EFFECT OF FINANCIAL MANAGEMENT DECISIONS ON PERFORMANCE OF MANUFACTURING FIRMS LISTED ON NAIROBI SECURITIES EXCHANGE

BY

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DECEMBER, 2016

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Isaac Mutuku Muinde Reg.No…….

Signature……. Date……..

I do hereby confirm that I have examined the master's dissertation of

Isaac Mutuku Muinde

and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Signature……. Date……

Dr. Christine Nanjala

Dissertation Supervisor

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DEDICATION

I dedicate this dissertation to my wife and children whose presence during my studies has been credible.

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ABSTRACT

The effect of finance management on manufacturing firm performance in Kenya needs to be studied. Using panel research design, the study seeks to investigate the effect of finance management decision on listed manufacturing firm performance in 2005 to 2014. Specifically the study seeks to establish the effect of leverage and manufacturing firm performance among listed companies in NSE. To determine the effect of investment decision on manufacturing firm performance, to find out the effects of dividend policy on manufacturing firms performance and to establish the effect of working capital on manufacturing firm performance. The target population of this study was all the nine manufacturing listed companies in Kenya. The study was based on secondary data which was collected from the published annual reports for listed companies manufacturing firms in (2005-2013). Both Microsoft excel and E views 8 were used to analyse the data. A graphical method was used to explore the data. Panel regression analysis was used to examine the relationship between independent and dependent variables. Results of the study revealed that there was negative relationship between investment and EBIT while leverage, dividend, working capital and total assets had a positive relationship with EBIT. There was a positive relationship between annual sales and investment, leverage, dividend, working capital and total assets. There was a positive relationship between leverage, dividend, working capital, total assets and gross profit while investment had an inverse relationship. The firms should examine their credit rating, predict their chances of bankruptcy. Secondly, they should evaluate all the investment decisions to ensure that they attain optimal benefits from all capital expenditure. Manufacturing company annual dividend policy ought to be examined to ensure that it meets the unique needs of all investors. The firms should evaluate the working capital decision so that they can adapt the optimal working capital cycle.

Key words: Leverage, Investment, Working capital, Dividend

ACRONYMS & ABBREVIATIONS

EBIT Earnings before interest and tax

NSE Nairobi Securities Exchange

OLS Ordinary Least Squares

ROA Return on Assets

ROE Return on Equity

DEFINITION OF TERMS

Capital expenditure: The Company's annual expenditure on long term investment project which may include replacement decision, acquisition of new asset, over haul of the old machines (Mwangi, 2014).

Leverage: This is the actual amount of capital which is financed using both long term and short term debt (Raza, 2013).

Working Capital: The difference between current assets minus current liabilities (Sharma and Panigrahi, 2013)

CHAPTER ONE

INTRODUCTION

1.1 Back ground to the Study

The past will always have an influence on the present. Therefore, the changes that happen in the economy will have to be reflected on organization performance. Hence, in a corporate organization the finance manager will be involved in making day to day decisions which will have effects on organization performance. The past decisions which may influence firms performance include; leverage decision due to debt covenants, dividend decision which can determine the retained earnings which influence future company's growth, investment decision which will determine whether investors wealth increases or decreases as well as working capital decisions which will determine the foregone benefits associated with particular amount held in current assets such as work in progress.

Although, there have been conflicting results among finance scholars on the existence of optimal capital structure, which is finance combination of long term sources of finances aimed at maximising firm's value and minimizing the overall cost of capital. Modigliani and Miller (1958) argued that in a tax free economy, total elimination of transactions costs, then capital structure cannot be a true measure of firm's value. In a subsequent article in 1963 Modigliani and Miller argued that organizations should have more preference for debt financing due to its associated tax shield benefit. According to Stacy (2011) as cited in Taani (2013) a corporate organization has to continuously evaluate its debt and equity mix so as to ensure they attains an optimal mix of debt and equity.

Even though there is need for an organization to have an optimal mix of debt and equity. Jensen and Meckling (1976) argued that there are agency costs which are associated with the choice of debt and equity on firm's capital structure. Although, studies in different economies have empirically shown the relationship between capital structure and firm performance little have been established in Kenyan economy. Taani (2013) examined Jordanian case on the relationship between capital structure and firm performance. Capital structure was measured using short term debt, long term debt as ratios of total assets and total debt to equity ratio. The study found negative but insignificant relationship between capital structure and firm performance. Feng and Ma (2013) found a negative significant relationship between capital structure and corporate firm performance among Swedish companies. Mwangi, Makau and Kosimbei (2014) found an inverse significant relationship between capital structure and firm performance among non-financial listed companies in Kenya. Though these studies have consistent results they have erred on the choice of research design since only Mwangi *et al*., applied panel research design on the panel data. Similarly, investment decisions play an important role on firm performance. Loof and Heshmati (2008) showed a positive significant relationship between investment decision and firm performance among Swedish listed companies. Ayaydin and Karaaslan (2014) showed that manufacturing firms in Turkey had a positive significant relationship between the amount they incurred on research and development and firm performance.

There is need to apply prudent finance management strategies on working capital management. Working capital items such as debtors, creditors and cash are assumed to change instantly thus the need to make wise decisions which will increase the associated benefits and

minimize opportunity costs associated with them. Although, several studies have been carried out to examine the effect of working capital on firm performance majority have considered independent components of working capital. Mumtaz *et al*., (2014) found a negative significant relationship between number of days of receivables and firm performance and a positive significant with number of days of inventory among companies listed in Karachi securities exchange.

Although, both theoretical and empirical studies have shown finance management decision in an organization have effects on firm performance. None of the empirical studies have shown the joint influence of the four key management decisions on firm performance. It is against this back drop that the current study seeks to examine the effect of leverage, investment, and dividend and working capital decisions on listed manufacturing firm performance in Nairobi securities exchange.

1.1.1 History of Nairobi Securities Exchange

The Nairobi Securities Exchange can be traced back to the 1920s when it started trading shares while still a British colony. At the time transactions were conducted in an informal market with no rules and regulations to govern trading activities. Participation of local citizens was limited accounting for about 5% mainly due to their low income and statutory restrictions during the precolonial period (Ngugi, 2013). In 1954 it was constituted as an association of stock brokers registered under the Societies Act (NSE, 1997 a).To facilitate registration, stock brokers obtained clearance from London Stock Exchange(LSE),which recognized the NSE as an overseas stock exchange enabling it gain value and credibility(Munga, 1974).

In 1990 the Capital Market Authority (CMA) was established with the responsibility of promoting and facilitating development of an orderly and efficient capital market in Kenya. It targets to protect investors interest by operating a comprehensive fund to cushion investors from financial losses arising from the failure of a licensed broker or dealer to meet contractual obligation. In 2000 there was the installation of the Central Depository System (CDS) with the aim of speeding up share transaction and trading.

On July 6 2011 the Nairobi Stock Exchange changed its name to Nairobi Securities Exchange as a strategic plan to progress into full service securities exchange which supports clearing, trading and settlement of equities, debt, derivatives and other associated instruments (NSE, 2013). Some of the functions of NSE includes; Enables mobilization of savings for investment in productive enterprises as an alternative to putting savings in bank deposits, real-estate investment or outright consumption. It gives room for the growth of related financial services sector, facilitates equity finance and enables public flotation of private companies which in turn allows greater growth.

1.2 Statement of the Problem

In a corporate organization a finance manager is always engaged in making for key financial management decisions; there is need to evaluate the alternative sources finance, hence he has to trade-off between debt and equity. After raising the funds the manager should invest it in projects which can give positive net present value and thus increase the shareholders wealth. Ordinary shareholders will always participate in the sharing of annual returns through dividends. Since the resources are scarce depending on the level of financial needs in an organization a lot of time ought to be spent on management of working capital whereby measures ought to be taken to

minimize opportunity of holding excessive current assets and benefit more from current liabilities. The finance manager has to choose among matching, aggressive and defensive finance management strategies which will influence the performance of manufacturing firms. Since manufacturing firms requires huge investment on machinery then the financing mix should be optimal.

Although several past studies have evaluated the relationship between independent finance management decision and firm performance. There has been a consistent result showing the influence of each finance management decision (Raza, 2013; Liangovas & Skandalis, 2012; Mwangi, 2014, Azeez and Latifat, 2013; Azam and Haider, 2011) where there is a positive and significant between working capital, investment decision, dividend decision and firm performance while leverage has an inverse significant relationship with firm performance.

Most of these studies have mistaken on choice of research methodology since they have not considered the time or group effects on their analysis. Hence, the current study seeks to use panel data analysis method to evaluate the effects of finance management decisions on firm performance. Moreover, none of these studies have considered the combined effects of finance management on firm performance; therefore the current study seeks to evaluate the combined effect of leverage decision, investment decision, dividend policy decision and working capital decision on firm performance. In addition, most of these studies have considered the whole securities exchange and none of them have considered finance management decision on manufacturing firm's performance. Locally, there is little which has been done on the combined effect of finance management decision on firm performance among manufacturing listed firms the current study sought to fill this research gap.

1.3 Objectives of the Study

The main objective of the study was to examine the effects of financial management decision on listed manufacturing firm performance in Nairobi securities exchange. Specifically the study was guided by the following objectives:

i. To establish the effects of leverage on listed manufacturing firm performance in Nairobi securities exchange.

ii. To determine the effects of investment decision on listed manufacturing firms performance in Nairobi securities exchange.

iii. To find out the effects of dividend policy on listed manufacturing firms performance in Nairobi securities exchange.

iv. To establish the effects of working capital decision on listed manufacturing firms performance in Nairobi securities exchange.

1.4 Hypothesis of the Study

The study seeks to test the following hypothesis:

H_{o1}: Leverage has no significant effects on listed manufacturing firm's performance in Nairobi securities exchange.

H_{o2}: Investment decision has no significant influence on listed manufacturing firm's performance in Nairobi securities exchange.

H_{o3}: Dividend policy has no significant effect on listed manufacturing firm's performance in Nairobi securities exchange.

H_{o4}: Working capital decision has no significant effect on listed manufacturing firm's performance in Nairobi securities exchange.

1.5 Significance of the Study

The current was crucial to both quoted and unquoted companies since it provided answers on the effects of financial management decision on listed manufacturing firm's performance. The strategist, consultant, finance manager and financial analysts will generate insights from the study since they gather some information on the influence on financial management decisions on manufacturing firm's performance. The current study will minimize the level of conflict between the various principal agency relationships in a manufacturing organization for example the conflict between management and shareholders can be minimized through an understanding of the relationship between dividend policy whereby the shareholders are rewarded through dividends and how this decision affects the overall organization performance. Moreover, the agency conflict which may arise from management and debt providers can be minimized through the examination of the debt policy effects on firm performance, through this study the lenders can gauge the extent to which they can lend to a firm and minimize the chances of bankruptcy and it associated costs. The study contributed to empirical findings and from its recommendations future research may be carried out. Future researchers will benefit from the documented evidence of the effects of financial management decision on manufacturing firms' performance.

1.6 Scope of the Study

The study was limited to listed manufacturing companies in NSE, and actively trading in the period of 2005 - 2013, any manufacturing firm listed, delisted or suspended in the same period will be excluded from the study. Scholarly articles have stipulated that prudent financial management calls for wise decision on leverage decision, investment decision, dividend decision and working capital decision.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The entire chapter reviews the literature related to the key study variables as depicted in the conceptual framework. Prior to empirical the section reviews four theories which show the effect of finance management decision on manufacturing firm performance. The chapter also looks into the linkages in addition to establishing the existing relationships amongst these variables. Empirical studies related to the study variables were reviewed in the chapter in order to lay down ground for research.

2.2 Theoretical Framework

The current study was guided by risk return trade off theory, signaling hypothesis and operating cycle theory.

2.2.1 Risk Return Trade off Theory

The concept of risk and return trade off assumes that there is exists an efficient and no riskless profit that can be earned. According to Krantz and Zhnag (2013) if the investors anticipates that prices will be high then then would rush to purchase the particular security and owing to forces of demand and supply they prices would increase since they will be limited supply. Moreover, an investor will be motivated to purchase securities when prices are high on anticipation he will get fair return. The theory is appropriate for the study since the management ought to make investment decision which will give the anticipated returns the shareholders anticipate. All

investment decision are exposed to different risk levels and the management can be composed of different with varying levels of risk attitude; risk averse, risk neutral and risk seekers. Therefore, if the management is composed of risk seekers then there are high chances of good return and vice versa.

2.2.2 Signalling Hypothesis

According to Connelly, Certo, Ireland & Reutzel (2011) signalling hypothesis was developed to explain the relationship between two parties with different levels of information access. Corporate governance principles advocates that accounting information should aim at minimizing the level of information asymmetry therefore an increase in earnings and dividends can be interpreted as an indication of good performance while a decrease maybe an indicator of either good investment opportunity or past poor firm performance which may have eroded shareholders wealth. The theory is appropriate for the study since investors are always motivated to earn more returns for a given level of risk.

2.2.3 Operating Cycle Theory

This theory is paramount in working capital management since it captures the whole cycle commencing from acquisition of raw materials up to the receipt of cash from the goods sold on credit. Traditionally working capital was evaluated using liquidity ratios such as acid test ratio, current ratio the approach was perceived inferior hence the development of operating cycle theory (Richard & Laughlin, 1980).

The theory is appropriate to the study since if a company invests huge amount in working capital items then it will incur opportunity cost which will impact negatively the corporate

performance of an organization thus the firm ought to management its working capital to ensure it has the optimal working management strategy.

2.3 Empirical Review of Literature

The current reviews the literature in relation to past studies. The past study shows the relationship between the study variables.

2.3.1 Leverage Decision and Firm Performance

Raza (2013) studied the effects of leverage on firm profitability among companies listed in Karachi securities exchange. Pooled regression analysis was used to analyse the secondary data which was collected from annual audited financial statements of companies listed in 2004-2009. Firm performance was measured using accounting measures such as return on assets and return on equity (Abor, 2005). Leverage decision was measured using the proportion of long term debt to equity ratio. The study found an inverse significant relationship between leverage and firm performance. Moreover, the findings showed that use of huge proportions of long term debt increased operational costs due to costs associated with it. The choice of pooled regression analysis was appropriate since the data was panel in nature. It would have been appropriate for the study to report diagnostic test prior to regression analysis.

Using panel data Liangovas and Skandalis (2012) examined the impact of leverage and other key variables on business performance in Greece. Secondary raw was collected a sample of 102 companies from manufacturing sectors, in 1997 -2004 a period in which these firms were incorporating new requirements on environmental issues from European Economic Union. Firms

leverage was measured using the ratio of long term debt to total assets while business performance was measured by natural logarithm of the return on assets. The study found a positive significant relationship between leverage decision and firm performance. The choice of panel data regression analysis was guided by the use of Hausman test which was significant hence the appropriate model for the study was fixed effects panel regression. Huten (2014) examined the impact of leverage on firm performance. The study adopted correlation design. Firm performance was measured using Tobin q. Firm leverage was measured using the ratio of debt to equity ratio. In the study employee satisfaction, growth opportunity, firm size and industry category were controlled. Both independent and controlled variables were lagged for one period to minimize the effects of causation. The study found a negative and insignificant relationship between firm performance and both short term and long term debt. In addition, there was a positive and insignificant relationship between leverage and return on equity as well with return on assets.

Panel regression analysis was applied by Muli and Mukras (2015) to examine the relationship between financial leverage and firm performance. The study there is a strong negative significant relationship between financial leverage and return on assets, Tobin q.

2.3.2 Investment Decision and Firm Performance

Heshmati and Loof (2008) examined the relationship between investment and firm performance. Heshmati and Loof measured performance using sales, value added, profit, cash flow, capital structure and employment while investment was measured using the actual expenditure on research and development and physical capital. Secondary data of Swedish companies was collected for the year 1992-2000. Data was analysed using multivariate auto regressive approach.

Results of the study showed that there was a significant causal relationship between investment and firm performance. Mwangi (2014) studied the effects of capital expenditure on the firms listed in NSE. Purposive sampling technique was used to select 53 companies which were listed and actively trading in 2009-2013. Both regression and correlation analysis were applied. Results of the study found that there was a positive and insignificant relationship between capital expenditure and firm performance. The choice of ordinary least squares regression analysis was not appropriate for the panel data and it would have been appropriate to use fixed effects or random effects regression analysis.

2.3.3 Dividend Policy Decision and Firm Performance

Murekefu and Ouma (2013) examined the relationship between dividend payout and firm performance among firms listed in Nairobi securities exchange. Purposive sampling was used to select 40 companies which were listed in NSE and actively trading from 2002 to 2010. Multiple regression and correlation analysis was applied to analyse the data. Results of the study found a positive significant relationship between dividend payout ratio and firm performance. The study concluded that there were contrasting findings in relation to provisions of dividend theories. The study faulted on the choice of ordinary least squares method for panel data analysis it would have been appropriate if they applied either random effects or fixed effects regression analysis.

Oil and gas companies' influence of dividend policies on firm performance was carried out by Azeez and Latifat (2013) through the use of OLS. Oil listed companies for the period covering 1999-2013 were purposively selected. Secondary data was collected from their annual audited financial statements. The study found a positive significant relationship between dividend policy and firm performance. The study erred on the choice of OLS for data analysis on

the panel data it would have been appropriate to use either fixed or random effects regression modelling whose dilemma would have been resolved through the use of Hausman test. Ajanthan (2013) studied the relationship between dividend policy and firm performance among hotel and restaurants listed in Sri Lanka. Secondary data was analysed through the use of correlation and regression analysis. The study found that 52.6% of the changes in firm profitability were explained by the dividend policy. From the findings it was concluded that finance managers ought to devote a reasonable amount of time on dividend policies since here was a strong positive significant relationship. It would have been appropriate to use fixed or random effects panel regression analysis since the data was panel in nature.

Uwuighe, Jafaru and Ajayi (2012) investigated a Nigeria case of listed firms on the relationship between dividend policy and firm performance. Judgemental sampling was used to select 50 listed companies in periods of 2006-2010. Secondary data was collected from audited financial statements. Both correlation and multiple ordinary least squares regression were applied to examine the relationship between variables. The findings depicted that there was a positive significant relationship between firm performance and dividend policy. All these studies on the relationship between dividend policy and firm performance erred on the choice of methodology and research design since the data was panel in nature and the appropriate design ought to have been panel research design thus the current study seeks to correct the methodology and research design.

2.3.4 Working Capital Decision and Firm Performance

Sharma and Panigrahi (2013) studied the relationship between working capital management and firm performance on selected cement manufacturing companies. Secondary data was collected

among five cement companies which were selected purposively in 2001-2010. Both correlation and regression analysis were used to analyse the data. Results of the study showed a negative significant relationship between inventory conversion period, accounts payable period and firm performance. Moreover, there was a positive significant relationship between cash conversion cycle and firm performance. Azam and Haider (2011) studied the impact of working capital on non-financial institutional firm performance. Secondary panel data was collected for the period in 2001 -2010. Canonical correlation analysis was used to analyse the data. Results of the study showed a positive significant relationship between working capital and firm performance. From the findings it was concluded that the finance manager ought to increase the shareholders' value by reducing their cash conversion cycle, inventory cycle and the net trading cycle.

Khan and Ghazi (2013) studied the impact of working capital and firm performance on firms listed in Karachi stock exchange. Purposive sampling was used to select 22 companies which were listed in chemical sector in 2005-2010. Working capital was operationalized to be measured using "cash conversion cycle, number of days receivable, number of days inventory and number of days payables" while both Tobin's Q and gross profit were used to measure firm performance. The study found that both cash conversion cycle and number of day's receivable had a negative significant influence on Tobin's Q. In contrast there was a positive and significant relationship between both number of days of inventory and payables with Tobin's Q. Further the study found a positive and significant relationship between cash conversion cycle, number of day's receivable, number of inventory days and gross profit while there was a negative and significant relationship between number of days payable and gross profit margin.

Though these studies registered consistent results all of them used panel secondary data and they applied either ordinary least squares regression or correlation analysis. The methodology choice was not appropriate since they did not consider the data as both time series and cross sectional and the most appropriate methodology would have been panel regression analysis and Hausman test would have been used to resolve the dilemma between fixed effects and random effects regression analysis. Secondly, all these studies were carried out in different economic set ups thus the current study will shed some light on the role of working capital and firm performance.

2.3.5 Firm Size and Firm Performance

Pervan and Visic (2012) examined the influence of business size on its success. Secondary data covering 2001 to 2010 was collected from secondary sources for small and medium enterprises in Croatia. Firm size was operationalized to be measured using natural logarithms of total assets, and natural logarithms of the number of employees. Firm performance was measured using return on assets, return on equity, profit margin, EBIT margin, EBDIT margin. Correlation and fixed effects regression analysis were applied to examine the relationship. There was a positive significant relationship between firm size and firm performance.

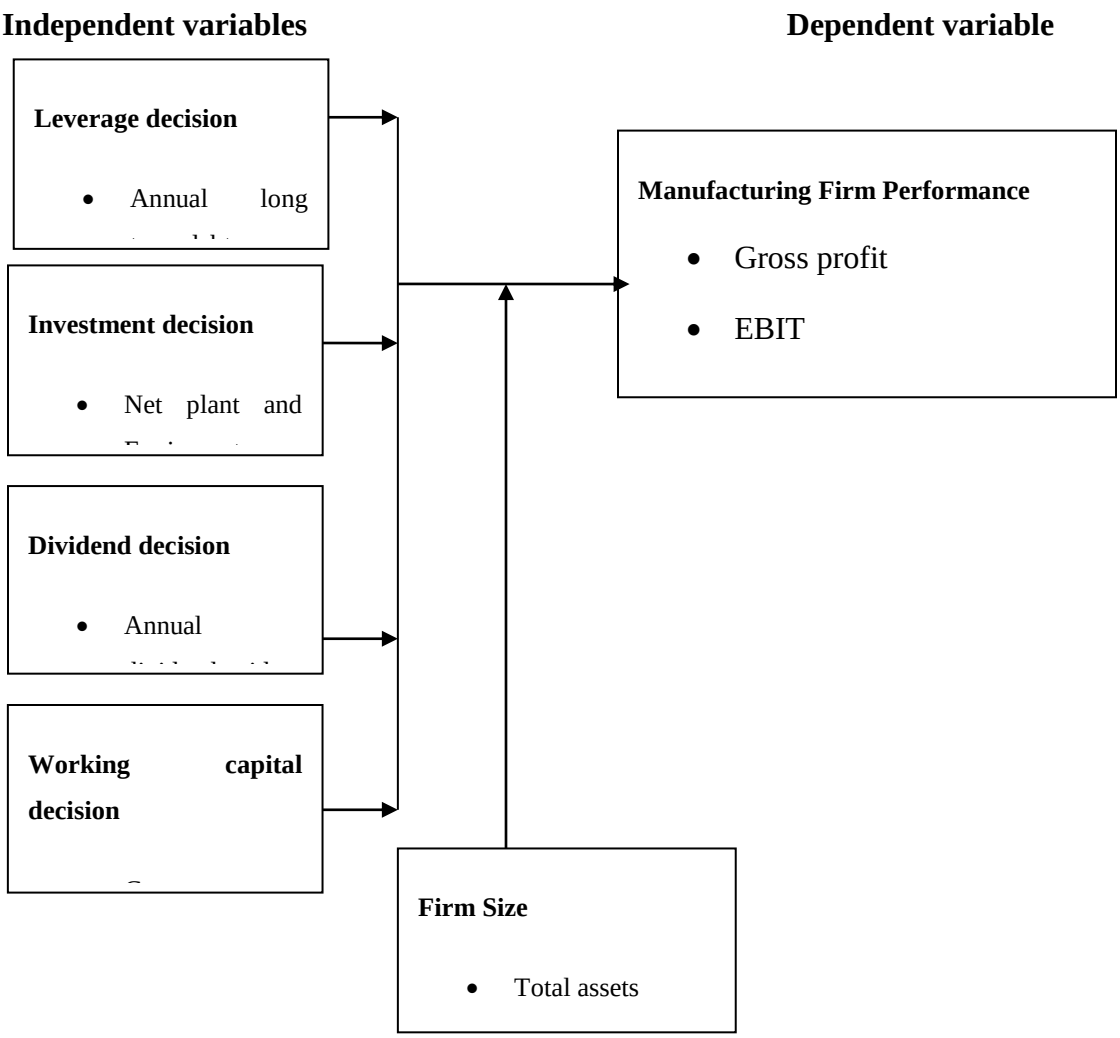
Niresh and Velnampy (2014) studied firm size versus profitability among manufacturing companies in Sri Lanka. Purposive sampling was used to select 15 companies listed in manufacturing sector in Colombo stock exchange in 2008 to 2012. Correlation and regression analysis were used to analyse the data. The study found a positive though insignificant relationship between firm size and firm performance. Liangovas and Skandalis (2012) showed a positive though non-significant relationship between firm size and business performance.

2.4 Conceptual Framework

A schematic presentation showing the interactions between the study variables is known as conceptual framework (Kothari, 2011). In the current study the dependent variable will be measured by gross profit and total earnings after tax. Both gross profit and total earnings are assumed to be influenced by leverage decision, investment decision, dividend policy decision and working capital decision. The relationship between the dependent and independent variables is shown in Figure 1.

FIGURE 1

Conceptual Framework



2.5 Operationalization and Definition of Variables

TABLE 1

Operationalization of the Variables

Variable	Definition	Measures
Manufacturing Firm Performance	This refers firms return measured in form of gross profit, earnings before interest and tax and annual sales per annum.	• Ln Gross profit • Ln EBIT • Ln Annual sales
Leverage decision	This refers to the amount of liabilities which is raised from long term sources of finances.	• Ln Total annual long term debt
Investment decision	This is the total amount spent per annum in the acquisition, replacement of firm assets meant for long term use.	• Ln Annual capital expenditure
Dividend Policy	This is the total amount of dividend declared and paid in a certain accounting period.	• Ln Annual dividend paid per annum
Working capital decision	This refers to the difference between current assets and current liabilities in a certain accounting period.	• Ln (Current assets – Current liabilities)
Firm size	This refers to the total asset base owned by a firm in a particular time in the balances sheet.	• Ln Total assets

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The current chapter discusses the methodology that was employed in the study. The key aspects being discussed in the current chapter are research design, sampling frame and sample size, data collection instruments, data analysis and the operationalization of the study variables.

3.2 Research Design

The main purpose of research is to provide a step by step guideline on how to attain the study objectives. The current study will adopt correlation research design and collected secondary data from annual statements for the past 9 years in 2005-2013. The study collected information for 7 companies which are listed in manufacturing and allied sector in Nairobi securities exchange. Correlation research design was appropriate for the study since it sought to examine the effect of financial management decisions on performance of manufacturing firms in NSE.

3.3 Target Population

The target population for the current was composed of all the 9 companies listed in Nairobi Securities Exchange as at July 2015 (See Appendix I).

3.4 Sample Procedure and Sample Size

Census sampling technique will be used to select 9 companies which are listed in manufacturing and allied segment and have been actively trading for the past ten years. These are BOC Kenya

ltd, British American Tobacco Kenya ltd, Carbacid investment company ltd, East Africa Breweries ltd, Mumias sugar company ltd, Unga group company ltd, Eveready East Africa ltd, Kenya orchards ltd and A. Baumol company ltd. Any, firm in this sector, which will have incomplete data for the ten years under consideration will be excluded as such to have balanced panel data.

3.5 Study Data

The study data was annual published audited financial statements for manufacturing listed companies in NSE in period of 2005-2014.

3.6 Data Analysis

The current section was composed of four steps: data preparation through cleaning, data analysis, interpretation and report writing. Microsoft Excel in combination with E views and STATA statistical packages will be used to analyse the data. A graphical method was used to explore the data. Panel regression analysis diagnostic test for heteroskedasticity, serial correlation and fixed effects will be used. Panel analysis method was appropriate since the data had both cross sectional and time series effects.

TABLE 2

Panel Data Diagnostic Tests

Test	Test Used	Conclusion
Use of pooled or random effects model	Breusch Pagan LM test	If P value >0.05, use pooled effects model.
Time Fixed Effects	F statistics	If p value >0.05, there are no time fixed effects do not use two way model or introduce dummy variables
Heteroskedasticity	Modified Wald Test Wooldridge	If P value <0.05, presence of non-uniform variance.
Serial correlation	Drukker test	If P>0.05, no serial correlation
Random or fixed effects	Hausman test	If p value>0.05, use random effects model.

Fixed effects model assumes that heterogeneous groups or time had different intercepts while random effects models assumes there are differences in disturbance or the error term. Since there was a dilemma to choose between random and fixed effects Hausman test will be used to decide on the best model to apply between random effects and fixed effects model. According to Hausman (1978) there will be enough to warrant rejection of the null hypothesis which hypothesis that the model has random effects against the alternative which states that the model had fixed effects. The resulting model will be used to analyse the effect of financial management decision making on manufacturing firms performance the following models will be used;

The fitted pooled OLS, fixed and random effects models will be as follows:

Pooled OLS:

$$Y_{it} = \alpha + \beta X_{it} + \varepsilon_{it} \quad (1)$$

Where ε_{it} = error term

Fixed effects:

$$Y_{it} = \alpha_i + \beta X_{it} + \mu_i + \varepsilon_{it} \quad (2)$$

Where μ_t = fixed effect

Where ε_{it} = error term

Random effects:

$$Y_{it} = \alpha + X_{it}\beta + \mu_{it} + \varepsilon_{it} \quad (3)$$

Where ε_{it} = within entity error term

μ_{it} = between entity error term

From the equations;

Y_{it} = Manufacturing firm performance (Gross profit, EBIT and Annual sales) for i^{th} firm in t^{th} year.

X_{it} = vector representing independent variables (Leverage, investment, dividend and working capital requirements) for firm *i* in year *t*,

β = Vector of Coefficients of the independent variables,

α = the intercept for each entity, *i*= 1, 2 …9 (indicator of the manufacturing firms)

t = 1, 2 … 10 (time indicator)

3.7 Model Specification

To analyse the effects of financial management decision making on manufacturing firms performance the following models will be used;

Gross profit $_{it}$ = *f* (Leverage $_{it}$, Investment $_{it}$, Dividend $_{it,}$ Working capital $_{it}$ Firm size $_{it,}$) + ε_{it}

EBIT $_{it}$ = *f* (Leverage $_{it}$, Investment $_{it}$, Dividend $_{it,}$ Working capital $_{it,}$ Firm size $_{it,}$) + ε_{it}

Annual sales $_{it}$ = *f* (Leverage $_{it}$, Investment $_{it}$, Dividend $_{it,}$ Working capital $_{it,}$ Firm size $_{it,}$) + ε_{it}

Where:

Gross profit $_{it}$: Gross profit *i* at time *t*

EBIT $_{it}$; EBIT *i* at time *t*

Annual sales $_{it}$: Annual sales *i* at time *t*

Leverage $_{it:}$ Leverage *i* at time *t*

Dividend $_{it}$: Dividend *i* at time *t*

Working capital $_{it}$: Working capital *i* at time *t*

Firm size $_{it}$: firm size of company *i* at time *t*

ε_{it}: Error term

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 Introduction

The current chapter presents the secondary data collected from manufacturing companies listed in NSE in 2005-2013. In the current chapter exploratory analysis, diagnostic tests and panel data analysis is presented. The target population for the study nine companies for ten years though the data available was for only 7 companies for nine consecutive years.

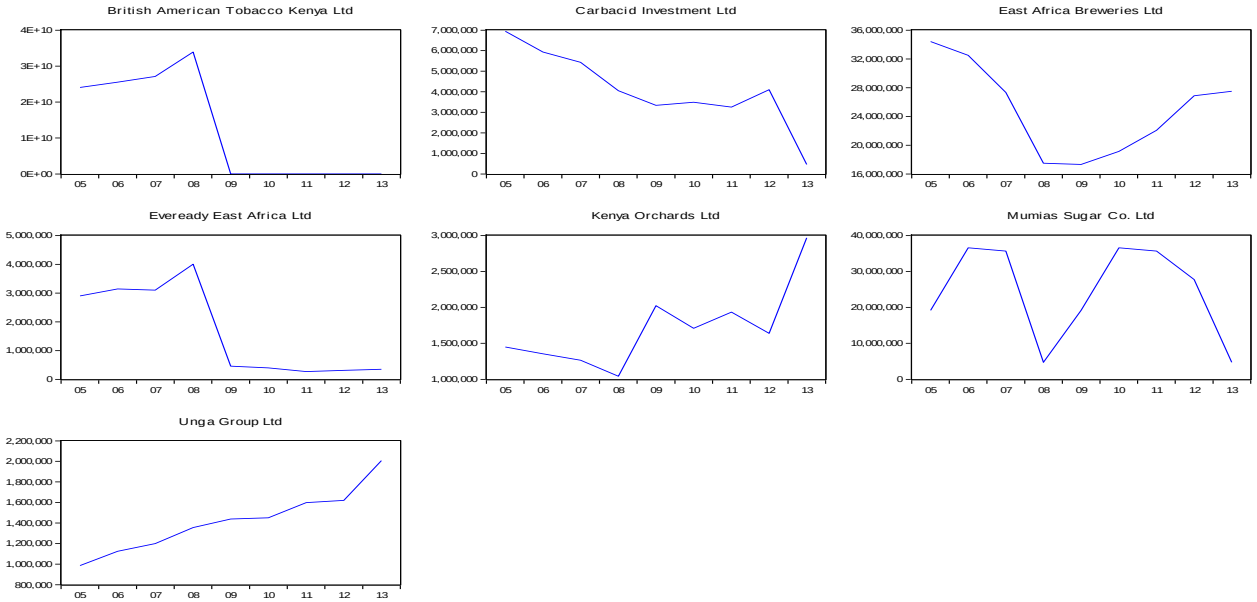
4.2 Exploratory Data Analysis

In this section the study examines the gross profit growth patterns, annual sales growth patterns and EBIT growth patterns. In addition, the overlain graphs are presented.

Figure 2 shows that there was a stagnant trend on gross profit growth for British American in the initial years, though it decreased later followed by future stagnant growth. Unga limited had an increasing trend on profit in the period under investigation. Mumias sugar had an increasing trend though in the recent years it had negative patterns which can be attributed to recent sugar industry crisis.

FIGURE 2

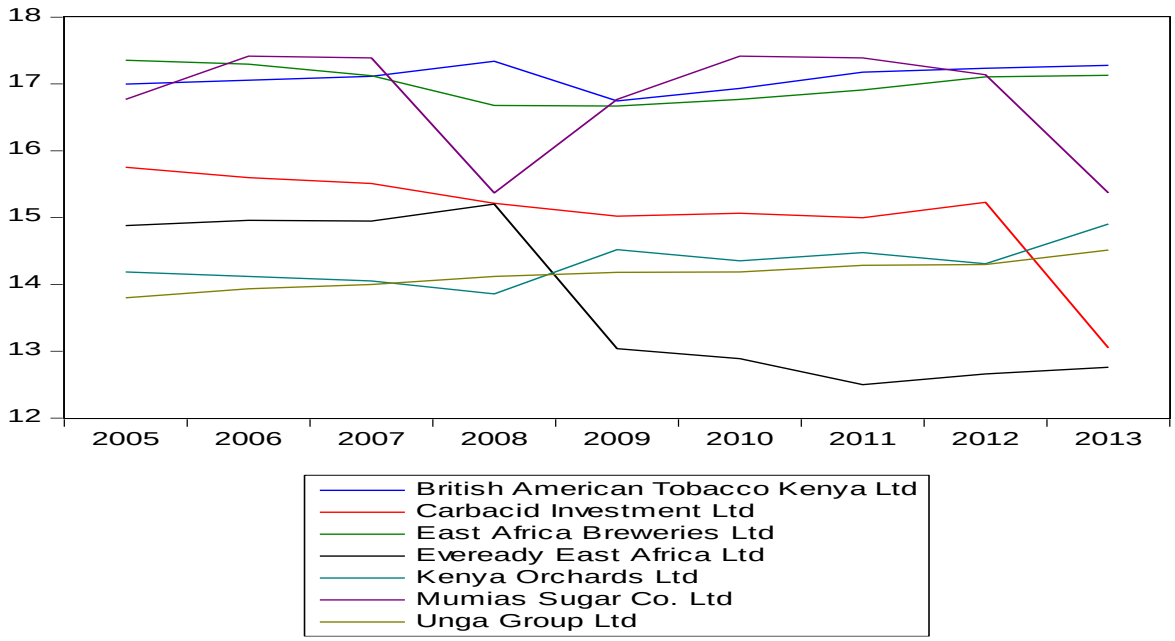
Growth Pattern for each Firm Gross Profit



The pictorial presentation in Figure 3 showed that there were changing slopes on gross profit patterns among the manufacturing firms listed in NSE.

FIGURE 3

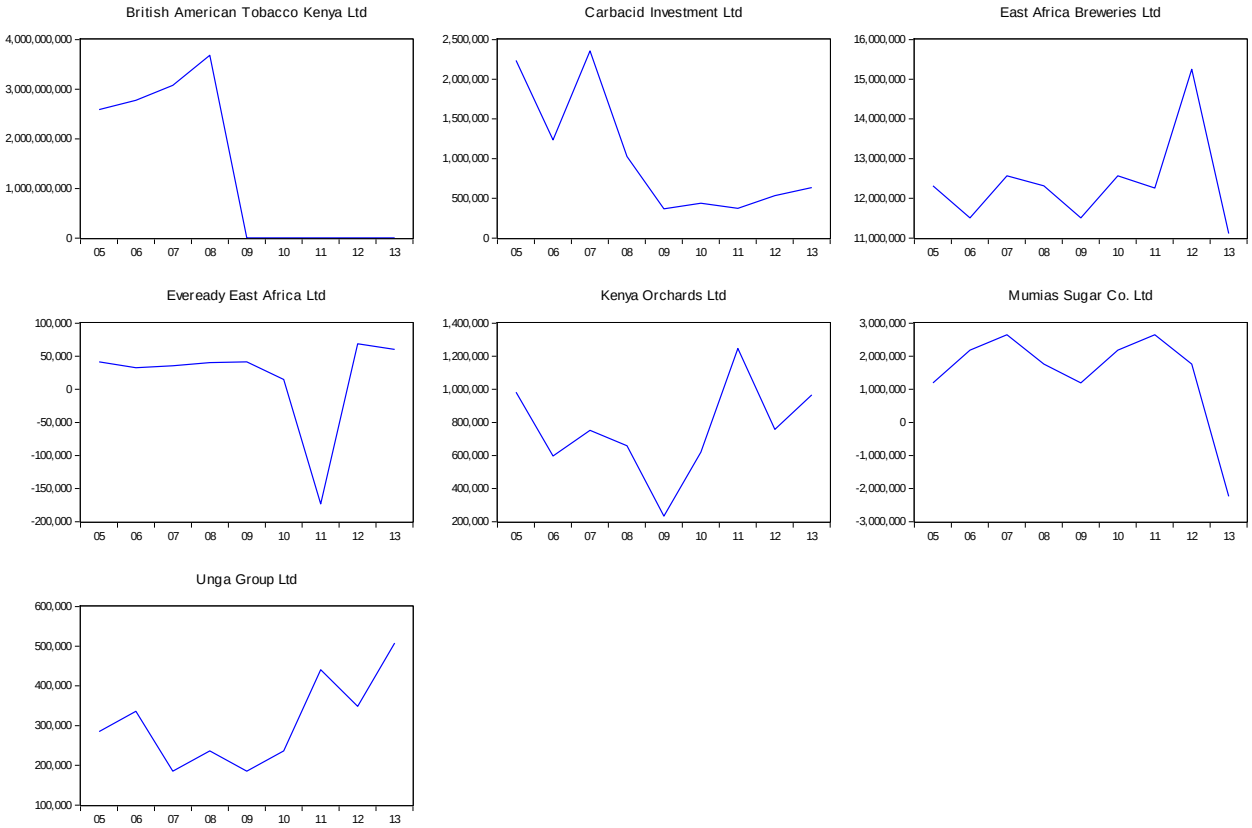
Overlain Gross profit



There were similar trends which were notes among manufacturing on EBIT growth. This was anticipated since EBIT is derived from gross profit after deducting operating expenses.

FIGURE 4

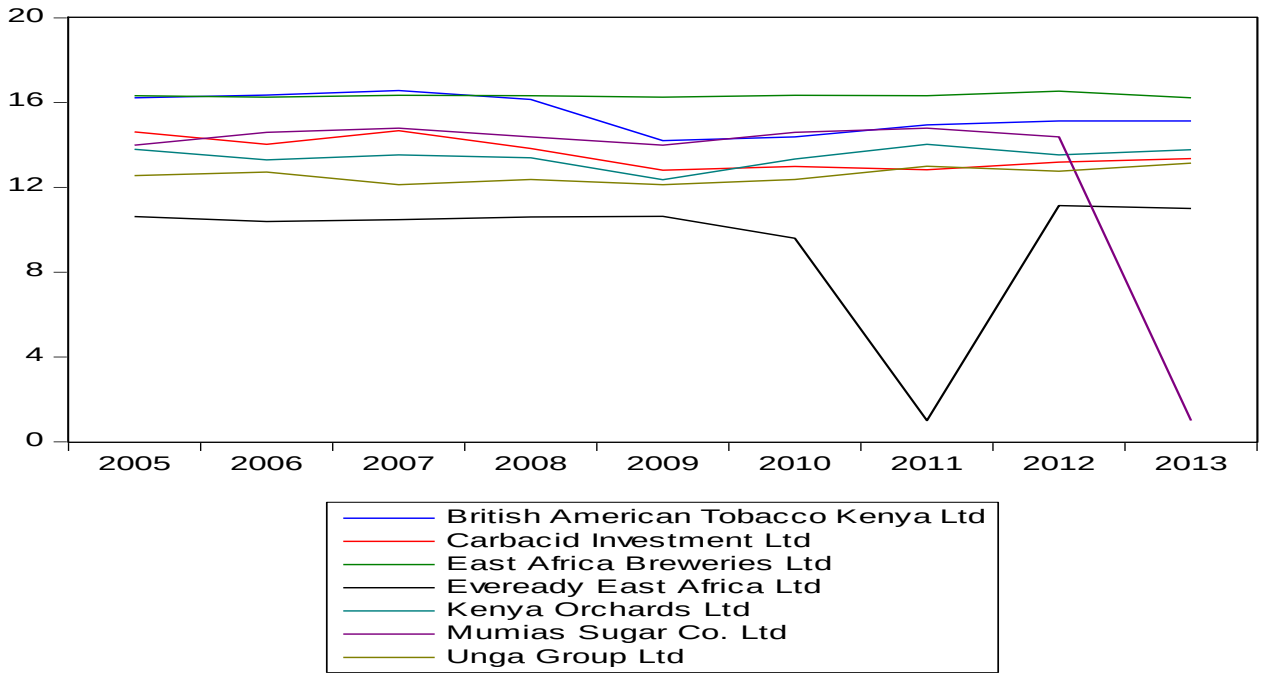
Growth Pattern for each Firm EBIT



Results in Figure 5 revealed that there was variation on firms EBIT per annum though the deviation was minimal in the initial years. The widest dispersion was notes in 2011 which was attributed downward EBIT record by Unga group which was attributed to an expansion program being undertaken by the firms resulting to increased operating expenses.

FIGURE 5

Overlain EBIT



The pictorial presentation in Figure 6 revealed there changing trend on companies annual sales. In particular Unga group had an upward trend on its sales while East Africa breweries initially registered slow growth in sales which increased very fast commencing 2007, this would have been attributed to the exit of Castle breweries in Kenya.

FIGURE 6

Growth Pattern for Each Firm Annual Sales

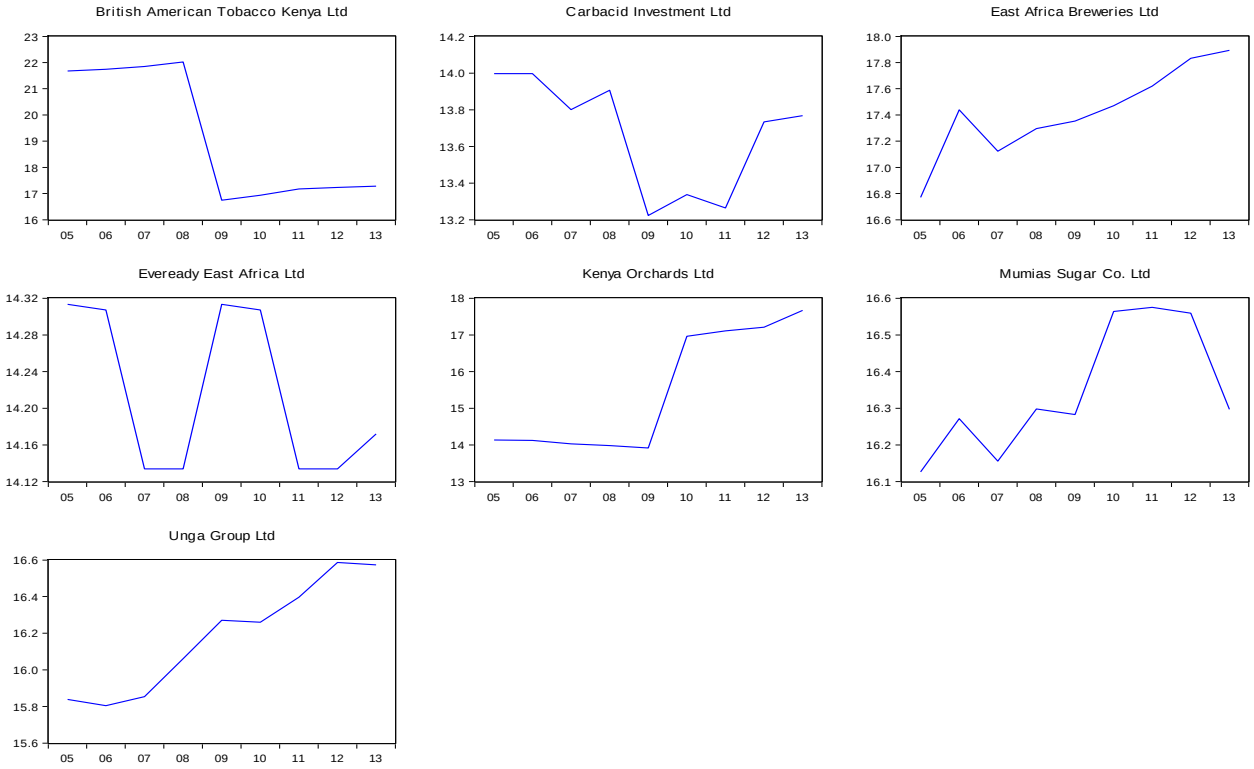
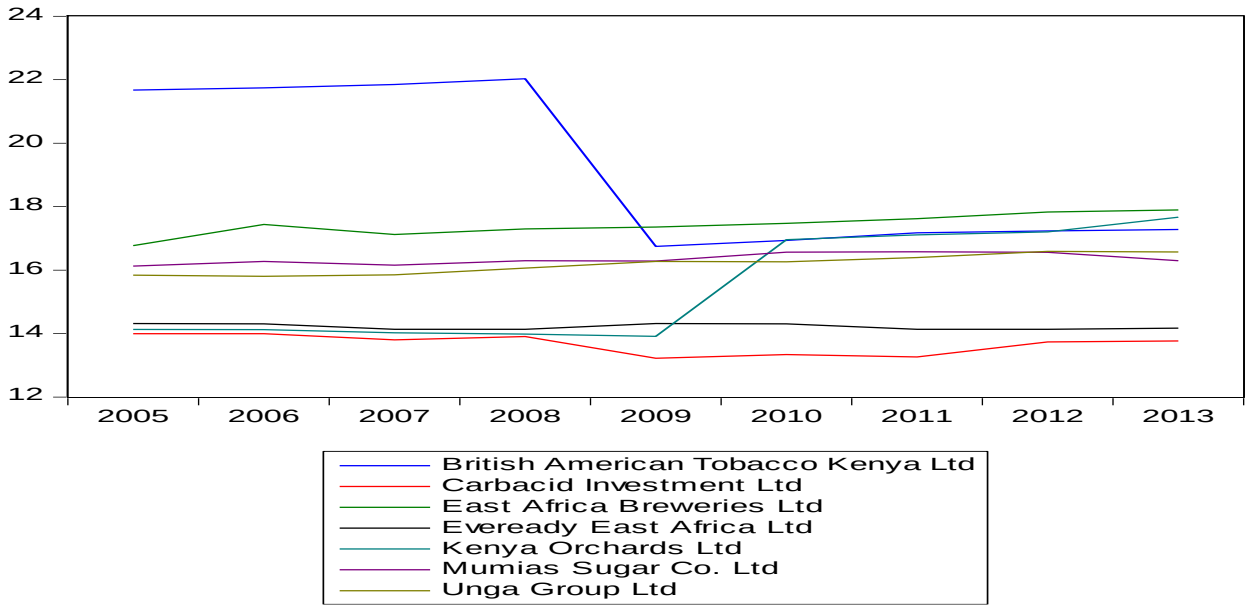


Figure 7 revealed that there were almost similar slopes among the variables under investigation, from the findings there were no related time fixed effects in the long run.

FIGURE 7

Overlain for Annual sales



4.2.1 Multicollinearity Analysis

The study examined the correlation analysis aimed at establishing the strength of the relationship between variables under examination. Results of the study revealed that there was a positive significant relationship between gross profit and EBIT. This implies an increase in gross profit increases the EBIT. There was a positive and significant relationship between gross profit and sales among manufacturing companies listed in NSE. There was a positive and significant relationship between gross profit and leverage. This implies that an increase in leverage increase firms gross profit; it can be deduced that manufacturing firms invest borrowed funds on activities which are increasing their sales. There was positive and significant relationship between gross profit and total assets, this implies that firms with huge assets bases have more affinity of

generating profit as compared to those with small asset base. There was a positive and significant relationship between annual dividend and gross profit; this implies that the higher the gross profit the higher the annual returns to the ordinary shareholders which imply that firms are investing in projects which are maximising shareholders wealth. Both working capital and investment decision had negative and positive non-significant relationship respectively with gross profit. There is need to examine the working capital decision as such to counter its negative impact on the gross profit among manufacturing.

There was a positive and significant relationship between annual sales and EBIT; this implies that an increase in sales increases the amount of EBIT. This can be attributed to the fact that the though the listed manufacturing firms increases their annual sales they do not incur high amount of sales related expenses. There was a positive and significant relationship between EBIT and manufacturing company leverages, this implies that though an increase in debt increases annual interest expenses the benefits attained upon investing the borrowed funds exceeds the associated interest charges. There was a positive and significant relationship between interest charges and annual dividend paid; this implies that as the annual EBIT increases the annual dividend paid increases. This can be deduced that as the annual EBIT increases then the amount of retained earnings decreases which implies that there are high chances of borrowing in future to finance expansion projects. There was a positive and significant relationship between working capital and EBIT; this implies that as working increases EBIT increases this can be attributed to the fact that there are favourable working capital strategies employed by manufacturing firms listed in NSE. Although, investment decision had a positive relationship it had no significant impact on EBIT. It can be deduced that the benefits associated with capital

budgeting investment were beneficial to manufacturing firms though they did not impact significantly on them.

There was a positive and significant relationship between sales and leverage. This implies that the amount of borrowed funds may have been invested on projects geared towards maximizing sales on manufacturing firms. There was a positive and significant relationship between sales and annual dividend paid by manufacturing companies, this implies that there is need to intensify the sales efforts among listed companies as such to increase chances of more profits. Both investment and working capital decision had positive though insignificant relationship with annual sales. This implies that though there are benefits associated with both investment expenditure and working capital they are not influencing sales significantly. Since none of the independent variable had a correlation coefficient greater than 0.7 then there was no multicollinearity among the independent variables.

TABLE 3

Correlation Analysis

	GP	EBIT	Sales	Leverage	Investment	Dividend	WC	TA
GP	1							
EBIT	0.623***	1						
	0.0000	-----						
Sales	0.594***	0.4714***	1					
	0.0000	0.0001	-----					
Leverage	0.4751**	0.3726**	0.5221**	1				
	0.0001	0.0026	0.0000	-----				
Investment	0.0342	0.0713	0.2855	-0.0678	1			
	0.7901	0.5789	0.0233	0.5977	-----			
Dividend	0.6151**	0.4641**	0.5194**	0.2082	0.2231	1		
	0.0000	0.0001	0.0000	0.1015	0.0788	-----		
Working capital	-0.0689	0.2640**	0.0378	-0.0839	0.0419	-0.1037	1	
	0.5914	0.0366	0.7685	0.5134	0.7441	0.4185	-----	
Total assets	0.6136***	0.4220	0.5794**	0.6658	-0.0992	0.3324	-0.0419	1
	0.0000	0.0006	0.0000	0.0000	0.4391	0.0078	0.7442	-----

4.3 Diagnostic Analysis

Having explored the data the study carried out panel data diagnostic tests. They were appropriate as such to examine whether the error terms were serially correlated, the choice between random and pooled effects model, the choice between random and fixed effects and whether the estimates generated were biased. Results in Table 4 revealed that the pooled effects regression was the most appropriate model when the dependent variable was gross profit because the p value was less than 0.05. Panel data was the most appropriate model to examine the relationship between both annual sales and EBIT and the independent variables since the p value <0.05.

TABLE 4

Chi-Square values for the Breusch –Pagan LM Test

Model	Dependent variable	χ^2-value	p-value
1	Gross profit	2.41	0.1206
2	EBIT	37.558	0.000
3	Annual sales	7.41	0.0065

Results in Table 5 shows the test results for time fixed effects. There were no time related effects when the dependent variable was gross profit since the p value >0.05. It was not appropriate to introduce a dummy variable or use two way analyses when gross profit is the dependent variables. In addition, there were no time related effects when the dependent variable was either EBIT or annual sales. It is not appropriate to use a two way analysis or introduce a dummy variable when either EBIT or annual sales are the dependent variables.

TABLE 5

Test Results for Time Fixed Effects

Model	Dependent variable	F- value	p-value
1	Gross profit	1.76	0.0982
2	EBIT	1.82	0.0955
3	Annual sales	1.16	0.3398

Both heteroskedasticity and serial correlation tests were summarised as shown in Table 6. Heteroskedasticity was tested using modified Wald test whose results showed that there was no uniform variance since in the trio cases the P values were less than 0.05 therefore robust standard errors should be used to eliminate biasness. In addition, there was no evidence for serial correlation among the panels (p value > 0.05).

TABLE 6

Result for Heteroskedasticity and Serial Correlation Test

		Test for heteroskedasticity		Serial Correlation	
Model	**Dependent variable**	**χ^2-value**	**p-value**	**F-value**	**p-value**
1	Gross profit	42.31	0.0025	1.586	0.2150
2	EBIT	35.91	0.0158	1.263	0.8752
3	Annual sales	58.44	0.0000	1.284	0.9865

4.3.1 Panel Data Descriptive Analysis

Results in Table 7 shows the descriptive pattern for the dependent variables, the average gross profit per annum was 15.5, while the annual sales was 16.1 and EBIT was 13.41. A close scrutiny of the results revealed that there were minimal variations on the three variables measuring dependent variable in the period under examination.

TABLE 7

Descriptive Statistics for Dependent Variables

Variable		Mean	Std. Dev.	Min	Max
Gross profit	overall	15.449	1.504	12.500	17.414
	between		0.244	15.000	15.768
	within		1.486	12.559	17.727
EBIT	overall	13.407	2.890	1.000	16.574
	between		0.762	11.949	14.075
	within		2.798	1.990	17.682
Sales	overall	16.069	2.075	13.223	22.027
	between		0.252	15.443	16.244
	within		2.061	13.294	21.852

Having established that the either fixed effects or random effects model was the most appropriate to fit on both EBIT and annual sales. The study found it necessary to examine the most appropriate model between RE and FE. To achieve this Hausman test was applied. Results in Table 8 revealed that the most appropriate model to fit when EBIT was a dependent variable was random effect since the p value > 0.05.

TABLE 8

Hausman Test for EBIT Model

Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
		2.5910	5	0.7627
Variable	**Fixed**	**Random**	**Variable (Diff.)**	**Prob.**
Leverage	0.4764	0.4571	0.0027	0.7085
Investment	-0.3952	-0.3320	0.0099	0.5251
Dividend	0.1793	0.2083	0.0009	0.3257
Working capital	0.2239	0.2253	0.0001	0.8553
Total assets	-0.5098	-0.3525	0.0134	0.1744

Results in Table 4.7 revealed that the most appropriate model to fit when annual sales was the dependent variable was random effects since the p value was greater than 0.05.

TABLE 9

Hausman Test for Annual Sales Model

Test Summary		**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
		9.3859	5	0.0946
Variable	**Fixed**	**Random**	**Var(Diff.)**	**Prob.**
Leverage	0.5423	0.5127	0.0007	0.2716
Investment	-0.0671	0.0192	0.0027	0.0963
Dividend	-0.0152	0.0181	0.0002	0.0308
Working capital	0.0669	0.0652	0.0000	0.6600
Total assets	-0.0319	0.0818	0.0037	0.0599

Since Hausman test showed the preference for random effects panel regression modelling on EBIT, it was fitted and the results were tabulated as in Table 10. The mode goodness of fit was tested using the coefficient of determination which showed that 41.8% variation on EBIT was explained by investment, leverage, dividend, working capital and total assets when combined. All the independent variables had a significant joint effect since the F statistics was 2.712 and p value <0.05. Effects specification statistics revealed that there was a strong relationship in the cross sectional error term (Rho = 0.629), there was minimal deviation across the error term as indicated by standard deviation of 2.447.

Regarding the study hypothesis the results showed that there was a negative and insignificant relationship between investment and EBIT. This implies that an increase in investment decreased the EBIT. It can be deduced that an increase in investment increased the amount of annual depreciation expenditure which decreased the EBIT per annum.

Secondly there was a positive and insignificant relationship between leverage and EBIT. This can be deduced that an increase in leverage increased the amount of EBIT which can be attributed to investing borrowed funds on activities geared towards increasing EBIT.

Thirdly, there was a positive and significant relationship between dividend and EBIT. This implies that a unit change in dividend increased EBIT by 39.8%. It can be deduced that whenever the management intensified activities geared towards increasing EBIT they rewarded the investors. There was a positive and significant relationship between working capital and EBIT. This implies that a unit change in working capital increased EBIT by 17.7%. This implies that the working capital management strategies are geared towards increasing shareholders wealth and the management should continuously evaluate them as such to benefit fully. There was a positive and insignificant relationship between firm's asset base and EBIT. This implies that the more the firms asset the higher the EBIT but there is need to evaluate them to ensure that it's economical to operate and maintain them.

TABLE 10

Random Effects Regression Model on EBIT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Investment	-0.490	0.322	-1.521	0.135
Leverage	0.217	0.292	0.743	0.461
Dividend	0.398	0.124	3.205	0.002
Working capital	0.177	0.072	2.447	0.018
Total assets	0.231	0.474	0.486	0.629
C	5.000	7.827	0.639	0.526
Effects Specification				
			S.D.	**Rho**
Cross-section random			2.447	0.629
Idiosyncratic random			1.879	0.371
Weighted Statistics				
R-squared	0.418	Mean dependent var		13.407
Adjusted R-squared	0.264	S.D. dependent var		2.100
S.E. of regression	1.802	Sum squared resid		159.055
F-statistic	2.712	Durbin-Watson stat		1.491
Prob(F-statistic)	0.006			
Unweighted Statistics				
R-squared	0.496	Mean dependent var		13.407
Sum squared resid	261.079	Durbin-Watson stat		0.908

Similarly, a random effects model was fitted on annual sales against finance management decisions on listed manufacturing firms. Results in Table 11 revealed that 35.4% of the variations in annual sales were jointly explained by investment, leverage, dividend, working capital and total assets. In addition, their explanatory power was significant as indicted by f statistics of 2.065 and p value <0.05. There was a positive and insignificant relationship between investment and annual sales. This implies that an increase in investment increased the annual sales. It can be deduced that the investment decision among listed manufacturing firms are geared towards accelerating their annual sales.

Secondly, there was a positive and significant relationship between leverage and annual sales. This implies that a unit change in leverage increased the annual sales by 43.4%. From the findings the annual sales increases with an increase in the degree of financial leverage and the management uses the borrowed funds to attain sales drive campaigns. There was a positive but non-significant relationship between annual sales and dividend, working capital and total assets. This implies that though there are sales increases with an increase in asset base there is need to evaluate the asset usage efficiency. In addition, the management should evaluate the current working capital management strategy and adopt a strategy which will ensure there is an optimum benefit to the company annual sales. Although, the annual dividend increased with an increase on firms annual sales there is need to evaluate the dividend policy as such to foster better return to the company shareholders.

TABLE 11

Random Effects Regression Model on Annual Sales

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Investment	0.049	0.179	0.274	0.785
Leverage	0.434	0.162	2.679	0.010
Dividend	0.052	0.068	0.764	0.449
Working capital	0.060	0.041	1.481	0.145
Total assets	0.223	0.260	0.855	0.397
C	3.993	4.304	0.928	0.358
Effects Specification				
			S.D.	**Rho**
Cross-section random			1.196431	0.56041
Idiosyncratic random			1.059641	0.43959
Weighted Statistics				
R-squared	0.354	Mean dependent var		16.069
Adjusted R-squared	0.183	S.D. dependent var		1.215
S.E. of regression	1.099	Sum squared resid		59.171
F-statistic	2.065	Durbin-Watson stat		0.598
Prob(F-statistic)	0.034			
Unweighted Statistics				
R-squared	0.416	Mean dependent var		16.069
Sum squared resid	155.876	Durbin-Watson stat		0.227

A pooled effect model was fitted on the gross profit against investment, dividend, leverage, working capital and total assets. Results of the study revealed that 57.7% of the variation in gross profit was explained by investment, dividend, leverage, working capital and total assets jointly. All the independent variables had a significant joint contribution since the F statistics was 15.532 with a p value of 0.00. There was a negative and insignificant relationship between investment and gross profit. This implies annual investment expenditure among listed companies diminished the chances of gross profit among manufacturing firms this can be deduced that the management incurred investment expenditure on projects which did not increase the annual gross profit value drivers.

Secondly there was a positive and insignificant relationship between leverage and gross profit. This implies that an increase in leverage increased the annual gross profit. This can be explained by the fact that an increase in leverage was incurred in relation to gross profit value drivers. Thirdly, there was a positive and significant relationship between gross profit and annual dividend paid. This implies that a unit change in dividend was associated with 19.6% change in gross profit.

There was a positive and insignificant relationship between gross profit and both working capital and total assets. This implies that in order to increase gross profit the management should devise mechanisms aimed at increasing their asset base and adopt working policy management aimed at increasing the company efficiency.

TABLE 12

Pooled Effects Regression Model on Gross Profit

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Investment	-0.031	0.108	-0.291	0.772
Leverage	0.117	0.103	1.133	0.262
Dividend	0.196	0.040	4.943	0.000
Working capital	0.003	0.032	0.087	0.931
Total assets	0.423	0.140	3.025	0.004
C	4.300	2.373	1.812	0.075
R-squared	0.577	Mean dependent var		15.449
Adjusted R-squared	0.540	S.D. dependent var		1.504
S.E. of regression	1.020	Akaike info criterion		2.968
Sum squared resid	59.339	Schwarz criterion		3.173
Log likelihood	-87.507	Hannan-Quinn criter.		3.049
F-statistic	15.532	Durbin-Watson stat		0.340
Prob(F-statistic)	0.000			

CHAPTER FIVE

DISCUSSION CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In the current section the study presents the summary, conclusion and recommendations. Every section of the chapter is organized according to the hypothesis of the study.

5.2 Discussion and Conclusion

The current study was meant to examine the relationship of financing management decision and listed manufacturing firm performance in Kenya. To achieve this, the study aimed at testing the hypothesis that there was no significant relationship between leverage and manufacturing firm performance, investment decision had no significant relationship with manufacturing frim performance, dividend policy had no significant influence on manufacturing firm performance and working capital had no significant influence on manufacturing firm performance. Secondary data retrieved from annual audited financial statements was used to test the study hypothesis. Although the study sought to use secondary for ten years only seven out the nine companies had complete data for nine years. Both pooled and random effects were used to test the study hypothesis. Firm performance was operationalized to be measured with gross profit, annual sales and EBIT. Natural logarithm to base ten was used to transform the data variables.

The results of the study revealed that there was a positive relationship between leverage and firm performance. The findings were in contrast with Raza (2013) who found an inverse significant relationship between leverage and firms performance due to increase in leverage cost.

These results were in agreement with Liangovas and Skandalis (2012) who found a positive relationship between leverage and firm performance. Moreover, the results have contrasted the findings by Huten (2014) who found a negative and insignificant relationship between leverage and firm performance. It can be implied that the listed manufacturing firms are benefiting from their borrowed funds and cheap sources of leverage should be devised as such to increase their performance. Although, leverage increase is associated with positive firm performance there is need to monitor the levels of leverage among manufacturing companies which are listed in Nairobi securities exchange. Corporate organization debt levels are associated with increased expenses especially in relation to interest expenses. The management should consider using debt capital if the return on investment will be higher than the periodic interest payment.

Secondly, there was a positive relationship between annual sales and investment; it influenced both EBIT and gross profit inversely. These findings were in agreement with Heshmati and Loof (2008) who argued that investment decision influence sales positively though it can minimize the annual profit levels in a company due to increase in annual expenses which are related to the specific investment. From the findings it can be implied there are benefits on annual sales per annual upon expenditure on investment projects though these benefits are not fully beneficial to the shareholders since both EBIT and gross profit are influenced negatively. The amount of capital expenditure per annum should be evaluated to ensure that there are maximum benefits and only those projects which are having positive net present value are invested in. More so the management should examine the investment policy to ensure that there are profitable to operate and the maintenance costs are within the set levels.

Thirdly there was a positive relationship between firm performance and dividend policy adopted by the manufacturing firms. These findings were in agreement with Murekefu and Ouma (2013) who found a positive relationship between dividend payment and firm performance among the companies which were listed in NSE. In addition, there were in agreement with Azeez and Latifat (2013) and Ajanthjan (2013) who found that the payout ratio had a positive and significant relationship with listed company's performance. There is need to evaluate the dividend patterns as well as examine the composition of the shareholders from which the investors can benefit fully on their investment. More so the companies should devise unique dividend policy aimed at reaping the optimal return for the shareholders. There was a positive relationship between firm performance and working capital management policy. These findings contrasted Sharma and Panigrahi (2013) who found an inverse significant relationship between working capital and firm performance. In addition, the findings contrasted the recommendations of Azam and Haider (2011) who recommended that the management ought to devise measures to reduce the cash conversion cycle and consequently increase the shareholders' value. All quoted manufacturing companies should examine their working capital and look for means to make it more efficient as such to increase the benefits associated with it in relation to firm performance. There is need to hasten the debtor repayment period and improve inventory management strategies and evaluate on the ways of benefiting from extended credit period.

5.3 Recommendation

Based on the study findings the researcher recommends that listed manufacturing companies should evaluate their leverage policy. Through this evaluation the firms ought to examine their credit rating, predict their chances of bankruptcy and examine their current credit financing policy so as to reap the maximum benefits. There is need to increase the amount of capital expenditure incurred per annum as such to increase the net plant and equipment. Although, capital expenditure increased firm's profitability there is need for manufacturing companies to evaluate all projects independently and eliminate those projects whose maintenance costs is so high.

Thirdly, the dividend policy adopted by listed companies should be tailored to meet the unique needs of all investors within an organization to maximize investors' confidence. There is need to sensitize investors on how they can benefit through retention rather than cash dividend only. Finally, the firms should evaluate the working capital decision so that they can adapt the optimal working capital cycle. More so the companies should increase the creditor's period and decrease the debtors and inventory turnover periods. The management should devise mechanisms in which the working capital decision is customised for every industry sector in NSE.

5.4 Suggestion for Further Studies

The current study used firm size as a moderating variable future studies should consider using stepwise regression analysis to examine the moderating effect of firm's size on finance management decision among companies which are listed in NSE. The current study was limited

to listed companies only there is need for empirical documentation on finance management decision among small and medium enterprises and all manufacturing companies which are not listed.

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APPENDICIES

Appendix I Letter of Introduction

Isaac Mutuku Muinde,

P.O. Box 1169,

Machakos.

Date 23-10-2015.

Name of Respondent----------

Company Name and address----------

Dear Sir/ Madam,

RE; REQUEST FOR RESEARCH DATA

I am a Master of Science in Finance and Economics student at KCA University, undertaking a Research Project on the "**The effect of financial management decisions on performance of manufacturing firms listed on Nairobi Securities Exchange**"**.** The research is part of the partial fulfilment for the award of master's degree of KCA University. You have been selected to form part of this study and are kindly requested to assist in data collection by responding to questions in the accompanying disclosure check index. The information provided will exclusively be used for academic purposes only and will be treated with utmost confidence. As a participant, you are free to request for a soft copy which can be sent to you via email. Your cooperation and assistance will be highly appreciated.

Yours faithfully,

_____ _____

Isaac Mutuku Dr. Christine Nanjala

(MSc. Student) (Supervisor)

Appendix II Disclosure Checklist (Index)

		2005	2006	2007	2008	2009	2010	2011	2012	2013
A	**Manufacturing firm performance**									
	Gross profit									
	EBIT									
	Annual sales									
B	**Investment decision**									
	Annual expenditure on capital budgeting									
C	**Working capital decision**									
	Current Assets									
	Current liabilities									
D	**Dividend decision**									
	Total annual dividend									
E	**Leverage**									
	Long term debt									

Appendix III Sample of Listed Companies NSE (Nairobi Securities Exchange)

AGRICULTURAL

Eaagads Ltd

Kakuzi Ltd

Kapchorua Tea Co. Ltd

The Limuru Tea Co. Ltd

Rea Vipingo Plantations Ltd

Sasini Ltd

Williamson Tea Kenya Ltd

AUTOMOBILES & ACCESSORIES

Car & General (K) Ltd

Marshalls (E.A.) Ltd

Sameer Africa Ltd

BANKING

Barclays Bank of Kenya Ltd

CFC Stanbic of Kenya Holdings Ltd

Diamond Trust Bank Kenya Ltd

Equity Bank Ltd

Housing Finance Co. Kenya Ltd

I&M Holdings Ltd

Kenya Commercial Bank Ltd

National Bank of Kenya Ltd

NIC Bank Ltd

Standard Chartered Bank Kenya Ltd

The Co-operative Bank of Kenya Ltd

COMMERCIAL AND SERVICES

Express Kenya Ltd

Hutchings Biemer Ltd

Kenya Airways Ltd

Longhorn Kenya Ltd

Nation Media Group Ltd

Scan group Ltd

Standard Group Ltd

TPS Eastern Africa Ltd

Uchumi Supermarket Ltd

CONSTRUCTION & ALLIED

ARM Cement Ltd

Bamburi Cement Ltd

Crown Paints Kenya Ltd

E.A.Cables Ltd

E.A.Portland Cement Co. Ltd

ENERGY & PETROLEUM

KenGen Co. Ltd

KenolKobil Ltd

Kenya Power & Lighting Co Ltd

Kenya Power & Lighting Ltd 4% Pref 20.00

Kenya Power & Lighting Ltd 7% Pref 20.00

Total Kenya Ltd

Umeme Ltd

INSURANCE

British-American Investments Co.(Kenya) Ltd

CIC Insurance Group Ltd

Jubilee Holdings Ltd

Kenya Re Insurance Corporation Ltd

Liberty Kenya Holdings Ltd

Pan Africa Insurance Holdings Ltd

INVESTMENT

Centum Investment Co Ltd

Olympia Capital Holdings Ltd

Trans-Century Ltd

INVESTMENT SERVICES

Nairobi Securities Exchange Ltd Ord 4.00

MANUFACTURING & ALLIED

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

Unga Group Ltd

TELECOMMUNICATION & TECHNOLOGY

Safaricom Ltd

GROWTH ENTERPRISE MARKET SEGMENT (GEMS)

Flame Tree Group Holdings Ltd Ord 0.825

Home Afrika Ltd