Factors Affecting Financial Performance of Companies Listed In the Nairobi Securities Exchange

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Abstract:
The study seeks to examine the factors that affect the financial performance of listed firms on the NSE. The study adopted a conceptual framework to show a diagrammatic relationship between independent variables and dependent variable. The study was informed agency theory; pecking order theory and stakeholders' theory was used. The study used primary data collected using a structured, modified Likert scale questionnaire. The sample size was 384 officers from listed companies on the NSE. The reliability was assessed using the Cronbach's alpha. Regression analysis findings showed that, individually, each of the factors (dividend policy (0.184), capital structure (0.189), had a positive and significant effect the firm's financial performance. The combined regression model showed that only capital structure (-2.508) had a significant and negative effect on the firm's financial performance. Furthermore, the findings of the study are of immense benefits to listed firms and their directors, because they tell about the compliances level of their companies to statutory and regulatory requirement and avoidance of sanctions.

Keywords: *dividend policy, capital structure, financial performance, firms*

Introduction

Financial performance measures the effectiveness and profitability of ventures, the security of borrowers' cases against resources, and the probability that derivative instruments will ensure financial investors against an assortment of market dangers (Seethiah, 2014). The financial performance of organizations changes after some time as benefits vary starting with one year then onto the next and starting with one organization then onto the next. A few organizations get increments in profits while others record declines and some even misfortunes. These progressions are dictated by different variables. Performance variables can be organized in: elements of productivity, that allude to financial, social and organizational effectiveness; inward natural elements that allude to ownership, administration, organization estimate, intricacy, specialized enrichment, location, human potential, instructive and scholarly capital, financial position, authoritative culture; and outer ecological components: sparing, innovative, political, demographical, social, logical, organizational, legitimate, social, instructive, ecological and others (Sima, 2014). This study sought to establish the factors that determine the financial performance of listed firms at the NSE. Financial perspective is a worry over the world. In Europe, Panu, Andrew, and Erik, (2014) carried out a review of financial investment (benefit sharing and representative share ownership arrangements) and positive financial performance outcomes. They utilized information from Finland, Germany, the Netherlands and the UK. A few result measures were utilized, in view of respondents' evaluations of the impacts of financial support. The outcomes provided a reason to feel ambiguous about some correlatively amongst financial and different types of interest. There is a connection between corporate administration, ownership and financial performance (Goergen, 2014). The creator utilized point by point organization smaller scale information to inspect the ownership and performance in German and UK firms amid the 1980s. In America, Surroca *et al.* (2015) demonstrated a positive relationship between financial performance and corporate social performance supportive of the hypothesis that asset accessibility and corporate social performance have a significant relationship. Corporate social performance likewise has a significant relationship with future financial performance, and this is supportive of the hypothesis that good management has a significant relationship with corporate social performance.

In Tunisia, Sayedi (2014) contends that both inward and outer components influence the performance of firms. In Kenya, Otieno, (2015) states that macroeconomic determinants of firm benefit are those attributes of a large-scale economy that influences the gainfulness of firms working on it. As indicated by him, they fluctuate in their particular levels of centrality starting with one economy then onto the next and can't be straightforwardly controlled by individual shareholder and administrative choices and exercises. In writing, macroeconomic determinants of firm benefit incorporate economic development (GDP), expansion and loan fees and swapping scale. A study was also conducted by Muheirwe, Memba, and Warren, (2016) to assess the factors affecting the financial Performance of the cross-listed companies in the NSE. This study, however, focused on the influence of the level of awareness of the market by the public, the regulatory framework, and technology on the performance of cross-listed companies. The study revealed a need to carry out a related research so as to increase the generalizability of the findings. Also, the researcher recommended a study on factors that determine the performance of listed companies on the RSE where the relevance of dividend policy and its effect on the listed firms' value was.

Wilson (2015) in his study on the challenges of emerging stock market in Africa, emphasized the importance of the capital market in the economic transformation of Kenya, further stating the importance of the steady increase in capital both for firms and for economic growth. The study concluded that there are still only a few listed companies, sixty-four in total and a slow growth of the stock market. Also listed company financing decisions were identified involving a wide range of policy issues; such decisions affect the capital structure, corporate governance, and profitability of firms. Also, the relevance of dividend policy and its effect on the listed firms at the NSE were identified to be very important by Muheirwe *et al.* (2016) who carried out a study to assess the factors affecting the financial Performance of the cross-listed Companies on the Rwanda Stock Exchange.

According to Musonera and Safari, (2016) who conducted a study to establish the challenges facing the Rwandan stock exchange, despite the government efforts, the capital market is not growing at the pace expected. The Rwandan stock exchange faces many challenges Musonera and Safari, (2016). This was also confirmed by Rwanda Stock Exchange report (2015). The market recorded a total turnover of Rwandan Francs 38.54 billion136.1 million shares and in 970 deals in 2015 equated to the same period for 2014, the market recorded a total turnover of Rwandan Francs 46.3 from 135 million shares in 1,542 deals. This translates into a decrease of 16.7 in turnover, and a decrease of 37% in a number of transactions, respectively over the same period. From January –December 2015 the ALSI (all share index) recorded a decrease of 3.8%. From January – December 2015 the Rwanda Share Index recorded a decrease of 37.5%.

More Studies have been conducted to investigate determinants of financial performance of firms. For example, a study was conducted by Adediran and Alade, (2014) to determine the relationship between dividend policy and corporate profitability, Mwangi, Muathe and Koimbei, (2015) investigated the relationship between capital structure and financial performance of non-financial companies listed on the NSE, Vincent (2013) investigated the effects of corporate governance on financial performance of NSE listed companies in Kenya and (Vintila & Neru, 2015) analyzed the effect of transparency and disclosure in reporting on financial performance of Bucharest Stock Exchange Listed Companies. The current study hence seeks hypothesized;

H_{O1}: *There is no significant effect of dividend policy on the financial performance of firms listed on the NSE.*

H_{O2}: *There is no significant effect of capital structure on the financial performance of firms listed on the NSE.*

Theoretical Framework

The agency theory clarifies how best the connection amongst specialists and principals can be tapped for the reason for administering a partnership to understand its objectives. Enthusiasm on organization relationship turned out to be more conspicuous with the rise of the expansive enterprise (Mitnick, 2014). There are business people who have a skill for amassing of capital, and managers who have thoughts to utilize the capital adequately. Given that the providers of the capital do not have the imperative ability or the time to adequately run their businesses, they hand them over the managers, thus, the separation of ownership from control, and the orderly organization issue is arising. In an agency relationship, owners and managers have plainly characterized obligations: owners are select and set up managers and auditors to guarantee viable administration framework is actualized, while managers are in charge of everyday operations of the business (Smith and Stulz, 2014).

Information asymmetry emerges accordingly of the partition of ownership and administration. To begin with, Myers and Majluf (2015) indicate that the pecking order theory begun with the presumption of unbalanced data, implying that the managers are more knowledgeable than the investors concerning the organization, opportunities, qualities, dangers and the competitors. Pecking Order hypothesis says that the organizations seek after a financing chain of importance because of data costs (Myers and Majluf, 2015). When firms venture into the external markets, they are mainly faced with the cost of information asymmetry expenses as well as exchange costs. These added costs make external capital more costly, and consequently, firms are inclined to utilize internal rather than external resources.

Managers would endeavor to issue value when its fairly estimated worth is higher (Myers and Majluf, 2015). Normally, the cost of stock often declines when a stock issue is reported. This may make value a costly wellspring of financing and direct firms to contribute less. Such issues not influence held a profit. Also, as debt needs settled intrigue installments, that is less delicate to data asymmetries.In this manner, the pecking order theory is an aftereffect of data asymmetries that exist. What's more, it proposes ventures to raise the capital, that organizations meet their capital prerequisite through internal assets to start with, then after go for external financing. The hypothesis is important to the review as it clarifies capital structure which is one of the autonomous factors.

Review of Variables

Dividend Policy

Nissim and Ziv, (2015) characterize profit arrangement as the controls and rules that an organization uses to choose to make profit installments to shareholders. The profit strategy choices of organizations are the essential component of corporate arrangement. Profit, which is fundamentally the advantage of shareholders as a byproduct of their hazard and venture, is dictated by various considers an association. These variables incorporate financing constraints, venture possibilities and decisions, firm size, weight from shareholders and administrative administrations (Nissim and Ziv, 2015). So profit approach is one of the elements that influence the performance of corporate associations.

Capital Structure

The corporate sector development is critical to economic advancement. Furthermore, the corporate sector example of the organization is of fundamental significance for the financial prosperity of organizations in any part. Specifically or by implication, corporate back choices influence the different aspects of the corporate administration, which at last decide the abundance of financial specialists. Capital structure includes equity capital and debt capital generally equity capital includes shareholder's fund, and reserve of the firm on the other hand debt capital considers preference share capital and other non-current liabilities of the firm. Generally, debt to equity ratio is used to analyze the capital structure of the firms where capital structure includes equity and debt capital. Velnampy and Aloy (2014) stated that the term capital structure implies a combination of equity shares, preference shares, and long-term debts. Most of the firms try to keep their capital structure to maximize their profitability and sustainability which means that how much of fund should be maintained in the form of equity and debt capital. Every firm has to pay the interest or other compensation for their debt capital whether the firm has earned a profit or not, but in the case of equity capital, the firm may pay the dividend to the equity shareholders only if the firm has earned a profit.

The capital structure generally long-term decision and the liquidity position are related to the everyday operation. The deciding of the capital structure is related to the board of directors, and top finance people decision of the firm however liquidity position depends on the management of the firm. As indicated by Gitman (2015) it is by, and largely trusted that the value of a firm is amplified when it's cost of capital is low. The sort of mix of debt and value that will limit the organization's cost of capital and subsequently augments the association's productivity and market value is the ideal capital structure. Poor capital structure choices can result in increased cost of capital hence reducing the NPV of a significant portion of the venture's undertakings resulting in the making of many undesirable investments. Viable capital structure choices will result in reduced cost of capital and increase the NPV resulting more viable investments worth undertaking and thus enlarging the value of the firm (Gitman, 2015). The impact of foreign ownership on firm performance has been an issue important to scholars and specialists on policy. Edim and Atseye, (2014) endeavored a hypothetical survey of the connection between capital structure and association's performance. They attempted to find, distinguish and investigate remarks, projects, conclusions and suggestions by different analysts and researchers alike on the disagreeable issue of capital structure and expansion of an association's performance even with orderly hazard.

Research Gaps

The review of the literature indicated that conceptual and contextual research gaps existed. Conceptual research gaps existed because the reviewed studies used either one or two of the variables under the current study but not all the four variables in the same study. An example is a study conducted by Mwangi *et al*. (2015) which used Capital structure only, a study by Vincent (2013) which used corporate governance only, a study by Uwalomwa *et al*. (2014) which used dividend policy only. Conflicting results on the effect of some of the variables used in the current study were also seen. The review also indicated the existence of contextual research gaps because the reviewed studies were conducted in a different context as compared to the current study. A study was conducted by Nikolaus (2015) to examine the determinants of firm performance of Indonesian and Dutch firms over the period of 2009-2013. The study however focused in Netherlands. Kungu *et al.* (2014) conducted a study to analyze the factors affecting the performance of 41 non-financial companies listed on the NSE using panel data between 2003 to 2013. The study used panel data and looked at NSE. A study carried out by Vintila and Neru (2015) to examine the determinants of corporate financial performance of Bucharest Stock Exchange Listed Companies presented a contextual research gap because it was conducted in Bucharest.

Furthermore, Mwangi and Murigu (2015) carried out a study to determine the factors that influence the profitability of general insurers in Kenya, and the study presented a contextual research gap since it focused on the insurance sector only. In Rwanda, Usonera and Safari (2016) carried out a study to establish the challenges facing the Rwandan Stock Exchange. The study only focused on the challenges and opportunities of Rwandan stock market and not on the determinants of financial performance of firms listed on the stock exchange. Muheirwe *et al.* (2016) also carried out a study to assess the factors affecting the financial Performance of the cross-listed firms on the NSE. This study, however, focused on the effect of the level of awareness of the market by the public, the regulatory framework, and technology on the performance of cross-listed companies while the current study focused on dividend policy, capital structure, corporate governance and timely rendition of information.

Materials and Methods

A cross-sectional survey research design was utilized in this study. The target population for this study was firms listed on the NSE as at the year 2016. By the end of the year 2016, there were 64 firms listed on the NSE. The target population was 101,052 employees of the 64 firms. The sampling frame for the survey of the 64 firms listed on the NSE was management staff. The listed firms were easy to collect data from as they are licensed and thus can be reached by ease through the contact information provided to CMA.Since this study had a respondent's population greater than 10, 000, the sample size was 384.Structured questionnaires were employed to collect data from senior management staff in listed companies on the NSE. The data collected using structured questionnaires are easy to analyze. A pilot study was carried out on a sample of 39 respondents who were marked to be not included in the main study in order to test the reliability and validity of the questionnaire. Cronbach's alpha was used to establish the internal reliability of the questionnaire that was utilized.The KMO-Bartlett's test was utilized to assure internal consistency.

Data Analysis

In this study, both qualitative and quantitative data analysis approaches were utilized. The Likert scale was employed to provide a measure of the qualitative data because it helps to minimize the subjectivity and make it possible to use quantitative analysis.For this kind of a study, there is need to go further and test the hypothesis. The multiple regression analysis was utilized to examine the relationship between dividend policy, the capital structure as the independent variables and financial performance of listed firms as the dependent variable.

Results And Discussion

This section presents the analysis of the data collected and discusses them accordingly with the aim of achieving the stated objectives. Primary data was collected by use of questionnaires. The collected data was analyzed. Results were presented for each of the theme drawn from the objectives and were interpreted and discussed.

Response rate

Out of the targeted 384 questionnaires (officers from the companies listed in the Nairobi securities exchange), 352 questionnaires were returned duly completed for data analysis which translated to 91.7% response rate. Mugenda & Mugenda (2003) indicate that a rate of 50% is considered adequate for analysis, reporting, and valid interpretation. Therefore, the study response was deemed appropriate for analysis.

Table 1: Reliability statistics

Cronbach's Alpha	N of Items
0.919	5

The reliability test showed a Cronbach's alpha of 0.919 for all the five factors under study, and it was used to establish the internal reliability of the questionnaire that was utilized. The value of 0.919 was deemed acceptable reliability because the value 0.7 is deemed to be the lower level of acceptability (Cronbach, 2015).

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.539
Bartlett's Test of Sphericity	Approx. Chi-Square	5178.651
	df	6
	Sig.	0.000

In the study, validity was tested in order to assure how accurate the data obtained in the study represent the variables of the study (Bryman and Bell, 2015). The KMO-Bartlett's test was utilized to assure internal consistency, and the KMO measure of sampling adequacy was 0.539 hence reliable in terms of validity.

Sample Characteristics

The demographic information helps the researcher understand the general view of the respondents. The study sought to establish the demographic characteristics of the respondents. Demographic characteristics are important in understanding the related social factors that determine or affect the factor being investigated, in this case, firms financial performance. The characteristics investigated were the length of time the company had been in existence, and the number of branches that the company has would indicate the size of the company as well as the level of growth of the company. The findings regarding the demographic characteristics were presented in the form of frequency tables. The findings were summarized and presented in Table 2.

The findings revealed that 238 (67.6%) of the respondents indicated that the company had been in existence for over 10 years while 113 (32.1%) of the respondents indicated that the company had been in existence for 6 to 10 years. Furthermore, also revealed that 184 (52.3%) of the respondents revealed that the company had between 6 to 10 branches while 124 (35.2%) of the respondents had between 1 to 5 branches while 44 (12.5%) of the respondents revealed that the company had over 10 branches.

Dividend Policy

The study also investigated the dividend policy factor and later how it influences the financial performance of the firm. The findings regarding this were summarized and presented in Table 3

Table 3: Dividend Policy

Dividend Policy	Mean	Std. Dev
The company operates under established and regularly observed dividend policy	3.17	1.081
The company pays dividends in correlation with its value	3.87	0.877
Your company prefers to pay dividends to shareholders than interest to debentures holder because of the incidence on profitability	3.61	0.617
The shareholders subscribe to high gaining	4.28	0.521
Company performs better because of staff share scheme	3.62	0.607

The findings in Table 3 showed that majority of the officers working in the companies revealed that the company operates under established and regularly observed dividend policy (mean = 3.17, std. dev = 1.081). Furthermore, respondents strongly agreed and agreed respectively that the company pays dividends in correlation with its value (mean = 3.87, std. dev = 0.877). In addition, respondents agreed that their company prefers to pay dividends to shareholders than interest to debentures holder because of the incidence on profitability (mean = 3.61, std. dev = 0.617). The findings also showed that 245 (69.6%) and 105 (29.8%) of the respondents agreed and strongly agreed that the shareholders subscribe to high gaining (mean = 4.28, std. dev = 0.521) while 2 (0.6%) strongly disagreed with the statement. Finally, the findings showed that company performs better because of staff share scheme (mean = 3.62, std. dev = 0.607). In general, the findings showed an overall agreement with the statements concerning dividend policy with a near neutral perspective with the statement that the company operates under established and regularly observed dividend policy. Concerning dividend policy of the company, Nissim and Ziv (2015) indicate that variables such as financing constraints, venture possibilities, and decisions, firm size, weight from shareholders and administrative administrations. The dividend policy choices of organizations are the essential component of the corporate structure.

Capital Structure

The corporate sector development is critical to economic advancement. Furthermore, the corporate sector example of the organization is of fundamental significance for the financial prosperity of organizations in any part. Thus, the study sought to establish the views of the respondents concerning the various statements that define the capital structure of the firm and the respondents concerning this were summarized and presented in Table 4

Table 4 Capital Structure

Capital Structure	Mean	Std. Dev
The company relies on loan in order to run	3.63	0.946
The company has a huge burden of current liabilities as compared to current assets	2.91	0.966
The burden of cost of equity is more than the burden of cost of debentures on Profit and loss account	2.92	0.962
The company keeps its leverage level under control	2.73	1.566
There are clear working capital management guidelines by the company to avoid bankruptcy	2.94	0.979

The findings in Table 4 revealed that that the company relies on loan in order to run (mean = 3.63, std. dev = 0.946. The findings also revealed that that the company has a huge burden of current liabilities as compared to current assets (mean = 2.91, std. dev = 0.966). Furthermore, that the burden of the cost of equity is more than the burden of the cost of debentures on profit and loss account (mean = 2.92, std. dev = 0.962). In addition,that the company keeps its leverage level under control (mean = 2.73, std. dev = 1.566) . Finally, respondents disagreed that there are clear working capital management guidelines by the company to avoid bankruptcy (mean = 2.94, std. dev = 0.979). The findings showed overall neutrality with the statements concerning the capital structure of the firms. Capital structure includes equity capital and debt capital generally equity capital includes shareholder's fund, and reserve of the firm on the other hand debt capital considers preference share capital and other non-current liabilities of the firm. Generally, debt to equity ratio is used to analyze the capital structure of the firms where capital structure includes equity and debt capital. Capital structure implies a combination of equity shares, preference shares and long-term debts (Velnampy and Aloy, 2014). Gitman (2015) notes that concerning capital structure, it is, by and large, trusted that the value of a firm is amplified when its cost of capital is low.

Firm's Financial Performance

Financial performance is at the heart of the administrative capacity, and it is a subjective measure of how well a firm can utilize resources to create incomes and extend its operations. Thus, having understood the views of the respondents concerning the various determinants of financial performance of the firm, the study also sought to establish the perspective of the respondents concerning the level of the firm's financial performance and the findings were summarized and presented in Table 5.

Table 5: Firm's Financial Performance

Firms Financial Performance	Mean	Std. Dev
There has been an increase in Earnings Per Share in the company for the last 5 years	3.90	0.894
There has been an increase in Return on Equity in the company for the last 5 years	3.60	0.582
There has been an increase in Return on Asset in the company for the last 5 years	4.24	0.429
There has been an increase in profits in the company for the last 5 years	3.60	0.582
There has been an increase in return on investments in the company for the last 5 years	3.71	0.958

The findings showed that respondents respectively strongly agreed and agreed that there had been an increase in Earnings per Share in the company for the last 5 years (mean = 3.90, std. dev = 0.894). In addition, the respondents agreed and strongly agreed respectively that there had been an increase in Return on Equity in the company for the last 5 years (mean = 3.60, std. dev = 0.582). Furthermore, respondents agreed and strongly agreed respectively that there had been an increase in Return on Asset in the company for the last 5 years (mean = 4.24, std. dev = 0.429). The findings also showed that respondents agreed and strongly agreed respectively that there had been an increase in profits in the company for the last 5 years (mean = 3.60, std. dev = 0.582) while 159 (45.2%) of the respondents were neutral about the statement. Finally, respondents strongly agreed that there had been an increase in return on investments in the company for the last 5 years (mean = 3.71, std. dev = 0.958). The findings generally showed that majority of the respondents agreed with the statements concerning the firm's financial performance. Basing on these findings, it is clear that financial performance can be measured in a wide range of ways. Income from operations can be utilized and in addition, add up to sales. Demsetz and Lehn (2015) indicate that financial ratios are a decent wellspring of information to gauge financial performance: Return on Assets (ROA) measures the profitability of the business; Return on Equity (ROE) is utilized to ascertain productivity by uncovering how much profit a firm creates with cash contributed by shareholders.

Correlation and Regression Analysis

From the findings in Table 6, the relationship between dividend policy and the firm's financial performance was found to be positive and significant, r = 0.184, p-value = 0.001 indicating that there is 18.4% probability that the firm's financial performance will increase with the increased availability of various components of dividend policy. Furthermore, the relationship between capital structure and the firm's financial performance was found to be positive and significant, r = 189, p-value = 0.000 which shows that there is 18.9% probability that the firm's financial performance will increase with increased capital structure and components that define the capital structure. All the correlations were found to be less than 0.5 indicating weak relationships which indicated that although there was agreement with some of the components that defined the various independent variables, there was also disagreement or even neutrality with some of the components.

According to Table 6, the value of the R-Square, 34% of the firm's financial performance could be explained by independent variables of dividend policy. Therefore independent variables would have a 34% influence on the firm's financial performance while the remaining 46.6% could be attributed to other factors other than predictor variable.

The findings showed that although dividend policy has a positive effect on the firm's financial performance (β_{a1} = 0.184), the effect was significant (p-value = 0.001) as presented in Table 4.12. This can also be assessed by looking at t-test value which indicated that the effect of dividend policy was more than that attributed to its standard error (t = 3.497). Nissim and Ziv (2015) characterize dividend policy as the controls and rules that an organization uses to choose to make dividends to shareholders. The profit strategy choices of organizations are the essential component of corporate policy. These variables incorporate financing constraints, venture possibilities and decisions, firm size, weight from shareholders and administrative administrations (Nissim and Ziv, 2015) and as such, dividend policy is one of the elements that influence the performance of corporate associations and in this case, it has a positive and significant effect on the firm's financial performance.

The findings showed that although capital structure has a positive effect on the firm's financial performance (β_{b1} = 0.189), the effect was significant (p-value = 0.000) as presented in Table 4.15. This can also be assessed by looking at t-test value which indicated that the effect of capital structure was more than that attributed to its standard error (t = 3.596). Gitman (2015) found out that it is by and large trusted that the value of a firm is amplified when its cost of capital is low. Furthermore, viable capital structure choices will result in reduced cost of capital and increase the NPV resulting more viable investments worth undertaking and thus enlarging the value of the firm (Gitman, 2015).

	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta	t	Sig.	zero order correlation
(Constant)	3.216	0.173		18.637	0	
Dividend Policy	0.16	0.046	0.184	3.497	0.001	0.184**
Capital Structure	0.115	0.032	0.189	3.596	0	0.189**
R Square	0.34					
Adjusted R Square	0.33					

a Dependent Variable: Firms Financial Performance

Conclusions And Recommendations

The individual regression models have shown that dividend policy, capital structure, corporate governance and timely rendition of information all have a positive and significant effect on the firm's financial performance when each is regressed individually against the firm's financial performance. The combined regression model in which all the four independent variables were regressed against the firm's financial performance. The findings showed that although dividend policy has a positive effect on the firm's financial performance, the effect was not significant. The findings also showed that capital structure has a negative and significant effect on the firm's financial performance.

Although dividend policy has been shown to be existent in the majority of the firms, there is need to develop and implement an all-inclusive dividend policy that caters to the needs of workers, management, and shareholders and in such a policy, issues such as a staff share scheme are highlighted. Thus, a dividend policy is an essential component of the corporate structure. It was prescribed that firms ought to guarantee that they have a decent and vigorous dividend policy set up on the grounds that it will improve their profitability and draw in investments.

In the majority of the companies, there is less burden of the cost of equity because most of them do not rely on loans in order to run their operations and as such, there is no huge burden of current liabilities as compared to current assets. Although this is the case, there is a need for working capital management guidelines to guide the process and maintain the leverage of the firm within acceptable limits. In addition, these guidelines should be understood by every member of the organization. This essentially implies that while various sources of capital are important in the running of the firm, increased use of long-term capital indicates long-term debt which the firm is supposed to meet and includes interest on such loans which is a liability.

This study mainly focused on the assessment of factors affecting the financial performance of companies listed on the NSE. However, in Kenya, there are many companies that are not listed on the NSE, there is need to carry out a similar research on the firms that are not listed on the NSE using the same factors discussed in this study in order to understand the existing diversities. Furthermore, since this study only explored four factors, there is a need to include other factors such as board diversity in addition to corporate governance in order to have a rich set of information.

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