

**EFFECT OF DEBT FINANCING ON PROFITABILITY OF LISTED
FIRMS IN KENYA**

BY


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DECLARATION

This research project is my original work and has not been presented for any award in any other university.

Signed:  Date: November 14, 2022

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This research project has been presented for examination with my approval as the University Supervisor

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DEDICATION

I dedicate this project to my mother, Juliana Wambugu and siblings, Violet Njeri and Phillip Wambugu who encouraged and supported me morally and spiritually during the entire period of my study. May God bless you abundantly.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENTS	iii
DEDICATION.....	iv
LIST OF TABLES	vii
LIST OF ABBREVIATIONS	viii
ABSTRACT.....	ix
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Debt Financing.....	2
1.1.2 Profitability	3
1.1.3 Debt Financing and Profitability.....	4
1.1.4 Listed Firms in Kenya.....	5
1.2 Research Problem	5
1.3 Research Objective	7
1.4 Value of the Study	7
CHAPTER TWO: LITERATURE REVIEW.....	9
2.1 Introduction.....	9
2.2 Theoretical Review	9
2.2.1 Net Income Theory	9
2.2.2 Trade-off Theory.....	10
2.2.3 Pecking Order Theory.....	11
2.2.4 Agency Theory.....	12
2.3 Determinants of Profitability	13
2.3.1 Debt Financing.....	13
2.3.2 Firm Size.....	13
2.3.3 Liquidity.....	13
2.3.4 Equity financing.....	14
2.4 Empirical Review	15
2.4.1 Global Studies.....	15
2.4.2 Local Studies.....	17

2.5 Conceptual Framework.....	20
2.6 Summary of Literature Review.....	20
CHAPTER THREE: RESEARCH METHODOLOGY	22
3.1 Introduction.....	22
3.2 Research Design	22
3.3 Population	22
3.4 Data Collection	22
3.5 Data Analysis.....	23
3.5.1 Diagnostic Test	23
3.5.1 Analytical Model	24
3.5.3 Test of Significance	25
3.5.4 Measurement of Variables	25
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS	26
4.1 Introduction.....	26
4.2 Descriptive statistics	26
4.3 Diagnostic Tests.....	27
4.4 Regression analysis.....	30
4.6 Discussions	33
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	35
5.1 Introduction.....	35
5.2 Summary of Findings.....	35
5.3 Conclusions.....	36
5.4 Policy Recommendations	37
5.5 Limitations of the Study	38
5.6 Recommendations for Future Studies.....	38
REFERENCES.....	40
APPENDICES	45
Appendix I: Listed Firms in Kenya (2017-2021)	45
Appendix II: Research Data.....	47

LIST OF TABLES

Table 3.1: Measurement of Variables	25
Table 4.2: Descriptive Statistics	26
Table 4.3: Heteroscedasticity Test	28
Table 4.4: Multicollinearity Test	28
Table 4.5: Normality Test	29
Table 4.6: Stationarity Test	29
Table 4.7: Autocorrelation Test	29
Table 4.8: Model specification Test	30
Table 4.9: Model Summary	31
Table 4.10: Analysis of Variance	31
Table 4.11: Regression Coefficients	32

LIST OF ABBREVIATIONS

ABSA	Amalgamated Bank of South Africa
ANOVA	Analysis of Variance
ARM	Athi River Mining
CBK	Central Bank of Kenya
CMA	Capital Market Authority
EAPC	East African Portland Cement Company
EPS	Earning Per Share
FEM	Factor Exponential Model
I&M	Investments & Mortgages
KCB	Kenya Commercial Bank
MM	Modigliani and Miller
NSE	Nairobi Securities Exchange
NPM	Net Profit Margin
OP	Operating Profit
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
ROI	return on investment
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factors
WACC	Weighted Average Cost of Capital

ABSTRACT

Financial analysts argue in favour of debt utilization, believing that debt finance can help improve a company's performance. The listed firms in Kenya have been experiencing poor profitability in the recent years. Could this be attributed to the debt financing among the firms. This study sought to determine the effect of debt financing on profitability of listed firms in Kenya. The study adopted net income, agency and pecking order theories. The study adopted net profit margin as the measure for profitability which was the dependent variable. Debt financing was adopted as the independent variable and measured in terms of debt ratio. The study adopted firm size, liquidity and equity financing as the control variables. The study adopted descriptive research design on forty-two (42) listed firms in Kenya. This research was grounded on secondary data from individual firm reports of listed firms in Kenya between 2017 and 2021. The reports were mined from the NSE website. The data collection schedule was used for data collection. Stata 14 was utilized for generation of descriptive and regression statistics. Diagnostic tests of normality, multicollinearity, stationarity, autocorrelation and heteroscedasticity were done. The researcher used F-statistics generated through ANOVA to test for the significance of the regression model. The study found that, between 2017 and 2021, the listed firms showed an average profitability as measured by net profit margin of 8%; debt financing showed of 29.04% as reflected in debt ratio; liquidity at 10.59%; Firm size, average log of 9.70; and equity financing at 54.57% as measured by equity ratio. The regression model summary showed a strong relationship between the predictor variables and profitability. The predictors contributed a proportion of 51.1% of the profitability of listed firms. From the ANOVA, debt financing and the control variables had a significant effect on profitability of listed firms. From the regression coefficients, debt financing, liquidity and firm size had significant positive regression coefficients while equity financing had a negative insignificant regression coefficient. The study concludes that debt financing, liquidity and firm size have a positive effect while equity financing has an insignificant effect on profitability of listed firms in Kenya. The study recommends that listed firms in Kenya increase their debt financing; to increase their liquidity ratios optimally by increasing the level of liquid assets or by reducing the level of liquid assets; to increase their assets by purchasing more; and adopt less equity in financing their operations to increase the profitability of the firms. The study was limited by the variables of the study; scope; nature of data; and research methods adopted in the study. The study recommends a study based on other factors influencing profitability of listed firms; other firms other than listed firms; primary or quarterly or semi-annual data; as well as other analytical techniques like One Sample T-test or correlation.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Financial choices are important in a business's decision-making process because these helps finance management determine when or how to collect funds to meet their investments requirements (Zhao & Wijewardena, 2012). Since retained earnings only in most instances cannot maintain a company's functions, many businesses rely on borrowing to fund investments. If companies make poor debt financing decisions, the result will be greater capital expenses, that will cause a decline in total profitability. On the other hand, effective debt financing decisions results in controlled business ownership, low interest rates among others, hence, a business's value is increased. Having the best Capital structure, on the other hand, is vital since it offers a company an advantage over its rivals (Omollo, Muturi, & Wanjare, 2018).

The analysis was anchored on Net Income Theory by Durand asserting that increasing value of the firm by decreasing the overall cost of capital which is measured in terms of Weighted Average Cost of Capital. This trade-off concept proposed by Kraus and Litzenberger (1973) is investigated as various firms strive to strike an equilibrium while employing debt as interest costs is tax deductible and equal to the loan's true expenditure. Jensen and Meckling's (1976) agency theory advocates for a highly leveraged funding amount because it drives managers to strive hard to meet lenders' obligations while also protecting shareholders' objectives. In their pecking order hypothesis, Myers and Majluf (1984) believe that management prefer internal funding to external funding, and that when internal funds are inadequate, financial leverage takes precedence over equity capital.

Determining if enterprises stand to benefit from debt financing, as well as the criteria for determining the loan percent that would represent their debt financing in listed firms, is a source

of worry. Interest payments is eligible for deduction and allowable in Kenya, so funding the operation of a company with debt will help the company on one hand because debt interest is exempt from taxes, which will have a negative effect because the company would be controlled by creditors who would have a significant shareholding in the firm. Owing to massive pressure by creditor and shareholders, employing debts as a funding mechanism can reduce agency costs by forcing the management to operate in the best interests of the company (Onchong'a, Mututi & Atambo, 2016).

1.1.1 Debt Financing

Debt finance is the process of borrowing money to fund corporate activities and then repaying the money with interest over a set period of time (Hussain et al, 2006). Debt is a type of finance that aims to increase the return on investment (ROI) by lowering the cost of borrowed cash. Debt finance is a substantial source of external funding for business corporations, as per Baltaci and Ayaydin (2014). Debt is divided into two categories: short-term debt that ought to be repaid in less than a year and long-term debt whose repayment period is spread over a period of a year (Lokong, 2011).

According to Miglo (2020), debt is advantageous in fixing free cash flow concerns and providing a tax shelter. Debt may very well be counterproductive due to disagreements amongst capital sources and the expenses linked to insolvency. Debt finance, on the other hand, aids in the cushioning of financial shortfalls in a company with budget constraints (Su & Hildreth, 2018). Debt financing can be beneficial or detrimental to a company in terms of costs (La Rocca & Cambrea, 2019). Debt financing leads to finance charges that exceed partial principal payments made in installments over the loan term, hence the rate of investment return must be substantial to cover such costs (Zainudin et al, 2017).

The debt ratio was used as a metric of debts under this research. The debt ratio is a measurement of a corporation's total liabilities in relation to its total assets. A low proportion indicates that the business is less reliant on debt financing. The smaller the proportion, the less borrowing an enterprise does use and the more capital it has. Leverage ratio, and debt to equity ratio are all possible approaches to calculate debt financing theoretically. Empirically, Pradhan, Shyam and Khadka (2017) measured debt financing through short term debt ratio, long term debt ratio, total debt ratio and debt to equity ratio.

La Rocca and Cambrea (2019) discovered that leverage has a major impact on firm performance since total debt permits the borrowers to finance short-term investments while distributing the expense of loan over a prolonged period, rendering it more economical and useful. Total debt is widely used in most commercial operations, especially when preferred stock rather than common stock is used as a source of capital. In a nutshell, companies should take additional care not to trigger a debt overhang that would inevitably lead to dissuading of future investments to the detriment of the operations of the firms as the debt burden is too great (Miglo, 2020). Debt financing was gauged through debt ratio.

1.1.2 Profitability

Profitability is the act of venturing what would otherwise be unproductive cash assets in an equity investment as well as the initial investment in returns to the enterprise (Home, 2016). The gap in income and expenses generated throughout financial period also is characterized as profitability. Patel (2004) describes profitability as the discrepancy seen between company's total revenue gained from the sales transaction or service and the expenditures accumulated during similar accounting, and he goes on to say that the firm should aim to reduce operating expenses while boosting revenue growth, that results to profitability.

Profitability is a critical aspect for corporate operations in a dynamic business environment, and it has a substantial significant influence on the financial institutions and economic growth (Tariq et al., 2014). Profitability is also necessary for banks to continue operating and for shareholders to get reasonable yields (Tharmila & Arulvel, 2013). For many businesses, profitability is one of the most important components of financial reporting (Farah & Nina, 2016). Profitability is important to company's management, shareholders, and several parties interested or linked with the organization since it provides a strong signal of profitability. Profitability can be measured through the ROA, ROE, ROI, EPS, OP, NPM and ROCE (Mashayekhi & Bazazb, 2008). Pradhan, Shyam and Khadka (2017) measured profitability through return on assets, return on equity and net profit margin. This study measured profitability through net profit margin.

1.1.3 Debt Financing and Profitability

Debt finance, in theory, has an impact on a company's profitability (Khan, 2012). High leverage, according to Jensen and Meckling (1976), does have the favourable impact of tackling agency problems for both management and owners in the notion that it disciplines managers not to misappropriate finances because there are existing liabilities in the version of principal payments together with interests on loans to be reimbursed. This will result in more careful control of the companies' operations. Per the Modigliani and Miller (MM) hypothesis, there seems to be no important source of financing, and so choosing which source of funding to utilize has no influence on a company's value (Modigliani & Miller, 1958).

Empirically, the studies have shown that the effect of debt financing on profitability is ambiguous. For example, Le, Mai and Nguyen (2020) established debt financing having a positive effect on profitability. In addition, other researchers also found a positive effect (Harelimana, 2017). On the other hand, Magoro and Abeywardhana (2017) found that debt capital has a negative effect

profitability. Dalci (2018) found an inverted U-shaped relationship. This indicates that there was need to research on the effect of debt on profitability.

1.1.4 Listed Firms in Kenya

In Kenya, firms are listed at the Nairobi Securities Exchange and regulated by Capital Market Authority. The firms listed in the NSE are grouped based on their sector of operation. As at the end of the year 2021, there were sixty-five listed firms in Kenya (NSE, 2021). By leveraging cash reserves and donating to and assisting neighborhood and global enterprises in accessing pragmatic capital, the NSE has a significant effect on the efficacy of Kenya's economy. In many companies, capital structure is believed to boost potential investors' confidence (Mutegi, 2016).

Debt and profitability concerns are mirrored on listed enterprises, as per CMA (2020), as some have enormous debts amassing, forcing managers into survival methods. As a result of the massive indebtedness, corporations owe more than their net worth, leaving investors with low expected returns in the present and upcoming years. East African Portland is a good example of a listed firm looking for additional capital infusions in order to partially repay its loans and thus engage on turnaround plans. ARM cement went into administration due to the debt burden. Several listed firms utilize debt financing to expand quickly, depending on good yields that will pay off the debts while simultaneously generating economic profits. Such include Bamburi Cement and East African cables. This study sought to investigate the listed firms in Kenya.

1.2 Research Problem

Company's stream of finance decisions is key as they have a large impact on its entire profitability. It was discovered that debt capital had a large favorable impact on profitability. Debt capital allow borrowers to fund short-term investments while stretching the expense of borrowing over a

longer period of time, rendering it cheaper and more useful for financing. Theoretical underpinnings on debt financing have come to diverse conclusions, with Modigliani and Miller arguing that debt has no bearing on capital structure and agency hypothesis highlighting the role of debt in capital structure in controlling manager's activities. Both from a theoretically and empirically standpoint, there is no consensus on the nature of the consequences of borrowed funds on profitability. Financial analysts argue in favour of debt utilization, believing that debt finance can help improve a company's performance if it is obtained at a reasonable rate and the earnings are used wisely.

The listed firms in Kenya have been experiencing poor profitability in the recent years. For example, ARM cement has been making losses for the last 10 years. In 2017, ARM made a loss of kshs. 7 million. ARM Cement went into administration in August 2018 following a default on a loan and dwindling profitability. East African Portland Cement Company (EAPC) has also been posting dwindling performance. For example, the firm posted a Ksh.3.4 billion loss in 2019, returning to loss making a profit in 2018. Other listed firms that experienced performance issues included KCB and ABSA which experienced a 40% and 89% decline in their profits in 2021 (CBK, 2021). The improved profitability of listed firms would support the economy through their contribution to the tax base. The improved profitability would also reduce the liquidation of the firms, hence avoiding cases of increased unemployment among the listed firms.

Empirical research has been done in the area of debt financing and profitability. However, the researchers have found mixed results on the effect of debt financing on profitability. For example, Harelimana (2017) found a positive effect of debt financing on profitability. Pradhan and Khadka (2017) established debt to positively affect the profitability of firms. On the other hand, Aziz (2019) and Magoro and Abeywardhana (2017) also established that debt financing had a negative

effect on profitability. This showed the need to study debt financing and profitability in order to fill the knowledge gap. The local studies reviewed in this research were found to focus on other concepts other than ones considered in this research. For example, Ng'ang'a (2017) focused on revenue growth other than profitability (Net profit) as it is for the current research. Madeizi (2017) also focused on dividend policy other than profitability. On the other hand, the researchers focused on specific sectors other than all the listed firms. For example, Momanyi (2018) focused on commercial and services firms; and Ng'ang'a (2017) on private secondary schools. The researcher also adopted different methodologies from the ones considered in the current study. This showed that various gaps exist in the area of debt financing and profitability in listed firms in Kenya. This study sought to fill the gaps by answering the question: what is the effect of debt financing on profitability of listed firms in Kenya?

1.3 Research Objective

To determine the effect of debt financing on profitability of listed firms in Kenya.

1.4 Value of the Study

The research's outcomes are intended to assist professionals in making finance choices by providing them with a critical benchmark on the necessity for firms to develop and maintain optimum leverage ratio in order to boost profits. This might be accomplished by establishing industry-specific debt levels which would guarantee that businesses are not excessively vulnerable to the danger of insolvency, resulting in a lack of funds to maintain daily functioning.

Researchers, academicians, and learners enthusiastic in conducting studies in this topic will find the results of this paper to be an invaluable resource. The importance of this investigation to researchers comes from its ability to aid in the identification of research gaps, which will lead them

when conducting more investigation in this topic. Identifying of research gaps is essential for ensuring that the area is filled with degree of understanding rather than volume of research studies with limited depth.

The conclusions of the study are intended to assist current and prospective investors in listed companies in analyzing the effect of debt financing on the profitability and making educated judgments before making any investment. The goal of the investigation is to assist management of publicly traded companies in Kenya in reaching the optimal financing decisions that would improve their firms maximise the revenue of their owners.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter begins with an orientation on the theories that inform the study and studies carried out in the past. It also includes the determinants that influence profitability and evaluates previous research on the subject. A conceptual framework of the study was then provided and finally the research gaps.

2.2 Theoretical Review

This research was founded upon five main capital structure theories which include; Net Income, trade-off, agency and pecking order theory.

2.2.1 Net Income Theory

This study will be anchored on Net Income Theory founded by Durand (1952). The theory suggests increasing value of the firm by decreasing the overall cost of capital which is measured in terms of Weighted Average Cost of Capital. This can be done by having a higher proportion of debt, which is a cheaper source of finance compared to equity finance. According to Net Income Approach, a change in the financial leverage of a firm will lead to a corresponding change in the Weighted Average Cost of Capital (WACC) and the company's value. The Net Income Approach suggests that with the increase in leverage (proportion of debt), the WACC decreases, and the firm's value increases. On the other hand, if there is a decrease in the leverage, the WACC increases, thereby decreasing the firm's value.

The theory assumes that the increase in debt does not affect the confidence levels of the investors; and that there are only two sources of finance; debt and equity. There are no sources of finance

like Preference Share Capital and Retained Earnings. The theory further assumes that all companies have a uniform dividend pay-out ratio of one; and that there is no flotation cost, no transaction cost, and corporate dividend tax. The theory also assumes that the capital market is perfect where information about all companies is available to all investors with no chances of overpricing or under-pricing of security. Further, it means that all investors are rational. So, all investors want to maximize their return by minimizing risk. The theory also assumes that all sources of finance are for infinity. There are no redeemable sources of finance.

This theory was relevant for this study in that it explains why publicly traded firms would prefer debt as a source of finance. The theory further states that adoption of debt reduces cost of capital which increases firm value as well as firm's net income. This shows that listed firms in Kenya may experience increased profitability with the adoption of debt financing. This theory would enable the researcher understand how debt financing would influence their profitability levels.

2.2.2 Trade-off Theory

Kraus and Litzenberger proposed the theory (1973). According to tradeoff theory, there seem to be advantages to employing debt as a source of finance, including a tax incentive on borrowing, along with disadvantages in the manner of costs. In other words, costs connected with financial difficulties such as bankruptcy debt costs and non-bankruptcy costs such as staff turnover, unfavourable payment conditions from creditors, and inner debtholders issues. Whenever a company is incapable to satisfy its debt commitments, it is said to be in trouble financially. A company becomes bankrupt when it fails to meet its monetary commitments to creditors. The price of financial trouble, or the explicitly or implicitly insolvency cost of borrowing, is typically an essential component of Trade-off hypothesis. Numerous researchers have reached distinct findings regarding trade-off theory. For example, Rajan and Zingales (1995) claim that companies that

declare larger earnings are less likely to take on debt. It's in contrast to the tradeoff hypotheses true forecast, which states that enterprises with larger revenues should take on more debt to reap the advantages of debt's tax advantages. When Graham (2000) compared the disadvantages and benefits of debt, he observed that companies making a lot of money and have a low chance of going bankrupt actively employ debt. The idea was important in the study since it aimed to determine whether using leverage as a stream of funding benefits organizations' profitability.

2.2.3 Pecking Order Theory

Myers and Majluf (1984) popularized the pecking-order approach, that regards internal funding to be the cheaper form of capital since it has no flotation costs, followed by debt, and ultimately equity funding. The hypothesis emphasizes issuing stocks to generate external money communicates a lesser profit to investors than whatever they had anticipated, dependent on asymmetrical knowledge. Investors, being logical in their judgments, raise the company's discount rate higher as they now expect a bigger amount of profit.

Management will be obligated to behave in the highest interest of the shareholders, according to the argument, because they understand much more regarding firm's future growth potential (Sheikh & Wang, 2011). It is also expected that there is adverse selection for them. This instance may not be practical in practice since it overlooks the issues that can arise when a company's executives become too confident with its financial statements (Kishore, 2009). The idea was important to this research since enterprises in Kenya likely to endorse the pecking order hypothesis since they optimize internal resources prior to getting extra capital to fund business operations.

2.2.4 Agency Theory

The agency problem was considered by Jensen and Meckling (1976). They emphasized that there is a relationship between the owner (principal), and those charged with managing the organization (agents), in order to generate maximum returns. Whenever the managers fail to behave in the best interests of shareholder, issues occur. That is to say, the management would then try to suit their personal goals. It's important to recognize that the dilemma emerges when management' incomes stay unchanged irrespective of how much money they make in their companies' operations, and when the companies lose money, they are now the only individuals who experience the repercussions of the shortfall (Rayan 2010). As a result, according to the notion, corporations must regulate the interaction of agents and principals. Both proprietors and the agents possess different motivations, that might result in a corporation incurring agency fees.

As a result, company owners, aware of the management' likely self-interest, enact restrictive policies and decisions aimed at protecting and growing their possessions. The use of loan money instead of internal cash is among the restrictions. This technique helps to keep the company's ownership and pushes management to stay on lucrative operations in order to meet their financial commitments (Nwaolisa & Chijindu, 2016). Since management' objective is to maximize profits before considering the interests of shareholders, the agency cost hypothesis is valid in capital finance. Companies can receive debt funding to operate as a disciplinary tool on management, discouraging them against investing in initiatives with negative net present value, so improving their profitability.

2.3 Determinants of Profitability

2.3.1 Debt Financing

Debt financing has been found to be a critical determinant of profitability of firms. It has been found to be a main source of funds to supplement the owner's capital utilized in a firm. Debt financing has been defined as the utilization of borrowed funds in funding operations of a firms (Hussain et al, 2006). Researchers have found that debt financing influence profitability positively. On the other hand, some researchers have found that debt financing has a negative effect on profitability of firms. Others have found that no relationship exist between debt financing and profitability of firms.

2.3.2 Firm Size

Firm size is favorably linked with debt financing, as per Okiro et al. (2015). Bigger companies, for example, have various advantages over small businesses, like economy of scale, more market power, and the capability to compete, all of which result in increased profitability. Large enterprises have a benefit when raising external funds from the financial markets, according to Alghusin (2015), which can be ascribed to their capacity to collateralize the borrowings. Large companies also have a lower reliance on internally raised money, allowing companies to profit more than small organizations. Scholars have established mixed conclusions in relation to the size of the firm and profitability and hence, additional research is essential.

2.3.3 Liquidity

A company's liquidity refers to its capacity to turn its assets into cash (Lambe, 2014). Companies with significant liquidity are able to capitalize on increased return possibilities while also protecting themselves from going broke in event of economic turmoil. Liquidity buffers are

conveniently established from earnings accessible under the pecking order hypothesis, as corporations prefer to use funds generated internally rather than outside. Companies could not be compelled to seek outside funding if their assets are liquid enough to cover the company's varied operations. The current ratio or quick ratio is used to assess a company's liquidity. It reveals a company's ability to satisfy urgent obligations using present assets. A high current ratio shows that a company can meet its obligations with current assets (Etyang, 2012). According to Saleh and Abu Afifa (2020), high liquidity levels have no impact on the profitability of firms. Camino-Mogro and Bermdez-Barrezueta (2019), on the other hand found that increased liquidity led to high profitability levels.

2.3.4 Equity financing

The practice of obtaining funds through the selling of shares is known as equity financing (Benjamin & Margulis, 2005). Firms seek money for a variety of reasons, including a pressing need to make payments or a long-term aim that necessitates capital to invest in their expansion. The sale of stock holdings to raise capital is referred to as equity financing. When traders purchase stock in a firm, they are also buying owning stake in the firm (Baker, 1973). The selling of all equity, like ordinary stock, preferred stock, and stock warrants, can be alluded to as equity financing (Ball et al, 2015).

Equity financing is measured through equity ratio. Equity financing has showed mixed results on its effect on profitability of firms. Javed, Younas and Imran (2018) found a positive relationship. On the other hand, Gardi et al (2020) found a negative relationship while Singh and Bagga (2019) found no relationship. There was need to study equity financing as a determinant of profitability.

2.4 Empirical Review

2.4.1 Global Studies

Dalci (2018) investigated the impacts of financial leverage on the profitability of China's publicly traded industrial enterprises. The study's sampling is made up of China's publicly traded manufacturing companies. The ORBIS system is used to acquire yearly financial data for industrial companies spanning 2008 and 2016. To adjust for endogeneity in this investigation, a cointegration technique is adopted at first. Then, utilizing OLS, additional logistic regressions are undertaken with panel data from 2008 to 2016. The statistics show that leverage has an inverted U-shaped effect on profitability. This research focused on industrial enterprises while the current focus on publicly traded enterprises. The research period was 2008 to 2016 with the current research focusing on a different period. The study was done on financial leverage and profitability in Chinese firms which may give a different context from the current research which was based in Kenya. The period (2008-2016) on which the data was collected also differ with the current research (2011-2020).

The influence of debt financing on the profitability of Nepalese banks was investigated by Pradhan, Shyam, and Khadka (2017). The information was gathered from several editions of the banks and finance data and regulation and supervision survey, as well as yearly statements from a few financial institutions. The research was based on 148 observations from 22 Nepalese banks between 2008 and 2014. Models for regression are constructed. The findings reveal a positive association between banks performance and short-term debt. Total debt to total assets ratios, on the other hand, are all inversely connected to profits. This study is based on debt financing and profitability similar to the current research. However, the study was based on Nepalese banks while the current research is based on publicly traded firms. This means that the findings may be different

given that the nature of the two industries. The study was also based on seven-year period with the current one based on 10-year period. This shows that there is need for the current research to fill the research gaps in the research.

Supported by facts from construction firms registered on the Vietnam Financial Market, Le, Mai, and Nguyen (2020) investigated the factors of profitability. This investigation used data of 73 publicly traded construction businesses in Vietnam spanning 2008 to 2015, totaling 584 observations. The Hausman test was used in conjunction with quantitative approaches and the FEM regression model in this investigation. Stata 14 was used to conduct the analysis. According to the data, the firm's longevity and debt ratio had an adverse impact on profitability. Nevertheless, the scale of the company had a favorable effect on profitability. This research was done on Vietnamese listed firms with the current research done in Kenyan publicly traded firms. This shows that the study was done in a context different from the current research. The study spanned across a 7-year period with the current one spanning across a 10-year period. The current research was based on a recent period that increases the credibility of the research findings. The study looked at factors influencing profitability bringing in a conceptual gap with the current study looking at debt financing and profitability to fill this gap. The study despite adopting secondary data similar to current research, it adopted FEM regression model for analysis with the current research adopting Panel regression model.

Magoro and Abeywardhana (2017) examined debt capital and its impact on financial performance in South African firms. From 2011 to 2015, the survey looked at 25 businesses in South Africa. Secondary information was studied using granger causality, and the results revealed that debt capital, had a detrimental impact on profits. This research despite looking at the concept of debt financing as the independent variable similar to the current research, it related it to financial

performance with the current research relating it to profitability. The study was done based on secondary data similar to current study. However, the study was collected from South African firms for a 4-year period with the current research's data collected from Kenyan firms for a 10-year period. Harelimana (2017) focused on relationship between debt and financial performance of banks in Rwanda. The research adopted comparative research design where Bank of Kigali and I&M Bank were compared in the analysis. The researchers adopted linear regression in establishing cause effect relationship between the variables. Findings displayed that debt had a positive relationship with performance. Bank of Kigali was found to show better performance from the debt levels in comparison to I&M Bank. This study was done in Rwandese banking firms with the current proposing to focus on Kenyan publicly traded firms. This shows that the context is different with the current research seeking to address the contextual gap. The study was done as a comparative study with the current done as a survey.

2.4.2 Local Studies

Shikumo, Oluoch, and Wepukhulu (2020) investigated the impact of short-term debt on publicly traded non-financial enterprises' financial growth. The researchers used an interpretive paradigm. The article's target demographic was 45 non-financial enterprises for 10 years, spanning 2008 to 2017. Both descriptive statistics and longitudinal research were used in the investigation. Short-term debt has a big and favorable impact on financial growth. This study despite focusing on non-financial firms trading publicly, the study focused on short term debt assuming other forms of debt financing. The study adopted the concept of financial growth as the dependent. The current study adopts profitability of listed firms as the dependent to fill the gaps. The study period was 10 years similar to the current study. However, the study focused on the period between 2008 and 2017 with the current one focusing on period between 2011 and 2020 hence giving the most recent data.

Momanyi (2018) investigated the impact of debt financing on the financial performance of NSE-listed commercial and services enterprises. The 12 commercial and services companies listed were the survey's target group. Secondary data was gathered from publicly available financial reports over a five-year period (2013-2017). The survey used an explanatory cross-sectional investigation approach, with regression analysis used to determine the association of elements. Debt financing was shown to be substantially connected with the financial success of the firms. The study was based on the concept of debt financing and financial performance with the current focusing on debt financing and profitability. The study was done on commercial and service firms with the current study focusing on all firms listed at the NSE. This shows that the context of the study is different from the current research. Secondary was collected from annual reports for a five-year period with the current study adopting data from a five-year period. Exploratory design was adopted with the current adopting a descriptive research design for comparison of results. This shows that methodological gaps exist in the study which the current research seeks to fill.

Ng'ang'a (2017) studied the effect of debt financing on financial performance of private secondary schools in Kajiado County. The researcher adopted a descriptive research design. Secondary data was collected between 2014 and 2016. Regression analysis was utilized in establishing the cause-effect relationship. The statistics were generated using SPSS. The results showed that debt financing and profitability had positive insignificant relationship. This study despite adopting debt financing as the independent variable, it relates it to financial performance with the current study relating it to profitability. The study was also done in a different context where it focused on private secondary schools in Kajiado County with the current research focusing on listed firms. Secondary data was collected between 2014 and 2016 with the current study collecting the data between 2011

and 2020. The researcher adopted SPSS for generating regression statistics with the current study adopting STATA software for the analysis.

Madeizi (2017) investigated the impact of debt financing on the dividend policies of NSE-listed companies. Research demographic consisted of 64 companies that were publicly traded throughout 2012 to 2016. The investigation depended on secondary statistics acquired from yearly financial statement and employed a cross sectional descriptive investigation approach to demonstrate the relationship of the parameters. Via SPSS, the information was summarized on a regression model to improve the assessment. The research discovered that debt finance and dividend policy had a moderate unfavorable and scientifically significant relationship. This study adopted concepts of debt financing and dividend policies with the current study adopting debt financing and profitability. This shows that conceptual gaps exist which the current study seeks to fill. The study focused on all listed firms similar to current one. The study adopted secondary data between 2011 and 2016 with the current study adopting the most recent data between 2011 and 2020. This shows that the current study is important to fill the existing gaps in this research.

Financial leverage and performance of agricultural enterprises listed in Kenya were investigated by Eysimkele and Koori (2019). Panel data from secondary sources, such as annual financial documents of agricultural enterprises registered on the stock market, were used in the study. Interpretive and quasi research approaches were used in this investigation. The descriptive technique was used to describe several aspects of the parameters. Panel regression technique was performed in this investigation. Debt financing has a favourable, although insignificant, impact on profits, according to the research. The study focused on financial leverage and financial performance with the current study relating debt to profitability. The study focused on a different

lot of firms (agricultural firms) with the current study focusing on all publicly traded firms. This shows a contextual gap.

2.5 Conceptual Framework

A conceptual framework portrays the relationship between the dependent element, profitability, and the predictor variable of debt financing. The control variables in the conceptualization were liquidity, firm size, and equity financing.

Independent Variable

Dependent Variable

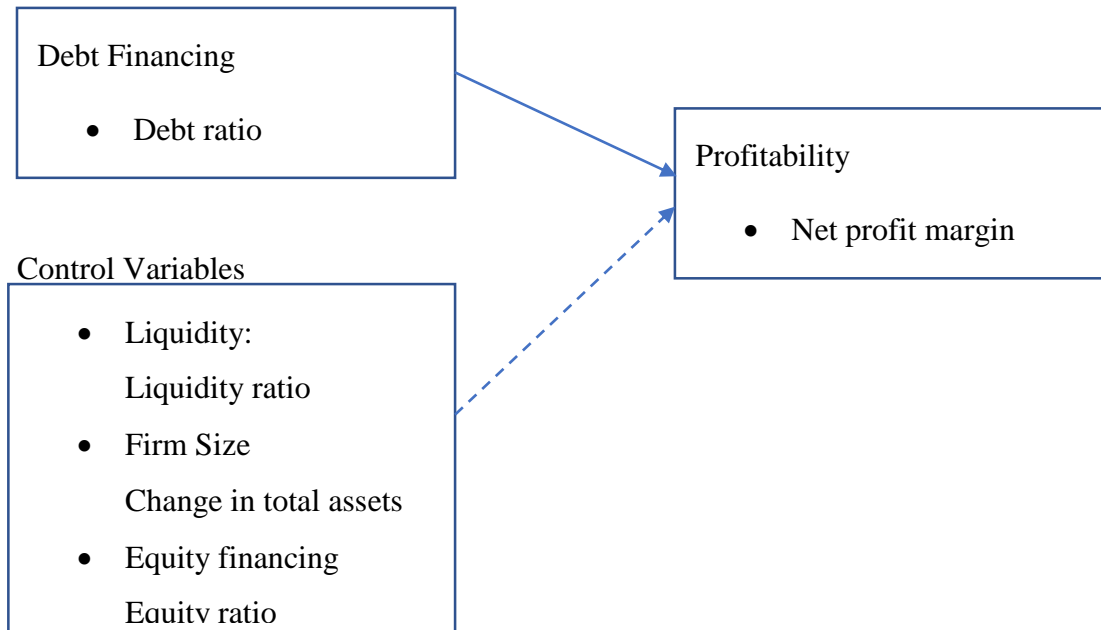


Figure 1: Conceptual Framework

2.6 Summary of Literature Review

Past research on debt financing and profitability has been thoroughly examined in this section. The variables discussed in this chapter relate to debt financing, liquidity, size of the firm and equity financing. An overview of international studies on the effects of debt financing on the performance

of publicly traded companies has been completed, and these studies have yielded both favorable and negative results. Furthermore, a review of studies conducted locally on and around the subject has demonstrated that profitability and debt financing are mutually exclusive. The impact of debt financing on profits has been investigated. As a result, the section starts as a synopsis of the survey's empirical and philosophical backdrop. Finally, a graphical form representation of the dependent variable's relationship with the predictor factors is included. The literature showed that there were various gaps, both knowledge and research, existing in the area of interest. Knowledge wise, the researches reviewed have shown mixed findings. On the research gaps, the researches have focused on other concepts, different contexts and adopted different methodologies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The section explained the research methods adopted in this study. Specifically, the research methods comprised research design, population, data collection and data analysis.

3.2 Research Design

This research design adopted for this research was descriptive in nature. This design enabled the researcher to describe the variables and establish their cause-effect relationship which made the research design relevant. The design enabled the research to describe debt financing and profitability while establishing their cause-effect relationship.

3.3 Population

This paper utilized all publicly traded firms as the target population. Based on CMA (2021), there were sixty-five (65) publicly traded firms. For this research, the targeted period was five years (2017 and 2021). Within this period, only forty-two (42) publicly traded firms existed. Hence, this study involved 42 publicly traded firms in the analysis.

3.4 Data Collection

This research was grounded on secondary data. The data was gathered from individual firm reports of listed firms in Kenya. The financial reports were collected from the NSE website. The research used panel data between 2017 and 2021. The data was collected using a data collection sheet. The data collection schedule contained data on total assets, total debts, net income, total equity, current assets and current liabilities. Annual data was collected.

3.5 Data Analysis

This paper utilized annual data. This required the researcher to adopt STATA 14 for analysis and regression model to establish the effect of debt financing on profitability. STATA was preferred because it was deemed reliable for statical analysis involving panel data. The software was also preferred since it can handle a large volume of data and generate statistics with ease. The data was presented in tabular form.

3.5.1 Diagnostic Test

Diagnostic tests were done to check on the assumptions of the regression model. This study involved normality, heteroscedasticity, multicollinearity, stationarity and autocorrelation as the diagnostic tests. Normality, which checks on the normal distribution of the data, was tested by the Shapiro-Wilk test. The null hypothesis of this test is that the data is normally distributed. Where the Shapiro-Wilk statistics are below 0.05, the null hypothesis is rejected and it's assumed that the data is not normally distributed. On the other hand, where the statistics are greater than 0.05, the null hypothesis is not rejected and it's assumed that the data follows a normal distribution.

Heteroscedasticity was tested to establish whether the error term is constant over time. Breusch pagan test was done to establish the whether the error term is constant over time. The null hypothesis is that the error term is constant over time. Where the significance value is less than 5%, the error term is not constant over time. Hence there is heteroscedasticity in the data. On the other hand, where the significance value is greater than 5%, the error term is not constant over time. This means that there is homoscedasticity in the data.

Multicollinearity was tested to establish whether there is a linear relationship between the predictor variables. This was done through variance inflation factors (VIF). This test checked on

the Multicollinearity by looking at the level at which the variance is inflated. The test assumes that Multicollinearity exists where the VIF value of greater than or equal to 10 or where the tolerance statistics are greater than 2. Where the VIF values are less than 10, it is assumed that there is low levels of multicollinearity.

Stationarity was done to check on the stationarity of the data series. This was done through the Hadri LM test. The hypothesis is that the data is stationary. Where the significant value is less than 5%, the data set is assumed to be stationary. Autocorrelation will be done to establish whether autocorrelation exists in the data. This was done through Durbin Watson test. The values range from 0-4 where a value of 2 shows zero autocorrelation. Model specification test was done to determine the best model between fixed and random effect model. This was done using Hausmann test. The test assumes that the random model is preferred. Where the pvalue is less than 0.05 the fixed model is preferred.

3.5.1 Analytical Model

This research adopted a regression model to establish effect of debt financing on profitability of publicly traded firms. The model took the form of;

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \mu$$

Where;

Y_{it} Profitability as measured by net profit margin of firm i at time t

$\beta_1, \beta_2, \text{ \& } \beta_3$ Regression coefficients of independent variables

X_{1it} Debt financing as measured by the debt ratio of firm i at time t

X_{2it} Liquidity as measured by liquidity ratio of firm i at time t

X_{3it}	Firm size as measured by the change in total assets of firm i at time t
X_{4it}	Equity financing as measured by equity ratio of firm i at time t
μ	error term representing other factors other than ones considered in this research

3.5.3 Test of Significance

The study tested the significance of the regression model based on 95% confidence level. The significance value is assumed to be less than 0.05 for the model to be significant. The researcher used F-statistics generated through ANOVA to test for the significance of the regression model.

3.5.4 Measurement of Variables

Table 3.1: Measurement of Variables

Variable Type	Variable	Indicators	Measurement
Dependent	Profitability	Net profit margin	<u>Net Income</u>
			Total Sales
Independent	Debt financing	Debt ratio	<u>Total debt</u>
			Total assets
Control	Liquidity	Liquidity ratio	<u>Net Liquid assets</u>
			Net liquid liabilities
	Firm size	Change in total assets	<u>TAt – TAt-1</u>
			TAt-1
Equity financing	Equity ratio	<u>Total Equity</u>	
		Total assets	

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This section of the paper gave the analysis of data based on the objective of the study. The chapter also presented and interpreted the findings from the analysis. The study sought to establish the effect of debt financing on profitability of listed firms in Kenya. The analysis was done based on descriptive, correlation and regression statistics presented in this research.

4.2 Descriptive statistics

The study sought to describe the data based on descriptive statistics. The study utilized minimum, maximum, mean and standard deviation to describe the data. The data was described based on the variables of the study.

Table 4.2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	210	-159.2011	151.5280	8.0098	33.7505
Debt financing	210	0.6790	244.1192	29.0371	29.8867
Liquidity	210	0.0017	713.3785	10.5895	69.1714
Firm size	210	4.6847	14.0816	9.6951	2.2346
Equity financing	210	-57.6904	493.9440	54.5696	60.5126

From the findings, the listed firms showed an average profitability as measured by net profit margin of 8% between 2017 and 2021. The profitability had a standard deviation of 33.75% within the same period. This indicates that the listed firms in Kenya had a net profit margin of 15% showing low profitability among the listed firms in Kenya. Debt financing showed a mean of 29.04% in the study period as reflected in debt ratio. This shows that the listed firms in Kenya had

low debt ratios (below 40%) and sufficient debt financing which indicated low risks which would attract investors among the firms. The debt financing showed a standard deviation of 29.89% indicating a high variation from the mean hence debt financing differed so much across the firms and the study period.

Liquidity showed a mean of 10.59% within the period between 2017 and 2021. This shows that the current assets covered 11% of the current liabilities within the firms. This indicates that the listed firms had low liquidity levels in the period with the current liabilities being more than the current assets which may mean that they had cash deficiency. Within the period, liquidity had a standard deviation of 69.17% indicating that there was a low variation of liquidity within the period.

Firm size, on the other hand, showed an average log of 9.70. This indicates that the assets among the firms exceeded 1 billion Kenya shillings (6.9) within the period. This shows large firm size in terms of assets among the listed firms in Kenya. Firm size showed a standard deviation of 2.2 indicating that the listed firms didn't differ much in terms of assets. Equity financing as measured by equity ratio showed a mean of 54.57% in the period between 2017 and 2021. This shows that the listed firms had an average of 55% of the financing being equity. The firms showed a standard deviation of 60.51% indicating low variation in terms of equity financing among the listed firms in Kenya.

4.3 Diagnostic Tests

The researcher sought to check on the assumptions of the regression model. This involved heteroscedasticity, Multicollinearity, normality, stationarity and autocorrelation

Table 4.3: Heteroscedasticity Test

	LM	Sig
BP	6.686	0.132

The study sought to establish whether the error term was constant over time. This was done by testing the heteroscedasticity in the data through Breush Pagan test. From the findings the statistics (6.686) showed a significance value of 0.132. The significance was less than 0.05 leading to the researcher not rejecting the null hypothesis. Hence, the researcher concludes that there was no heteroscedasticity in the data.

Table 4.4: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Debt financing	.993	1.007
Liquidity	.983	1.017
Firm size	.935	1.069
Equity financing	.944	1.060

In order to check on whether the predictor variables had a relationship with each other, Multicollinearity test was done using VIF. The findings showed that the VIF statistics were less than 10 indicating very low levels of Multicollinearity. The tolerance statistics were also less than 2. Hence, the researcher concludes that the predictor variables do not relate with each other.

Table 4.5: Normality Test

	Shapiro-Wilk		
	Statistic	df	Sig.
Profitability	.050	210	.000
Debt financing	.838	210	.000
Liquidity	.844	210	.000
Firm size	.811	210	.000
Equity financing	.059	210	.000

From the normality results, based on Shapiro-Wilk test, the researcher found that the variables had significance values less than 5%. Hence, the researcher rejects the null hypothesis that data is normally distributed and assumed that the data for the variables followed a normal distribution.

Table 4.6: Stationarity Test

	Hadri LM test	
	Statistic	Pvalue
Profitability	3.2222	0.0006
Debt financing	4.9442	0.0025
Liquidity	7.8014	0.0000
Firm size	3.1881	0.0007
Equity financing	3.4875	0.0002

For Hadri LM test, the null hypothesis is that the panels are non-stationary. From the results, the statistics showed significance values of less than 0.05. Hence, the researcher rejects the null hypothesis that the data is stationary. This indicates that there is no unit root in the data.

Table 4.7: Autocorrelation Test

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.679 ^a	.461	.450	2.265067	2.000

Autocorrelation was done to establish whether autocorrelation exists in the data. This will be done through Durbin Watson test. The data showed a Durbin Watson value of 2 showing zero autocorrelation in the data. Hence, the researcher concludes that the data is free from autocorrelation.

Table 4.8: Model specification Test

	(b)	(B)	b-B	$\sqrt{\text{diag}(V_b - V_B)}$
	random	fixed	Difference	S.E
Debt financing	-0.000676	-0.000104	-0.000572	0.020949
Liquidity	0.069883	0.052444	0.017438	2.204399
Firm Size	-0.000001	0.000004	-0.000005	0.000175
Equity financing	0.010455	0.003106	0.007349	0.117133
chi2(4)	= (b-B)'[V_b - V_B] ⁽⁻¹⁾ (b-B)			
	= 0.01			
Prob>chi2	= 1.000			

From the results on the Hausmann test, the significance of the Chi2 value was 0.01 which was less than 0.05. This guides the researcher not to reject the null hypothesis that the random effect model is preferred. Hence, the researcher concludes that the random model is preferred.

4.4 Regression analysis

This research adopted a multiple regression model to establish cause-effect relationship between debt financing and profitability of publicly traded firms.

Table 4.9: Model Summary

Model Summary^a

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715 ^a	.511	.502	2.7982720000

a. Predictors: (Constant), Equity financing, Liquidity, Debt financing, Firm size

From the summary, the model showed a correlation (R) of 0.715 against profitability of listed firms in Kenya. This shows that debt financing, liquidity, firm size and equity financing had a strong relationship with profitability of listed firms. The summary also shows an R squared of 0.511. This shows that combined, debt financing, liquidity, firm size and equity financing, contributed 51.1% to the change in profitability of listed firms in Kenya within the period between 2017 and 2021. This show that there are other major factors influencing profitability of listed firms in Kenya other than equity financing, liquidity, debt financing and firm size.

Table 4.10: Analysis of Variance

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17547.342	4	4386.835	4.078	.003 ^b
	Residual	220523.962	205	1075.727		
	Total	238071.304	209			

a. Predictors: (Constant), Equity financing , Liquidity, Debt financing, Firm size

b. Dependent Variable: Profitability

The research sought to establish the significance of the regression model using F-statistics. From the ANOVA table, F-statistics showed a significance value of 0.003 which was less than 0.05. This

shows that debt financing and the control variables had a significant effect on profitability of listed firms in Kenya.

Table 4.11: Regression Coefficients

Coefficients^a

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-29.381	11.997		-2.449	.015
	Debt financing	.122	.042	.108	2.932	.004
	Liquidity	.072	.033	.147	2.142	.033
	Firm size	3.518	1.075	.233	3.272	.001
	Equity financing	-.019	.039	-.033	-.481	.631

a. Dependent Variable: Profitability

The findings from the research data show that when the predictor variables (debt financing, liquidity, firm size, equity financing) are held constant, profitability of listed firms would stand at -29.381. The coefficient table also shows that debt financing had a regression coefficient of 0.122 and significant value of 0.015. This indicates that a unit change in debt financing would significantly increase profitability of listed firms by 0.122. However, liquidity showed a regression coefficient of 0.072 with a significance of 0.033. This shows that a unit change in liquidity would insignificantly increase profitability of listed firms by 0.072. On the other hand, a unit change in firm size would increase profitability of listed firms by regression coefficient of 3.518 and a significance of 0.001. Further, a unit change in equity financing would increase the profitability of listed firms by -0.019 with a significance of 0.631.

From the regression analysis;

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \mu_{it}$$

was fitted into;

$$Y_{it} = -29.381 + 0.122X_1 + 0.072X_2 + 3.518X_3$$

4.6 Discussions

From the research findings, the study showed that debt financing had a negative significant regression coefficient. This indicates that debt financing had a negative effect on profitability of listed firms. This is an indication that increased debt levels would increase the net profit margins (profitability) of listed firms. The findings are similar to those of Harelimana (2017) who found debt had a positive relationship with profitability. They however differed with Pradhan, Shyam, and Khadka (2017) as well as Le, Mai, and Nguyen (2020) who found that debt ratio had an inverse impact on profitability.

From the findings, liquidity showed a positive and significant regression coefficient with profitability. This indicates that increased liquidity would increase the profitability levels among listed firms. Hence, liquidity had a positive effect on profitability. The findings are similar to the findings of Camino-Mogro and Bermdez-Barrezueta (2019) who found that liquidity positively affected profitability. They, however, differ with those of Saleh and Abu Afifa (2020) who found that high liquidity levels had no impact on the profitability.

Firm size showed a positive significant regression coefficient against profitability. This is an indication that Firm size had a significant effect on profitability of listed firms. The findings are the same as those of Pan and Wu (2022) who found that firm size positively affected profitability

of firms. However, the findings differed with those of Xie et. al (2019) and Aduralere Opeyemi (2019) who found that firm size had a negative effect of firm profits.

Equity financing showed an insignificant negative regression coefficient against profitability. Equity financing had an insignificant effect on profitability of listed firms. The findings are similar to those of Singh and Bagga (2019) who found an insignificant effect. However, they differ with those of Javed, Younas and Imran (2018) who found that equity financing had a positive effect and Gardi et al (2020) who found a negative effect on profitability.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarized the findings of the study. It also makes conclusions based on the findings. In addition, the study makes recommendations, states the limitations and suggest areas for further research.

5.2 Summary of Findings

From the findings, the listed firms showed an average profitability as measured by net profit margin of 8% between 2017 and 2021. Debt financing showed a mean of 29.04% in the study period as reflected in debt ratio. Liquidity showed a mean of 10.59% within the period between 2017 and 2021. This shows that the current assets covered 11% of the current liabilities within the firms. Firm size, on the other hand, showed an average log of 9.69. Equity financing as measured by equity ratio showed a mean of 54.57% in the period.

From the regression model summary, the correlation (R) of 0.715 showed that debt financing, liquidity, firm size and equity financing had a strong relationship with profitability of listed firms. The R squared of 0.511 showed that debt financing, liquidity, firm size and equity financing, contributed 0.511 to the change unit change in profitability of listed firms in Kenya. From the ANOVA, debt financing and the control variables had a significant effect on profitability of listed firms.

From the regression coefficients, debt financing had a positive significant regression coefficient indicating a positive effect of debt financing on profitability. Liquidity showed a positive

significant regression coefficient indicating that liquidity had a positive effect on profitability of listed firms. On the other hand, a firm size had a positive and significant regression coefficient indicating a positive significant effect of firm size on profitability. Further, equity financing showed a negative insignificant regression coefficient indicating that equity financing had an insignificant effect on profitability of listed firms.

5.3 Conclusions

From the descriptive statistics, the profitability of the listed firms as measured by net profit margin averaged at 8%. This leads to the conclusion that the listed firms in Kenya are experiencing low profitability levels. From the regression analysis, debt financing, liquidity, firm size and equity financing has a strong relationship with profitability of listed firms in Kenya. Debt financing, liquidity, firm size and equity financing were found to contribute 0.511 to the change unit change in profitability of listed firms in Kenya. This study concludes that debt financing, liquidity, firm size and equity financing are the major factors influencing profitability of listed firms in Kenya.

From the descriptive statistics, debt financing averaged at less than 40%. This leads to the conclusion that the listed firms in Kenya have low levels of debt financing. From the regression coefficients, debt financing had a positive and significant regression coefficient. The study, therefore, concludes that debt financing has a positive effect on profitability of listed firms in Kenya.

From the descriptive statistics, liquidity showed a mean of less than 100%. This leads to the conclusion that the liquidity levels of listed firms in Kenya are low. Liquidity showed a positive and significant regression coefficient against profitability. This study conclude that liquidity has a positive effect on profitability of listed firms in Kenya.

From the descriptive statistics, firm size averaged showed a log greater than 6.9. This indicates that listed firms in Kenya are large in size with assets worth more than 1 billion. From the regression analysis, firm size had a positive and significant regression coefficient against profitability. The study concludes that firm size has a positive significant on profitability of listed firms in Kenya.

Equity financing as measured by equity ratio had a mean of less than 60%. This study concludes that the listed firms in Kenya have low levels of equity financing. From the regression, equity financing showed a negative and insignificant regression coefficient. This study concludes that equity financing has an insignificant effect on profitability of listed firms in Kenya.

5.4 Policy Recommendations

From the findings, the study concludes that debt financing has a positive effect on profitability of listed firms in Kenya. This means that increased debt levels would increase the profitability levels of listed firms in Kenya. This study recommends that listed firms in Kenya increase their debt financing to experience increased profits. This can be done by increasing their debt levels within the company.

From the study, liquidity has a positive effect on profitability of listed firms in Kenya. This means that where the firms increase their liquidity levels, they would experience an increase in profitability levels. The study recommends that listed firms increase their liquidity ratios optimally for increased profitability levels. This can be done by increasing the level of liquid assets. It can also be done by reducing the level of liquid assets.

From the regression analysis, firm size had a positive and significant regression coefficient against profitability. The study concludes that firm size has a positive significant on profitability of listed

firms in Kenya. This indicates that increased firm size in terms of assets would increase the profitability of listed firms in Kenya. This study recommends that listed firms in Kenya increase their assets by purchasing more in order to increase their profitability levels.

From the regression, equity financing has a negative insignificant effect on profitability of listed firms in Kenya. This indicates that equity financing increases among the listed firms in Kenya, the net profit margin would reduce insignificantly among the firms. This study recommends that the management of listed firms reduce the equity in financing their firms optimally. This would see the net profit margin increase, hence increased profitability levels.

5.5 Limitations of the Study

This study was limited by various elements. The study was limited by the variables of the study. The study adopted debt financing and profitability as the key variables. Other variables influencing profitability were assumed which limits the study. The study was done on listed firms in Kenya. This means the study was limited in terms of scope. The other firms not listed were not involved. The study adopted annual secondary data which is historical in nature. This limited the study where the errors in the data which may not give the real picture as far as the variables are concerned. The study was also limited by the research methods adopted in the study. The study adopted regression and descriptive statistics which may not give similar results where other techniques like one sample t-test or correlation is used.

5.6 Recommendations for Future Studies

From the limitations, the study recommends a study based on other factors influencing profitability of listed firms. This is based on the findings that the predicting variables contributed 46.1% of the change in profitability of listed firms. Other factors not considered in this study contribute 53.9%

of the change in profitability of listed firms in Kenya. Other researchers should look into the other factors contributing the 54% change in profitability of the firms. The researchers can also do a study using different measures of debt financing and profitability of listed firms in Kenya. This would enable the readers to compare results.

The researcher also recommends similar study based on other firms other than listed firms. This is because the effect of debt financing on the profitability of non-listed firms may produce a different effect on profitability. The determinants of profitability of non-listed firms may be different. This may have different controlling variables for the relationship between debt financing and profitability. The researchers can also look at debt and profitability based on specific sectors like banking or manufacturing other than all firms.

The study also recommends further research based on primary data for comparison of results. This would resolve the issue of errors within secondary data. Similar research should also be done based on quarterly or semi-annual secondary data. This would enable the readers to see how the results would change compared to the annual data. The study also recommends further research based on other analytical techniques like One Sample T-test or correlation.

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APPENDICES

Appendix I: Listed Firms in Kenya (2017-2021)

1. Absa Bank Kenya Plc
2. B.A.T
3. Bamburi
4. BOC
5. Britam General Insurance
6. Car and General
7. Carbacid
8. Centum Investment Plc.
9. CIC General Insurance Company
10. Co-operative Bank of Kenya Ltd
11. Diamond Trust Bank Kenya Limited
12. EABL
13. EAPC
14. Equity Bank Kenya Ltd
15. Eveready
16. Frame Tree Group
17. HFC
18. Home Africa
19. I & M Bank Ltd
20. Jubilee General Insurance
21. Kakuzi Plc
22. Kapchorua tea
23. KCB Bank Kenya Ltd
24. Kenya Orchards
25. Kenya Re
26. KQ
27. Limuru Tea
28. Longhorn Publishers Plc.
29. NMG
30. Safaricom Plc
31. Sameer Africa Plc.
32. Sanlam Insurance Company
33. Sasini
34. Stanbic Bank Kenya Ltd
35. Standard Chartered Bank Kenya Ltd
36. Standard Group
37. The Orchards
38. Total
39. TPS Eastern Africa (Serena) Ltd.

40. Unga Group Ltd
41. Williamson's Tea
42. WPP Scangroup Plc.

Source: Nairobi Securities Exchange

Appendix II: Research Data

company	Year	Total assets	Total Debt	Current Assets	Current liabilities	Profit before tax	Total Sales	Total Equity
		Ksh. M	Ksh. M	Ksh. M	Ksh. M	Ksh. M	Ksh. M	Ksh. M
Absa Bank Kenya Plc	2017	325363	156843	168397	186246	10361	30258	44584
	2018	374109	186984	177354	207725	10645	31694	43393
	2019	377936	244395	194895	237739	12281	33767	44079
	2020	379216	229677	208855	253630	8849	34081	44969
	2021	428722	256465	234234	268717	15549	36300	54353
B.A.T	2017	11231	9965	8665	6575	3336	34468	7840
	2018	12556	8414	8624	5177	4085	36496	9309
	2019	11562	8705	9198	6859	3886	39827	9715
	2020	18767	6911	9782	5339	5517	38845	11856
	2021	21586	6612	10969	4673	6483	40049	14974
Bamburi	2017	47203	5870	13507	8133	1973	34468	33200
	2018	50357	3716	12444	9423	1645	22310	22540
	2019	49085	3716	12092	8781	1008	21211	22021

	2020	49446	2191	12709	7017	1128	20131	23132
	2021	51728	2273	14748	7876	1098	24068	23109
BOC	2017	2315	1553	1307	579	84	968	1589
	2018	2287	1607	1308	641	120	967	1519
	2019	2173	2488	1228	632	90	976	1439
	2020	2089	2540	1191	474	156	1098	1608
	2021	1997	3248	1155	401	169	1382	1589
BRITAM GENERAL INSURANCE	2017	10597	780	10445	1435	470	23298	22670
	2018	10402	1204	10278	2235	-52	24325	23956
	2019	10330	3260	10232	1853	-185	27132	29377
	2020	11697	5811	11620	1689	364	28200	17067
	2021	12843	6219	12843	1974	422	31839	19084
Car and General	2017	9400	1453	4812	4836	80	9635	9896
	2018	10174	1697	5029	5079	220	10080	9852
	2019	11484	1573	5550	6357	4	11907	9818
	2020	11903	1296	4952	5722	274	12118	9590
	2021	14448	1272	6883	7365	887	17141.96	9568

Carbacid	2017	3307	148	1008	148	319	589	2924
	2018	3371	147	1065	113	379	566	3044
	2019	3504	175	956	168	377	631	3127
	2020	3628	195	1056	183	427	683	3252
	2021	3919	213	1243	249	540	906	3489
Centum Investment Plc.	2017	61570	14656	10918	12832	743	4300	44808
	2018	66087	14843	13420	14817	1041	3529	50897
	2019	101764	16145	15393	14817	743	3167	51576
	2020	101864	7486	18334	17460	-3392	3695	47438
	2021	109432	4122	25604	23070	-607	1517	41822
CIC GENERAL INSURANCE COMPANY	2017	11459	1550	9418	573	272	14887	7637
	2018	11347	2962	9335	377	380	16627	7738
	2019	12062	3629	10107	540	278	17696	7853
	2020	12597	3469	10679	710	15	16988	7628
	2021	12086	4974	10250	581	2400	19689	7984
	2017	386900	21200	253900	287400	16400	40400	61906
	2018	413400	23900	245400	306100	18200	43000	60587

Co-operative Bank of Kenya Ltd	2019	457000	26400	266700	332800	20700	43600	77088
	2020	536900	46000	286600	378600	14300	48800	85597
	2021	579800	42900	310200	407700	22600	55600	94920
Diamond Trust Bank Kenya Limited	2017	363303	38080	196048	286751	3682	20640	48370
	2018	377719	47023	193074	300003	2448	21010	53657
	2019	386230	60677	199089	302641	9279	20078	58851
	2020	425054	63111	208593	298167	3942	31090	61971
	2021	456843	71866	220425	331452	4415	33904	67294
EABL	2017	22135	9928	22135	21984	8515	75499	11988
	2018	71247	7946	21526	25784	2460	251720	11,652
	2019	87065	8223	29602	33659	7410	190667	16155
	2020	88658	5681	25968	31044	10681	749163	19,899
	2021	100117	13023	34093	39702	2595	859618	22887
EAPC	2017	27357	817	1949	6196	-3362	6928	16891
	2018	37604	705	1986	8122	7853	5183	24809
	2019	36541	980	3618	3789	-2962	2847	21520
	2020	35177	1174	2414	16244	-2799	2475	18753

	2021	34641	1287	2443	13181	1736	2763	21012
Equity Bank Kenya Ltd	2017	524465	221698	279092	373143	24	48410	93142
	2018	573384	231026	297227	422758	24	53230	94957
	2019	673682	290564	366440	482752	26	59723	111777
	2020	1015093	307324	477847	740801	14	80386	138641
	2021	1304914	420774	587775	958977	41	102065	176191
Eveready	2017	771	223	576	214	271	339	549
	2018	574	136	322	127	-110	252	438
	2019	249	139	195	130	-304	191	110
	2020	201	160	158	152	-69	134	41
	2021	159	153	116	152	-35	90	6
FRAME TREE GROUP	2017	1681	1423	1142	885	40	1983	790
	2018	1839	1423	1133	991	34	2489	813
	2019	2281	1224	1079	890	45	2425	1057
	2020	2489	1404	85	122	-16	2911	1085
	2021	2875	1768	361	133	-433	3383	1190
HFC	2017	67541	1488	49640	36744	312	7133	1269

	2018	60588	411	43186	34721	643	6046	1158
	2019	56455	911	38552	37400	138	5117	1040
	2020	55445	984	40235	39944	-1776	4282	1346
	2021	52904	1075	37309	37715	-876	3975	7866
Home Africa	2017	4478	79	3797	1026	221	263	-392
	2018	4502	70	3822	5555	-129	15181	-1052
	2019	4348	408	3955	6289	-189	967	-1941
	2020	4443	405	3998	6724	-194	269	-2,563
	2021	4538	436	4042	7100	-87	349	2563
I & M Bank Ltd	2017	229	127	153	169	5	21	44
	2018	254	118	167	213	9	23	38
	2019	284	282	175	230	12	23	47
	2020	308	260	187391	263	10	24	52
	2021	556	173	210620	297	11	19	52
JUBILEE GENERAL INSURANCE	2017	13797	1147	13742	1150	656	26941	8149
	2018	13087	1396	13022	387	1586	6849	33,270
	2019	6505	1875	6479	505	-748	917	32,132

	2020	5810	1746	5784	363	-100	104	11,328
	2021	5281	1563	5259	251	-878	6849	23,109
Kakuzi Plc	2017	5746	292	2407	236	592	3649	3891
	2018	6461	391	2593	390	482	3153	4669
	2019	5941	310	2317	236	713	2889	5218
	2020	6907	427	2917	260	622	3609	5566
	2021	6887	343	2958	277	320	3296	5539
Kapchorua tea	2017	2030	232	789	228	-72	1292	1416
	2018	2489	342	1097	376	257	1429	1672
	2019	2033	278	872	193	-152	1377	1468
	2020	1942	95	876	181	11	1134	1427
	2021	2082	49	872	186	34	1446	1486
KCB Bank Kenya Ltd	2017	621723	411666	422685	499549	29114	63673	88991
	2018	674302	434361	455880	537460	33859	66280	97789
	2019	758345	468258	539747	686583	36897	79644	92608
	2020	826395	544837	595255	767224	25719	96261	111271
	2021	239408	584441	675481	837141	47815	114826	123823

KENYA ORCHARDS	2017	108	60	63	36593	8	74	15
	2018	115	56	56	27443	13	72	24
	2019	136	71	71	42847	6	60	33
	2020	126	68	96	49949	-1	57	20
	2021	127	68	98	46962	3	49	24
Kenya Re	2017	42733	4315	22743	6723	4559	14827	27205
	2018	44363	1590	17891	7628	3102	14838	28373
	2019	50361	1962	19346	10471	4176	17521	31951
	2020	53237	4239	20766	5901	3984	18535	34397
	2021	55824	3969	24893	7489	4000	20355	37040
KQ	2017	147623	11809	26017	132439	-6306	80148	4857
	2018	136634	14437	27976	129512	-7588	114185	-2489
	2019	195673	13647	25660	67815	-12975	127678	-17896
	2020	171462	9887	27173	85330	-36573	52805	-64165
	2021	155555	9333	25685	80965	-16028	70221	-83337
Limuru Tea	2017	262	118	140	39	-32	80	188
	2018	246	138	160	46	4	109	193

	2019	222	126	140	17	3	91	194
	2020	231	124	136	20	-8	97	191
	2021	208	103	114	10	-14	84	182
Longhorn Publishers Plc.	2017	1761	625	1202	776	156	1283	946
	2018	2435	687	1780	1333	196	1519	1040
	2019	2344	920	1474	1240	154	1365	1104
	2020	2450	582	1304	1361	-214	864	787
	2021	2878	873	1644	2137	32	1019	819
NMG	2017	11320	2262	6311	3128	1955	10625	8166
	2018	11198	3157	6428	3290	1634	9661	7878
	2019	12097	3623	6912	3574	1296	9051	7798
	2020	11484	3505	6957	3410	120	6813	7933
	2021	12990	3549	8127	4106	731	7614	8090
Safaricom Plc	2017	61078	6308	24551	54198	48444	212885	108113
	2018	166233	7912	26150	43169	53814	233893	123064
	2019	191171	8682	48661	46329	61966	249481	142972
	2020	211564	10138	47270	56587	73284	261406	141334

	2021	228101	14827	53034	75391	67957	262450	135169
Sameer Africa Plc.	2017	2970	800	1698	1097	13	1799	1605
	2018	2588	591	1300	1439	-692	1417	818
	2019	1531	374	867	1001	-697	1268	121
	2020	969	198	259	334	-194	581	115
	2021	1070	248	315	237	201	566	334
SANLAM INSURANCE COMPANY	2017	2689	543	1614	312	69	6370	4052
	2018	2867	630	2290	367	116	6346	1587
	2019	2905	773	2326	256	4	6991	1735
	2020	3534	876	3386	365	138	8697	1239
	2021	3630	878	3516	400	-792	12042	1293
Sasini	2017	7742	542	1502	289	521	4201	7064
	2018	12961	731	2645	459	449	3515	11324
	2019	14674	451	1887	444	-4	2795	12885
	2020	14578	531	1983	346	41	4145	13053
	2021	15143	909	2537	398	768	5261	13444
	2017	280953	135443	130536	154661	5401	16608	42956

Stanbic Bank Kenya Ltd	2018	292705	144434	146604	191585	8948	19248	44623
	2019	318986	155307	152817	194222	7710	20961	49035
	2020	319199	160665	158180	217444	6227	20302	41857
	2021	285125	147917	185313	242345	9756	20567	46512
Standard Chartered Bank Kenya Ltd	2017	281516	107038	134328	213349	10071	26626	45665
	2018	302296	155498	127860	224284	11847	27776	46639
	2019	325873	205304	136535	228434	12174	27950	47761
	2020	325605	176597	130719	256498	7396	26689	50890
	2021	327873	200941	136182	265469	12598	28303	53214
Standard Group	2017	4460	1481	1874	2212	-181	4657	1865
	2018	4072	1324	1703	2186	-130	3550	1348
	2019	3563	790	1104	2183	-138	2979	926
	2020	3516	841	1082	2433	-322	2101	711
	2021	3816	1065	1240	3132	-23	2207	653
The Orchards	2017	38012	9759	26454	15256	20	519	21417
	2018	39259	8766	27261	15404	10	501	22666
	2019	37565	11327	23805	11057	149	513	24382

	2020	42987	11834	29312	14287	18	497	26860
	2021	47030	12583	32655	16179	-12	475	28611
Total	2017	17487	1332	2647	2453	2738	137097	9165
	2018	17598	1268	2115	4875	2313	107913	9138
	2019	17986	1140	1920	2888	2535	111877	9201
	2020	17307	738	1484	2230	3297	97352	7508
	2021	17429	1094	2030	2522	2739	110161	6958
TPS Eastern Africa (Serena) Ltd.	2017	108278	4545	6599	4026	119	6408	5479
	2018	114566	4324	6596	3080	179	6593	5609
	2019	136004	4591	6677	3414	182	6823	6055
	2020	126246	5960	7813	5018	-1210	2034	6091
	2021	126950	3659	6047	2676	-633	3288	6390
UNGA GROUP LTD	2017	8364	879	3013	1001	5735	19528	5960
	2018	9505	913	3657	1097	8886	19982	6136
	2019	8272	811	2808	968	8434	17895	6317
	2020	7901	798	2213	877	12543	17569	6847
	2021	8048	761	2098	1082	3690	17812	6094

Williamson's Tea	2017	13759	5817	10924	868	-352	3416	8965
	2018	14425	5378	11241	1225	810	3985	8489
	2019	12803	3407	10710	696	212	3326	7193
	2020	8742	3858	7747	256	117	3036	6042
	2021	9445	3951	8600	262	67	3734	6157
WPP Scangroup Plc.	2017	13759	5817	10924	868	696	4123	8965
	2018	14425	5378	11241	1225	960	4505	8489
	2019	12803	3407	10710	696	291	2873	7193
	2020	8742	3858	7747	256	357	1107	6042
	2021	9445	3951	8600	262	-42	1257	6157