

**THE EFFECT OF LIQUIDITY AND LEVERAGE ON FINANCIAL
PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN THE
TOURISM INDUSTRY IN KENYA**

BY

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DECLARATION

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

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DEDICATION

I dedicate this research project to my mum, Mwanaisha Obbo and my dad, Ahmed Muhaji for being there for me during the numerous late nights' and early morning prayers in the course of my study and for their financial support during this period. May God bless them.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variances
DFI	Development Financial Institution
FM	Financial Performance
CLT	Catering Levy Trustees
KUC	Kenya Utalii College
KTDC	Kenya Tourist Development Corporation
ROA	Return on Assets
ROS	Return on Sale
KWS	Kenya Wildlife Services
KNBS	Kenya National Bureau of Statistics
MM	Modigliani and Miller
NSE	Nairobi Stock Exchange
WACC	Weighted Average on Cost Capital
US	United States
LP	Liquidity Period
SPSS	Statistical Package for Social Sciences
SME	Small Medium Enterprise
SASRA	Sacco Societies Regulatory Authority

ABSTRACT

Liquidity and leverage risk are considered as one of the serious concerns and challenges for financial performance in organizations. Towards this end, the research sought to establish effect of liquidity and leverage on financial performance of commercial state corporations in the tourism industry in Kenya. The relationship between liquidity with leverage on financial performance was explained through various theories such as Trade – off Theory, Pecking Order Theory, Market Timing Theory, Modigliani and Miller Propositions and Liquidity Theory of Interest. The study adopted descriptive research design where data was retrieved from the Balance Sheets, Income Statements and Notes of ten (10) Commercial State Corporations in the tourism industry in Kenya during the period 2008-2012. Correlation and multiple regressions were applied to assess the impact of liquidity and leverage on financial performance measured with profitability. The findings of the study were that the profitabilities of the Commercial State Corporations in the tourism sector in Kenya are negatively affected by increases in the liquidity gaps and leverages. A positive relationship exists between the commercial state corporations in the tourism industry liquidity and profitability. The results of this study reveal a significant impact of all the factors of liquidity and leverage on financial performance of commercial state corporations in the tourism industry in Kenya. An increase in liquidity ratio by these state corporations will help them to increase their profitability. One of the recommendations is that it is imperative for the commercial state corporation's management to be aware of its liquidity position in different product segment. This will help them in enhancing their investment portfolio and providing a competitive edge in the market. It is the utmost priority of a commercial state corporation's management to pay the required attention to the liquidity problems. These problems should be promptly addressed, and immediate remedial measures should be taken to avoid the consequences of illiquidity.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial performance framework involves minimization of overall cost of capital, maximization of firm's value and taking advantage of corporate leverage in presence of corporate taxes. Titman and Wessel (1988) documented that one of the challenging decisions that a firm faces is the choice of mixture of financial performance structure while considering the set – off between profitability and risks. Should it be based on the industries practices depending on the traditional structure or choices of action decisions of managers? Answer to this determines the performance, success of a firm and how investors are attracted to the firm. Liquidity and leverage management is important but it is not a guarantee to success since some firms achieve good prospects without any good capital structure plan.

1.1.1 Liquidity

The International Financial Reporting Standards (2006) define liquidity as the available cash for the near future, after taking into account the financial obligations corresponding to that period. Liargovas and Skandalis, (2008) argues that firm can use liquid assets to finance its activities and investments when external finance are not available. On the other hand, higher liquidity can allow a firm to deal with unexpected contingencies and to cope with its obligations during periods of low earnings. Almajali et al (2012) found that firm liquidity had significant effect on Financial Performance of insurance companies. The liquidity is essential for company existence. It principally has an effect on financial costs reduction or growth, changes in the sales dynamic, as well as it influences on

company risk level. The decisive significance of liquidity means that it is important for company development and at the same is one of the fundamental endogenous factors which are responsible for company market position. The significance of liquidity to company performance might lead to the conclusion that it determines the profitability level of company. This issue was the subject of many theoretical and empirical studies which were conducted, among others, by Smith (2001), Shin and Soenen (2004) and Obida (2010) Hence, it should be emphasized that although a number of studies, the nature of liquidity impact on profitability is still not entirely recognized.

1.1.2 Leverage

Leverage refers to the proportion of debt to equity in the capital structure of a firm. The financing or leverage decision is a significant managerial decision because it influences the shareholder's return and risk and the market value of the firm. The ratio of debt-equity has implications for the shareholders' dividends and risk, this affect the cost of capital and the market value of the firm (Pandey, 2007).

Gupta et al, (2010) cited some studies showing contradictory results about the relationship between increased uses of debt in capital structure and financial performance. Ghosh, Nag and Sirmans (2000), Berger and Bonaccorsi di Patti (2006) reported a positive relationship between leverage and financial performance, while Gleason et al (2000), Simerly and Li (2000) showed negative relationship between financial performance and leverage level. Similarly, Zeitun and Tian (2007) found that debt level is negatively related with financial performance. Several researchers have

studied firms' debt use and suggested the determinants of financial leverage by reporting that firm's debt-equity decision is generally based on a trade-off between interest tax shields and the costs of financial stress (Upneja & Dalbor, 2001). According to the trade-off theory of capital structure, optimal debt level balances the benefits of debt against the costs of debt (Gu, 1993) hence, use of debt to a certain debt ratio results in higher return on equity, however, the benefit of debt would be lower than the cost after this level of capital structure. In other words, the more a company uses debt, the less income tax the company pays, but the greater its financial risk.

1.1.3 Financial Performance

Walker, (2001) indicated that measuring the results of a firm's policies and operations in monetary terms constitutes financial performance where the results are reflected in the firm's return on investment, return on assets, value added, etc. Almajali et al. (2012) argues that there are various measures of financial performance. For instance return on sales reveals how much a company earns in relation to its sales, return on assets explain a firm's ability to make use of its assets and return on equity reveals what return investors take for their investments. Company's performance can be evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level at which company's market value is exceeds its book value (Walker, 2001). Cohen, Chang and Ledford (1997) measured accounting returns using return on assets (ROA). They indicated that ROA is widely used by market analysts as a measure of financial

performance, as it measures the efficiency of assets in producing income. The most used accounting measures of financial performance return on assets (McGuire et al., 1988; Russo and Fouts, 1997; Stanwick and Stanwick, 2000; Clarkson et al., 2008), return on equity (ROE). According to Bowman and Haire, (1975) financial performance can also be measured using return on sales (ROS).

1.1.4 Effect of Liquidity and Leverage on Financial Performance

Financial performance and liquidity are of important issues that management of each commercial unit should take studying and thinking about them in to account as their most important duties. Some thinkers believe that liquidity has more importance because companies with low profitability or even without profitability can serve economy more than companies without liquidity (Biterback, 2002). The importance of liquidity status for investors and managers for evaluating company future, estimating investing risk and return and stock price in one hand and the necessity of removing weaknesses and defects of traditional liquidity indices (current and liquid ratio) on the other hand persuade the financial researchers (Melyk, Birita 1974; Richard and Laghline, 1980; Shalman and Cox, 1985) to present modern liquidity indices by applying some adjustment in current and liquid ratios. (Khoshtin at and Namazi, 2004).

Leverage and financial performance are interlinked and levered company holds liquid assets as a precaution in order to absorb the economic shocks in the market and also to service the debt and future fixed charges. This relationship is determined by how much a firm pays out as dividend and firms with tangible assets prefer more debt than those

holding intangible assets, Myers and Majluf, (1984). In support, Giannetti (2003) concluded that in less developed stock market, leverage level tend to be high due to agency costs associated in management of these respective firms. Also, firms that can access public debt tend to be highly leveraged and more liquid.

1.1.5 Tourism Industry in Kenya

Kenya is ranked the fifth leading international tourist destination in Africa, receiving 1.575 million international tourist arrivals in 2008 (KNBS 2010). Wildlife-based tourism currently accounts for about 70% of tourism earnings, 25% of gross domestic product and more than 10% of total formal sector employment in the country (KNBS 2010). Conservation policies and related collaborative schemes and tourism programmes play a crucial role in developing intervention measures to protect these nationally and internationally significant resources (Bulte et al. 2008). A widespread protected area system is in place with over 10% of its land area currently gazetted as national parks, national reserves or forest reserves: the system to date is comprised of 23 national parks, 28 national reserves, 4 marine national parks, 5 marine national reserves and 4 national sanctuaries Kenya Wildlife Service (KWS) 2010). These critical biodiversity areas are the backbone of a flourishing tourism sector; one out of two international visitors to Kenya is anticipated to have at least one wildlife appreciative/viewing opportunity during their stay (Odunga and Maingi, 2011).

Odinga (2006) noted that over the year Kenya tourism sectors has had number of issues related to cash flow management and liquidity as a long-term problem, having in mind

that strong marketing campaigns and sales do not ensure good cash flow and liquidity. The timing differences between accrual based profitability and cash flow means that even tourism enterprise with growing sales and strong net income may run out of cash with ensuing disastrous results. This means that the tourism enterprise needs to understand, project and manage its cash flow and liquidity very carefully. In that purpose some activities on enterprises and institutional level are needed.

1.2 Research Problem

Observers, economists and academicians have pointed out there exists positive relationship between liquidity and leverage on financial performance. Vishny and Shleifer (1992) produced evidence that in a competitive market, the realizable market value for liquid assets is less than their face value thus in cases of financial distress, the cost of liquidation will decrease. The ability of a firm to sell its assets has an impact on the level of financing and high liquid firms will employ more debt. Kihara (2006) showed that change in firm ownership from State Corporation to foreign investors lead to more debt usage in order to spur growth levels, improve credit rating and take up more business opportunities. This implies that debt is preferred. Also, Kiogora (2000) found out that the composition of capital structure of quoted firms at the NSE depends on the sectors in which they operate in. Firm's leverage and liquidity in relations to financial performance moves in the same direction hence the positive relationship

Performance of the tourism industry shows that tourist arrivals in Kenya declined marginally by 0.3 per cent in 2012 to 1,780,768 tourists compared to 1,785,382 tourists in 2011. Estimated receipts from tourism in 2012 were Ksh 96.02 billion, a 1.92 per cent

drop from the Ksh 97.90 billion realized in 2011. Europe is still the main source market for Kenya with a share of 43 per cent, followed by Africa at 24 per cent, America at 13 per cent, Asia at 12 per cent, Middle East at 5 per cent and Oceania at 3 per cent (KIPRA 2013).

In contrast, there exists negative relationship. According to Titman (2008), developing countries have high level of corruption, political risks, severe information asymmetry, agency costs and the market is less sophisticated. Firms will use internal (retained earnings) and equity financing since it is easier to take possession of a firm from equity holders than debt holders. Such markets show that leverage plus liquidity and financial performance are inversely related. Munene (2006) concluded that majority of state corporations adopt the pecking order theory. Commercial state corporation in Kenya utilize more retained earnings than debt hence low profits and debt equity ratio. In support, Mwaka (2006) studied the relationship between financial structure and growth of SMEs in Nairobi and found out that the SMEs finance their operations using retained earnings. Although debt is utilized, it is in small proportion. Different scholars argue from different stand points on the relationship between liquidity with leverage on financial performance hence the source of conflict. The study intends to answer the research question, what is the relationship between liquidity, leverage and financial performance of the tourism industry in Kenya?

1.3 Research Objective

To determine the effect of liquidity and leverage on financial performance of commercial state corporations in the tourism industry

1.4 Value of the Study

The paper will enable the investors to know the kind of information to be disclosed by firms on the financial statements pertaining to liquidity and leverage. The conclusions will also bridge the knowledge gap that exists in the market on financing and investing decisions. Secondly the findings of this study will make contributions to the existing paradigm on investors' behavior towards liquidity of a firm and it will be used to establish the research gaps and provide reference for further research under the field of financial performance and liquidity. Thirdly the study will enable the managers to establish optimal liquidity and leverage levels and adopt better working capital management policies. In addition the research will enable the policy makers to devise new standards in establishing an appropriate level of liquidity for industries and come up with more effective methods of managing liquidity levels sectors, markets and firms. In addition, the research will shed light on importance of information distribution and development of the capital market in order to reduce the level of market imperfection. Finally a detailed understanding of the effect of liquidity and leverage on financial performance will also provide a base for further research especially in the areas of liquidity and leverage.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This Chapter covers the various studies carried out on liquidity and leverage on financial performance. It highlights the importance of liquidity and leverage levels, financial modeling theories, factors affecting the financial performance and empirical review with summary of the previous findings from various studies.

2.2 Theoretical Review

The relationship between liquidity with leverage on financial performance can be explained through various theories developed over time. This study focused on the following theories aimed at informing the problem under investigation: - Trade – off Theory, Pecking Order Theory, Market Timing Theory, Modigliani and Miller Propositions and Liquidity Theory of Interest.

2.2.1 The Trade – off Theory

The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to Kraus and Litzenberger (1973), who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. Often agency costs are also included in the balance. This theory is often set up as a competitor theory to the pecking order theory of capital structure. Increase in debt – equity ratio leads to trade – off between interest tax shield

and bankruptcy costs hence increase in firm value. Raviv and Harris (1990) findings revealed that profitable firm will have high gearing ratios. Otherwise, firms with risky and intangible assets will rely on equity financing hence low debt to equity proportion.

2.2.2 The Pecking Order Theory

The pecking order theory was popularized by Myers (1984) when he argues that equity is a less preferred means to raise capital because when managers (who are assumed to know better about true condition of the firm than investors) issue new equity, investors believe that managers think that the firm is overvalued and managers are taking advantage of this over-valuation. As a result, investors will place a lower value to the new equity issuance. Weiner (2006) established that managers follow a preference order of retained earnings to debt to external equity. No floatation costs are incurred when a firm utilizes retained earnings while debt is utilized to avoid dilution of shareholding. Equity is least preferred since it involves floatation costs and dilution of firm's ownership by spreading risks among various stakeholders.

2.2.3 The Market Timing Theory

The market timing hypothesis is a theory of how firms and corporations in the economy decide whether to finance their investment with equity or with debt instruments. It is one of many such corporate finance theories, and is often contrasted with the pecking order theory and the trade-off theory, for example. The idea that firms pay attention to market conditions in an attempt to time the market is a very old hypothesis. Baker and Wurgler (2002), claim that market timing is the first order determinant of a corporation's capital

structure use of debt and equity. In other words, firms do not generally care whether they finance with debt or equity, they just choose the form of financing which, at that point in time, seems to be more valued by financial markets. The theory states that a firm will utilize either equity or debt based on the market value of stocks. Equity financing is preferred when company's stock have high value compared to past and book value, hence lower cost of equity. Dittmar, Mahrt and Servaes (2003) proved that managers will not exploit the mispricing of stock prices but use equity financing when stock prices are high.

2.2.4 Modigliani and Miller Propositions

The Modigliani-Miller (MM) theorem, proposed by Modigliani and Miller (1958), formed the basis for modern thinking on capital structure, though it is generally viewed as a purely theoretical result since it disregards many important factors in the capital structure process factors like fluctuations and uncertain situations that may occur in the course of financing a firm. MM did various studies that are considered as the cornerstone of capital structure. In 1958, MM documented that in a tax less economy, cost of capital remains independent of changes in the capital structure. This is only possible in a perfect efficient market and two identical firms with similar capital structure must command the same value. If this is not the case and investors realize the differences in firm value, then they will practice arbitrage, by selling their ownership in overvalued firm and buying shares in undervalued firm, until the two firms have the same market value. Myers (1984) found out that if the assumptions held in proposition I are eliminated one by one, then this leads to capital structure puzzle.

MM further advanced the proposition I in 1963 and incorporated corporate tax. They found out that a levered firm has higher value than unlevered firm. This is because interest on debt is tax deductible expense while dividends are disallowed as per the tax legislations. In 1978, Miller modified the proposition II and incorporated both the corporate and personal taxes. Investors pay personal taxes on their income. The personal taxes don't eliminate but reduces the net benefit of leverage. In proposition IV, MM noticed that debt can only be employed until certain limit. Beyond this limit, then the firm incurs bankruptcy and monitoring costs which eventually reduce the liquidity levels and increase the chances of financial distress due. In essence, increase in WACC leads to reduction in firm value.

2.2.5 Liquidity Theory of Interest

Zhou (2010) explained that Liquidity Theory of Interest is Keynesian's method of explaining the determination of the equilibrium interest rate. According to Keynes, interest rate is the reward for parting with liquidity. The demand for money is actually the desire to hold wealth. People desire to hold money because of its function to make purchases. According to Keynes, there are 3 motives for holding money: Transactionary demand for money, precautionary demand for money and speculative purposes. Transactions demand is the demand for money to make purchases, exchange for goods and services and sees money as a medium of exchange. On the other hand, precautionary demand for money is the holding of money to meet uncertainties. For example, a firm may hold precautionary money to meet bills in case payments made by its business partner is delayed. The two demands for above are for active balances. The level of

wealth determines them: level of real income and the intervals that they are paid. The higher the level of real income or profits, the higher the amount of active balances they will hold. The effects of interest rate on them are negligible (Zhou, 2010).

Speculative demand for money is used to purchase bonds (fixed interest bearing securities issued by the government) and uses money as storage of wealth. It is affected by expectations of future bond prices and is interest elastic. The money here is termed idle or passive balances. When bond prices are high, interest rate will be low, sharing an inverse relationship. When interest rate is very low, the demand of money may even become perfectly elastic and this portion of the function is termed the liquidity trap. Together, the horizontal summation of these 3 functions makes up the total demand for money. The supply of money is assumed to be determined by the monetary authorities acting via the banking system and is thus fixed. When the liquidity period (LP) curve intersects the money supply curve, it is where the equilibrium interest rate is determined and there is no tendency for its position to move. When the supply of money exceeds the total demand for money, people will use this money to buy bonds. As law of demand states, this increase in demand will drive the price of bonds up and thus lower interest rate back to its equilibrium position. The converse holds true. Where the assumptions are not valid, like money supply is not fixed, this explanation will not hold true. Also, if changes in money supply occur within the liquidity period trap where demand for money is perfectly elastic, interest rate will respond too (Zhou, 2010).

In conclusion, neither high nor low level of borrowing is beneficial to the firm. As a mirror in the statement of financial position, capital structure in terms of liquidity and leverage decision remains complex. None of the studies has one stand point pertaining to optimal liquidity and leverage levels as capital structure hence it remains a puzzle. No model states the ideal capital structure composition since each theory operates in different market environment.

2.3 Determinant of Financial Performance

In attempt to find an optimal liquidity and leverage levels various factors have been found to affect the financing performance. These include the following:-

2.3.1 Firms Age

Examining the relation between firm age and financial performance would seem to be relevant for both theory and practice. If performance declines as firms grow older, it could explain why most of them are eventually taken over (Loderer, Neusser, and Waelchli, 2009). Age could actually help firms become more efficient. However, old age may also make knowledge, abilities, and skills obsolete and induce organizational decay (Agarwal and Gort, 2002). Sorensen & Stuart (2000) argued that companies age affect the firm's performance. They further argued that organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment. Liargovas and Skandalis (2008) reported that older firms are more skilled since they have enjoyed the benefits of learning and not prone to the liabilities of newness, hence they have a superior performance. Loderer et al, (2009) found a positive and significant

relationship between the age of a company and profitability. Malik (2011) in his Pakistan study found that there is significantly positive relationship between company size and profitability.

2.3.2 Size of the Company

Small firms face high risks hence it becomes an obstacle when they want to raise capital through debt issue hence they utilize retained earnings, equity capital and short term debt to finance their activities. As per the trade – off theory, risks in large companies are reduced by diversification into various sectoral/industry activities and trading in unique or specialized products thus low possibility of being bankrupt. Due to this, there is positive relationship between leverage and the size of a firm. Connell (1999) produced evidence that as the value of a company decreases, bankruptcy costs increase. Small companies prefer short term borrowings like bank loans than issue of debt and equity that are associated with higher fixed charges hence costly.

2.3.3 Control and Ownership of the Firm

If management of the firm is in the hands of few ordinary shareholders, then control of the firm is easier. Firms will use preferred stock or debt in order to maintain control to limited shareholders since debt or preferred stock holders do not have voting and management right. In Wiwattanakantang (1999) study of Thailand firms, 35% of sampled firms are family owned. Non – dilution of ownership increases liquidity since it improves the trading capability of stocks in the market.

2.3.4 Development of the Capital Market

If the market is debt or equity developed, then firms raise capital through debt or equity respectively and vice versa. In undeveloped debt market, there is negative relationship between leverage and performance of a firm. Even though a firm enjoys the tax shield associated, it is not enough to cover the high borrowing costs and fixed interest charges. Claessens and Fan (2002) observed that there exist protective legislations in a developed market that favor the external investors. In such markets, debt is more utilized since it is cheaper to raise it than in less governed market. In Malaysia and Singapore, debt is more utilized due to presence of high standards of protection on external investors than in Thailand and Australia.

2.3.5 Floatation and Agency Costs

Floatation costs are incurred when the firm raises external funds. Debt issue is associated with less flotation costs hence preferred than equity capital. A firm should raise adequate funds that can be optimally be allocated to various revenue generating activities. Agency costs reduce the profitability level of a firm and existence of its problem forces firms to use more debt than equity (Wurgler, 2002).

2.3.6 Marketability and Lender's Attitude

In unstable market, the firm should analyze the preference of shares by investors and this will guide them to raise debt, preferred stock or equity. Investors possess little information about the shares of the company hence they form an attitude pertaining to the trading of shares. Jensen (1986) suggested that in order to reduce the level of information

asymmetry, bondholders should be provided with information which lowers the monitoring and agency costs in large firms. Also, large companies utilize debt to take advantage of debt tax shield and have stable cash streams.

2.3.7 Cost of Capital and Tangibility of Assets

Williamson (1988) observed that high cost of capital leads to costly borrowing hence equity is preferred. It is cheaper to maintain equity capital since once the shares start trading, the firm incurs no borrowing fees and floatation costs. Low cost of capital lead to high firm value. On tangibility, it is the ability of assets to be utilized as collateral. Bond holders will require collateral to protect their interests thus the direct proportional relationship between leverage level and liquidity of a firm.

2.3.8 Stable Cash flows and Profit Margins

Wurgler (2002) mentioned firms with stable growth and cash flow streams use more debt to finance their activities because floatation costs incurred is less than when common stock is utilized and it can afford to pay the fixed charges associated with high debt levels. Competitive structure and high rate of return on investment stimulates use of retained earnings which is cheaper. Firms utilize equity during periods of fluctuation in sales and profit margins.

2.3.9 Tax Shield

Borrowing/use of debt is preferred since the interest is tax deductible and firms use high level of debts in order to take advantage of tax shield. Warner (1977) noted that firms

take advantage of debt utilization only when the tax shield is higher than the cash flow generated by the firm.

2.4 Empirical Review

Williamson (1988) observed that a high liquid firm should finance its operations through debt. It is very easy to liquidate such firms in cases of bankruptcy therefore bondholders will be protected since they have first charge on firm's assets. It is cheaper for firms to use debt in such circumstances. According to the results by Raviv and Harris (1990), shareholders utilize debt to take advantage of tax – shield hence levered firms perform better than unlevered ones. This forces the firm to abide by the contractual obligations of fixed charges and thus maintain its level of profitability to certain level by altering its strategic operating objectives. This means that there is trade – off between cost of debt and improved profitability. Increase in level of liquidity reduces the default rate and eventually increases the use of debt thus positive relationship between liquidity and leverage.

According to Titman and Wessels (1988), a manager with Kelpling in the U.S. manufacturing firms dealing in production of specialized spare parts and machines find liquidity to be costly and thus their operations is financed by less debt. The findings revealed that there exist relationship between debt of the firm and that of the industry; which does not have any significance to the market. Each firm adopts unique debt usage decision depending on the industry since rates of tax vary from industry to industry.

Morellac (2001) established that assets are used as collateral and the relationship between liquidity and leverage depends on the extent to which there exist contractual agreements between the firm and bond holders. Liquid assets have higher resale value and are most preferred since the cost of disposal is minimal. Disposal of such assets reduce the size and value of a firm. Restriction covenants between debenture holders and the firm reduces the risk exposure of creditors' hence positive relationship between leverage and liquidity.

Anderson (2002) carried out a research on the relationship between firm liquidity, capital structure and growth on listed firms in Belgium between 1986 to 1999. Although costly capital (debt) is utilized, it is positive correlated to liquidity hence slows firm's growth. Agency conflict exists between managers and shareholders since managers opt to under invest in riskier and long term projects that yield high returns thus there is reduction in shareholders' wealth and dividend payment. Firms hold high liquidity levels for precautionary, speculative and transactional purposes enabling them to survive during the bad economic times. As a result, growth of a firm is slowed due to underinvestment in profitable and riskier projects. The results therefore suggest that there exist positive relationship between liquidity and leverage but negative correlation with the firm's growth. Liquidity levels differ from country to country and the sector under operations. A market that is unstable and growth rate is slow requires firms to have high liquidity to cover the risks associated in assets valuation. Likewise, a manufacturing firm that has steady cash flow will maintain low level of liquidity

Wurgler (2002) proved that liquidity leads to high firm value and capital structure decision depends on prior cumulative trading share prices, thus equity is preferred. On the other hand, several studies have shown that there exists negative correlation between liquidity and capital structure of a firm. Profitability level lowers the level of debt financing and in alignment to the pecking order theory; a firm utilizes its retained earnings before utilizing debt. Presence of debt leads to agency problems and ensures that efficiency is maintained.

Munene (2006) studied the impact of profitability on capital structure from 1999 to 2004 for all companies listed at the NSE by extending the pecking order theory and concluded that profitable firms use less debt than internal retained earnings hence low leverage proportion. Profitability alone cannot determine the optimal capital structure and others include the level of tax, risks and managers decisions altitude (aggressiveness or conservative).

Also, Weiner (2006) established that internally generated funds are utilized than external funds since it's cheaper. Good working capital management practices and implementation of employee share ownership plans strategy ensure that there is sufficient liquidity for the firm since managers undertake activities that boost firm's value. This reduces the bankruptcy, financial distress costs and protection of takeover.

Rao and Mohamed (2007) investigated Oman firms on debt utilization, where the debt markets are underdeveloped, are highly liquid and charges high interest rates. Although, there is a tax shield enjoyed by a firm utilizing debt, the net set off cost of interest is higher than the tax shields hence the negative relationship between firm's performance and leverage.

Lipson and Mortal (2009) conducted a survey to test the relationship between capital structure and market liquidity in Britain. In their findings, the debt to asset ratio is 38% and 55% for highly and less liquid firms respectively. This proves that liquid firms utilize less debt hence negative association exists between leverage and liquidity. In support,

2.5 Summary of Literature Review

In summary; liquidity framework and acquisition of assets increase the firm value and credit rating which eventually attracts investors. It is upon the firm to determine the level of leverage usage since high leverage levels affect the liquidity position thus growth is slowed down. Debt covenants between the firm and debenture holders ensure that liquidity is maintained in order to settle the fixed charges; thus debt usage promotes adoption of market best practices by firms. The firm utilizes debt to take advantage of tax shield because of the net trade – off between the cost and benefit of debt usage.

Managers under invest in profitable risky projects because of the short term tenure they have in a firm. This leads to agency problems and the firm utilize more equity than debt. To solve this, employee share ownership plans should be implemented to encourage and

boost managers' perspective in terms of investment and firm's growth. Liquidity reduces the cost of equity hence liquid firms are equity financed. Similarly, as per the pecking order theory, profitable firms utilize retained earnings and debt to control ownership and avoid the floatation costs. External equity is issued to spread the risks of a firm. High usage of debt leads to high chances of liquidation since the firm is unable to settle its fixed charges associated with debt. Even though there is a tax shield enjoyed by a firm, the cost of debt is high to cover the benefit associated.

Several prior studies provide that in a developing market, there is inefficiency, high level of corruption, information asymmetry, charges high interest rates, firms post high profits and assets are mispriced hence high liquidity and low leverage. The focus of this study is to find out the association that exists between liquidity and leverage in Kenya (developing market) and to have a detailed understanding of its effect to the economy in general.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of the study was to find out the relationship between liquidity and leverage. This chapter aims to address the research design, population of the study, sample design, data collection, presentation and techniques used for data analysis.

3.2 Research Design

This study adopted descriptive research design. Descriptive study involves collection of data in order to test hypothesis or answering research questions concerning the status of the subject in the study (Mugenda, 2010). Descriptive research was undertaken as the design is concerned with describing the characteristics of a particular individual or of a group or variables.

3.3 Population

The population of the study were all commercial state corporations within the tourism industry, Report on Parastatal Reforms in Kenya (2014) (Appendix I) giving a total of 10 commercial state corporations. The study focused on the 10 commercial state corporations because they had a standardized financial performance indicator that was used to answer the study objective.

3.4 Data Collection

Secondary data was extracted from the audited annual reports and financial statements of individual corporations sourced from the respective finance departments for a period of five years (2008 – 2012). Annual reports and financial statements considered included the statements of comprehensive income, state of financial position, state of cash flows and state of changes in equity. From each annual audited account the study collected the following data under Liquidity Ratio; the study will be interested with current assets and current liabilities. Whereby in measuring leverage the study collected total debt and total assets of respective commercial state corporation in the tourism sector.

3.5 Data Analysis and Presentation

Data was presented in form of tables and pie charts where appropriate. Tables were used for visual display and to show the obtained figures as collected from the consolidated annual reports and financial statements. Pie charts were used to show the magnitude / relationship of the variables during the period under study. Descriptive statistics was used in the analysis through calculation of mean and percentages to measure and compare the results. The coefficient was obtained after applying SPSS in the computations.

3.5.1 Analytical Model

The twin effect of leverage and liquidity on financial performance can be explained below using the multiple regression equation below:-

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:-

Y= Financial performance as measure by operating profit margin

α = Constant;

β =Coefficients of variable which measures the sensitivity of change in the variables.

X₁ = Liquidity as measured by liquidity ratio;

X₂ = Leverage as measured by debt ratio;

e = Error Term.

Table 3.1 Operationalization of Variables

Response / Output Variable	Indicators	Measure
Debt Ratio	= $\frac{\text{Total Debt}}{\text{Total Assets}}$	Ratio
Liquidity Ratio	= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Ratio
Operating Profit Margins	$\frac{\text{Operating Income}}{\text{Net sales}}$	Ratio

3.5.2 Test of Significance

To investigate the overall effect on the variables on financial performance ANOVA test was conducted.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings derived from data collected and further analyzed. The analyzed data is presented in tables and pie charts in terms of derived means, frequencies, percentages and proportions where necessary. Explanations of the findings are discussed after each table. The chapter constitute of the general findings of various variables on leverage and liquidity, the relationship between liquidity and leverage on the performance of commercial state corporations in the tourism industry and finally the overall summary of the findings .

4.2 Descriptive Statistics

This section details the findings of various variables analyzed in the market. Descriptive statistics was used to analyze the data collected and presented in tabular form. The mean, maximum and minimum values were used to select the companies of interest as described after each table for the reason of the pattern shown by the individual commercial state corporations.

4.2.1 Profitability Ratio

It is the ability of a firm to earn income and the higher the ratio, the stronger the ability to generate income. The data collected on uniqueness of a firm is tabulated in Table 4.1

Table 4.1 Descriptive Statistics

	Organization	Debt Ratio	Liquidity Ratio	Profitability
1.	Kenya Tourism Finance Corporation	0.74	0.59	0.03
2.	Golf Hotel Kakamega	0.61	1.27	0.18
3.	Mt Elgon Lodge	0.60	1.58	0.07
4.	Sunset Hotel Kisumu	0.59	1.46	0.10
5.	Kabarnet Hotel Limited	0.62	1.32	0.29
6.	Bomas of Kenya	0.38	1.92	0.04
7.	Utalii College	0.37	1.69	0.33
8.	Kenya Safari Lodges Ltd	0.32	2.48	0.51
9.	Kenya National Trading Corporation	0.27	2.36	0.45
10.	Kenyatta International Convention Centre	0.13	8.08	0.69

Source: Research Findings

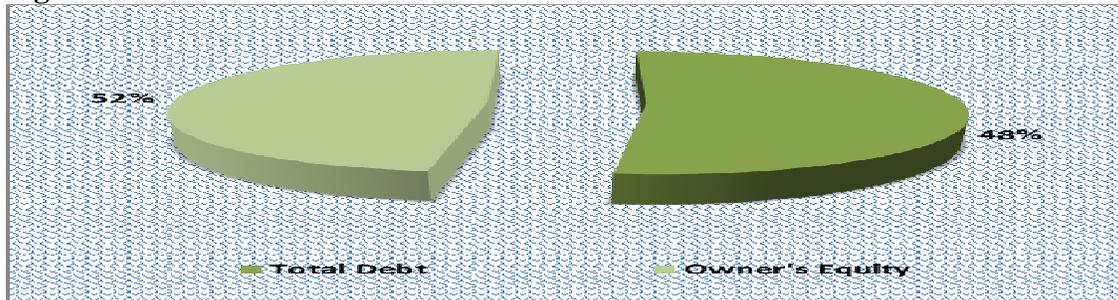
The most profitable firm was Kenyatta International Convention Centre followed by Kenya Safari Lodges and Hotels Ltd and Utalii College. These commercial state corporations have wide international markets hence stability in income and ability to record high profit levels. They are 5 (Five) Star Hotel services providers thus ability to produce at low costs and maximize the returns. The least profitable firm during the period under study was Kenya Tourism Finance Corporation and this was due to the huge non-performing loans advanced to SMEs within the tourism sector over the years. Due to this, the firm incurred high debt equity ratio while the interest rates were controlled by the government hence minimization of income generated. Generally, 18% was the mean profitability index recorded in the market.

4.2.2 Leverage Levels

Leverage indicates the extent to which firms use debt to finance their activities. From Table 4.1 above, the highest leverage level of 0.54 was recorded by Kenya Tourism Finance Corporation Ltd while Kenyatta International Convention Centre recorded the

lowest leverage level of 0.13. High leverage level increases the chances of firm's bankruptcy since in case of default, the debt holders are able to liquidate the firm and get back their money.

Figure 4.1: Mean Debt Level



Source: Research Findings

From Figure 4.1., the mean debt level recorded by firms was 48%. This implies that in average, firms are moderately levered and they finance their operations with more of equity than debt. This reduces the chances of liquidation in cases of default.

4.2.3 Liquidity Levels

From Table 4.2 the mean liquidity ratio was 2.275. This implies that most commercial state corporations under tourism have strong liquidity position because most of them which are hotels and conference facilities are aspiring to join the Nairobi Stock Exchange Market thus aiming at ensuring that the current assets are twice the current liabilities. KICC had the maximum liquidity position of 8.08 and this was because the corporation deals with various products and services of shorter cash conversion cycle. Kenya Tourist Development Corporation had the minimum liquidity position of 0.59 because of the

credit facilities it provides. Liquidity improves the credit rating and there is improved confidence among the investors and the firm.

Table 4.2: Mean Liquidity Ratio

	Organization	Liquidity Ratio
11.	Kenya Tourism Finance Corporation	0.59
12.	Golf Hotel Kakamega	1.27
13.	Mt Elgon Lodge	1.58
14.	Sunset Hotel Kisumu	1.46
15.	Kabarnet Hotel Limited	1.32
16.	Bomas of Kenya	1.92
17.	Utalii College	1.69
18.	Kenya Safari Lodges Ltd	2.48
19.	Kenya National Trading Corporation	2.36
20.	Kenyatta International Convention Centre	8.08
Totals		22.75
Means {Totals/10}		2.275

Source: Research Findings

4.2.4 Net Working Capital

The summary of the data collected on net working capital is tabulated in appendix II. From the sample of ten commercial state corporations, only Kenya Tourist Finance Corporation has a negative working capital. This is due to the loan business to SMEs. Net working capital determines the extent to which excess current assets can be utilized to settle debt when due. From the analysis, Golf Hotel Kakamega had the highest proportion of current assets to total assets of 89% (Table 4.3) and Kenya National Trading Corporation Ltd the least ratio of 14 %. It is clear that liquidity differs from firm to firm depending on the nature of business and sector under operations. Golf Hotel Kakamega specializes in hospitality advertising which require investment in short term resources hence the highest score on the current assets to total assets ratio while Kenya National

Trading Corporation falls under the trade and credit which requires investment in heavy machineries thus high percentage on non – current assets to total assets proportion and also the assets / loan repayments.

Table 4.3: Net Working Capital

	Organizations	% of Current Assets to Total Assets
1.	Kenya National Trading Corporation (KNTC)	14%
2.	Kabarnet Hotel Limited	23%
3.	Sunset Hotel Kisumu	39%
4.	Bomas of Kenya	26%
5.	Utalii College	82%
6.	Kenya Safari Lodges and Hotels Ltd.	61%
7.	Golf Hotel Kakamega	89%
8.	Mt Elgon Lodge	27%
9.	Kenya Tourist Finance Corporation	54%
10.	Kenyatta International Convention Centre	13%

Source: Research Findings

4.3 Inferential Statistics

For quantitative analysis the study used regressions model. These models were used to identify twin effect of liquidity and leverage variables influencing the dependent variable. The regression analysis is used to investigate the impact of liquidity and leverage on the financial performance of commercial state corporations in the tourism industry. The determinants of liquidity and leverage were estimated using pooled least squares and general least squares method with cross section weights.

As pointed out by Raheman and Nasr (2007), when using pooled data and cross sections there may be a problem of heteroskedasticity (changing variation after short period of time) and to counter this problem, the general least square with cross section weights approach was adopted. In the regression, the common intercept was calculated for all variables and assigned a weight. Further as Gill and Beger (2012) noted, when using multiple regression analysis, there is a possibility of endogeneity occurring whereby

when certain variables are omitted, it leads to measurement errors. Therefore to minimize endogeneity issues, the most important variables that impact the commercial state corporation liquidity and leverage (profitability, % of current assets to total assets and net working capital) are used.

4.3.1 Correlation Coefficient

Table 4.4 below shows the Pearson correlation coefficient generated from the data. If efficient liquidity and leverage management increases financial performance measured by profitability, one should expect a positive relationship between the measures of liquidity management and leverage on profitability variable. The correlation matrix (as shown in Table 4.4) depicts that profitability is negatively correlated with leverage. The correlation matrix is negating the existence of multicollinearity among the independent variables as all the correlations are below 0.90.

Table 4.4: Correlation Table

	Profitability	Leverage	Liquidity
Profitability	1		
Leverage	0.793	1	
Liquidity	0.683	-0.017	1

Source: Research Findings

A positive relationship exists between the commercial state corporations in the tourism industry liquidity and profitability. It is expected that with a commercial state corporations having high customer base, it will be able to invest and expand prudently and be able to generate adequate return. At the same time the commercial state corporations' liquidity and leverage have a negative correlation with the level of profitability. This results will be expected since when the difference between the maturity

of assets and liabilities is reduced, it is expected that a matching process is achieved which means that the commercial state corporations will be able to meet its obligations when due and this will increase the commercial state corporations profitability. The leverage position of the commercial state corporations has a negative correlation ($r = -0.017$) which means that a high leverage will mean that the commercial state corporations will be using most of its revenue to service the interest obligation which in turn reduce the commercial state corporations' liquidity level as well as profitability.

4.3.2 Multiple Regression

Table 4.5 shows the results of multiple regressions. The value of R2 is 0.516, revealing 51.6% variability in financial performance (profitability) accounted for by the liquidity and leverage variables in the model developed. The adjusted R2 is an improved estimation of R2 in the population. The value of adjusted R2 is 0.518. This adjusted measure provides a revised estimate, i.e. 51.8 per cent of the variability in profitability of commercial state corporations due to the fitted model

Table 4.5: Model Summary for Financial Performance with Control Variables

Model	R	R Square	R-Squared Adjusted R	Std. Error of the Estimate	Durbin-Watson
1	.718	.516	.518	114.29514	1.390
a. Predictors: (Constant), Liquidity Ratio and Debt Ratio (Measuring Leverage) b. Dependent Variable: Financial Performance (Profitability)					

Source: Research Findings

The R2 in the model is at 51.6% which can be considered to moderate fit the model.

4.3.3 Multiple Regression Model

The estimates of the regression coefficients, t-statistics, standard errors of the estimates and p-values are shown in 4.5 below. The coefficient column gives estimated regression coefficients. It can be estimated that there would be 4.5 per cent positive change in the financial performance of the commercial state corporations as a result of a unit change in liquidity ratio. The t-statistic for this coefficient is 0.422, i.e. significant. It can be deduced that as the commercial state corporations' liquidity grow, it will help the commercial state corporations to increase their profitability, a finding that is similar to the finding of Diamond and Rajan, (2001) as well as Kumar (2008).

Table 4.6: Multiple Regression

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	53470.640	126208.591		.422	.674
	Liquidity	.045	.002	2.404	29.907	.000
	Leverage	.061	.034	.011	1.805	.074

a. Dependent Variable: Y:Financial Performance (Profitability)

Source: Research Findings

The beta coefficient of leverage is 0.061. It shows that there will be a 6.1% positive change in the financial performance (profitability) of the commercial state corporation due to a degree change in the Debt Ratio. The Debt Ratio shows the maturity match between assets and liabilities, thus larger leverage ratio will affect the performance of the commercial state corporations negatively.

From Table 4.6 above, the established multiple linear regression equation becomes:

$$Y = 53470.640 + 0.045 X_1 + .061 X_2 + e$$

4.4 Interpretation of the Findings

The results of this study reveal a significant impact of all the factors of liquidity and leverage on financial performance of commercial state corporations in the tourism industry in Kenya. An increase in liquidity ratio by these state corporations will help them to increase their profitability. Hence the commercial state corporation in this category will not have to rely on the government for funding to meet their operational costs. This is demonstrated by the positive relationship that exists between the commercial state corporations in the tourism industry liquidity and profitability. It is expected in future that commercial state corporations in the tourism sector having high customer base will be able to invest and expand prudently and be able to generate adequate return. Debt management in the state corporation need to be carefully planned and implemented as liquidity and leverage have a negative correlation with the level of profitability. The leverage position of the commercial corporation when measured provided a negative correlation ($r = -0.017$) which means that a high leverage will mean that the commercial state corporations will be using most of its revenue to service the interest obligation which in turn reduce the commercial state corporations' liquidity level as well as profitability.

In Kenya commercial State Corporation in the tourism industry have a beta coefficient of 0.061 on leverage this implies that there will be a 6.1% positive change in the financial performance (profitability) of the commercial state corporation due to a degree change in the Debt Ratio. Whereas there will be 4.5 per cent positive change in the financial

performance of the commercial state corporations as a result of a unit change in liquidity ratio.

The beta coefficient of leverage was 0.061 greater than the one for liquidity at 0.045. This finding is in line with Watson (2012), who observed that pension fund is increasing employing leverage within their portfolio. Common example include derivative base investment strategies such as interest rate and inflation hedge gilt investment financed through repo transaction and use of leverage pooled funds (either within the matching assets or return seeking assets).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of the study was to determine the effect of liquidity and leverage on financial performance of commercial state corporations in the tourism industry. This chapter is a recap of the findings detailed in the previous chapters and make recommendations for further research to researchers and policy makers. The significant findings are summarized and conclusions drawn.

5.2 Summary

The study sought to the effect of liquidity and leverage on financial performance of commercial state corporations in the tourism industry between the years 2008 and 2012. The research revealed that there is negative insignificant relationship between leverage and financial performance as there is a positive relation between liquidity and financial performance. Firms adopt the pecking order theory by utilizing retained earnings since no floatation cost is involved. When it is over, they use debt to control ownership and finally equity is employed to spread risks among various stakeholders. It was further revealed that there exist insignificant relationship between liquidity, profitability and tangibility with leverage. The other variables considered had significant relationship with leverage.

5.3 Conclusion

From the organizations considered, it was established that there is negative insignificant relationship between liquidity and leverage. As the level of liquidity increases, the

leverage level reduces. Firms maintain high liquidity levels to protect their human capital and reduce chances of financial distress. They adopt best market practices by putting in place good working capital management practices and short cash conversion cycles. This was evidenced from the data collected, analyzed and conclusions drawn. Through adoption of best liquidity practices; credit rating and fund capacity of firms is improved. The lending financial institutions charge high interest rates, offer short term financing and record impressive profit margins. This means that the cost of debt is expensive for the firms thus low leverage levels. Firms have established competitive structures to curb these problems hence are able to finance their operations with retained earnings thus adoption of the pecking order theory.

The firms grew during the period under the study and to some extent; they have financed their growth through issuing bonds hence the positive relationship between growth and leverage. Growth increases the size of the firms in terms of total assets base through diversification into various sectors of the economy. The negative relationship between profitability leverage is due to the fact that the firms record high profit levels and prefer to reinvest the income generated to finance their activities. Debt usage is expensive since the cost of debt surpasses the tax shield advantage. Also, they avoid debt to reduce their chances of liquidation. Based on these facts, firms adopt the pecking order theory. Through adoption of good working capital practices and high liquidity levels, most firms have not invested heavily on non – current assets. They maintain liquidity for expansion and take advantage of business opportunities in order to boost their returns. This explains

why the level of tangibility is low and the negative relationship with leverage. In overall, the relation between liquidity and leverage is negative.

Liquidity problems if unchecked may adversely affect a given commercial states corporation's profitability, capital and under extreme circumstances, it may cause the collapse of an otherwise solvent commercial state corporation in the county. In addition, a commercial state corporations having liquidity problems may experience difficulties in meeting customers' expectations at the expense of competition, however, this liquidity risk may be mitigated by maintaining sufficient cash reserves and decreasing the liquidity gap. Adequate cash reserves will decrease the commercial state corporation's reliance on the repo market which consequently will reduce the cost associated with over the night borrowing and insurance cost.

It is imperative for the commercial state corporation's management to be aware of its liquidity position in different product segment. This will help them in enhancing their investment portfolio and providing a competitive edge in the market. It is the utmost priority of a commercial state corporation's management to pay the required attention to the liquidity problems. These problems should be promptly addressed, and immediate remedial measures should be taken to avoid the consequences of illiquidity.

5.4 Recommendations for Policy and Practice

Several implications follow from our study. First, the finding that systematic adjustment to low liquidity shocks is balanced towards the liability side of the balance sheet (instead

of assets) calls for a careful interpretation of liquidity ratios. Adjustment on the liability side also implies that the discussion on the wider economic effects of liquidity regulation needs to include this channel. In the tourism industry in Kenya case, outflows of market funding led to substitution by other countries neighboring Kenya, which increased competition within the sector on a regional front. This would be expected to increase funding costs.

5.5 Limitation of the Study

In the course of the research, the following problems were encountered. Firstly, the annual financial statements are prepared under the underlying assumptions and concepts. These assumptions are subjective thus non – standardization of their applicability especially in terms of provisions and estimates. Secondly, they report historical data hence unable to adequately predict the future due to the volatility in the market. Thirdly, most of the financial statements were restated in the preceding years. This means that there were material misstatements of firms' performance and this creates a window of opportunity for prior year adjustments and not informing the public of the same. This means that pattern portrayed may affect the relationship established.

5.6 Recommendations for Further Research

The study considered only commercial state corporations in the tourism sector on data between 2008 – 2012 thus, the researcher recommends for an event study to be carried out in the same field on the entire commercial state corporations in Kenya. Secondly, based on the findings there is negative relationship between leverage and financial

performance in Kenya. This creates a potential for further research in other countries within Africa in order to determine if the same relationship exist. With the introduction of Sacco Societies Regulatory Authority (SASRA), further research is recommended to establish whether the co-operative societies, firms quoted in the stock exchange and SMEs exhibit the same relationship as the quoted firms in Kenya. From the behavioral finance point of view, relationship between liquidity, dividend policy and stock value should be determined. Further research should determine why share values fall but the firms record high levels of profits.

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**APPENDIX I – COMMERCIAL STATE CORPORATION IN THE TOURISM
INDUSTRY IN KENYA**

1. Kenya National Trading Corporation (KNTC)
2. Kenyatta International Convention Centre
3. Kenya Safari Lodges and Hotels Ltd.
4. Kenya Tourist Finance Corporation (Formally KTDC)
5. Utalii College (KUC)
6. Bomas of Kenya
7. Golf Hotel Kakamega
8. Sunset Hotel Kisumu
9. Kabarnet Hotel Limited
10. Mt Elgon Lodge

Source (Report on Parastatal Reforms in Kenya (2014))

**APPENDIX II: DATA ON LIQUIDITY OF COMMERCIAL STATE
CORPORATIONS**

	Organizations	Current Assets Kshs' '000'	Total Assets Kshs' '000'	Current Liabilities Kshs' '000'	Net Working Capital Kshs' '000'
1.	Kenya National Trading Corporation (KNTC)	869,750	6,309,902	368,684	501,066
2.	Kabarnet Hotel Limited	707,004	3,045,923	398,417	308,587
3.	Sunset Hotel Kisumu	611,545	1,571,340	488,251	123,294
4.	Bomas of Kenya	19,221,600	74,311,000	17,218,000	2,003,600
5.	Utalii College	9,381,590	11,424,556	6,432,893	2,948,697
6.	Kenya Safari Lodges and Hotels Ltd.	3,937,880	6,492,160	1,965,440	1,972,440
7.	Golf Hotel Kakamega	3,342,921	3,739,049	1,877,355	1,465,566
8.	Mt Elgon Lodge	2,345,523	8,763,495	2,110,240	235,283
9.	Kenya Tourist Finance Corporation	961,617	1,778,029	270,217	(691,401)
10.	Kenyatta International Convention Centre	4,246,057	9,803,706	3,900,895	345,162

Source: Research Findings