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

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE FINANCE, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

JUNE 2022

DECLARATION

I do hereby declare that this is my original work and has not been given out to any institution of higher learning for examination.

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

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DEDICATION

Special appreciation as well as gratitude to the family cheering me as I pursue this goal. I will keep the academic lighting glowing. Thank you for showing me the academic journey and supporting this course of action. Your quest for academic prosperity and encouragement to soar to greater academic height has been accomplished through this research.

ACKNOWLEDGEMENT

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LIST OF ABBREVIATIONS/ACRONYMS

AFS   Audited Financial Statement

ANOVA   Analysis of Variance

CAMELS   Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity

CMA   Capital Markets Authority

DPS   Dividend per Share

DTA   Debt to Assets

DTE   Debts to Equity

EPS   Earnings per Share

FS   Financial Statements

GDP   Gross Domestic Product

NPV   Net Present Value

NSE   Nairobi Securities Exchange

OLS   Ordinary Least Square

PFS   Published Financial Statement

POT   Pecking Order Theory

ROA   Return on Assets

ROCE   Return on Capital Employed

ROI   Return on Investment

UK   United Kingdom

ABSTRACT

Financial decision is driven by the maximization of shareholders' value. Financial leverage is operationalized to enhance business productivity, create value to shareholders and increase its going concern. In addition, the financial performance strategies are spearheaded by the demand to upgrade the value through the maximization of assets to generate revenue. Despite the crucial impact of financial leverage, there have been minimal regards and concentration. The study was motivated to undertake key scrutiny of the effect of financial leverage on finance the financial performance. The theories that anchored the study are pecking order theory which stipulated the procedural techniques in sourcing funds. Trade-off theory accentuated the optimum level for debts verse equity, and resource dependency theory reinforce importance of resources at the disposal. The leverage was operationalized using debt to equity while performance maximized ROA. Correlation analysis provided deeper insight to the study. From the findings, liquidity posted a negative significant association towards financial performance (ROA) of (r=-0.048, P= 0.458). Business risk and leverage recorded positive correlation with ROA. Business risk portrayed weak positive association as implied by (r= 0.075, p=0.248) and Leverage recorded strong positive correlation as seen in (r = 0.890, p=0.000). Regression analysis R value was 0.909. This blueprints a 90.9% strong correlation among the factors in the research. R- Square of 0.826 depicted that 82.6% of deviation in financial leverage is elaborated by leverage, business risk and liquidity. 17.4% of variation in financial leverage is explained by factors not included in this research. ANOVA posit that P value was at 0.001, hence, below the P-value therefore implying that the model is statistically significant. The study assessed multicollinearity, linearity and autocorrelation and gave green light for more analysis since the data observe the research rules. The coefficient of determination computation states a unit change in liquidity has a negative impact on financial performance of 2.2%. Moreover, an increment of business risk increase the financial performance by 49.6%. Moreover, an advancement of leverage by one unit translated to 58.5% financial performance when all factors are held at constant. Further to the findings, the F Statistics is at 0.001, this implies that the model is good fit. The study recommended for policy formulation that suit each sector. Moreover, the study recommended for policies that addresses optimum financial leverage to increase maximization of assets. The study focused on the non-financial sector due to limited coverage by the preceding scholars. It is imperative to stipulate for more research undertakings on financial liabilities, short-term debts and financial fragility.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Financial leverage point at application of either debt reinforcement or borrowed capital to gain stable profitability and effectiveness. Financial leverage is greatly operationalized via expression of longevity liabilities to firms' equity. Financial decision is driven by the maximization of shareholders' value. In addition, the financial performance strategies are spearheaded by the demand to upgrade the value through the optimization of assets to generate revenue. The management have great decision on the timings and the sources of finance to enhance the generation of revenue. Zhao and Wijewardana, 2012 indicated that the investment demands encourage sourcing more funds. Muge (2018) postulated that financial leverage is critical consideration by the investors in arriving at sound judgment. Furthermore, the generation of revenue is possible through prudent management of monetary and non-monetary resources. The financial leverage is yardstick that can cause increment in the financial performance if the prudent and proper financial skills are incorporated.

The theories that anchored the study are pecking order theory as well as trade-off theory, and resource dependency theory. Pecking order theory (Myres & Majful 1984) is critical in stipulating the financing mix that is suitable to the business. Trade-off theory shows the optimal mix of both equity and debts in enhancing the firm productivity. Resource dependency theory (Pfeffer & Salancik, 1978) demonstrates how the available resources can enhance the productivity of business. Moreover, the quality performance are associated with the resources spanning from financial, intangible to human capital resources. The theories give their presuppositions and their binding points to the current study.

Globally, the financial leverage has received numerous attentions. Zarebski and Dimovski (2012) opined that debts and equity ratio impairs the firms independence due to their distinction in the financial markets with wide-array of issues. The financial leverage and performance plays an immense role in the company. Githaiga (2015) posit that debt financing has a substantial role in boosting the shareholders' value. However, there are some major consideration on debts funding which includes the structured terms and conditions, length of time, and the collateral securities. Enekwe, Agu, and Nnagbogu (2014) opined that funding risky projects is cheaper while utilizing the debt financing. Moreover, the chief maximization of financial leverage can improve the returns on utilization of assets. However, at times the financial leverages are risky to the shareholders due to risks, reduction in value and cost associated.

1.1.1 Financial Leverage

Financial leverage is the culmination of equity and debts to realize the optimization of shareholders wealth (Abubakar, 2015). It warrant the maximum returns while minimizing the risk. Furthermore, it reinforce the business competitiveness. Aziida (2017) posit that operation and financial leverage enhance the companies' obligations. Thuita (2021) opined that the going concern of the business is at stake whenever the business resort to over borrowings. Tangut (2018) emphasized on proper optimization of financial leverage to increase performance.

The financial leverage under the suitable conditions and prudent management enhance the shareholders' wealth. Al-Otaibi (2015) poised that the borrowed funds reinforce the upfront investments. It is the epicenter of investment decisions with supernormal returns. The debts can increase the purchase of numerous assets and the investment in projects with positive NPV. Ogola (2021) stated that prudential usage of borrowed funds increase the realization of company's objective. Abubakar (2015) emphasize the importance of enhancing the returns to supersede the

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cost and charges associated with debts. Leverage are instrumental in investment decision making to blueprint the maximum returns. Majority of countries have policies that excludes interest expense in taxation. Hence, the debt-equity mix increase investment by financing more activities than the available finance (Gill & Mathur, 2011).

Financial leverage expresses the fitness, soundness and the financial health of the organization. The rampant usage of debts without prudent and critical computation, can lead the business to the operational oblivion. Financial leverage has several measurement metrics as operationalized by the scholars. The business must input several computation to ensure that the business invest in projects with greatest positive returns. Yahaya and Lamidi (2015) opined that financial leverage scrutinizes equity, assets and liabilities. Kusa and Ongore (2013) used liquidity, credit risk, capital adequacy and quality of leverage management to indicate the financial leverage. Moreover, Mwangi and Murigu (2015) optimized CAMELS. In addition DTA and DTE have played significant role in the operationalization of financial leverage (Vengesai & Kwenda, 2017). This study operationalized leverage using Debt to Equity Ratio (DTE).

1.1.2 Financial Performance

Financial performance is the returns from the accomplishment of designated functions (Eysimkele & Koori, 2019). The performance portrays the ability of the company to put the assets in the maximum use. Financial performance blueprints the efficiency in the company in their generation of revenues. Kiprotich (2017) stated that business operation and continuity is informed by prudent and efficient use of assets at the disposal. Ongeri (2015) posit that financial performance is a roadmap for evaluation business capability, effectiveness and productivity in generation of value to shareholders. Muge (2018) opined that financial performance are business indicators of the

ability to meet demands, objectives and efficient use of resources. In a nutshell, it states how well the business is succeeding in addition to the financial fitness and soundness of a business.

Financial performance is an important metric to the business, shareholders and many beneficiaries. It explains the company's general capability spanning from generating, availing and enhancing finances by the company over specific timeframe in years. Financial analysts utilize financial performance in the operationalization and comparison of wide-array of firms in varying industries and sectors. Kiprotich (2017) posit that business capacity is paramount in the financial performance. The fitness and going concern of the business relies on the financial performance. Therefore, the business financial performance is attached to its ability to generate wealth.

Financial performance has been measurable using wide-array of parameters. The entity's performance are obtain from the financial statements relating to the profitability and liquidity. Moreover, the analysis of solvency and efficiency portray the financial fitness of the firm (Muge, 2018). It is critical indicator of going concern to the potential investors. Thuita (2021) utilized ROA while Muturi (2019) optimized net income of the business. Mwangi and Murigu (2015) maximized ROE. Nasieku (2016) opined the use of market to book value of capital to measure the financial performance. The metrics were informed by the importance of FP in the decision-making procedure. Furthermore, it is pivotal in the determination of the ability to enhance the production capacity, efficiency, effectiveness as well as going concern. This study utilized ROA because expound on the utilization of assets to generate revenue.

1.1.3 Financial Leverage and Financial Performance

Numerous empiricals and hypothesis have given their views on the connection between the leverage and company's performance. Theoretically, pecking order theory (Myres & Majful 1984)

indicated logical, systematic and preference procedure in sourcing funds. Trade-off (Modgliani & Miller, 1963) opines the optimum mixing of debts and equity. In fact trade off presupposed an ideal capital structure reachable when the cost associated with debts is equal to its benefits. Resource dependency (Pfeffer & Salancik, 1978) postulated the productivity of firm relies on the resources at their disposal.

Empirically, financial performance is a result of quality and prudent management of borrowed funds. Chemosit (2021) posit that financial leverage aims to better off the investors. The business strived to enhance their sales, productions and even its competitiveness. The improvement in the sales periodically can signal the growth. Moreover, financial performance can be reflected in the ROA, ROI, ROE and ROCE. The greater performance signify overall increment in the capability of the business. Operating profit-margin and net-profit have indicated the performance of the firm (Olatunji et al., (2014). Mawih (2014) studied the influence of capital structure on financial performance. Muturi (2019) pivotal area was energy and petroleum in the investigation of financial leverage and performance. Thuita (2021) scrutinized financial distress verse the financial performance while Mugisha (2021) studied capital structure and financial performance. In a nutshell, there are minimal research that have concentrated on non-financial sector.

1.1.4 Non-Financial Firms Listed at the Nairobi Securities Exchange

NSE was formed in 1954 but took up to 1991 to be registered. The companies operates under companies act (Cap, 486). It is a systematic, organized and procedural financial market whereby different securities change hands by way of; issuing, buying or selling by firms or individuals. The transaction is done both globally, regionally and locally. Nairobi Security Exchange is the leading firm in East Africa (NSE, 2022). Exchanging of securities issued by government and quoted

companies is done via NSE. The epicenter of NSE is to provide platform for trading while providing oversight to enhance accountability, transparency and performance.

Non-financial determinants spearheads a significant role in the performance economically. The non-financial firms include agricultural, energy and petroleum firms. Moreover, the telecommunication, automobile and investment firms. The presence of NSE provides efficient and effective platform for voluminous business transactions (Kamau, 2016). Capital Market Authority ensure NSE is operating as per the regulations stipulated. The non-financial firms have been very active in optimizing the expanded opportunities to their advantage, adopting long-term strategies and accomplishing their objectives.

1.2 Research Problem

Financial leverage is the epicenter of the business activities, efficiency and the performance. Despite the concentration on the financial performance by putting in quality corporate governance, enhancing accountability and increasing methods of sourcing the finance, many business have experience financial distress. Financial leverage is the cornerstone of the financial performance (Kerongo, Nyamuite, Okiro & Ochieng, 2022). The problem associated with poor capital structuring has caused great havoc to non-financial firms quoted at NSE. Uchumi Supermarkets and Mumias Sugar Company are just example of firms that have gone through the statutory management. Moreover the government bailout of Kenya Airways has increase dilemma in decision making of non-financial firms. The failure of giant company is so alarming to investor. Moreover, it sends signal on the need for prudent financial leverage.

The mass failure of non-financial business has been an eye-opener. The placement of companies in either hostile take-over or receivership show the need for deeper understanding on the financial

leverage. Mohamed (2016) associated the business failure with high debts. The research recommended minimal long term debts. The research recommended the importance of economies of scale and growth in enhancing the financing performance. Kenya Airways, Cytonn Investment, Transcentury, Uchumi Supermarket and Nakumatt Supermarket among others recorded more debts than their net value. These companies had prioritized debts hence exposing themselves to risk. Thuita (2021) posit that debts are important only when the net value is greater than the cost. Additionally, the financial managers must assess the long-term viz as viz short-term strategies to know the feasibility and viability of the financial leverage.

The investment decision relies on the optimum capital structure. The failure of Worldcom and Enron in 2001 and 2002 respectively were associated with voluminous debts. Moreover, the reported profitability and capital structure differed from the accurate figured established by the forensic auditors. Consequently, capital structure affected the profitability. In addition, it caused severe challenges in market capitalization. Olayinka and Taiwo (2012) assessed the impact of leverage on the profitability. The study was done in Nigeria and empirically stated a negative association. Harelimana (2017) indicated that debts was strongly associated with profitability of the banking sector in Rwanda. Nwaolisa and Chijindu (2016) opined that financial structure was inversely connected to the financial performance of manufacturing firms. Darush and Peter (2015) posit that debt level posted a significant impact on SMEs' performance in Sweden. This presents contextual gaps since the studies were done in foreign countries.

The local scholars have tried to examine the connection amidst the leverage and financial performance. Muge (2018) opined that financial leverage exhibited negative interrelation with the profitability. Moreover, asset tangibility and firm size were also inversely associated with ROA. However, liquidity posted a positive association with the ROA. Kiprotich (2018) analyzed the

banks quoted at NSE. The findings posit that ROA was inversely correlated with leverage. On the other hand, credit management and size reflected a positive association with ROA. The study advocated for stabilized leverage at minimal range while enhancing the size to optimize performance. Thuita (2021) opined that efficiency and bank size possess a positive correlation with ROA. Nevertheless, leverage and credit risk recorded a negative association while the liquidity and capital adequacy were insignificant. These findings presents a conceptual and methodological gaps which the study will bridge.

The global and local financial practitioners and scholars holds divergent perspectives while the empirical analysis posted mixed and inconclusive findings. The debate and dilemma on the effect of financial leverage on the performance has cast more doubts on the ideal capital structure and useful debts. Thuita (2021) correlated the financial distress with inefficiency in the use of debts. The study advocated for efficiency and enhancement of bank size to improve ROA. However, leverage and credit risk reduced the ROA while liquidity and the capital adequacy were insignificant. The presumptions that all firms listed in NSE subscribes to similar paradigms need to be answered by scrutinizing non-financial firms. From the Kenyan, African and global studies, there are mixed and inconclusive findings. In addition, the findings from Thuita (2021) verse Kiprotich (2018); Nwaolisa and Chijindu (2016) as well as Darush and Peter (2015) indicated positive significance and insignificance, negative significance and insignificance, neutral and even insignificant associations. Therefore, this study seeks to resolve the question on; what is the effect of financial leverage on the financial performance of non-financial firms listed at NSE?

1.3 Research Objective

The objective of the study is to assess the effect of financial leverage on the financial performance of non-financial firms listed at the NSE.

1.4 Value of the Study

The research will assist the firms in determination of optimal financial leverage and its paramount role in the profitability. The findings are useful to the firm's determination of framework that enhance against financial distress. The study add deeper understanding on the importance of business growth and avoidance of business risk. Additionally, it explains the cornerstones of financial mix.

The study acts a reference material to future scholars and the investigators. It acts as a yardstick towards holistic knowledge development as well as tackling related subjects. Moreover, it provides deeper comprehension of the financial leverage. The potential investors can get paramount knowledge on the returns verse the capital structure. The investors can make sound decisions based on the capital investment and the need to reach optimum profitability. Academicians will benefit from the analysis of the literature empirically at the same time getting updated information.

The government and policy makers can amend or make laws and policies that protect business against insolvency. The policies can strengthen and upgrade the performance. The findings will offer guideline to the policy formulation. The findings is a benchmark for bridging the gaps while inspiring further protective and regulatory policies. It furnishes the policy creators with critical information on financial leverage and business risk.

The study anchor the theories by assessing their assumptions and elaborating their importance, relevance, critique and their limitations. The scholars can rely on theories that have stood the test of the time. The study upgrade the understanding while laying the cornerstone for in depth research studies. Furthermore, the scholars can modify and advance the existing hypothesis and theories.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter incorporates wide-spectrum of sub-sections to enhance the study. The theoretical framework highlights the supportive theories. It also assess the determinants of leverage and financial performance. In addition, the study critically and empirically assess the preceding studies that inform this research. Moreover, the study indicate schematic flowchart in form of conceptual model. Finally, it provide the summarized data interpreted after in-depth review and the research gaps.

2.2 Theoretical Framework

The theories anchoring this research include; pecking order theory, trade-off theory and resource dependency theory. Pecking order theory (Myres & Majful 1984) opines the importance of following well stipulated order in sourcing finance for the firms. Trade-off (Modgliani & Miller, 1963) advocates for ideal capital structure where the benefit and cost are equal hence no losses to the firm. Resource dependency theory (Pfeffer & Salancik, 1978) gives chief latitude to the optimization of assets at the disposal to generate returns.

2.2.1 Pecking Order Theory

The theory anchoring the study is POT. Was formulated by Myres & Majful (1984) highlight the specific hierarchy in the selection of funding criteria. The proponents were driven by the existing asymmetric information. Nevertheless, this may enhance undervaluation of stock. The financial choice on the hierarchical criteria is informed by the cost associated with sourcing finance. Financial managers may prefer the internal sourcing since it does not incorporate the floatation and transactional cost. The sound judgment give priority to the available internal sources before

advancing to the eternal methods. The external funding is appropriate after due diligence on the cost and benefit.

The relevance of the theory is demonstrated on the hierarchical process considered in the financing. The business can consider external funds whenever there is inadequate funding. The preference method are supported by the comparative analysis weighing and displaying cost. The theory opined that borrowings is enhanced by uneven information (Javier & Juan, 2012). It is critical in the explanation of changes in the capital structure. The theory emphasize that firm prefer internal funds to debts then finally to equity.

Critique relating to the study include its failure to give solution on the effects of taxation. Moreover, it does not address the financial distress of the firm. The theory has minimal solutions to the agency cost. Furthermore, the theory ignores the intrusion associated with immense financial slack. The assumptions that firms have preference of internal sourcing to external sources is incorrect. This is because firms may prefer external sources to finance risky projects. The internal funds is usually reserved for urgent speculative projects with positive NPV.

2.2.2 Trade-off Theory

The theory propounded by Modgliani & Miller (1963) and expounded by Myers (1984) is valuable. The assumptions is that firm compute the aggregate obligation verse the total value before it strike harmony on the advantages and cost. The marginal cost verse the benefits indicates how the leverage is advantageous or disastrous to the business. The theory advocate for optimal debt-equity mix to accomplish the objective. The business must utilize both debts and equity to lubricate the production, efficiency and effectiveness.

The trade-off theory is important in the realization of optimal structure. Rational decision making entails weighing of benefits against the expense regarding the debts. The managers must ensure the trade-off amidst marginal benefits verse the marginal cost. The theory recognizes the importance of debts and equity financing to add upgrade the shareholders' value. Debts financing is paramount due to tax benefits. The level of debts verse equity are reached after comparative analysis which ensure the shareholders reap significant benefits.

The theory faces some critiques which include the gaps in offsetting of debts against the benefits. The balance of rewards verse the cost is instrumental in the decision making. The company may choose cheaper debts but with greater exposure to risk thereby losing in the long-run. The shareholders suffers severely if the debts cause the bankruptcy. This is because debt-holders are the first priority in the event of winding up. The shareholders have last dibs on the firm's assets.

2.2.3 Resource Dependency Theory

RDT embedded by Pfeffer and Salancik (1978) giving great latitude to the maximization of assets at the disposal in order to generate revenues. The theory states the importance of heterogeneous resources to enhance greater ability, capability, skills and distinct competitive advantage. The resources are non-substitutable, not imitable, rare, valuable, and promote the credibility of the firm. The theory presuppose the optimization of internal resources ranging from tangible to intangible assets. Intangible assets such as good will, copyrights, intellectual property anchored by innovation are critical yardstick for business prosperity.

The theory is important in advocating for the utilization of internal resources. Moreover, theory insist on the systematic and logical optimization of resources to realize the competitive advantage. The theory promote the firm's independence, maximization of internal resources and absorption

of critical elements into the organization. Resource are the engine of the organization, hence, the crucial strategies must guide the optimization. In addition, the company controlling resources is powerful over the external environment.

The theory may not stand in the presence of technological innovation. It emphasize on the internal sourcing of resources against cheaper debts. The theory dwell much on the resources and does not clarify on the types of resources hence making it ambiguous. The theory is beneficial in seeking short-term gains and competitive advantage. Long-term gains, strategies, financial stability and competitive advantage may not rely on this theory. This is because there are numerous speculative projects with positive NPV that need external funding.

2.3 Determinants of Financial Performance

The determinants of financial under this context include liquidity, business risk and debt to equity ratio. The controlled variable is management efficiency. The determinants under investigation have received minimal focus from preceding scholars.

2.3.1 Liquidity

Liquidity is measured using proportion of current assets to current liability. Liquidity demonstrates the financial fitness of the firm. It demonstrates the financial well-being of the organization. The business need liquid cash to stay afloat and undertakes its operations successfully. Liquidity is measured by its capability to cover short-term dues. Liquidity assets are easily convertible to cash. Karuma, Ndambiri, and Oluoch (2018) opined a positive association between short-debts and profitability. Rahman, Kakuli, Parvin, and Sultana (2020) explored debts in financing business in Bangladesh and concluded on positive association. However, Mboi, Muturi, and Wanjare (2018) indicated a neutral impact of liquidity on performance. From the studies done, it present contextual

gaps since it was done in developed countries. Moreover, the studies applied different methods hence need for the research.

2.3.2 Business Risk

Business risk is the likelihood of making insufficient profits or losses. This exposes the business to untold sufferings. It increase the firm's bottleneck in both the realization of company's objective and the optimization of shareholders wealth. The company should provide logical and systematic framework to help in risks mitigations. The business risk increase the changes of financial distress. Kamau (2016) opined that business risk is the level of volatility. Trade-off postulate that higher volatility result to lesser debts. Identification and fundamental analysis of business risk is very important in development of holistic operation and financial undertakings.

2.3.3 Debt-Equity

Debt to Equity has been critical in analyzing the financial leverage. It is paramount in gauging financial health of the firm. Furthermore, it is very important in ranking the firm's capability in the pay back of dues. The debt to equity is cornerstone in the determination of risk exposure and the going concern of the company. The investors prefer lower debts, however, management can prefer higher debts especially if they want to invest in risky projects that post a positive NPV. It posit that the business aggressive investment has been through debts. Junior, de Sarvas, Rodríguez, and de Sousa Ribeiro, (2017) explored long-term debts on ROA in Brazil. The findings indicated a negative association. However, the econometric model utilized did not add up with the its conclusion verse objectives. Ikapel and Kajirwa (2017) analyzed long-term debt verse the profitability of Kenya Sugar firms. The panel data covering ten years found negative correlation. The study done globally and in Kenya pivotal points were different sectors and employed different methods. Therefore, this study analyze non-financial sector in Kenya.

2.4 Empirical Review

Kerongo, Nyamuite, Okiro and Ochieng (2022) analyzed the capital structure and performance. The study made quality use of correlational descriptive research design. The secondary data was garnered and retrieved to ease empirical analysis. The period of research covered 2010-2017. Descriptive statistics and multiple regression reinforced the findings. The assessment concluded that capital structure impacted on the financial performance positively and significantly. The research concentrating on non-financial firms is critical in providing deeper understanding.

Gathoni (2021) exploited leverage of both the manufacturing and construction company. The assessment tapped descriptive research techniques to blueprint the study. Census sampling provided coherent and systematic findings. The secondary were assembled from credible audited annual reports. The study utilized STATA as well as panel regression model. The findings posit that liquidity impacted on ROA significantly and positively. Leverage did not post an association with ROA. The asset structure showed positive association with ROA. The study emphasized on the efficient, effective and optimization of resources to achieve the fundamental goals. The study concentrated on manufacturing organizations, hence, there is conceptual and contextual gap that this study addresses

Thuita (2021) concentrated on the ratios and the performance. The pivotal sector was 38 commercial banks in the period 2016-2020. The regressor variables were efficiency and bank size. In addition, liquidity, credit risk and leverage were exploited. The findings opined a substantial positive significance between ROA verse efficiency and bank size. Despite that, leverage and credit risk recorded a negative correlation. Moreover, capital adequacy and liquidity did not record any significance. The study point of focus were commercial banks hence the research on the leverage of non-financial firms is an eye-opener for shareholders.

Ogolla (2021) looked at the influential role of financial leverage. The research focal areas were construction and allied firms. The secondary data retrieval was done from PFS to ease the study. Descriptive research design gave an upper hand for clarity, quantification and computation. Furthermore, multiple regression were done. The period was 2011 to 2020. The finding posit that leverage recorded substantial impact on the profitability. In addition, sales growth and liquidity portrayed a positive correlation with the profitability.

Hung and Cuong (2020) assessed impacts of financial mix on performance. The pivotal point area was pharmaceutical firms in Vietnam. The regressor variables were DTE, long-term assets leverage, and self-financing. The financial leverage posted a positive association with ROE. The data was sourced from Pharmaceutical firms. The study resorted to Least Square Regression method to portray the association. The study period covered 2015-2019. The research was done in pharmaceutical companies in Vietnam and there is need local study focusing non-financial performance.

Rifqah and Hafinaz (2019) explored credit risk, liquidity and capital adequacy of banking sector in connection with profitability. The substantial indicators were ROA and Non-performing Loan Ratio. In addition, loan verse deposit ratio was also employed. The research period spanned from 2007-2016. The analysis posted significant negative correlation between ROA and NPLR, LDR as well as CAR. The study was done in Indonesian hence creating contextual gap that motivates the current study.

Kahinda (2019) explored the energy and petroleum organizations quoted at NSE. The study was motivated by the chief and substantial role played by energy and petroleum section in the economic prosperity. The investigation resorted to secondary data which was retrieved from PFS.

Quantitative data was assembled and computed using SPSS. Study period was sufficient since it ranged from 2012-2016. Multiple regression was exploited to illustrate the prevailing linkage between the explanatory and the explained variable. Descriptive statistics was tapped to offer deeper insight through tables, charts and graphs. Debt ratio was inversely correlated with ROA. The study recommended for minimal debts. Nevertheless, the research did not analyze non-financial sector.

Sampao (2019) analyzed financial leverage on ROE. The period of study related to 2009-2018. Descriptive statistics as well as the correlation analysis were exploited to explain the findings comprehensively. The predictor variables include firm size, leverage and liquidity. The findings indicate that all the three variables were inversely associated with ROE. The secondary data provided critical findings that are useful to shareholders, managers and business. The current study provide in-depth understanding on financial leverage and ROA.

Muge (2018) exploited the financial leverage on performance. The research scrutinized 40 firms listed at NSE. However, full data were available for 39 firms. The research assessed financial leverage, asset tangibility, firm size and liquidity. The descriptive cross-sectional research design was employed. Furthermore, the multiple linear regression was done to enhance correlation analysis. While financial leverage, firm size as well as asset tangibility gave a negative relationship, liquidity had positive link with ROA. The study recommended the use of trade-off (financial mix) to meet the demands.

Pradha and Khadka (2017) assessed the impact of financial leverage on the profitability. The study was undertaken in Nepal. The epicenter of the research were the 22 commercial banks. Descriptive research design was pressed into service to enhance understanding. Moreover, multiple regression

was utilized in the assessment of short, long term and size. Additionally, the interest coverage was also exploited to give concrete findings. The conclusion showed positive association amidst profitability verse short, interest coverage and bank size. Nevertheless, long term debt posted no association with profitability. The recommendation emphasized on the crucial role of effective corporate governance.

Ajolabi, Olabisi, Kojala and Ajaolu (2015) explored how the companies leverage affected performance. The research concentrated in the food in addition to beverage entities and was done in Nigeria. The period of study ranged from 2007-2016 totaling to 10 years. It exploited Ex-post factor and the regression analysis. The variables include DTA, DTE and ROCE. The outcomes portrayed a positive relationship amidst ROCE and leverage. The study advocated for prudent management of resources to enhance maximization of shareholders' worth. However, the study was done in Nigeria focusing on food industries and there need to scrutinize local non-financial firms to bridge contextual and conceptual gaps.

Darush and Peter (2015) analyzed debt level verse the performance. The research pivotal area was SMEs in Sweden. The research deployed cross-sectional research technique. The study put in use 15,849 SMEs and retrieved the data from the preceding records covering 5years. In addition, it took advantage of least square regression to enhance computation and prediction. The research indicated that debts played substantial impact on firms' performance. However, the study advocated for minimal asymmetric information to increase transparency. The study was done in Sweden, therefore, a contextual gap need a local study to provide deeper insight.

Petit (2016) determined contributions of cost-effectiveness by concentrating on the pharmaceutical firms. The study was undertaken in United Kingdom. The research scrutinized 103 firms in UK.

The secondary data was retrieved basing on the past records. Regression analysis was brought to play to promote understanding. The findings postulated that cost-effectiveness was insignificant to both leverage and value of the business. The study recommended for the prudent optimization of resources.

2.5 Conceptual Model

Conceptual framework is a schematic design useful in the demonstration of association. The diagrammatic representation is critical in illustrating connection amid the regressor and the regressed variables. Predictor variable influences the predicted variable. This can be negative, neutral of positive. The conclusive elaboration is found when the data is tested and computed empirically.
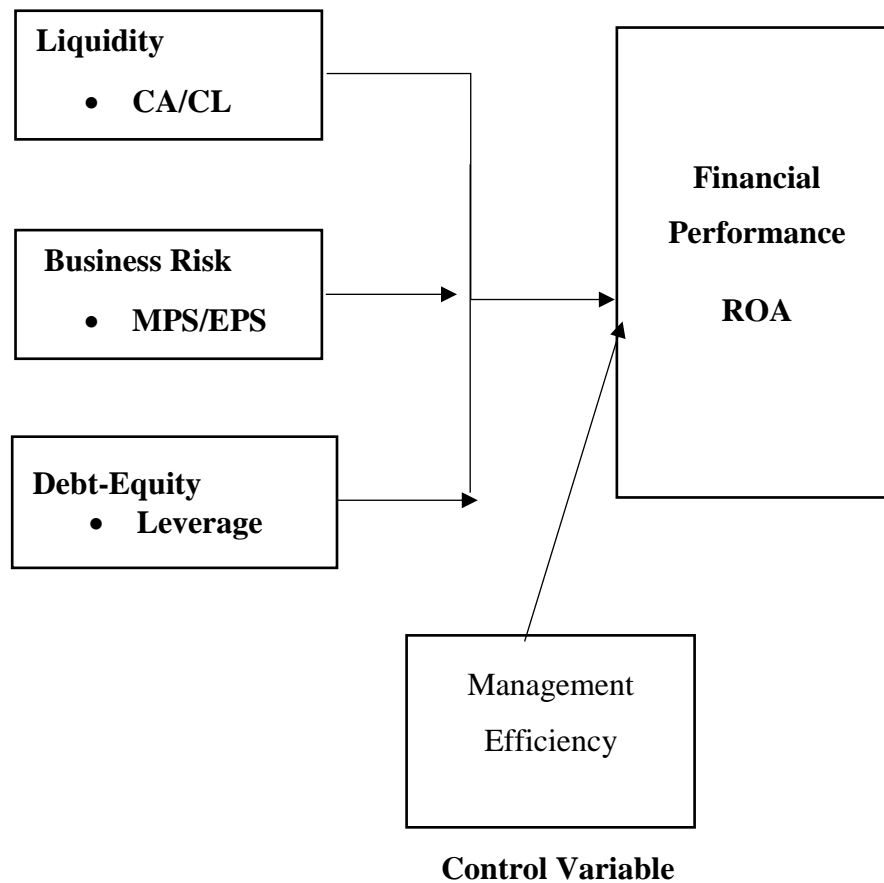
Figure 2.1 Conceptual framework (Source: Researcher 2022)

2.6 Summary of Literature Review and Research Gaps

Kerongo, Nyamuite, Okiro and Ochieng (2022) indicated that debts entails the amalgamation of debts and equity to realize the objectives. The study advocated for financial mix that enhance the shareholders wealth. Both debts and equity promote the business operation by ensuring adequate and sufficient resources are put in maximum use. The financial decision is the epicenter of financial injection to the business. Ogolla (2021) indicated that long-term debts enhance the investments in projects resulting in positive NPV. Furthermore, it improve the performance of the firm.

Thuita (2021) analyzed financial ratios and emphasized the importance of optimizing leverage and obligations to reap many benefits. The researcher posit that liability offers roadmap towards prosperity when effectively utilized. Leverage offers logical approach that is useful in differentiation of capabilities. Hung and Cuong (2020) stipulated leverage can ease the accomplishment of company's goal. Petit (2016) stated pertinent issues that provide roadmap towards business stability. Pradha and Khadka (2017) opined that quality capital structure increases the optimization of assets to generate revenue.

From the empirical reviews, there are several gaps that include contextual gap, conceptual and methodology gaps. Several studies have been done in the global set-up hence creating contextual gaps. Local research have been associated with different concepts based on divergent determinants. Moreover, the application of different methodologies have seen studies coming up with mixed and inconclusive study. Lack of consensus regarding the literature reviewed motivates more study. Majority of study have dwell on other firms such as commercial banks, manufacturing and agricultural hence leaving non-financial firms with minimal attentions.

Majority of the studies have scrutinized cash flows, credit ratios and solvency. Most studies have concentrated on financial sectors leaving non-financial with minimal attentions. Therefore, the study of financial leverage and financial performance remains controversial. Contextually, the assessment was accomplished among manufacturing firms quoted at NSE. Moreover, there is absence of the updated investigation that delved in non-financial entities listed at NSE. This exposes the knowledge gaps that where the prevailing study intends to bridge the gaps. Herein, the study seeks to scrutinize connection between financial leverage and financial performance of non-financial firms listed at NSE.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter is critical in blueprinting the research design. It gives comprehensive information on the population and the analytical techniques. It builds substantial foundation useful for pinpointing the correlation amidst leverage and financial performance. The chapter is vital in building credible pillars for data collection, analysis and presentations.

3.2 Research Design

Research design is a supreme yardstick useful in narrowing the scope to reach a conclusive findings. The design illustrates factual prepositions. It expands knowledge beyond the title, population and data analysis. It substantiate the logical and systematic process. Burns and Groove (2003) argued that research enables an organized formulation and analysis within little predicaments. Kothari (2004) postulated the research design as a formulated layout that warrants efficiency and effectiveness in the data analysis. The study takes advantage of descriptive design to obtain factual association between the regressor and the regressed variable. Mugenda and Mugenda (2003) states that it determines the cause-effect relationship between variables through measurement, analysis, classification and interpretation of data. The design is epicenter for the explanation of causes and effects association.

3.3 Population

The population is pivotal to the study. It highlights objects that exhibits similar characteristics. The population shapes imagination by pinpointing similarities and cognitive procedure of comparing the objects. Mugenda and Mugenda (2003) posit that population entails elements, individuals and objects that possess similar traits. The population is critical in ensuring versatility of the study.

The study is focusing on census research by analyzing 40 non-financial firms from 2016-2021. The list of firm has been attached in the appendix I.

3.4 Data Collection

Data collection utilized the secondary method to retrieve raw data. The study narrows to secondary data due to its availability, suitable and appropriateness. Audited financial statement readily available and can be utilized to expand knowledge on the trend and the pattern of the variables. Creswell (2011) elaborated that data collection entails garnering data, thorough reviews, classification and coding to promote computation. The selected years from 2016-2021 are sufficient and adequate to make an informed decision. The study analyze wide-spectrum by collecting data relating to; liquidity, business risk and debt/equity ratio from NSE and CMA

3.5 Data Analysis

The assembled data undergo a thorough process that blueprint procedures set in stone. The procedure include classification, edition, summary and coding to promote both the systematic criteria and quantification. The process helped in gauging accuracy of the data. The study incorporated SPSS method for analysis, determination, presentation, interpretation and making conclusive findings. The MLR was paramount in the establishment of association. Moreover, descriptive and inferential statistics are the pillars for expanding knowledge and giving latest information. The tabulation and charts illustrates the association in brief.

3.5.1 Diagnostic Test

Diagnostic tests are critical in the research. It teaches better discernment while striving to solve problems. The diagnostic test ware supreme in establishment of magnitude, correlation and the direction among the variables. The critical test to be computed include normality, autocorrelation and the multicollinearity. Normality and autocorrelation was tested by employing Kolmogorov-

Smirnova and Durbin Watson respectively. The multicollinearity took advantage of Variance Inflation Factor. The normality was paramount is shaping knowledge on the pattern of data distribution at the same time giving deeper meaning on association with the P-Value. Autocorrelation strives to explain lagged and random pattern. Multicollinearity post inter-relation among variables. The presence of multicollinearity is solved by eliminating highly correlated variable. Absence of normal distribution call for more analysis while failure to adhere to autocorrelation demands for fitting regression model and performing Breusch-Godfrey Test.

3.5.2 Analytical   Model

Empirical model is paramount in the provision deeper insight among the variables. It gives chief latitude on the metric used in quantification and computation. The layout blueprint the association can be illustrated in an analytical model. It is a roadmap for the linearity correlation and post an association in a snapshot.

Whereby:

$Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Y= Financial Performance (Measured by ROA)

α_0=y intercept of the regression (constant variable)

X_1=Liquidity (operationalized current assets divided by current liabilities)

X_2=Business Risk (by Market price per share/Earning per share)

X_3= Leverage (Debt-Equity Ratio)

ε= error term

3.5.3 Significance Tests

The research computes statistical significant tests. The test such as F-Test, T-Test and ANOVA are the drivers towards a conclusive findings. They build a credible and factual proposition that can stand test of time. The test are vital ways for clarification and elaboration. The 5% and 95% confidence levels are paramount in the presentation of data. Furthermore, it enhances the interpretation which finally informs the recommendations.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is a cornerstone for presenting and discussing research determinations. The study took advantage of secondary data to enhance understanding for non-financial entity's cited at NSE. The data collected was channeled through comprehensive review, coding and classification before utilization of SPSS for thorough computation. This undertaking prioritized descriptive, trend analysis and inferential computation to decree the outcome.

4.2 Descriptive Statistics

Descriptive analysis is critical in expounding on the specific traits of the dataset. It blueprints a summarized analysis in a snapshot regarding specific variables prioritized in the study. It gives chief latitude to the data structure and elucidates mean and standard deviation. Moreover, it illustrates the fundamental aspect of minimum and maximum values thereby coining the pattern of dataset. This analysis gives a discussion on the variables under study. It encapsulates the minimum and maximum. In addition it explains mean and standard deviation of each variable. From the table below, financial performance that was measured with (ROA), had averaged at 0.2960 while registering a standard deviation of 0.1410. The findings shows that mean was highest for business risk followed liquidity and finally leverage. Moreover, the deviation was highly associated with business risk, liquidity and leverage consecutively. In addition, it exhibited a minimum 0.0950 while the maximum 0.5560. For the six years, liquidity, had an average of 0.8242, standard deviation of 0.4196. The minimum liquidity ration recorded in the period was 0.2572 and a maximum of 1.9272. Business Risk and Leverage had means of 0.9562 and 0.5295 respectively. On the other side, its standard deviations of 0.0462 as well as average of 0.2196. From the postulation in table 4.1 Business risk exhibited highest variation followed by liquidity

and thereafter leverage. Therefore it is worthwhile emphasizing risk mitigation measures to enhance business stability.

Table 4.1 Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial-Performance	240	.0950	.5560	.296018	.1410539
Liquidity	240	.2572	1.9272	.824234	.4196786
Business Risk	240	.4222	1.1397	.956225	.0462051
Leverage	240	.1185	.8950	.529520	.2196731
Valid N (listwise)	240				

4.3 Trend Analysis

In the financial set-up, trend analysis is critical for comparison and contrasting business dataset. Moreover, it exemplify the variation degree, consistency and pattern of their performance in a specific time span. The firms are the epicentre of strategic planning and organizational goal alignment with performance trends. Trend analysis is the cornerstone of forecasting and risk mitigation. The data garnered relates to the non-financial firms cited at NSE. The period of sufficient with an interval of 6years spanning form 2016-2021 as blueprinted below in Figure 4.1

4.3.1 Business Risk Trend

From figure 4.1, it is critical to note that business risk ranged in 0.8 and 0.9 interval for the period spanning from 2016 to 2021. However some companies experienced higher risk than

others as postulated by C4, C5 and C6. This is because different firms experience wide-spectrum of variation, changes and regulations stipulating their operation.
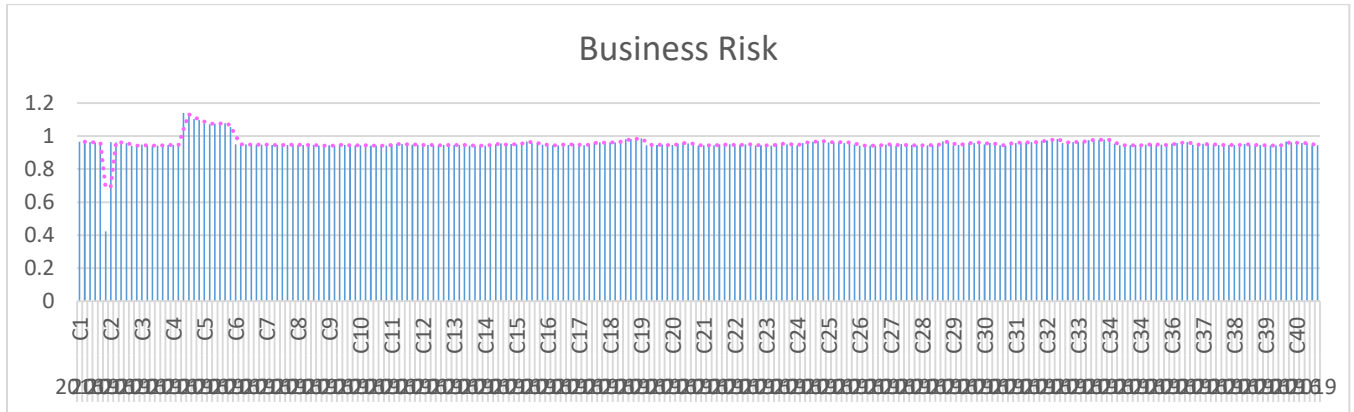
Figure 4.1 Business Risk

4.3.2 Liquidity Trend

The study outcomes encapsulated in figure 4.2 portrays great the degree of variation and changes of liquidity among non-financial firms. The trend is erratic from 2016-2021 hence blueprinting difficulty in forecasting. It is imperative to expound that liquidity is the epicentre of financial sustainability and performance of a firm. The economic factors and the nature of business and critical issues that explains the nature of the liquidity. The findings are elaborated below in figure 4.2.
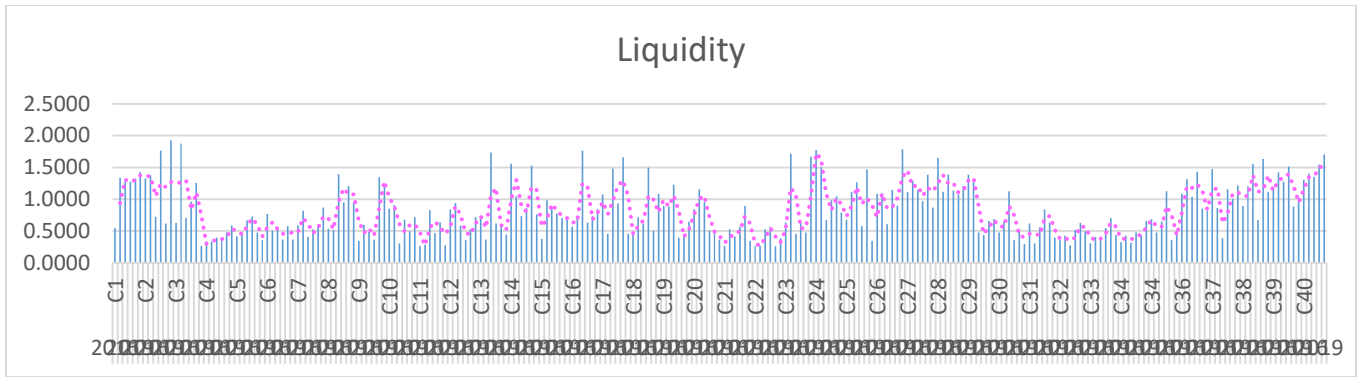
Figure 4.2 Liquidity

4.3.3 Leverage Trend

The findings delineated in figure 4.3 postulates the unpredictable nature of leverage, hence, different companies exhibit wide-arrays of characteristics. Leverage is the cornerstone for business stability and its unpredictable nature is an eye-opener for in-depth risk mitigation measures to enhance the going concern of the business.
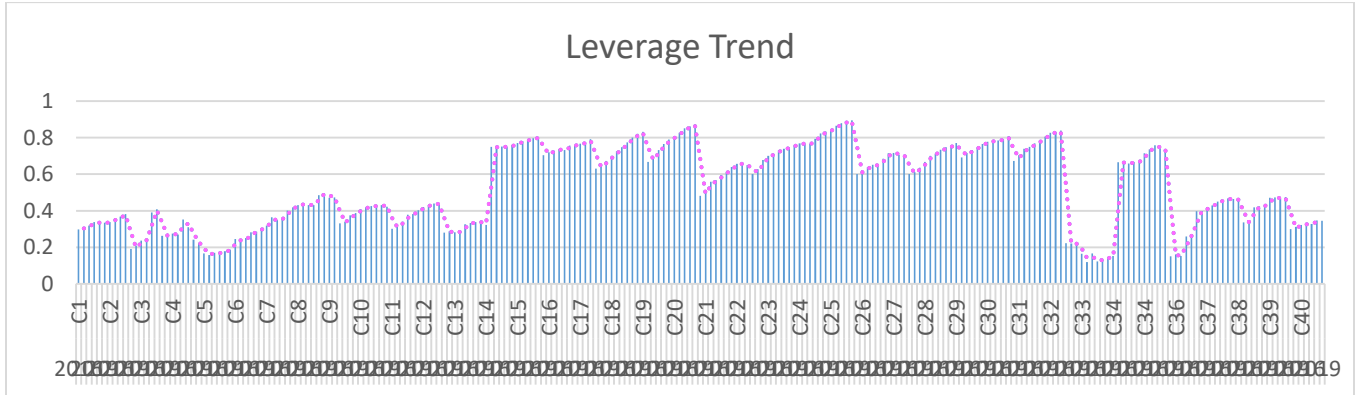
Figure 4.3 Leverage

4.4 Diagnostic Test

The diagnostic test was expedited to expound on the suitability of dataset in conclusive outcomes.

The normality test, multicollinearity and autocorrelation were the pinnacles for problem solving.

4.4.1 Multicollinearity Test

Researcher tested for Multicollinearity using the VIF values and the Tolerance. This test is performed to test for correlation of the independent variables. From the table below; Liquidity, Business risk and Leverage have 0.974, 0.965 and 0.988 respectively as their tolerance values. This values are all greater than 0.2. Additionally, they have 1.026, 1.036 and 1.013 VIF values respectively. This values are less than 10, therefore, the dataset is free from collinear predicaments.

Table 4.2 Collinear Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Liquidity	.974	1.026
	Business-Risk	.965	1.036
	Leverage	.988	1.013

Dependent Variable: Financial Performance (ROA)

This then implies that there is no multicollinearity in regard to the explanatory variables**.**

4.4.2 Test for Normality

The scattered trends of dataset is problematic to generalization and the analysis. The pre-eminent of normality test was portrayed in delineating the linearity relation regarding the explanatory and the explanatory variable. The dominance in establishing quality estimation of numerous discrete in the study is paramount. The study utilized the Kolmogorov and the Shapiro-Wilk test. The P-

Value in both tests for each variables are below 0.05. This implies that data was guided by normally distribution. Additionally, it reinforces conclusive outcomes as portrayed in the table 4.3

Table 4.4 Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Financial Performance	.134	240	.000	.908	240	.000
Liquidity	.126	240	.000	.928	240	.000
Business Risk	.377	240	.000	.361	240	.000
Leverage	.139	240	.000	.924	240	.000

a. Lilliefors Significance Correction

4.4.3 Autocorrelation

The critical measure for serial correlation is Durbin Watson. It blueprints the association and whether the dataset is lagged by the assessment over a stipulated time. The conclusive illustration in Table 4.5 coined the far-reaching outcomes. The comprehensive analysis using Durbin Watson was a road map in exemplifying correlation. In a nutshell, autocorrelation is cardinal for explanation of association. Therefore, 0.482 is the value that is seen under the Durbin Watson. This value lies within the normal range. Durbin-Watson is used in testing of Autocorrelation.

Table 4.5 Model Summary of Autocorrelation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.909[a]	.826	.824	.0591589	.482

a. Predictors: (Constant), Leverage, Liquidity, Business-Risk

b. Dependent Variable: Financial-Performance

4.5 Correlation Analysis

This analysis exemplified the relationships amid two variables. It ranges from strong positive correlation to strong negative correlation. From the findings below, liquidity had an inverse correlation towards financial performance which is significant (ROA) of (r=-0.048, P= 0.458). Business risk and leverage had positive correlation with business risk having weak positive correlation and significant as implied by (r= 0.075, p=0.248) and Leverage having strong positive correlation as seen in but insignificant (r = 0.890, p=0.000). The p values show the significance of association with a range between -1 and +1. The results show a significant degree of association.

Table 4.6 Correlation

Correlations

		Financial-performance	Liquidity	Business-Risk	Leverage
Financial Performance	Pearson-Correlation	1	-.048	.075	.890**
	Sig. (2-tailed)		.458	.248	.000
Liquidity	Pearson-Correlation	-.048	1	-.157*	.046
	Sig. (2-tailed)	.458		.015	.478
Business Risk	Pearson-Correlation	.075	-.157*	1	-.107
	Sig. (2-tailed)	.248	.015		.097
Leverage	Pearson-Correlation	.890**	.046	-.107	1
	Sig. (2-tailed)	.000	.478	.097	

**. (Correlation-significance) as per 0.01 level (2-tailed).

*. (Correlation-significance) as per 0.05 level (2-tailed).

4.6 Regression Analysis

This analysis coined the effect of each variable on the dependent variable. Regression is mathematical formulae that posit the association. It clearly delineate the association thereby enhancing the future prediction. From the study the financial performance is the regressed variables whereas the business risk, liquidity and leverage are key predictor variable in this study.

4.6.1 Model Summary

R-Simple correlation coefficient was 0.909. This shows a 90.9% strong correlation among the variables under study. R- Square is 0.826. This depicts that 82.6% of deviation in financial leverage is explained by leverage, business risk and liquidity. 17.4% of deviation in financial leverage is expounded by factors excluded in this research.

Table 4.7 Model Summary of Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.909[a]	.826	.824	.0591589	.482

a. Predictors: (Constant), Leverage, Liquidity, Business-Risk

b. Dependent Variable: Financial-Performance

4.6.2 ANOVA

ANOVA blueprints the goodness-of-fit. Moreover, it illustrates the regression model and the probability of F-Statistic and its value. It is paramount for the sound judgment. The table 4.8 that the p value was at 0.001, hence, less than the P-value thus implying that the model is statistically significant.

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Table 4.8 ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean-Square	F	Sig.
1	Regression.	3.929	3	1.310	374.239	.001[b]
	Residual	.826	236	.003		
	Total	4.755	239			

a. Regressed Variable: (Financial-performance)

b. Predictors: (Constant), Leverage, Liquidity, Business-Risk

4.6.3 Coefficient of Determination

This section expounds on the multiple linearity of association that is the cornerstone of the fact-finding. Moreover, it elucidates the T-Test and significance thereby elaborating on the nature of dataset, association and their pattern.

Table 4.9 Coefficient of Determination

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	-.470	.084		-5.623	.000	-.635	-.305		
Liquidity	-.022	.009	-.065	-2.348	.020	-.040	-.003	.974	1.026
Business Risk	.496	.084	.162	5.885	.000	.330	.662	.965	1.036
Leverage	.585	.018	.911	33.365	.000	.550	.619	.988	1.013

a. Regressed Variable: Financial-performance

From the table above, if all the factors are held at constant, financial performance has a negative effect of 0.470. In a nutshell, -0.470 is the autonomous values of financial performance when all factor remained stable. Further, a unit advancement in liquidity results in negative 2.2% change in financial performance if all factors are held at constant. A unit change in business risk leads to a positive effect of 49.6% on financial performance whenever all variables are maintained constant. Additionally, an increment on leverage triggers an increment effect of 58.5% on financial-performance whenever all other factors are constant. The regression equation will be as follows;

$$Y = -0.470 - 0.022\ X_1 + 0.496\ X_2 + 0.585\ X_3$$

Where;

Y = Financial Performance operationalized by ROA

X_1 = Liquidity

X_2 = Business Risk

X_3 = Leverage

4.7 Discussion

The study was driven towards the fact-findings mission through the intensive assessment of financial leverage and the performance. Contextually, the study concentrated on non-financial firms quoted at NSE. Immense analysis and procedures were followed systematically to aid the conclusive outcomes. Empirically, the study analyze descriptive, trends, regression and diagnostic test to expound on the findings.

Test for normality showed that the data that was epitomized in this research coined normally distributed pattern. Additionally, the significance values of each variable in the Kolmogorov and Shapiro-Wilk test had their p-values below 0.05. Furthermore, from the findings in the correlation analysis, it is evident that liquidity has a negative correlation of (r=-0.048, P= 0.458) nonetheless, other variables have positive correlation towards the dependent variable.

Furthermore, in the Model summary, R- Square value is 0.826. Therefore, implying that 82.6% of the variation in financial performance is explained by the independent factors listed in this research analysis. Additionally, 17.4% of changes and variation of financial performance are triggered by the factors excluded in the dataset. In a nutshell, the factors prioritized played substantial part in defining and influencing the financial performance.

The mathematical formulae generated as the coefficient of determination states that a unit change in liquidity has a negative impact on financial performance of 2.2%. Moreover, an increment of business risk increase the financial performance by 49.6%. Moreover, an advancement of leverage by one unit translated to 58.5% financial performance when all factors are held at constant. Further

to the findings, the F Statistics is at 0.001, this implies that the model is good fit for the data. Therefore, it stipulates that regression is suitable in predicting the effect of leverage, business risk and liquidity on financial performance and summarized as;

$$Y = -0.470 - 0.022 X_1 + 0.496 X_2 + 0.585 X_3$$

In Summary, the findings contradicted the study by Ogola (2021) that blueprinted a positive correlation amid liquidity and profitability. It was in agreement with Sampao (2019) findings that liquidity are inverse associated with financial performance. Thuita (2021) postulation that financial leverage are critical in the logical approach performance was expounded by the study. In addition, the study exemplified the importance of leverage in performance of firms. Kerongo, Nyamuite, Okiro and Ochieng (2022) indication that capital structure is crucial in the financial performance decision has been reinforced by this study. Nonetheless, the study contradicts Muge (2018) postulation that leverage is negatively correlated to performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Summary of this assessment instantiates the research outcomes. Additionally, the conclusion and recommendation substantiate far-reaching results. This chapter is eminent resolving the research problems, bridging the knowledge gaps, pinpointing the setback and stipulating the recommendation towards policy formulation. Therefore, it enhance risk mitigation and offer in-depth knowledge applicable in the sound decision making.

5.2 Summary

The chief objective was to examine the effect of financial leverage on financial performance. Contextually, the study scrutinized non-financial firms quoted at NSE. The factors considered in this study were business risk, liquidity and leverage. The research period recorded run across 6years spanning from 2016-2021. The period of study was adequate for decision making process. Moreover, it presented the crucial findings that are fundamental for business.

The data garnered originated from secondary published audited financial statement. After thorough and comprehensive scrutiny of editing, completing, reviewing and analyzing via SPSS. The descriptive and inferential computation were prioritized to build a good step-stone for conclusive and sound findings. The descriptive analysis provided a snapshot of the nature of data in terms of the least and maximum values in addition to the standard deviation. It is worthwhile pinpointing that diagnostic tests denoted the appearance and pattern of data.

From Table 4.1 ROA was utilized a proxy of financial performance. It recorded 0.2960 as mean while denoting a standard deviation of 0.1410. Additionally, it postulated a maximum and minimum values of 0.5560 and 0.0950 respectively. In addition, liquidity averaged at 0.8242 while

maximum and minimum value were 0.4197 and 0.2572 respectively. Moreover, business risk exhibited an average of 0.9563 while its standard deviation was 0.04621. The maximum and minimum values denoted under business risk are 1.1397 and 0.4222 respectively. The leverage average value was 0.5295 while minimum and maximum figures were coined by 0.1185 and 0.8950 respectively. From the analysis liquidity exhibited highest variation.

The correlation analysis was in concurrence with Hung and Cuong (2020) and Khadha (2017) indication that leverage are positively associated with the financial performance. Ajolabi, Olabisi, Kojala and Ajaolu (2015) indicated positive effect of leverage and liquidity on performance. This study posit a negative association between liquidity verse performance (r=-0.048, P= 0.458). Business risk denotes a weak positive association implied by (r= 0.075, p=0.248). Additionally, leverage post a strong positive correlation as seen in (r = 0.890, p=0.000).

5.3 Conclusion

The regression analysis registered R of 0.909 blueprinting the positive association. Moreover, R-Square was 0.826 as defined in the computation. The R-square postulates that 82.6% of the deviation relating to financial performance emanate from business risk, leverage and liquidity. Therefore, it posit that business risk, leverage and liquidity represent a substantial enablers of financial performance. The remnant percentage of 17.4% regards to factors causing variation in financial performance but have been excluded in the examination.

The multiple linearity formulae structured through computation posit that a unit increase in the liquidity triggers changes in the financial performance by negative 2.2%, when all factors remain unchanged. Additionally, an advancement in single unit of business risk translates to increment in the financial performance by 49.6%, all factors kept constant. Furthermore, an increase in the

business risk by one unit causes a positive change of 58.5% in the financial performance whenever all the variables are kept constant. The autonomous value when all factors are unchanged is negative 0.470. This expression can be summarized in the multiple linear regression whereby;

$$Y = -0.470 - 0.022\ X_1 + 0.496\ X_2 + 0.585\ X_3$$

Y= Financial Performance (Measured by ROA)

α_0=y intercept of the regression (constant variable)

X_1=Liquidity (operationalized current assets divided/current liabilities).

X_2=Business Risk (by Market price per share/Earning per share).

X_3= Leverage (Debt-Equity Ratio)

The study wraps-up by coining that higher risk exposes the business to greater predicaments, however, with sound mitigation measures, it can reap substantially from the existing opportunity. The greater debts in the organization subjects the firm towards solvency related issues, nonetheless, it is significant in financial performance of the organization. The liquidity posted a negative correlation with firm's performance. Therefore, current assets and current liabilities can be operated at optimum to realize high ROA. The financial leverage is the cornerstone of the financial performance.

5.4 Recommendation for Policy and Practice

From the comprehensive examination, business risk and leverage are key drivers of financial performance. Liquidity on the other side is negative associated with financial performance though insignificantly. The study recommends for robust financial undertakings to reap significantly from

the business risk. This increases worth of the firms and shareholders' value. The optimum maximization of wealth translates to growth of business, financial sustainability, stability and going concern. Additionally, the managers' strategies can be tapped to drive the business through dynamic business environment, market trends and fast-paced changes.

The liquidity and going concern of the firm should be part of core objective of the business. This increases the operation and management which translates to productivity and effectiveness. In longevity, it minimize the wastage and improve on the financial performance of the organizations. The establishment of balance-check mechanisms to eliminate misuse and inefficiency. It becomes imperative to prioritize the shareholders interest in executing organizational goals.

Subsequently, the study recommend for mitigation strategies while focusing on highly risky businesses. Moreover, the study recommends for optimum leverage to engage assets in generating revenues. The continuous examination of liquidity and solvency of a firm increase its going concern and policy formulation. The research advocates for visionary planning and business management to enhance productivity and performance. In summary, emphasize on the policy formulation and competent management to steer the business towards the right direction.

5.5 Limitations of the study

The study period spanned from 2016-2021 trying to post the updated information, however, a larger timeframe of more than 10 years can be another eye-opener. The data generated were secondary, hence, may only display past information with no certainty of predicting future. This is informed by the dynamic changes in economic, geopolitical and social environment. Additionally, the market demands keep changing and evolving periodically.

The study analyzed a limited the number of determinants triggering financial performance. The business risk, leverage and liquidity are not the only factors explaining financial performance. Therefore, more factors should be incorporated to give an in-depth understanding. Whereas the study focused on the non-financial sector due to limited coverage by the preceding scholars. It is imperative to encapsulate for more research undertakings.

5.6 Suggestions for Further Study

The study's timeframe of examination aggregated to 6years therefore a study focusing in 10 years timespan with key consideration to more than five predictor variables can offer in-depth understanding. Moreover, the research on the capital budgeting, financial leverage and financial performance should be prioritized to give greater knowledge. Investment firms have received minimum attention and there is demand for comprehensive assessment. Finally, the study suggest examination of financial leverage verse the financial fragility.

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APPENDICES

Appendix I: List of Non-Financial Firms Quoted at NSE as at 31st December 2021

	COMMERCIAL AND SERVICES
1	Atlas African Industries Ltd
2	Express Kenya Ltd
3	Hutchings Biemer Ltd
4	Kenya Airways Ltd
5	Longhorn Publishers Ltd
6	Nairobi Business Ventures Ltd
7	Nation Media Group Ltd
8	Standard Group Ltd
9	TPS Eastern Africa Ltd
10	Uchumi Supermarket Ltd
11	WPP Scangroup Ltd
12	Deacons (East Africa) PLC
	CONSTRUCTION & ALLIED
13	ARM Cement Ltd
14	Bamburi Cement Ltd
15	Crown Paints Kenya Ltd
16	E.A.Cables Ltd
17	E.A.Portland Cement Co. Ltd
	AUTOMOBILES & ACCESSORIES
18	Car & General (K) Ltd
	ENERGY & PETROLEUM
19	KenGen Co. Ltd
20	KenolKobil Ltd
21	Kenya Power & Lighting Co Ltd
22	Total Kenya Ltd
23	Umeme Ltd
	MANUFACTURING & ALLIED
24	Unga Group Ltd
25	B.O.C Kenya Ltd
26	British American Tobacco Kenya Ltd
27	Carbacid Investments Ltd
28	East African Breweries Ltd
29	Eveready East Africa Ltd
30	Mumias Sugar Ltd.
31	Flame Tree Group Holdings Ltd

32	Kenya Orchards Ltd
	TELECOMMUNICATION AND TECHNOLOGY
33	Safaricom PLC
	AGRICULTURAL
34	Eaagads Ltd
35	Kapchorua Tea Co. Ltd
36	Kakuzi Ord
37	Limuru Tea Co. Ltd
38	Rea Vipingo Plantations Ltd Ord
39	Sasini Ltd Ord 1.00
40	Williamson Tea Kenya Ltd Ord

Source NSE: 2021

Appendix II: Data Collection Instrument

YEAR	ROA	Liquidity	Business Risk	Debt/Equity Ratio
2016				
2017				
2018				
2019				
2020				
2021				