tests were helpful in determining if the data was false or true. As a result, the closer the confidence interval is to 100 percent, the more correct the data utilized is assumed to be. The tests

performed in this example were normality, multicollinearity, heteroskedasticity, as well as autocorrelation.

4.4.1 Normality Test

The Kolmogorov-Smirnov test was used for this analysis. The criterion was if the probability was greater than 0.05, the data displayed a normal distribution.

Table 4.2: Normality Test

	Kolmogorov-Smirnova		
	Statistic	Df	Sig.
ROA	.161	49	.853
Financial leverage	.173	49	.822
Liquidity	.178	49	.723
Firm size	.175	49	.812
Firm age	.172	49	.801

Source: Research Findings (2021)

Since the p values are above 0.05, the aforementioned findings indicate that the data portrayed a normal distribution. As a result, the normal distribution null hypothesis was accepted, indicating that the researcher fails to reject the null hypotheses.

4.4.2 Multicollinearity Test

William et al. (2013) described this characteristic as correlations between the predictor variables. This attribute was tested using VIF. Field (2009) says that VIF values over 10 suggest that this feature exists.

Table 4.3: Multicollinearity Test

Variable	VIF	1/VIF
Financial leverage	3.418	0.293
Liquidity	2.836	0.353
Firm size	3.291	0.304
Firm age	3.482	0.287

Source: researcher (2021)

Table 4.3 shows the VIF values, that were discovered to be less than ten, indicating that Multicollinearity was not present, as per Field (2009).

4.4.3 Heteroskedasticity Test

The error process in cross-sectional units may be homoscedastic, yet vary across units called groupwise Heteroscedasticity. Breuch Pagan is calculated for each group using the hetttest program. Heteroscedasticity is a term used to describe the heteroscedasticity of residuals. According to the null hypothesis; $\sigma^2_i = \sigma^2$ for $i = 1 \dots Ng$, where Ng is cross-sectional units.

Table 4.4: Heteroskedasticity Test

Modified Wald test for group wise heteroskedasticity in regression model	
H0: $\sigma^2(i) = \sigma^2$ for all i	
chi2 (49) =	233.36
Prob>chi2 =	0.2518

Source: Researcher (2021)

The homoscedastic error hypothesis was not dismissed, as shown by the 0.2518 p-value in Table 4.4.

4.4.4 Autocorrelation Test

Since conventional serial correlation biases make the results more efficient, the Breusch-Godfrey autocorrelationship test was used to identify serial correlations in the idiosyncratic term of a model.

Table 4.5: Autocorrelation Test

Wooldridge test for autocorrelation in panel data	
H0: no first-order autocorrelation	
F(1, 49) =	0.366
Prob> F =	0.3972

Source: Findings (2021)

From Table 4.5 above the p-value is not rejected since it is a significant p-value (p-value = 0.3972).

4.4 Correlation Analysis

To identify the connection between variables, correlation analysis is employed. The Pearson correlation was utilized to investigate the connection between investment sector performance and variables (leverage, liquidity, firm size, and age).

Table 4.6: Correlation Analysis

		ROA	Leverage	Liquidity	Firm size	Age
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
Leverage	Pearson Correlation	-.280*	1			
	Sig. (2-tailed)	.013				
Liquidity	Pearson Correlation	.087	-.218	1		
	Sig. (2-tailed)	.553	.132			
Firm size	Pearson Correlation	.091	.227	-.642**	1	
	Sig. (2-tailed)	.533	.117	.000		
Age	Pearson Correlation	.117	-.051	.346*	-.202	1
	Sig. (2-tailed)	.422	.728	.015	.164	
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						
c. Listwise N=49						

Source: Findings (2021)

The correlation results reveal that leverage recorded a negative and substantial link with ROA ($r = -.280$, $p = .013$). Liquidity, size and age all showed positive but not significant relationship with investment company financial success ($r = .087$, $p = .553$; $r = .091$, $p = .533$; $r = .117$, $p = .422$), according to the findings.

4.5 Regression Analysis

Leverage, liquidity, firm size, and age were the variables upon which performance was modeled. The significance level for the analysis was set at 5%. The regression result was contrasted to the crucial value from the F – table. The results are listed below.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.683 ^a	.467	.419	1.0753103

a. Predictors: (Constant), Liquidity, Firm size, Age, Leverage

Source: Researcher(2021)

The R square depicts the variables of the response variable because of the predictor variables changes. R square was 0.467, showing that differing leverage, liquidity, size and managerial effectiveness represent 46.7% of the variability in investment companies' financial performance. 53.3% of the financial performance variation may be ascribed to factors outside the model. Furthermore, as demonstrated by a 0.683 correlation coefficient(R), the independent factors had a high link with financial performance.

Table 4.9: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.581	4	11.145	9.639	.000 ^b
	Residual	50.877	44	1.156		
	Total	95.458	48			

a. Dependent Variable: ROA
b. Predictors: (Constant), Liquidity, Firm size, Age, Leverage

Source: Findings (2021)

The significance level is set at 0.000, which is much below $p=0.05$. This means that the model was satisfactory to assess the leverage, liquidity, firm size and age of NSE-listed businesses in investment sector.

The R-square indicated the way the variables were connected. The significance of the link between responder and predictor factors was shown by the p-value of the sig. column. The confidence interval of 95% indicates a p-value of less than 0.05. As a consequence, a p-value above 0.05 indicates that the predictor and response variable are unrelated. The results are listed below.

Table 4.10: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.675	.042		6.836	.000
	Leverage	-.511	.014	-.485	-4.716	.000
	Liquidity	.591	.039	.575	4.938	.000
	Firm size	.017	.009	.021	1.957	.057
	Age	.360	.024	.332	3.277	.000

a. Dependent Variable: ROA

Source: Findings (2021)

All other factors, except for company size, have generated significant positive findings (high t-value, $p < 0.05$). Because a p value greater than 0.05 is displayed, the business size generated a positive but modest result.

The following equation was created:

$$Y = 0.675 - 0.511X_1 + 0.591X_2 + 0.360X_3$$

Where,

Y = Financial performance

X_1 = Leverage

X_2 = Liquidity

X_3 = Age

The constant = 0.675 in the model indicates that performance would be 0.675 if the variables (leverage, liquidity, company size, as well as age) were all zero. While firm size was insignificant, a unit rise in leverage resulted in a 0.511 decline in performance, but a unit rise in liquidity or age resulted in 0.591 and 0.360 increases in financial performance, respectively.

4.7 Discussion of Research Findings

The research examined how leverage impacts NSE investment firms' performance. The independent variable was the leverage operationalized as the ratio of total debt to total assets. Control variables consisted of firm size gaged by natural log of total assets, liquidity gauged by current ratio, and age gauged by number of years a firm was in operation. ROA was used to measure financial performance which was the response variable.

The correlation coefficient of Pearson showed that leverage has a significant negative association with performance measured by ROA. NSE Investment businesses' performance showed a positive but not substantial connection to liquidity. The research too exhibited that the correlation between firm size and age with the success of NSE investment companies has been positive but not substantial.

The result shows that 46.7% of changes in the response variable according to R^2 , which implies other factors other than the model explain 53.3% of performance changes. The predictor variables of leverage, liquidity, size of a business and age explained 46.7% of changes in ROA. With an F-value of 9.639, the model was significant at 95% confidence interval. This shows that the connections between the variables were represented by a sufficient model.

The findings are consistent with Mwaura (2017) who carried out a similar study on NSE listed firms covering the period 2011-2016. The study population was 65 firms out of which 36 formed the study sample. The study applied secondary data acquired from the NSE Handbooks and published annual financial reports. The collected data was organized and analysis performed via Regression Analysis Model and SPSS. The study findings showed that as debt ratio increases, the return on equity decreases (inverse relationship) hence concluding on a negative association between external long term borrowings and returns on investment

The study also concurs with Thu-Trang (2019) who put his context in an emerging economy, Vietnam. This study was longitudinal on 102 firms listed at the Ho Chi Minh Exchange. With the measure of performance being ROA, and leverage utilizing total debt to total assets, long-term debt to total assets and short-term debts to total assets. The paper revealed a significant correlation between leverage and firm performance. An increase in the use of debt was found to decrease firm performance. Firms should thus be cautious when deciding to use debt.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The facts, conclusions, as well as limitations discovered during the research are summarized in this chapter. It also makes policy recommendations that will help policymakers raise the expectations of publicly traded investment companies in order to attain better results. The findings of the research too include future research suggestions.

5.2 Summary of Findings

The goal of this study was to see how NSE's financial performance is affected by leverage. Leverage, liquidity, business size, and age were among the variables studied. This was accomplished using a descriptive cross-section design. SPSS has been used to analyze secondary CMA data. Annual data for 5 investment corporations has been obtained during a 10-year period from their annual reports.

The correlation coefficient of Pearson showed that leverage has a significant negative association with performance measured by ROA. NSE Investment businesses' performance showed a positive but not substantial connection to liquidity. The research too depicted that the correlation between firm size and age with the success of NSE investment companies has been positive but not substantial.

As depicted by 0.467 R square, indicating that differences in leverage, liquidity, business size, and age account for 46.7 % of the variance in NSE listed investment enterprises performance. 53.3% of financial performance variation is attributable to variables outside the model. The results showed that the predictor parameters selected

were significantly linked with the business results of investment companies ($R=0.683$). The F value was calculated as 5% above the critical value whereas the p value was 0.000 and showed that the model included data on the effects of the four independent variables on the financial performance was ideal.

The regression outcomes suggest that performance would be 0.675 if the variables (leverage, liquidity, company size, as well as age) were all zero. While firm size was insignificant, a unit rise in leverage resulted in a 0.511 decline in performance, but a unit rise in liquidity or age resulted in 0.591 and 0.360 increases in financial performance, respectively.

5.3 Conclusion

The financial performance of publicly traded investment businesses are affected significantly by leverage. The conclusions designate that a one-unit increase in that variable has a substantial negative effect on investment business performance. Company liquidity has a strong positive performance connection and therefore greatly improves liquidity performance. The survey also showed a statistically significant impact on age on financial performance and suggested that age is significantly affecting the performance of the companies examined. Furthermore, business size has a favorable but modest financial impact, meaning that corporate size isn't a big predictor of financial performance.

The results indicate that the selected factors, such as leverage, liquidity, size, and age, significantly affected businesses' success. These factors influence significantly on investment companies' financial performance, since ANOVA's p value is below 0.05. The finding that the chosen variables account for 46.7% of variance in performance

indicates that other non-model factors account for 53.3% of variance in investment companies' financial performance.

This study concurs with Ongombe and Mungai's (2018) results on the effect of leverages on the business results of sugar milling companies in Kisumu County. The research's target population was all three sugar producing companies in Kisumu County. Secondary data during 2011-2015 have been used and taken from disclosed financials. Simple and multiple regression analysis together with correlation analyzed the data quantitatively so as to establish the level of influence of each of the autonomous variables. Tables and accounts have been used to display the data. The conclusions were that debt ratio was related negatively and insignificant to financial performance while the debt-to-equity ratios were significant and harmful to the financial output of sugar production companies in Kisumu County.

This study also agrees with Doan (2020) who did an investigation on how leverage impacts firm performance in Vietnam. The target population was firms quoted at the Ho Chi Minh Stock Exchange and a sample of 102 firms investment firms were sampled. The study period spanned from 2008 to 2018. To overcome the drawbacks of the model so as to ensure reliability and reliability, generalized method of moment is used. In arriving at firm's performance ROA was used. Additionally financing leverage was measured using three measures: short-term debt to total assets, long-term debt to total assets and total debt to total assets. The control variables comprise of inflation rate, economic growth and firm size. The study findings established that leverage has a relationship with firm performance. The results were that firm performance declined as more debt was consumed.

5.4 Recommendations

The study results uncovered that leverage has a negative effect on financial performance. Policy reforms include: investment companies listed in NSE shall assess fiscal advantages and bankruptcy costs connected with loan funding. Levels of debt should be kept at appropriate levels because a high debt level has been shown to decrease financial performance. This will assist in achieving the objective of enhancing shareholder value.

Financial performance and liquidity were found to have a positive relationship in the research. The suggestion is that a detailed examination of the liquidity condition of publicly traded investment firms be performed to ensure that the firms are functioning at adequate levels of liquidity, consequently boosting financial performance. The rationale for this is that liquidity is extremely vital since it has an impact on how a company operates.

The NSE's investment operations performed much better as a result of improved age. The proposal is that investment companies should strive to remain in business for a long time as they will be able to accumulate experience and this would help improve financial performance.

5.5 Study Limitations

The research looked at some of the elements thought to affect the NSE-listed investment companies' performance. The research focused on four explanatory variables in particular. Nevertheless, additional factors, some of which are internal, like the firm's management efficiency and corporate governance, though others which lack management's regulation, like rate of exchange, economic growth, balance of trade, as

well as rate of unemployment, are influential in determining financial performance of companies.

The research used quantitative secondary data. The research also overlooked qualitative data that may explain additional variables influencing the connection between leverage and investment company performance. Qualitative techniques like focus groups, open surveys and interviews may help to provide more definitive results.

The research focused on a span of 10 years (2011 to 2020). It is not clear whether the outcomes will last longer. It is also uncertain if same results can be expected beyond 2020. A multivariate linear regression model for data analysis was used. The investigator cannot correctly extrapolate results due to the model's shortcomings, such as misleading conclusions from a change in variable financial performance. When data is added into the model, conflicting outcomes may occur.

5.6 Suggestions for Further Research

The research uses secondary data to examine at the impact of the leverage on NSE investment firms' performance. In order to complement this research, same survey on the basis of primary data obtained through thorough surveys as well as interviews on all 5 NSE listed investment corporations might suffice.

Further research on variables such as growth prospects, industrial practices, managerial ability, political stability, and other macroeconomic variables is required since the study did not cover all of the elements that affect the financial performance of NSE investment companies. Policymakers may use a tool that evaluates the influence of different factors on performance to help them make decisions.

The research was restricted to NSE-listed investment businesses. Other corporations operational in Kenya should be investigated further, according to the study's recommendations. Future research should look into how leverage affects characteristics other than financial performance, such as business value, operational efficiency, and dividend payment, to name a few.

The focus of this research was drawn to the last ten years. Future studies may span a lengthy period of time, such as thirty or twenty years, and may have a major effect on this study by confirming or refuting its findings. A longer research has the benefit of allowing the researcher to catch the effects of business cycles like booms as well as recessions.

Lastly, this research relied on model of multiple linear regression, that has its own set of drawbacks, including the possibility of erroneous and misleading conclusions due to changes in variable financial performance. To explore the many connections to financial success, future research should use alternative models, such as the Vector Error Correction Model.

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APPENDICES

Appendix I: Investment Firms Listed at the NSE

1. Centum Investment Co. Ltd
2. Home Afrika Ltd
3. Kurwitu Ventures
4. Olympia Capital Holdings Ltd
5. Trans-Century Ltd

Appendix II: Research Data

Company	Year	ROA	Leverage	Liquidity	Firm size	Age
Centum Investment Co. Ltd	2011	0.0659	0.4582	4.7131	18.830	44
	2012	0.0208	0.4803	1.7358	18.897	45
	2013	0.0208	0.4803	1.7358	18.897	46
	2014	0.0265	0.4685	1.4858	18.910	47
	2015	0.0265	0.4685	1.4858	18.910	48
	2016	0.0704	0.6232	1.4218	19.056	49
	2017	0.0704	0.6232	1.4218	19.056	50
	2018	0.0531	0.4908	1.0966	19.338	51
	2019	0.0531	0.4908	1.0966	19.338	52
	2020	0.4645	0.4712	1.2049	19.652	53
Home Afrika Ltd	2011	0.1293	0.3133	1.0625	18.258	3
	2012	0.1065	0.3328	1.2496	18.613	4
	2013	0.1065	0.3328	1.2496	18.613	5
	2014	0.1032	0.3308	0.8973	18.714	6
	2015	0.1032	0.3308	0.8973	18.714	7
	2016	0.0999	0.4763	0.9705	19.032	8
	2017	0.0999	0.4763	0.9705	19.032	9
	2018	0.1374	0.4950	1.0320	19.210	10
	2019	0.1374	0.4950	1.0320	19.210	11
	2020	0.0918	0.6265	1.4488	19.422	12
Kurwitu Ventures	2011	0.0933	0.4931	6.5259	15.986	5
	2012	0.0497	0.4942	3.0184	16.759	6
	2013	0.0497	0.4942	3.0184	16.759	7
	2014	0.0387	0.9632	1.5510	17.174	8
	2015	0.0387	0.9632	1.5510	17.174	9
	2016	0.2471	0.9680	1.7391	17.543	10
	2017	0.2471	0.9680	1.7391	17.543	11
	2018	0.0041	0.9734	0.7966	17.730	12
	2019	0.0041	0.9734	0.7966	17.730	13
	2020	0.168	0.404	0.316	18.082	14
Olympia Capital Holdings Ltd	2011	0.140	0.274	3.912	10.660	43
	2012	0.150	0.325	3.892	10.528	44
	2013	0.120	0.289	3.871	10.622	45
	2014	0.090	0.295	3.850	10.603	46
	2015	0.110	0.275	3.829	10.634	47
	2016	0.010	0.643	4.394	9.973	48

	2017	0.020	0.666	4.382	9.987	49
	2018	0.020	0.664	4.369	9.954	50
	2019	0.040	0.653	4.357	9.911	51
	2020	0.060	0.637	4.344	9.839	52
Trans-Century Ltd	2011	0.130	0.116	3.178	9.519	14
	2012	0.120	0.132	3.135	9.489	15
	2013	0.130	0.166	3.091	9.473	16
	2014	0.170	0.147	3.045	9.404	17
	2015	0.220	0.127	2.996	9.343	18
	2016	0.040	0.701	2.079	9.769	19
	2017	0.050	0.691	1.946	9.704	20
	2018	0.010	0.702	1.792	9.657	21
	2019	0.010	0.650	1.609	9.586	22

EFFECT OF LEVERAGE ON FINANCIAL PERFORMANCE OF INVESTMENT FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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