FINANCIAL STRUCTURE MANAGEMENT AND PERFORMANCE OF MANUFACTURING FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

This study aimed to establish the effects of Financial Structure Management on the Performance of Manufacturing Firms Listed in the Nairobi Securities Exchange. Data for the same was extracted from the audited financial reports of the nine manufacturing firms listed in the Nairobi Securities Exchange for ten years, spanning 2013 to 2022. Return on Assets (ROA) was employed as a measure of performance while Short Term Debt Management, Long Term Debt Management, and Equity Management as the financial structure management variables. The moderating variable applied was inflation, measured by annual average inflation rates (from the Central Bank of Kenya). A descriptive research design was applied in this study with secondary data extracted from the audited financials of the nine manufacturing firms. Data analysis techniques such as Correlation and Linear Regression Analysis were applied using Microsoft Excel. Data presentation was in analysis tables. The study concluded that there is a significant correlation between the management of financial structures and the performance of manufacturing firms listed on the Nairobi Securities Exchange. Changes in short-term, long-term, and equity in these firms' financial structures account for 26% of all changes in their financial performance. The study recommended that finance managers reduce debt levels in their financial structure, as it found a negative correlation between debt and performance.

Keywords: Financial Structure, Financial Performance, Manufacturing Firms, And The Nairobi Securities Exchange.

INTRODUCTION

Finance academics have extensively studied the crucial topic of financial structure, which is a pivotal decision for enhancing shareholder wealth and boosting a company's competitive edge (Arulvel, 2013). A company's financial structure defined by its mix of short-term, long-term, and equity debt plays a vital role in its ability to finance and invest effectively.

According to Owolabi (2012), Companies use some funds permanently, like ordinary share capital, while others are held temporarily, such as long-term borrowings or short-term debts. The financing mix of a company is continually evolving, particularly short-term debt. As companies are intended to operate indefinitely, finance managers must adjust financial structures to address financial gaps created by debt repayments and other operational expenses. This adjustment process involves balancing equity and debt to optimize the financial structure (Apoorva, 2023).

Corporate financing decisions are also essential for achieving an optimal financial structure that enhances market share price and overall company value (Sorana, 2015). Therefore, this study

explores how well-managed financial structures impact the manufacturing companies' performance on the Nairobi Securities Exchange.

Background of the Study

The growth of the manufacturing sector is vital for the economic development of advanced nations. In many emerging countries, insufficient funding is a key factor leading to the failure of manufacturing companies (Abor, 2007). To enhance their role in job creation and income generation, these firms need to secure adequate funding for both operations and expansion.
Finance managers play a crucial role in sourcing funds, balancing shareholder equity and both long-term and short-term debts to create an effective corporate financial structure (Mugambi, 2016). Without sufficient funding, businesses struggle to manage fixed and working capital assets. Hence, making strategic financial structure decisions is essential for achieving investment goals and maximizing shareholder wealth (Mwangi, 2014). Finance managers are therefore essential for balancing funding sources and structuring capital effectively to meet operational needs and maximize shareholder wealth.

In Kenya, corporate failures often relate to financial structure issues, prompting a focus on restructuring to address these problems (Mwangi, 2014). Firms grapple with finding and maintaining an optimal financial structure, and understanding how these decisions impact performance is urgent. According to Harris (2017), increasing debt can enhance performance through tax shields, aligning with Modigliani and Miller's (1963) theory on the tax benefits of debt financing. However, higher leverage also raises equity costs due to increased risk (Aharon, 2019). Effective management of financial structure is key to meeting financing needs and improving performance, as highly leveraged firms may see improved efficiency due to managers working harder to satisfy debt holders (Onyango, 2016). Conversely, poor debt-to-equity ratios can harm performance. Thus, managers must carefully manage financial structure decisions to ensure positive cash flows and optimize firm value (Nur, 2017). Effective management of financial structure is crucial for firms to balance debt and equity, as improper ratios can lead to failures, while optimal leverage can enhance performance through tax benefits.

Financial Structure Management

A company's financial structure refers to the mix of debt and equity used to finance its fixed assets and working capital (Egwurube, 2020). It indicates the proportion of long- and short-term debt versus equity used to support operations and is crucial for meeting stakeholder demands and maximizing wealth (Jensen, 1986). An inappropriate financial mix can negatively affect market value and shareholder returns, potentially leading to losses (Owolabi, 2012). A company's financial structure, which balances debt and equity, is therefore crucial for optimizing its cost of capital, managing risk, and enhancing market value, ultimately influencing shareholder returns and long-term sustainability.

Equity financing involves shareholders investing in the company, bearing the highest risk since they do not manage the funds directly. Shareholders may receive dividends based on their shareholdings, but they are last in line for payouts during liquidation (Brockington, 1990). This, in turn, increases the likelihood of losing the entire investment during liquidation.

Debt financing, on the other hand, involves borrowing from external sources such as banks or issuing bonds. Debt holders do not participate in management but are compensated with fixed returns which must be repaid regardless of the company's profitability. Failure to meet debt obligations can result in asset loss or bankruptcy (Robert, 2005). This makes debt financing more secure than equity, as shareholders risk losing their entire investment to ensure that debt obligations are met.

The choice between debt and equity financing depends on the company's risk tolerance and expected returns. Debt financing offers benefits like tax shields and encourages disciplined management due to mandatory repayments, but it also entails costs such as agency fees and potential bankruptcy (Fama, 2002). This therefore invites financial managers to analytically find a better combination of both that would benefit the investors and the firm.

Key metrics to evaluate financial structure include the debt-to-asset ratio, which shows the reliance on debt, and the debt-to-equity ratio or gearing ratio, indicating the proportion of debt versus equity financing. Short-term debt ratios assess the ability to manage short-term obligations (Sisson, 2017). Managers must continuously analyze and adjust financing strategies to enhance performance, and shareholder returns while managing associated risks (Kubai, 2016). Effective financial structure management is essential for balancing asset financing, minimizing capital costs, and maximizing firm value.

Financial Performance

Financial performance measures how effectively a company utilizes its resources to generate revenue from its core business activities and assesses its financial health over a specific period (Prahalathan, 2011). This assessment helps gauge how well a company uses its assets, influencing decisions related to expansion, asset acquisition, and management (Tehrani, 2006). It provides an objective and monetary evaluation of company operations (Ongeri, 2014) and indicates shareholder wealth changes over time, which is crucial for understanding investment impacts (Berger, 2002).

Financial performance is evaluated through various absolute and relative metrics, including revenues, expenses, net income, earnings before interest and tax (EBIT), return on assets (ROA), and return on equity (ROE). ROE, calculated as net profit after taxes divided by total equity capital, reflects profitability relative to shareholder investment (Mugambi, 2016). ROA, computed by dividing net income after taxes by total assets, measures how efficiently a company uses its assets to generate profit and offers a broad view of financial performance (Khrawish, 2011).

In the case of manufacturing companies listed on the Nairobi Securities Exchange, financial performance is often assessed using ROA, providing insights into how effectively these companies utilize their assets to generate returns.

Financial Structure Management and Performance

Finance managers are responsible for making crucial decisions about a company's financing strategies. The debate over how financial structure management impacts a company's profitability has evolved significantly since Modigliani and Miller's 1958 theory, which posited that a firm's value is unaffected by its financial structure, focusing instead on its asset base. However, their 1963 extension introduced the concept of tax shields, which suggested that financial structure,

particularly the use of debt, influences the firm value and the Weighted Average Cost of Capital (WACC), challenging the original theory (Miller 1963).

Finance managers aim to achieve an optimal financial structure, characterized by the most effective debt-to-equity ratio that maximizes the firm's value and shareholder wealth. This "optimal financial structure" minimizes the cost of capital while enhancing performance. The cost of capital, influenced by financial structure, directly affects company performance and shareholders' wealth (Miller, 1977).

Extensive research has focused on determining whether a specific financial structure can lower a company's cost of capital and improve its performance. Debt financing, when used appropriately, can expand operational scope and boost performance, provided that the return on assets exceeds the cost of debt (Watkins, 2002). Jensen (1986) notes that high levels of debt may lead managers to prioritize investments that enhance shareholder wealth, potentially reducing agency costs and improving financial performance. Studies consistently show a positive relationship between a company's capital structure and performance (Eldomiaty, 2008; Hadlock, 2002). This highlights the significance of effective financial structure management in driving success.

The Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is Kenya's primary platform for trading shares of publicly listed companies. Established in 1954 as a voluntary association of brokers under the Society Act, the NSE has evolved significantly. Key developments include its demutualization, the adoption of trading laws, the introduction of a central depository system, and market automation (NSE, 2016). As of 2013, it ranked as the fourth-largest stock exchange by shares traded and the fifth-largest by market value as a percentage of GDP (Iraya, 2013). The NSE Promotes awareness and understanding of investment opportunities and financial literacy among the public as well as, offering a variety of investment options for individuals and institutional investors, promoting diversified portfolios.

The Capital Markets Authority (CMA) regulates and oversees the NSE, ensuring that listed companies adhere to corporate governance standards and that the market operates effectively (NSE, 2016). The NSE lists companies across various sectors, including manufacturing, agriculture, banking, insurance, and more. As of September 2023, there were 65 listed companies on the exchange.

The NSE facilitates the trading and settlement of various financial products, including derivatives, debt securities, and stocks. It plays a crucial role in listing companies, enabling investor access to a diverse range of securities, and maintaining market integrity through clear regulations and investor protection (NSE, 2016). The exchange categorizes listed companies into twelve sectors, such as banking, real estate, energy, manufacturing, and agriculture.

The Manufacturing Firms at The Nairobi Securities Exchange

Out of the 65 companies listed on the Nairobi Securities Exchange (NSE), nine are in the manufacturing sector. These companies have been increasingly turning to debt financing to meet

their operational and fixed-asset funding needs (Mugambi, 2016). Data from the Capital Markets Authority (CMA) indicates that from 2004 to 2014, NSE-listed firms raised a total of Kshs 988 million through rights offerings (Anyanzwa, 2015). Notably, larger firms do not necessarily have higher debt-to-equity ratios compared to smaller ones, as various factors can influence this ratio (Wagacha, 2001). Traditionally, decisions on debt versus equity financing have been made by boards of directors, but financial analysts argue that debt financing can be advantageous for increasing company value if it is acquired at a reasonable rate and used effectively (Anyanzwa, 2015).

This study explored the relationship between financial structure management and the financial performance of manufacturing companies listed on the Nairobi Securities Exchange (NSE). The nine listed Manufacturing firms under this study include A. Baumann & Co Ltd, B.O.C Kenya Ltd, British American Tobacco Kenya Ltd, Carbacid Investments Ltd, East African Breweries Ltd, Eveready East Africa Ltd, Kenya Orchards Ltd, Mumias Sugar Co. Ltd, and Unga Group Ltd.

Statement of the Problem

In many industrialized nations, including the US, the manufacturing sector has historically been a key driver of economic growth. Recently, developing countries in Africa, such as Kenya, have recognized the sector's potential to enhance their economic development. By investing in manufacturing, these nations aim to boost their economies and create more opportunities for their citizens (Brown, 2007). Governments in these countries support manufacturing growth through direct funding, establishing economic zones like SEZ and EPZ, and offering subsidies to improve access to investible capital. Listing firms on stock exchanges provides them with access to various funding sources, both debt and equity, which, when managed effectively, can lead to improved performance.

The management of financial structure, including the balance between debt and equity, is a critical financial decision and has been extensively debated in financial studies. Proper management of this balance is essential for evaluating its impact on company performance.

Egwurube (2020) explored the relationship between financial structure and the performance of listed firms on the Nigeria Stock Exchange. The study found that short-term debt negatively affects return on assets (ROA), while long-term debt has a minor positive effect. Despite these insights, the research did not focus on financial structure management as an independent variable and did not specifically address the manufacturing sector, creating an empirical gap. Additionally, the study's context is limited to the Nigeria Stock Exchange, highlighting a need for research in other contexts. A study by Sorana (2015) examined how capital structure affects the financial performance of Romanian manufacturing companies listed on the Bucharest Stock Exchange from 2003 to 2010. The study concluded that debt financing has a greater impact on profitability than equity financing. However, it focused on capital structure rather than financial structure management and did not address the Kenyan context, leaving a research gap.

In a different study by Kerongo (2020) analyzed the impact of capital structure on the financial performance of non-financial companies listed on the Nairobi Securities Exchange, finding that

leverage significantly enhances performance. However, this study did not address how financial structure management specifically affects manufacturing companies, focusing instead on leverage alone, which creates an empirical gap.

A study by David (2020) investigated the impact of short-term debt on the financial growth of non-financial enterprises listed on the Nairobi Securities Exchange. The study found a positive impact on market capitalization and earnings per share but was limited to short-term debt, leaving out other aspects of financial structure management.

Overall, while previous studies have offered valuable insights, they have often focused on short-term objectives or specific aspects of financial structure without adequately addressing the broader issue of financial structure management and its impact on the performance of listed manufacturing firms. This highlights a significant gap in the research, which this current study set out to address.

General Objective of the Study

The general objective of this study is to establish the effects of Financial Structure Management on the Performance of Manufacturing Firms Listed in the Nairobi Securities Exchange.

1.4 Specific Objectives of the Study

I. To determine the effects of short-term debt management on the financial performance of manufacturing firms listed at the Nairobi Securities Exchange.
II. To establish the effects of long-term debt management on the performance of listed manufacturing firms in the Nairobi Security Exchange.
III. To determine the effects of equity finance management on the financial performance of manufacturing firms listed in the Nairobi Security Exchange.
IV. To establish the moderating effect of inflation on the relationship between financial structure management and financial performance of manufacturing firms listed in the Nairobi Security Exchange.

Hypotheses of the Study

H1. There are no effects of equity finance management on the financial performance of Manufacturing firms listed at the Nairobi Securities Exchange.

H2. Long-term debt management does not affect the performance of manufacturing firms listed on the Nairobi Securities Exchange.

H3. There are no effects of short-term debt management on the financial performance of the Manufacturing firms listed at the Nairobi Securities Exchange.

H4. Inflation does not have moderating effects on the relationship between Financial Structure management and the Financial Performance of the Manufacturing firms listed at the Nairobi Securities Exchange.

Scope of the Study

This study focused on the performance of manufacturing firms listed on the Nairobi Securities Exchange (NSE) from 2013 to 2022. It specifically targeted the nine manufacturing companies that were listed on the NSE. The research was conducted in Nairobi and explored how financial structure management impacts the financial performance of these manufacturing firms. Given the contemporary budgetary constraints businesses face, this research is crucial for understanding how

effective financial structure management can influence performance and address financial challenges.

LITERATURE REVIEW

Theoretical Framework

The study is based on three theories: Modigliani Miller II, Market Timing Theory, The monetary theory of inflation or the quantity theory.

Modigliani Miller II

Modigliani and Miller's (1958) theory, which initially assumed a world without taxes, has faced several criticisms. The primary critique is the unrealistic assumption of no taxes, as debt interest is indeed tax-deductible. The original theory proposed that while an increase in leverage would heighten a firm's risk and thus raise the cost of equity, the overall Weighted Average Cost of Capital (WACC) would remain unchanged. This was based on the idea that the cost of equity would adjust to offset the higher costs associated with debt.

However, in a real-world scenario where taxes are present, the tax shield provided by interest deductions becomes significant. Debt financing offers a tax advantage because interest expenses on debt are deductible, reducing the firm's taxable income and thus its overall tax liability. This tax shield effectively lowers the firm's cost of capital and can increase its value. As a result, the theory suggests that a firm's value rises with increased debt, up to a certain point.
Nevertheless, the theory also assumes that firms should continue to increase leverage until they are fully debt-financed. This assumption overlooks potential downsides such as bankruptcy costs from excessive gearing, agency costs, and the exhaustion of tax shields. Despite these limitations, the theory highlights the crucial role of debt financing and tax shields in shaping a firm's market value.

Market Timing Theory

Market Timing Theory posits that firms adjust their capital structures based on the prevailing market conditions, specifically by issuing equity when stock prices are high and repurchasing shares when prices are low (Baker, 2002). This theory operates under the assumption that firm management may not have precise knowledge of the optimal timing for financial decisions. Consequently, market timing simplifies financial management by allowing firms to capitalize on market trends to enhance their financial strategy.

The theory suggests that when a company's stock is overvalued, it should finance its projects using debt rather than equity. Conversely, if the stock is undervalued, the firm should rely on equity financing (Setyawan, 2011). Baker (2002) highlights that, despite the significance of market timing in shaping financial decisions, many financial managers overlook this aspect when determining their use of debt or equity. In contrast, firms adhering to Pecking Order Theory may not align their financing decisions with market timing.

Market Timing Theory explains why companies might issue equity during periods of high stock prices or repurchase shares when prices are low, reflecting strategic responses to perceived market

conditions (Luigi, 2009). However, Hovakimian (2006) and Alti (2006) indicate that market timing effects are often temporary, lasting not more than two years, and may not significantly impact long-term capital structure decisions.
This theory is pertinent to the study as it provides insight into how firms should choose between debt and equity financing based on their stock price movements and market valuation.

The monetary theory of inflation or the quantity theory

The Quantity Theory of Money posits that inflation is directly related to changes in the money supply. According to this theory, an increase in the money supply will lead to a proportional increase in the inflation rate. For instance, a 1% increase in the money supply will result in a 1% increase in inflation. Essentially, the theory asserts that the money supply and price level are directly proportional: if the money supply doubles, the price level is expected to double as well.

The theory also considers the velocity of money, which is the ratio of the amount of money people choose to hold to the value of transactions they conduct annually. Fixed factors, such as the regularity of salary payments, the structure of the economy, and individuals' saving and spending behaviors, influence this velocity. As long as these factors remain constant, the price level will vary directly with the money supply and inversely with the physical volume of output. This theory is applicable in this study as it determines the interest rate adjustments by CBK which affects debt financing decisions.

Empirical Literature Review

Financial Structure Management and Financial Performance

A study by Anne (2013) explored how financial structure impacts the day-to-day operations of Kenyan conventional and Islamic banks using data from the Central Bank of Kenya's reports and the banks' financial statements. The study revealed that conventional banks had clear relationships between financial structure factors and performance, while Islamic banks only showed a relationship between assets and performance. The absence of a debt-to-equity ratio in Islamic banks' financial structures made them more vulnerable to risks. The study recommended that the government introduce regulations to provide interest-free investment opportunities and ensure fair competition between Islamic and conventional banks, along with policies to reduce risks for new Islamic banks.

In a related study, Egwurube (2020) examined the effect of financial structure on the performance of companies listed on the Nigeria Stock Exchange. Analyzing data from 71 firms over a decade (2009-2018), the study focused on long-term and short-term debt ratios and their impact on return on assets (ROA). The findings indicated that while short-term debt negatively impacted ROA, long-term debt had a slight positive effect. The study concluded that a higher ratio of long-term to short-term debt improved financial performance.

In another study, Sorana (2015) investigated the relationship between capital structure and financial performance of 196 Romanian manufacturing firms listed on the Bucharest Stock Exchange over an eight-year period (2003-2010). The study considered total debt, short-term debt, long-term debt,

and equity as capital structure indicators, using return on equity and return on assets as performance proxies. Results suggested that firms using equity rather than debt performed better. However, Romanian manufacturing firms were found to underutilize assets and lack internal capital for investments, often taking on debt during periods of financial difficulty. The study noted issues with the statistical significance of results due to missing data on long-term debt ratios and the limited explanatory power of return on equity models.

RESEARCH METHODOLOGY

Research Design

In this study, a descriptive research design was chosen to explore the effect of financial structure management on the performance of manufacturing firms listed at the Nairobi Securities Exchange (NSE). As Cooper and Schindler (2008) indicate, this design acts as a blueprint for conducting a study, guiding the various phases including data collection, measurement, and analysis.

By employing this design and methodology, the study aimed to provide a comprehensive analysis of how financial structure management influences the performance of manufacturing firms on the Nairobi Securities Exchange. The use of descriptive statistics and qualitative data analysis ensured that the findings were well-supported and relevant to the study's objectives.

Study Population

The population for this study refers to the group of individuals or entities being examined. According to Mugenda (2014), a population is defined as the group of inhabitants occupying a particular area, subject to continual changes due to increases and losses. In this research, the population consists of the manufacturing firms listed on the Nairobi Securities Exchange (NSE).

By focusing on the entire population of nine manufacturing firms, the study aimed to provide a detailed and accurate assessment of how financial structure management influences their performance on the Nairobi Securities Exchange. This approach ensured a comprehensive coverage and analysis of the research topic.

Sample Design

Sampling is a method used to select a subset of individuals or items from a larger population to make inferences or draw conclusions about the entire population. As Kothari (2004) explains, sampling is often employed to save time and reduce costs by working with a manageable portion of the population.

By using a census design, the study aimed at providing a thorough and accurate assessment of how financial structure management affects the performance of manufacturing firms on the Nairobi Securities Exchange. This approach ensures that the research findings are robust and representative of the entire population under investigation (Van, 1973).

Data Collection

Secondary data was used in the study since it was easily accessible and could be looked at over an extended length of time. Data, which combined time series and cross-sectional data, was used in the study. The NSE Handbook, corporate websites, and audited financial statements were the sources

of the analyzed data. Sales, earnings before interest and tax, and retained earnings were gathered for examination from the income statements. The analysis made use of the assets and liabilities on the balance sheets in addition to taking interest-bearing debt into account. Data on the variables was easily accessible in these final books of account, which are published in the case of listed companies. The data extraction sources were the statements of comprehensive income and financial status. Key variables including equity capital, total assets, net profit after taxes, fixed assets, long-term and short-term debt, and inflation averages were all disclosed by the Central Bank of Kenya. These were accessed from the firms' performance publications (Company reports) posted on their websites.

Data Analysis and Presentation

Regression analysis and correlation analyses were performed to ascertain the relationship between debt finance management and performance, equity finance management and performance, and the moderating effect of inflation on both structure management and performance. Tables and graphs with the study results were used to show how the variables behaved during the examination. ROA was used to measure performance. The debt ratio was used to calculate the percentage of total assets that are financed by debt. The degree of debt and financial risk increases with the ratio. To determine if the company employed more debt or equity in its financial structure, the Debt-to-Equity ratio or the Gearing Ratio was used to measure the financial structure.

DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

Response Rate

The study population was composed of 9 Manufacturing Companies Listed on the Nairobi Securities Exchange, Kenya. However, complete data was only available from 8 of these companies, representing an 89% response percentage. Mugenda and Mugenda (2013) assert that a response rate exceeding 50% is considered sufficient and reliable for data analysis, as it adequately reflects the characteristics of the population under study.

Descriptive Statistics

The descriptive statistics cover eight out of the nine manufacturing companies, based on data collected over a ten-year period from 2013 to 2022. The analysis includes the standard deviation, mean, maximum, and minimum values for these companies.

Table 4.1. Descriptive statistics.

Descriptive Statistics					
Measurements	Events	Maximum	Minimum	Mean	Standard Deviation
ROA	76	**0.3673**	**-1.2214**	**0.0218**	**0.2485**
Current ratio	76	**10.0893**	**0.0290**	**2.1617**	**1.9326**
Gearing Ratio	76	**31.8421**	**-3.2953**	**2.8315**	**5.6927**
Debt-Asset ratio	76	**1.9142**	**0.0970**	**0.5683**	**0.3495**
Equity-Asset Ratio	76	**0.9030**	**-0.9142**	**0.4463**	**0.3450**

Descriptive statistics summary

From the above, the Return on Asset ranges from **-1.2214** to **0.3673** with a mean of **0.0218** and a standard deviation of **0.2485**. Current Ratio Ranges from **0.0290** to **10.0893** with a mean of **2.1617** and a standard deviation of **1.9326**. Gearing Ratio ranges from **-3.2953** to **31.8421** with a mean of **2.8315** and a standard deviation of **5.6927**. Debt Asset Ratio ranges from **0.0970** to **1.9142** with a mean of **0.5683** and a standard deviation of **0.3495**. Equity Asset Ratio ranges from **-0.9142** to **0.9030** with a mean of **0.4463** and a standard deviation of **0.3450**.

Correlation Analysis

A statistical method for determining the direction and degree of a linear relationship between two quantitative variables is correlation analysis. It facilitates comprehension of the relationship between changes in one variable and changes in another. A correlation coefficient, which varies from -1 to 1 (Pearson Correlation variations), is used to indicate the outcome of a correlation investigation. To evaluate the degree of correlation between the dependent and independent variables, correlation analysis was used. The independent variables, including current ratio, gearing ratio, debt asset ratio, and equity asset ratio, were employed, while Return on Asset (ROA) served as the measure for the dependent variable. Additionally, the annual average inflation rate was utilized to gauge the moderating effects of inflation on both the dependent and independent variables.

A positive association is denoted by a positive correlation coefficient (r), which shows that an increase in one variable is correlated with an increase in another. On the other hand, a negative r denotes a negative correlation, meaning that the tendency for one variable to decrease as the other increases. The proximity of r to 1 or -1 reflects the strength of the correlation. The following is a summary of the correlation analysis:

Table 4.2. Summary of the Correlations analysis

Variable	ROA	Current Ratio	Gearing Ratio	Debt Asset Ratio	Equity Ratio/ Equity Asset Ratio
ROA	1				
Current Ratio	0.2460	1			
Gearing Ratio	-0.0326	-0.2396	1		
Debt Asset Ratio	-0.4491	-0.5901	0.35009	1	
Equity Ratio/ Equity Asset Ratio	0.4813	0.58984	-0.3587	-0.9581	1

Summary of Correlation Analysis

Firm performance, as gauged by Return on Assets (ROA), exhibits a perfect positive correlation with itself (r = 1). Furthermore, it demonstrates a positive correlation with the current ratio, an indicator of liquidity, denoted by r = 0.2460. Conversely, the Gearing Ratio and Debt-Asset show a negative correlation, with the Gearing Ratio displaying a weak negative correlation with performance, marked by r = -0.0326, as the Debt-Asset Ratio shows a negative correlation with performance, registering at r = -0.4491. On the other hand, the Equity Ratio/Equity Asset Ratio manifests a positive correlation with performance, with a correlation coefficient of r = 0.4813.

Regression Analysis

A statistical method for simulating the relationship between a dependent variable and one or more independent variables is regression analysis. It is commonly used for prediction and forecasting. The study employed simple linear regression analysis between the respective independent variables and the dependent variable.

Testing the General impact of financial structure management variables on performance.

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.506919							
R Square	0.256967							
Adjusted F	0.215106							
Standard I	0.220135							
Observati	76							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regressior	4	1.18989	0.297472	6.138564459	0.000266732			
Residual	71	3.440632	0.04846					
Total	75	4.630522						
	Coefficients	*ndard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.25152	0.261542	-0.9617	0.339465933	-0.773025006	0.26997626	-0.773025006	0.26997626
CURRENT	-0.006	0.016394	-0.36581	0.715597529	-0.038685631	0.026691616	-0.038685631	0.026691616
GEARING	0.006911	0.004788	1.443439	0.153294614	-0.00263572	0.016457611	-0.00263572	0.016457611
DEBT/ASS	0.084827	0.25554	0.331953	0.74090281	-0.424705221	0.59435976	-0.424705221	0.59435976
EQUITY/A	0.489721	0.259675	1.885899	0.063399425	-0.028056581	1.007499129	-0.028056581	1.007499129

Fig. 4.1 Regression analysis of the independent variables and the dependent variable.

Y=Constant+B1(X1) +B2*(X2) +B3(X3) +B4(X4)

Y=-0.2515 – 0.006X1 + 0.0069X2 + 0.0848X3 + 0.4897X4

This indicates a favorable/Positive correlation between Gearing, Debt Asset, Equity Asset, and ROA, respectively.

Testing the Coefficients

Exclude the P-value that is greater than 0.15 from the equation and rerun the regression using variables with P-values that are 0.15 or less.

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.504091							
R Square	0.254108							
Adjusted F	0.233672							
Standard I	0.217516							
Observati	76							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regressior	2	1.176652	0.588326	12.43468446	2.25256E-05			
Residual	73	3.45387	0.047313					
Total	75	4.630522						
	Coefficients	*ndard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.17125	0.048452	-3.53452	0.000713255	-0.267819171	-0.07468998	-0.267819171	-0.07468998
GEARING	0.007014	0.004727	1.484019	0.142109143	-0.002405767	0.016434659	-0.002405767	0.016434659
EQUITY/A	0.388175	0.078002	4.976465	4.17673E-06	0.232716879	0.543632946	0.232716879	0.543632946

Fig. 4.2. Regression analysis of the independent variables and the dependent variable.

Y=0.0070X1 + 0.3882X2 – 0.17125

How much of the data does this model explain?

R-Square = 0.25 = We can Explain 25% of the data. Number of observations 76 and 76 is Greater than 30 – Significant.

Regression analysis results above showed that the independent variables, short-term, long-term, and equity management are important in explaining and can be used to predict the financial performance of manufacturing companies listed on Kenya's Nairobi Securities Exchange. These identified independent variables have the potential to account for approximately 26% of the total variations observed in the financial performances of manufacturing firms listed on the Nairobi Securities Exchange, Kenya represented by an R Square of 0.2566967.

Regression analysis of the effects of equity finance management on performance measured through Equity asset ratio against ROA was as shown below:

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.481253812							
R Square	0.231605232							
Adjusted R Square	0.221221519							
Standard Error	0.219276102							
Observations	76							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	1.072453054	1.072453	22.30466406	1.07853E-05			
Residual	74	3.558068651	0.048082					
Total	75	4.630521704						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.13286164	0.041298358	-3.21712	0.00192191	-0.215150414	-0.05057287	-0.215150414	-0.050572865
EQUITY/ASSET RATIO	0.346647872	0.073399093	4.722781	1.07853E-05	0.200396986	0.492898757	0.200396986	0.492898757

Fig. 4.3 Regression analysis of the effects of equity finance management on performance.

The aforementioned finding suggests that equity finance management plays a vital role in elucidating and forecasting the financial performance of manufacturing companies that are listed on Kenya's Nairobi Securities Exchange. With a R Square of 0.231605, it may explain roughly 23.16% of the overall fluctuations seen in the financial results of manufacturing companies registered on the Nairobi Securities Exchange, Kenya. The study model's unexplained percentage, or level of standard error, was 0.21928, suggesting that there may be additional elements that could improve the model's predictive ability. The model was significant at 0.000010785 with an F-Ratio of 22.30, according to the study's level of significance from the ANOVA results.

This pushed for the rejection of the null hypothesis H1., “There are no effects of equity finance management on the financial performance of Manufacturing firms listed at the Nairobi Securities Exchange.” Since equity finance management proved to be capable of significantly explaining the variations in performances positively.

In their study on the effect of capital structure on financial performance in Romanian companies registered on the Bucharest Stock Exchange and working in the industrial sector, Sorana (2015) found findings that were quite similar across an eight-year period (2003-2010). According to the survey, Romanian businesses do better when they run on equity rather than debt.

Regression analysis of the effects of long-term debt on performance

Measured by Debt-Asset and debt equity ratios.

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.468434148							
R Square	0.219430551							
Adjusted R Square	0.198045086							
Standard Error	0.222515007							
Observations	76							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	2	1.016077927	0.508039	10.2607335	0.00011831			
Residual	73	3.614443777	0.049513					
Total	75	4.630521704						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.205858074	0.049002077	4.201007	7.41961E-05	0.108197075	0.303519074	0.108197075	0.303519074
DEBT/ASSET RATIO	-0.354676098	0.078484432	-4.51906	2.34504E-05	-0.511095346	-0.19825685	-0.511095346	-0.198256851
GEARING - DEBT/EQUITY	0.006198931	0.00481834	1.286528	0.202323853	-0.003404006	0.015801868	-0.003404006	0.015801868

Fig. 4.4 Regression analysis of the effects of long-term debt on performance.

The aforementioned finding suggests that long-term debt management plays a crucial role in explaining and can be applied to forecast the financial performance of manufacturing companies that are listed on Kenya's Nairobi Securities Exchange. With a R Square of 0.21943, it can explain roughly 21.94% of the overall fluctuations in the financial results of manufacturing companies registered on the Nairobi Securities Exchange, Kenya. The study model's unexplained percentage, or level of standard error, was 0.2225, suggesting that there may be additional elements that could improve the model's predictive ability. The model was significant at 0.00011831 with an F-Ratio of 10.26, according to the study's level of significance from the ANOVA data. Debt asset ratio depicts a negative but significant relationship while debt equity/gearing ratio depicts a positive and significant effect on ROA. This therefore pushed for the rejection of the null hypothesis H2., "Long-term debts management does not affect the performance of manufacturing firms listed on the Nairobi Securities Exchange Market." Since long term debt management proved to be capable of significantly explaining the variations in performances positively measured by Debt equity/Gearing ratio. Similar findings were found by (Egwurube, 2020) on their study, financial structure's effect on listed companies' performance on the Nigerian Stock Exchange. Debt Ratio, the measure for the independent variable, and ROA were employed in the study to gauge success. Similar results were also discovered by (Anne, 2013). She examined the effect of financial structure on the operations of Kenyan conventional and Islamic banks as part of her research. The study's data came from the banks' financial statements as well as the "Bank Supervision Annual Report" published by the Central Bank of Kenya. This study found that Islamic banks only demonstrated a relationship between assets and financial performance, whereas conventional banks demonstrated a clear relationship between all financial structure factors and financial performance. The study also found that unlike conventional banks, Islamic banks did not have a debt-to-equity ratio in their financial structure, which makes them more exposed to risks.

Regression analysis of the effects of short-term debt management on performance

Measured by Current/Working capital ratio.

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.246031792							
R Square	0.060531643							
Adjusted R Square	0.047836124							
Standard Error	0.242460045							
Observations	76							
ANOVA								
	df	*SS*	*MS*	*F*	*gnificance F*			
Regression	1	0.280293086	0.280293086	4.767953629	0.032165			
Residual	74	4.350228619	0.058786873					
Total	75	4.630521704						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.046549379	0.041884031	-1.111387251	0.269999618	-0.13001	0.036906376	-0.130005133	0.036906376
CURRENT RATION	0.031633298	0.014487	2.183564432	0.032164785	0.002767	0.060499275	0.00276732	0.060499275

Fig 4.5 Regression analysis of the effects of short-term debt management on performance

The aforementioned findings suggest that short-term debt management has little bearing on and is not a useful tool for forecasting the financial success of manufacturing companies that are listed on Kenya's Nairobi Securities Exchange. With a R Square of 0.06053, it might potentially explain about 6.05% of the overall variances seen in the financial performances of manufacturing companies listed on the Nairobi Securities Exchange, Kenya. The study model's unexplained percentage, or level of standard error, was 0.24246, suggesting that there may be additional factors that could improve the model's predictive ability. The model was significant at 0.032165, which is higher than 0.001, according to the study's ANOVA results, with an F-Ratio of 4.76795. This therefore pushed for the acceptance of the null hypothesis H3., “There are no effects of short-term debts management on the financial performance of the Manufacturing firms listed at the Nairobi Securities Exchange Market.” Since short term debt management proved to be incapable of significantly explaining the variations in performances.

Regression Analysis of the Moderating effect of inflation on Independent and Dependent Variable

Measured using annual inflation averages from the central bank of Kenya.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.235698029
R Square	0.055553561
Adjusted R Squ	-0.062502244
Standard Error	0.261407469
Observations	10

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.03215589	0.03215589	0.470570345	0.512111293
Residual	8	0.546670919	0.068333865		
Total	9	0.578826809			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	2.141291438	0.73119532	2.928480775	0.019042381	0.455152006	3.82743087	0.455152006	3.82743087
INFLATION	-0.080258298	0.116997793	-0.685981301	0.512111293	-0.350055691	0.189539096	-0.350055691	0.189539096

INFLATION - CURRENT RATIO

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.191047422
R Square	0.036499117
Adjusted R Squ	-0.083938493
Standard Error	1.461901283
Observations	10

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.647673798	0.647673798	0.303054148	0.597006196
Residual	8	17.0972429	2.137155362		
Total	9	17.7449167			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.08475802	4.089153922	-0.02072752	0.983970668	-9.514363874	9.344847835	-9.514363874	9.344847835
INFLATION	0.360195132	0.65430121	0.550503541	0.597006196	-1.148626163	1.869016427	-1.148626163	1.869016427

INFLATION AND GEARING

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.599393642
R Square	0.359272738
Adjusted R Squ	0.27918183
Standard Error	0.050880326
Observations	10

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.011612903	0.011612903	4.485811787	0.067036303
Residual	8	0.02071046	0.002588808		
Total	9	0.032323364			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.132441174	0.14231979	0.930588599	0.379292006	-0.19574885	0.460631198	-0.19574885	0.460631198
INFLATION	0.048231424	0.02277244	2.117973509	0.067036303	-0.004281916	0.100744764	-0.004281916	0.100744764

INFLATION VS DEBT ASSET RATIO

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.174285583
R Square	0.030375464
Adjusted R Squ	-0.090827602
Standard Error	0.033163563
Observations	10

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.000275633	0.000275633	0.250616302	0.63012139
Residual	8	0.008798575	0.001099822		
Total	9	0.009074208			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.293016677	0.092763386	3.15875359	0.013420158	0.079103926	0.506929428	0.079103926	0.506929428
INFLATION	0.007430628	0.014842972	0.500615923	0.63012139	-0.026797326	0.041658582	-0.026797326	0.041658582

INFLATION VS EQUITY ASSET RATIO

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.381724034
R Square	0.145713238
Adjusted R Squ	0.038927392
Standard Error	0.049373099
Observations	10

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.003326336	0.003326336	1.364537008	0.276383719
Residual	8	0.019501624	0.002437703		
Total	9	0.022827959			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.143696065	0.138103855	-1.040492784	0.328532564	-0.462164125	0.174771996	-0.462164125	0.174771996
INFLATION	0.025813252	0.022097852	1.168133985	0.276383719	-0.025144486	0.076770991	-0.025144486	0.076770991

INFLATION VS ROA

The examination of inflation's moderating effects revealed a positive but statistically insignificant impact on all measurements of both independent and dependent variables. The levels of significance for these effects were consistently higher than 0.001. Notably, over three-quarters of the experiment results suggested that inflation inadequately explains more than 15% of the variations in both independent and dependent variables.

This therefore pushed for the acceptance of the null hypothesis H4., "Inflation does not have moderating effects on the relationship between Financial Structure management and Financial Performance." Since it proved to be incapable of significantly explaining the variations in the financial structure and performances of listed manufacturing firms.

Summary of Key Findings

Determining the impact of financial structure management on the performance of listed manufacturing firms on the Nairobi Securities Exchange in Kenya was the aim of this study. Return on Assets (ROA) was utilized to evaluate the performance of businesses, while the Current Ratio/Working Capital Ratio was employed to measure short-term debt management. Long-term/general debt management was evaluated using Debt-Asset and Debt-Equity Ratios. Equity was measured by Equity-Asset and Gearing Ratios, while inflation was assessed using annual inflation averages provided by the Central Bank of Kenya.

This chapter performed a correlation analysis to assess the relationships between the management of short-term debt, long-term debt, and equity, and their respective degrees of association with performance and below were the respective outcomes.

Table 4.3 Independent and Dependent variables, correlations summary

Variable	ROA
Short Term Debt Management.	R = 0.2460 Positive
Debt/Equity Management	R = -0.0326 Weak Negative
Long Term Debt/Debt Management	R = -0.4491 Negative
Equity Management	R = 0.4813 Positive

Regression analysis results in this study's findings showed that the independent variables—short-term, long-term, and equity management—are important in explaining and can be used to predict the financial performance of manufacturing companies listed on Kenya's Nairobi Securities Exchange. These identified independent variables have the potential to account for approximately 26% of the total variations observed in the financial performances of manufacturing firms listed on the Nairobi Securities Exchange, Kenya represented by an R Square of 0.2566967.

While the gearing ratio has a beneficial impact on financial performance, the current ratio has a negative impact. Performance is positively impacted by both the debt asset and equity asset ratios. The study model's unexplained percentage, or amount of standard error, was 0.22014, suggesting that there may be additional elements that could improve the model's predictive ability. The model

was significant at 0.0002667 with an F-Ratio of 6.13856, according to the study's level of significance from the ANOVA findings.

The financial performance of manufacturing firms listed on the Nairobi Securities Exchange in Kenya is not significantly explained by short-term debt management, and it is not possible to predict it using linear regression analysis of the effects of short-term debt management on performance of listed manufacturing firms measured by current ratio and ROA. With a R Square of 0.06053, it might potentially explain about 6.05% of the overall variances seen in the financial performances of manufacturing companies listed on the Nairobi Securities Exchange, Kenya. The study model's unexplained percentage, or level of standard error, was 0.24246, suggesting that there may be additional factors that could improve the model's predictive ability. The model was significant at 0.032165, which is higher than 0.001, according to the study's ANOVA results, with an F-Ratio of 4.76795.

The financial performance of manufacturing companies listed on The Nairobi Securities Exchange in Kenya can be predicted and explained in large part by long-term debt management. With a R Square of 0.21943, it can explain roughly 21.94% of the overall fluctuations in the financial results of manufacturing companies registered on the Nairobi Securities Exchange, Kenya. The study model's unexplained percentage, or level of standard error, was 0.2225, suggesting that there may be additional elements that could improve the model's predictive ability. The model was significant at 0.00011831 with an F-Ratio of 10.26, according to the study's level of significance from the ANOVA data.

Equity finance management has the ability to explain roughly 23.16% of the total variations observed in the financial performances of manufacturing firms listed on the Nairobi Securities Exchange, Kenya, according to a linear regression analysis of the effects of equity finance management and performance as measured by Equity Asset ratio and ROA. This is represented by a R Square of 0.231605. The study model's unexplained percentage, or level of standard error, was 0.21928, suggesting that there may be additional elements that could improve the model's predictive ability. The model was significant at 0.000010785 with an F-Ratio of 22.30, according to the study's ANOVA results, which indicate the level of significance. This satisfies this study's research target III.

The examination of inflation's moderating effects revealed a positive but statistically insignificant impact on all measurements of both independent and dependent variables. The levels of significance for these effects were consistently higher than 0.001. Notably, over three-quarters of the experiment results suggested that inflation inadequately explains more than 15% of the variations in both independent and dependent variables.

CONCLUSION AND RECOMMENDATIONS

Conclusions

The study concluded that there is a significant correlation between the management of financial structures and the performance of manufacturing firms listed on the Nairobi Securities Exchange and that changes in short-term, long-term, and equity in these firms' financial structures account for 26% of all changes in their financial performance. The study also concluded that, while short-term debt has a statistically significant negative impact on these firms' financial performance, long-term debt and equity management has a positive and statistically significant impact on the financial performance of listed manufacturing firms. The regression model was shown by ANOVA statistics to be dependable and appropriate for its intended use. Short-term debt management measured using the Current Ratio has a positive influence on the firm's performance. This is denoted by a positive correlation between the current ratio and ROA an indication that the more liquid a firm is in meeting its short-term obligations the more profitable it becomes. Equity management measured using Equity Ratio/Equity-Asset Ratio also indicated a positive correlation with performance showing that equity management has a positive impact on performance. The study also found a negative correlation between gearing, Debt Assets, and ROA (Performance)

The examination of inflation's moderating effects revealed a positive but statistically insignificant impact on all measurements of both independent and dependent variables. The levels of significance for these effects were consistently higher than 0.001. Notably, over three-quarters of the experiment results suggested that inflation inadequately explains more than 15% of the variations in both independent and dependent variables. This shows that inflation has very insignificant but positive moderating effects on both the financial structure management and the performance of manufacturing firms listed at the Nairobi Securities Exchange.

Recommendation

The study's conclusions have important policy ramifications for the business, the sector, and the overall economy. The study suggests that finance managers should lower the level of debt in their financial structure in order to improve performance because it discovered a negative association between debt and performance. Since many businesses rely on debt to fund their operations, this research also suggests that the government regulates the banking industry properly through the Central Bank of Kenya in order to reduce the cost of debt and enhance performance. Debt costs such as interest rates and insurance rates when high become barriers to the growth of firms. This invites the finance managers to think about such capital structure changes on performance.

Due to the positive correlation between Current Ratio (liquidity) and performance, this study recommends firms maintain adequate levels of liquidity to enhance performance and create more value for shareholders.

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