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Exchange, Kenya**

*Esther Wanjugu Gitahi & Dr Margaret Kosgei*



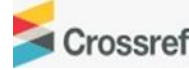
# The Financing Decisions and Financial Performance of Manufacturing Firms Listed at Nairobi Securities Exchange, Kenya



Esther Wanjugu Gitahi<sup>1</sup> & Dr Margaret Kosgei<sup>2</sup>

<sup>1</sup>Post Graduate Student, Department of Accounting and Finance, Kenyatta University

<sup>2</sup>Lecturer, Department of Accounting and Finance, Kenyatta University



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## Abstract

**Purpose:** The main aim of the investigation was to ascertain how financing decisions affect the financial success of manufacturing companies listed on Kenya's Nairobi Securities Exchange.

**Materials and Methods:** This study's methodology was a descriptive research plan. Ten manufacturing companies are listed on the NSE. 10 manufacturing organizations that were listed on the Nairobi Securities Exchange in Kenya as of December 31, 2021, made up the study's population. Because they have regularly been listed at NSE since 2012 without skipping a year, the 10 firms were targeted. The companies that are not listed in any given year between 2012 and 2021 was not taken into account by the study. Therefore, the study involved all 10 manufacturing companies. Since every company was listed throughout the time of this study, none was omitted. The researcher uses a document review checklist during the data collection to gather secondary information for use in compiling and analyzing the financial statements. Panel data made up of time series and cross sections was considered secondary data. The data that was collected was between 2012 and 2021.

**Findings:** Outcomes depicted that liquidity decision had a satisfactory and important effect on financial success ( $\beta= 0.088$ ,  $p=0.003$ ). Outcomes depicted that dividend decision had a

satisfactory and important consequence on financial success ( $\beta= 0.073$ ,  $p=0.032$ ). In addition, outcomes depicted that investment decision had a satisfactory and important consequence on financial success ( $\beta= 0.021$ ,  $p=0.002$ ). A strong dividend policy that may increase manufacturing companies' levels of return on assets and draw in investors should be in place for those listed on the Nairobi Securities Exchange.

**Implications to Theory, Practice and Policy:** The report suggested that in order to increase their income base, companies listed on the NSE that are in the manufacturing and related sectors should invest in product diversification strategies. Since the financial success of manufacturing enterprises is directly impacted by investment decisions. Subsidies for manufactured goods should be taken into account by the Kenyan government as a policy through the yearly budget proclamations. It is recommended that managers closely monitor the firm's liquidity, take on projects with positive net present values, and generate cash flow to support their investment and operational endeavors.

**Keywords:** *Financing Decisions, Liquidity Decisions, Dividend Decision, Investment Decisions, Financial Performance*

## 1.0 INTRODUCTION

The manufacturing sector in Kenya has grown unexpectedly in the previous two a long time to come to be amongst the biggest sector, preceded via transport, agriculture, and verbal exchange (Republic of Kenya 2016). The quarter contributes to over 18% of the country's GDP, while using about 2.3 million human beings in each rural and city areas. Though this fast boom pursuit at enhancing the zone even further, it has resulted in intensification in competition amongst the businesses (Mussettola, 2014). This necessitates the manufacturing enterprise to carefully consider their financing selection so as to gain higher performance. In addition, Nyamoma (2020) added that financial performance contains figuring out when, the place and how much capital to gather in pursuit of improving shareholders value. On the different hand, performance refers to how a company makes use of its handy sources in the revenue's generation (Muiruri, 2020).

Muiruri and Wepukhulu (2018) further indicated that performance is influenced by using a number of elements amongst them capital structure due to debt covenants, dividend choice which can decide the retained income which have an effect on future company's growth, funding choice which will decide whether or not traders wealth will decline or rise as properly as liquidity making decision that will determine the benefits forfeited with a specific amount held in current assets like work in progress (Muiruri & Wepukhulu, 2018).

According to Mwangi (2016) the significance of financing choices can't be over emphasized seeing that many of the elements that make a contribution to commercial enterprise failure can address the use of techniques and economic selections that power boom and the accomplishment of organizational goals. Financial distress in the manufacturing industry is mostly caused by the finance issue. All financing decisions aim to maximize wealth, and in manufacturing companies, the best method to assess the quality of a financing selection in the manufacturing corporations is to take a look at the impact of such a choice on the organization's performance.

The manufacturing industry is huge and makes a significant contribution to economic growth, innovation, and productivity in industrialized countries. The sector must be taken into account in any country's system of economic advancement because it continues to be one of the utmost potent generators of economic development (Khalifa & Shafii, 2018). China, India, and Indonesian economies have become the leaders in worldwide engineering. The sector produces 70% of the manufacturing exports in both developed and developing markets. For instance, exports of manufactured goods have had extremely high boom rates in China, India, and Brazil (Mwangi, 2016).

The manufacturing sector's operational performance in the United States of America, has end up a crucial in supplying purchaser pleasure due to the fact handing over nice carrier at once influences the client satisfaction, economic profitability and loyalty of provider organizations (Zhang, Qi, Wang & Lyu, 2021). The notable performance has been associated with a foremost capital structure that permits the manufacturing companies to maximize returns to investors, whilst as a substitute having each of their overall economic performance suffering from both too little and too much debt (Grozdić, Marić, Radišić, Šbestová & Lis, 2020).

In Saudia Arabia, Aljaaidi and Bagais (2021) observed that firms in the manufacturing sector have gained competitive advantage due to adoption of financing decision. Alawi (2019) further revealed that manufacturing firms that had stable dividend and investment decisions are more likely to both

have long-lasting client relationships and high operational performance. Customer retention and overall organizational productivity are factors that are considered in manufacturing companies' further financing decisions.

Manufacturing businesses operating in Japan in the twenty-first century have achieved a competitive edge through coming up with suitable financing decision and embracing strategic leadership practices (Koji, Adhikary & Tram, 2020). The financing decisions have been streamlined in the manufacturing firms for the past more than 60 years in the Japanese manufacturing firms. This has continuously enhanced the firms' performance (Khan, Kaviani, Galli & Ishtiaq, 2019).

In Africa, manufacturing firms particularly the Sub-Saharan Africa have been mentioned to be declining in performance. The World Bank record (2017) defined that in Africa, the manufacturing corporations operate under capacity. African Development Bank record (AFDB, 2017) additionally indicated that the manufacturing companies in Africa account for small portion of GDP which vary from 3.8% to 11% in contrast to industrialized nations which vary from thirty to forty percent (Wanjiru, Muathe, & Kinyua-Njuguna, 2019). In South Africa, manufacturing firms are regarded as engines of economic development and sustainability. However, the manufacturing firms' performance in South Africa have been declining (Maziriri, 2020). The inability of the manufacturing firms managers to understand investment risk have become the biggest risk to the manufacturing firms performance (Wisdom et al., 2018).

Many manufacturing companies in Uganda struggle to perform well in profit terms as well as ROA. For instance, in a case study involving Ugandan tea manufacturers, Igaara Growers Tea Estate Audited (2017) reported on the company's declining profitability overall performance from Ushs.589.9 million in 2018 to Ushs.106.6 million in 2019. This falling profitability is consequently thought to have been caused by the association's financial decisions (Turyahebwa, 2022). The manufacturing segment in Kenya is enormous and makes a noteworthy aid to entrepreneurship, and productivity. There have been losses of jobs as a result of several manufacturing companies moving or restructuring their operations in order help the market locally by importing from countries like India which have low cost of manufacturing (Kihara & Kariithi, 2016). This is a clear sign that most businesses in Kenya have challenges with their overall performance, with many claiming a drop in income as a result of problems with the working environment (GoK, 2017). Due to the unfavorable working climate, certain important enterprises in the manufacturing region have struggled to grow and prosper (Kungu, 2015). A good example is Sameer East Africa which closed down its Nairobi branch due to prolonged competition from cheaper imports. Proctor and Gamble and everyday East Africa are two more producers that have stopped production. According to World Bank statistics, the unstable working environment in Kenya caused producers' functions to show stagnant and declining incomes during the subsequent five years (World Bank, 2017).

### **Statement of the Problem**

Manufacturing trades have received praise for their contributions to the Kenyan economy's provision of goods and services, promotion of competition, encouragement of innovation, creation of jobs for the general public, and ultimately reduction of poverty. Despite being crucial, industrial firms still perform poorly. According to the Kippra Report (2018), the manufacturing industry in Kenya has experienced a sluggish growth of 3.4% on average during the last five years. The

aggregate ROA of manufacturing companies decreased from 3.49 in 2020 to 2.48 in 2021. According to Muiruri and Wepukhulu (2018), current assets and liabilities fluctuate instantly, and if they are not managed properly, the liquidity level can decrease, which would negatively impact performance. Therefore, the financial managers of manufacturing companies must choose financing options that will promote organizational growth.

There have been studies on the connection amongst financing options and financial performance, but little is known about how financing choices impact the financial success of engineering corporations that are listed in NSE. Doan (2020) concentrated on Vietnam's corporate performance and finance options. According to the study, there is a link amongst financial decisions and business performance. In Italy, Botta (2019) concentrated on the performance of Italian SMEs in terms of financing in the hotel sector. The investigation concentrated on Italy SME in the hospitality sector, creating a gap in the literature. Commercial banks were the main topic of Anachoni and Jagongo's (2020) thus demonstrating a context gap. Concerning industrial enterprises registered on Kenya's Nairobi Securities Exchange, Nyamoma (2020) focused on how funding decisions affected the value created for shareholders. The longitudinal research approach used in the study leaves a methodological hole. The recent investigation focused on financing decisions and financial success of manufacturing corporations listed on Kenya's Nairobi Securities Exchange in order to close these gaps.

### **Objectives of the Study**

The main aim of the investigation was to ascertain how financing decisions affect the financial success of manufacturing companies listed on Kenya's Nairobi Securities Exchange.

The specific goals were;

- i. To ascertain the impact of the dividend decision on the financial results of Kenyan manufacturing corporations listed on the Nairobi Securities Exchange.
- ii. To ascertain the impact of investment choices on the financial results of manufacturing corporations listed on Kenya's Nairobi Securities Exchange.
- iii. To ascertain how liquidity financing affects the financial results of Kenyan manufacturing corporations listed on the Nairobi Securities Exchange.

## **2.0 LITERATURE REVIEW**

### **Theoretical Framework**

The theories reviewed include; Bird in Hand, the general hypothesis of employment, Liquidity Preference Model and Financial Distress Model.

#### **Bird in Hand Theory**

Lintner (1956) was the first to mention the Bird in Hand hypothesis. Al-Malkawi (2008) argues that in a society where there is doubt and info asymmetry, where the total value of retained earnings is measured differently. Where there is uncertainty dividends and earnings are not given the same value. One dividend is more treasured than two in the bush if you keep it (capital gains). Investors typically prefer dividends instead of earnings that are retained as there are uncertainties with the future cash (Keown et al., 2007; Gordon, 1963).

The company's equity is its sole source of funding, which is the foundation of the dividend concept. This suggests that all investments are paid by retained earnings. The primary principle of this approach is to compare what has right now with what one might get in the near future. It is also the argument that the present rise distance so does the degree of uncertainty around potential capital gains and dividends.

According to Gordon (1963), due to the high level of uncertainty, there is no assurance that the investor will make more money even though there is a probability that the returns of future capital will result to higher amounts of returns as compared to what is there currently. However, business investors are a bit reluctant in engaging in businesses where the period of paying of dividends is extended. As a result, a stockholder would be more than eager to recompense more for companies that are now paying dividends. Businesses that do not now pay dividends should be valued lower than those that do since investors would more heavily discount their earnings. This means that the discount rate rises as profits rise.

The fundamental argument in favor of Lintner's (1956) theory is that utmost corporations employ cautious financing strategies, which results in dividend payment ratios that are at their best.

The amount of change that happens in the company's revenue becomes one of the causes of the payout ratio and thus increase in revenue causes increase in dividends. But future profitability's degree of uncertainty also affects the company's compensation. The company may reduce the dividend payout ratio as a precaution against declining future profits if the anticipated risk for the future is greater than the anticipated risk for the present (Friend & Puckett, 1964).

Those who disagree with this hypothesis contend that it omits important details. Keown et al. (2007), who disprove the theory, claim that increasing current rewards actually has the opposite impact of increasing a company's risk. Since managers will need to issue additional shares to raise the required funds if dividend payouts are increased. Given that it influences the dividend decision variable; this hypothesis is thought to be pertinent to this investigation. Although it has significant flaws, dividends are nevertheless regarded as important by many private investors in manufacturing companies. One of the independent variables is the dividend decision.

### **Financial Distress Theory**

Mueller established this hypothesis (1986). This theory proposes four categories for financial theory: failure, insolvency, default, and performance deterioration. Insolvency and default have their foundations in whereas performance degradation and failure have an impact on profitability, liquidity. The result of each segment may be either positive or negative. While negative results show that the firm is still declining, positive results show that the business has stopped degrading.

Opler and Titman (1994) went on to say that a drop in performance was an indication of sadness. Even if the company is practically in debt, this downturn may still continue. The dimension of obligation relies heavily on what amount of time the organization's obligation can require before it develops as default is subject to the date of development. The briefest phase of monetary pain is talks and circle back.

The dependent variable was used with this model (financial performance). This was due to the possibility of poor performance if funding decisions deteriorate (financial distress). As a result, funding discoveries is necessary to prevent financial hardship. Additionally, the hypothesis may be beneficial in elucidating the reasons of the poor ROE in manufacturing enterprises

## Empirical Review

Nguyen, and Truong (2021) concentrated their research in Vietnam on the influence of dividend payments on a business's financial success. The investigation used a desktop research design and was empirical in character. The analysis's findings showed that, although the decision to pay dividends improved market expectations for enterprises, it had an adverse effect on Vietnamese firms as evaluated by accounting-based performance. The study also discovered that low dividend rates are being offered by Vietnamese businesses, it is advantageous for accounting-based performance but unfavorable for market expectations. Due to the study's location in Vietnam, a contextual gap is evident. Kenya was the location of the present investigation.

Dividend policy on the financial performance was focus by Nduta (2016). The research plan used for the investigation was descriptive. The study discovered a substantial and positive link amongst firm success and dividends, as well as the opposite relationship between a growth in firm financial success and dividend payout ratio. Outcomes further demonstrated that the dividend payment method had an optimistic influence on firm financial success. The investigation concentrated on dividend decisions since they are the only ones that have an impact on financial performance, revealing a conceptual gap. The present research focused on three financing decisions which include; dividend decision, investment decision and liquidity decision.

Ogum and Jagongo (2022) concentrated on the financial success and investment choices of SACCOs. The research used a causal research design. Investments in FOSA products had a negligible negative impact, and investments in the money and bond markets had a negligible positive impact. However, the investigation was restricted to Kenyan DT SACCOs, revealing a contextual gap. The current investigation concentrated on NSE-listed manufacturing companies. In Nairobi County, Kenya, Morwabe and Muturi's (2019) study concentrated on the investment choices and SACCO performance. A census technique was used to adopt a descriptive study strategy for a quantitative time series of data. The success of the SACCOs was highly affected by the investment choices. The investigation focused on SACCOs and left out manufacturing firms.

Musau (2016) concentrated on investment choices and the monetary results of SACCOs in Kitui. Empirical methods were used in the investigation. Decisions about replacement, renewal, and R&D had a favorable impact on SACCOs success. In contrast, decisions on expansion, modernization, and research and development subsidized favorably to the SACCO's financial performance as indicated by surpluses or deficits, whereas decisions regarding replacement had the opposite effect. Liquidity impact on financial performance in Turkey was done by Demirgüneş's (2016). The series' connections were put to the test. Results suggest that liquidity and financial performance have a strongly positive association; however, the causality test found no evidence of liquidity affecting financial performance.

Vaita (2017) investigation was on the impression of liquidity on the financial success of banks. The research design used was descriptive. Liquidity coverage ratio positively affected ROA but had no discernible impact on ROE. Lower ROE and greater ROA are the effects of a larger liquidity coverage ratio. Financial performance rises along with management skill. Both ROE and ROA benefit greatly from increases in the gross domestic product. The present probe concentrated on NSE-listed manufacturing companies. In their 2015 Banafa et al. (2015) concentrated on the liquidity impact on financial success of firms. Descriptive research methodology was the method of the investigation. According to the results of statistical analysis, liquidity enhances business

performance (ROA). The study also showed that financial managers need to choose how much liquidity to hold as well as how to hold it. The study concentrated on liquidity decisions since they are the only ones that have an influence on financial success. The current investigation concentrated on three financial decisions: dividend, investment and liquidity.

### Research Gaps

Nguyen, and Truong (2021) concentrated their research in Vietnam on the influence of dividend payments on a business's financial success. The investigation used a desktop research design and was empirical in nature. Due to the study's location in Vietnam, a contextual gap is evident. Kenya was the location of the present investigation. Nduta (2016) focused on dividend policy on the financial performance. The present research focused on three financing decisions which include; dividend decision, investment decision and liquidity decision thus showing a conceptual gap.

Ogum and Jagongo (2022) concentrated on the financial success and investment choices of SACCOs. The current investigation concentrated on NSE-listed manufacturing companies. In Nairobi County, Kenya. Banafa et al. (2015) concentrated on the liquidity impact on financial success of firms. The study concentrated on liquidity decisions since they are the only ones that have an influence on financial success. The current investigation concentrated on three financial decisions: dividend, investment and liquidity.

### Conceptual Framework

The independent variables in this investigation were the financing decisions (dividend decision, investment decision, liquidity decision) whereas the financial performance was the dependent variable

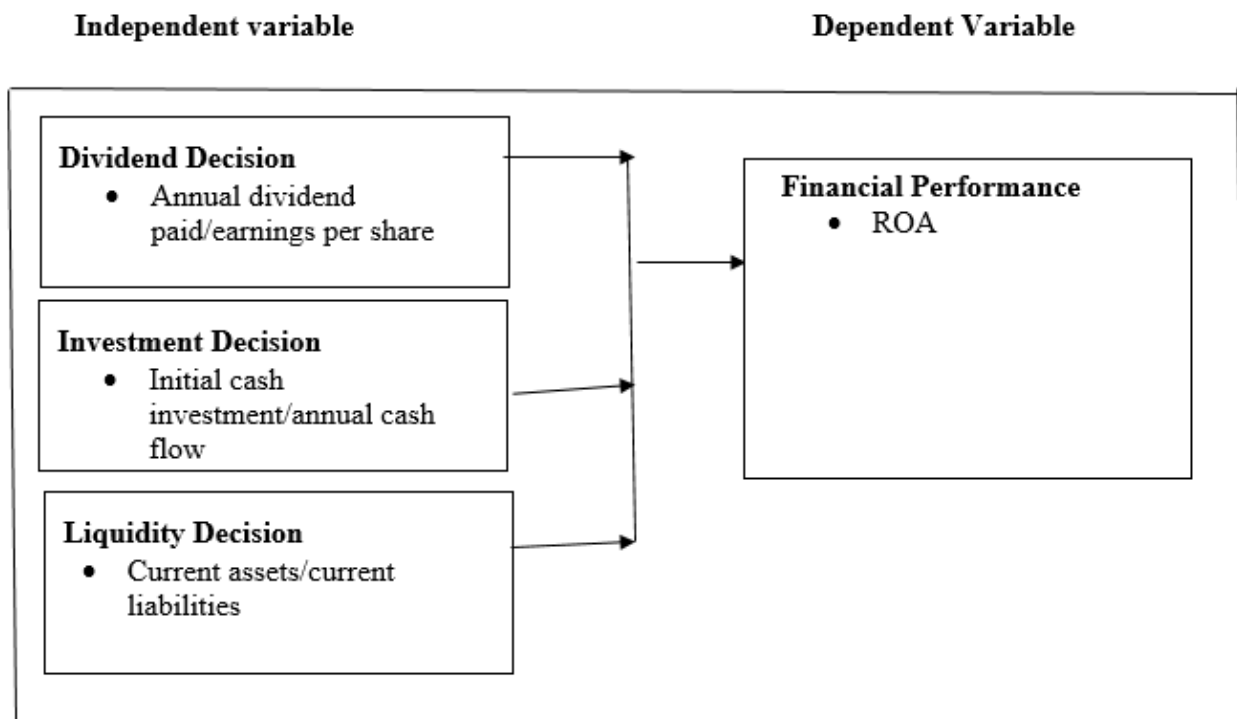


Figure 1: Conceptual Framework



### 3.0 MATERIALS AND METHODS

This study's methodology was a descriptive research plan. Ten manufacturing companies are listed on the NSE. 10 manufacturing organizations that were listed on the Nairobi Securities Exchange in Kenya as of December 31, 2021, made up the study's population. Because they have regularly been listed at NSE since 2012 without skipping a year, the 10 firms were targeted. The companies that are not listed in any given year between 2012 and 2021 was not taken into account by the study. Therefore, the study involved all 10 manufacturing companies. Since every company was listed throughout the time of this study, none was omitted. The researcher use a document review checklist during the data collection to gather secondary information for use in compiling and analyzing the financial statements. Panel data made up of time series and cross sections was considered secondary data. The data that was collected was between 2012 and 2021. Data was gathered on current assets, current liabilities, ROA, total yearly capital budgeting investment, annual dividend paid, and earnings per share. The sample data was therefore cover the years 2012 through 2021. Before being used for analysis, data from the manufacturing company was gathered, checked, sorted, and updated. After the data cleaning process, the data was put into STATA to generate the descriptive and inferential statistics (sorting and editing). Quantitative analysis was used to analyse the information. The mean, frequencies, percentage, and standard deviation were all used in descriptive statistics. Correlation and regression coefficients was taken into account in the inferential analysis.

### 4.0 FINDINGS

#### Descriptive Statistics

Descriptive outcomes of financial performance (ROA), Liquidity (current ratio), dividend decision (dividend per share) and investment decision (payback period) are displayed.

**Table 1: Descriptive Outcomes**

Variable	Obs	Mean	Std.dev	minimum	maximum
ROA	100	0.143	0.087	0.021	0.334
Liquidity	100	0.993	0.854	0.101	3.673
dividend decision	100	0.418	0.187	0.144	0.773
investment decision	100	6.115	1.393	2.314	9.508

*Source: Research Data (2023)*

The descriptive discoveries show that, from 2012 and 2021, the mean return on assets was 0.143, with the smallest value being 0.021 and the highest value being 0.334. Standard variation was 0.087. Additional results show that from 2012 to 2021, the current ratio's mean value was 0.993, where the smallest value was 0.101 and highest value was 3.673. The range of the standard deviation was 0.854.

Further research showed that the average dividend decision (dividend per share) from 2012 and 2021 was 0.418, where the smallest value was 0.144 and highest value was 0.773. The difference in standard variation was 0.187. The outcomes depicted that the mean investment decision (payback term) value for the period from 2012 to 2021 was 6.115, with a least value of 2.314 and the utmost value being 9.508. The range of the standard deviation was 1.393.

## Correlation Results

For the manufacturing enterprises, the investigation performed a Spearman's correlation analysis on the variables of dividend decision, investment decision, liquidity financing, and financial performance (ROA).

**Table 2: Correlation Outcomes**

	<b>Financial Performance</b>	<b>Liquidity Financing</b>	<b>Dividend Decision</b>	<b>Investment Decision</b>
Financial performance	1.000			
liquidity financing	0.673	1.000		
dividend decision	0.091	0.088	1.000	
investment decision	0.119	-0.043	0.176	1.000
	0.008	0.670	0.081	

*Source: Research Data (2023)*

According to the investigation outcomes there was a substantial and optimistic connotation amongst liquidity financing and financial success ( $r= 0.673$ ,  $p= 0.000$ ). This inferred an improvement in liquidity financing would enhance the manufacturing firms performance. Research outcomes concurred with Vaita (2017) who was of the opinion that liquidity coverage ratio positively affected ROA. Further results showed that dividend decision had a favorable and important correlation with financial performance ( $r=0.091$ ,  $p=0.020$ ). This inferred an improvement in dividend decision would enhance the financial performance of firms. Research outcomes concurred with Nduta (2016) who demonstrated that the dividend payment method had a positive impact on firm financial success. In addition, results showed that investment decision had a favorable and important connection with financial success ( $r= 0.119$ ,  $p=0.008$ ). This inferred that an improvement in investment decision would enhance the corporations in NSE list success.

## Diagnostic Tests

Before the panel regression was done, some tests of diagnostics were carried out.

### Test for Normality

Shapiro and Wilk were used to evaluate normality. Results for normalcy are shown.

**Table 3: Outcomes of Normality**

Variable	Obs	W	V	z	Prob>z
Dividend Decision	100	0.894	33.401	8.409	0.066
Investment Decision	100	0.867	38.209	8.898	0.069
Liquidity	100	0.878	33.193	8.200	0.072
Performance	100	0.523	76.321	11.301	0.073

*Source: Research Data (2023)*

The outcomes demonstrated that every variable had a p value that is more than 0.05. This implied that the study's variables were all regularly distributed.

#### Test for Multi-Collinearity Test

Tolerance levels and variance inflation factors (VIF) was used in this investigation.

**Table 4: Multi-Collinearity Outcomes**

	VIF	1/VIF
Liquidity	1.04	0.960
dividend decision	1.04	0.966
investment decision	1.01	0.989
<b>Mean</b>	<b>1.03</b>	

*Source: Research Data (2023)*

The outcomes revealed that the minimum and highest VIFs were 1.01 and 1.04 respectively. VIF's median value was 1.03. This implied that no variable's VIF was more than 10. Consequently, none of the study's variables were multi-collinear.

#### Test for Autocorrelation

Serial Correlation Tests outcomes are depicted.

**Table 5: Serial Correlation Tests Outcomes**

<b>H<sub>0</sub>: no first-order autocorrelation</b>
F= 6.394
Prob > F = 0.461

*Source: Research Data (2023)*

This test's null hypothesis was that the data did not contain any first order serial or autocorrelation correlation. The F-test statistic, which was given, was 6.394. For manufacturing companies listed on the NSE, the value of p or the test for F is 0.461, suggesting that it is not important at the 5% level. Thus, the study's conclusion that there was no autocorrelation in the residuals.

#### Heteroskedasticity Test

Heteroskedasticity outcomes are depicted.

**Table 6: Outcomes for Heteroskedasticity**

<b>Breusch-Pagan / Cook-Weisberg Test</b>	
<b>Values</b>	<b>Performance</b>
chi2 {1}	879.09
Prob > chi2	0.06

*Source: Research Data (2023)*

Outcomes demonstrated that the financial success had a p value greater than 0.05. As a result, we draw the inference that there is no heteroskedasticity in the data.

**Hausman Test**

Outcomes of test Hausman are displayed.

**Table 7: Hausman Test Outcomes**

	<b>(b)</b>	<b>(B)</b>	<b>(b-B)</b>	<b>sqrt(diag(V_b-V_B))</b>
	<b>fixed</b>	<b>Random</b>	<b>Difference</b>	<b>S.E.</b>
Liquidity	0.091	0.088	0.003	0.001
Dividend decision	0.105	0.073	0.032	0.004
Investment decision	0.022	0.021	0.002	.
$\text{chi2}(3) = (b-B)'[(V_b-V_B)^{-1}](b-B)$ $= 151.64$				
Prob>chi2 = 0.0700 (V_b-V_B is not positive definite)				

*Source: Research Data (2023)*

The random effects model was the most chosen above the fixed effects one, according to the Hausman test's null hypothesis. According to the Hausman test, the chi-square value gotten is statistically noteworthy at the 5 percent level which was 151.64 and the value of p was 0.07. As Greene (2008) noted, the study did not discard the null proposition.

## Panel Regression Analysis Results

**Table 8: Financing Decision and Financial Performance**

random-effects GLS regression		Number of obs = 100				
R-square:		Obs per group:				
within = 0.6868		min =	10			
between = 0.2555		avg =	10.0			
overall = 0.4088		max =	10			
Wald chi2(3) = 172.04						
corr(u_i, X) = 0 (assumed)		Prob > chi2	=	0.0000		
Financial performance	Coef.	Std.Err	Z	P> z	[95% conf.interval	
Liquidity	0.088	0.007	11.870	0.000	0.003	0.102
Dividend decision	0.073	0.034	2.150	0.032	0.006	0.140
Investment decision	0.021	0.004	5.390	0.000	0.013	0.028
_cons	-0.101	0.032	-3.160	0.002	-0.163	-0.038
sigma_u	0.045					
sigma_e	0.038					
rho   .59152999 (fraction of variance due to u_i)						

Source: Research Data (2023)

The overall R Square coefficient of determination is 0.4088, as seen in the table. According to the model, the choice of financing accounts for 40.88% of the changes in the financial results. This indicates that 40.88% of the variances in financial performance were a result of financing choices. Results also depicted that choosing liquidity had a satisfactory and vital effect on financial success ( $\beta=0.088$ ,  $p=0.000$ ). Research outcomes concurred with Banafa et al. (2015) who was of the opinion that liquidity enhances business performance (ROA).

Further outcomes depicted that dividend decision had a satisfactory and important effect on performance ( $\beta=0.073$ ,  $p=0.032$ ). Research outcomes concurred with Nguyen et al. (2021) who was of the opinion that dividend payments had a noteworthy impact on a business's financial performance. In addition, outcomes depicted that investment decision had a favorable and important effect on performance ( $\beta=0.021$ ,  $p=0.000$ ). Research outcomes concurred with Morwabe and Muturi's (2019) who was of the opinion that financial success of SACCOs was highly affected by the investment choices. The outcomes further settled with Ringera and Muturi (2017) who was of the opinion that investment choices had significant effect on performance of Kenyan microfinance companies.

$$Y = -0.101 + 0.088X_1 + 0.073X_2 + 0.021X_3$$

Where

Y – Financial Performance (ROA)

X<sub>1</sub>– liquidity decision

X<sub>2</sub> – dividend decision

X<sub>3</sub> – Investment decision

## 5.0 CONCLUSION AND RECOMMENDATIONS

### Conclusion

Choice of dividends had an optimistic and notable impact on the financial success of Kenyan manufacturing corporation in the NSE. This demonstrates how the dividend policy of a publicly traded manufacturing company affects their levels of financial performance. The fact that larger manufacturing companies may more easily access external finance and rely less on internal capital can also be inferred as a reason why they tend to pay out higher dividends. The majority of manufacturing companies have a strong desire to pay out greater dividends in order to reduce agency costs since they regularly incur significant agency costs as a result of management and shareholders having divergent viewpoints on the company's future prospects. Due to low retained earnings caused by high dividend payments, there is a greater demand for external funding, which in turn causes creditors and other important stakeholders to monitor major companies more closely.

According to the study's findings, companies in the manufacturing and related sectors at NSE invest money to further their corporate goals. Manufacturing companies invest in capital and other fixed assets like manufacturing facilities and equipment that are anticipated to be productive for a long time. Equity investors, banks, financial institutions, venture capital, etc. are some sources of capital investment.

The investigation settled that liquidity financing had a favorable and important outcome on the financial success of Kenyan manufacturing corporation in the NSE. Strong liquidity indicates an organization's ability to pay existing responsibilities as they become due. Therefore, liquidness ought to be used and upheld at an ideal level to confirm that businesses consistently satisfy their responsibilities. Liquidity is also a critical part of asset management and is crucial to a company's capacity to function economically.

### Recommendations

A strong dividend policy that may increase manufacturing companies' levels of return on assets and draw in investors should be in place for those in NSE listing. The report endorses that listed engineering organizations ought to adopt rules and laws governing dividend circulation and that they be heightened and required to certify a more reliable bonus recompense so as to upsurge their market values through growing share prices. Because profitability drives dividends and payouts affect the share prices of the registered engineering corporations, directors may use dividend payments to carry information about the competitiveness of their organizations. The government should closely monitor corporations to make sure that they declare their legitimate profits, which serve as the basis of their tax obligation to the state, in order to prevent businesses from funneling a higher proportion into increased dividend payments to shareholders as a means of tax evasion for budgetary reasons.

The report suggested that, in order to increase their income base, the manufacturing and allied sectors listed on the NSE should undertake product diversification investment initiatives, because investment choices have a direct bearing on the financial success of manufacturing corporations. The Kenyan government should take into account providing subsidies for manufactured goods as

a policy element through annual budget declarations. Additionally, investors will be well-positioned to assess the firms' historical investment performance. Investors are able to determine when a firm is not using the resources well may be by failing to repair them on good time or maybe when the assets that are not old are being bought so as to replace the very old ones that are still useful to the company by analyzing the behavior of replacement and renewal decisions made by firms. This knowledge helps investors make wise investment decisions.

Liquidity was found to have a positive effect on financial success. It is advised for firm managers to closely monitor the firm's liquidity, take actions with favorable net present values, and generate cash inflow to finance their operational and investment operations. Additionally, it is essential that business managers watch out for any idle funds that will not produce profits. Instead, they ought to strive to keep up the optimal cash needs and use the money left over to make investments that will increase shareholder wealth. To ensure the greatest results, it is advised that businesses review their free cash flow usage strategies.

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