

Factors Influencing Financial Performance of Public Limited Companies in Kenya

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Abstract: The purpose of this study was to identify and examine how financial factors influence the financial performance of public companies. The study used a mixed research method. The target population for this study is 306 employees from senior management, mid-level managers and junior staff of the KenGen Company and purposive sampling method used to identify a sample size of 201. The study relied mostly on primary data for research information where questionnaires were used to collect primary data from the participants. Regression analysis was also done to find the relationship among variable while correlation assessed the strength of the specific objectives relationship. The data was analyzed using SPSS software. The findings were that there existed a positive relationship between the dependent variable and the independent variable. With there being a positive association between access to finance and profitability determinants which were ROA, ROI. From the findings of the study some of the recommendations made were for the governments to release fund to the parastatals in time to avoid stalling of their operations due to cash crunch.

Keywords: Access to finance, financial performance, return on assets, return on investment.

I. INTRODUCTION

The financial system consists of public and private interests and the markets that serve them. It provides capital from individual and institutional investors who transfer money directly and through intermediaries' such as banks, insurance companies, and brokerage and fund management. Financial performance measures the efficiency and profitability of investments, the safety of debtors' claims against assets, and the likelihood that derivative instruments will protect investors against a variety of market risks (Seethaiah, 2012). The financial performance of companies changes overtime as profits fluctuate from one year to another and from one company to another. Some companies obtain increases in profits while others record decreases and some even losses. These changes are determined by various factors. Performance factors can be structured in: factors of efficiency, that refer to economic, social and organizational efficiency; internal environmental factors that refer to ownership, management, company size, complexity, technical endowment, location, human potential, information and intellectual capital, financial position, organizational culture; and external environment factors: technological, political, demographical, cultural, scientific, organizational, legal, social, educational, environmental and others (Sima, 2009).

Financial aspect is a concern over the world. In Europe, Panu, Andrew and Erick (2006) conducted a study of financial participation (profit-sharing and employee share ownership plans) and positive financial performance outcomes. They use data from Finland, Germany, the Netherlands and the UK. Several outcomes measures were used, based on respondents' assessments of the effects of financial participation. The results casted some doubt on complementarity between financial and other forms of participation. The relationship between corporate governance, ownership and financial performance (Georgen, 1999). The author used detailed company micro-data to examine the ownership and performance in German and UK firms during the 1980s.

In Kenya, Otieno (2013) states that macroeconomic determinants of firm profitability are those characteristics of a macro economy that affects the profitability of firms operating within it. According to him, they vary in their perspective levels of significance from one economy to another and cannot be directly controlled by individual shareholder and managerial decisions and activities.

Good financial performance of any firm not only plays a role in increasing the market value of that specific firm but also leads towards the growth of the whole industry which ultimately leads towards the overall prosperity of the Economy (Banafa, Muturi & Ngugi, 2015) Kenya as a country embarked on liberalization program in 1994 and some of the liberalization measures had a huge impact on the dynamics of the competitive environment. Generally, companies faced a lot of challenges especially after this liberalization. They also faced intense competition from other firms around the world in this age of globalization, this intense competition and globalization eroded many companies profits (Ng'ang'a, Namusonge & Sakwa, 2016).

Statement of the problem

The role of financial factors in financial performance cannot be overemphasized. Those firms which embrace financial factors tend to perform better than those which do not. Firm performance stimulation is a priority in both public and private sectors since it is associated directly with an entity's value creation. There is need to understand the determinants of financial performance. High performance reflects management effectiveness and efficiency in using company's resources and this in turn contributes to the country's economy at large (Kung'u, 2015). In corporate world performance is the criterion by which a firm measures its capacity to prevail. Firms in the recent years have been forced to rationalize their operations and review their corporate strategy and other finance factors in response to stiff competition resulting from change in business environment as well as introduction of competitive policies. Firms worldwide are facing intense competition from other firms around the world in this age of globalization (Ng'ang'a, Namusonge & Sakwa, 2016). Studies have been conducted to investigate determinants of financial performance of firms. For example, a study was conducted by Adediran and Alade, (2013) to establish the relationship between dividend policy and corporate profitability, Mwangi, Muathe and Kombei (2014) investigated the relationship between capital structure and financial performance of non-financial companies listed in Nairobi Securities Exchange (NSE) and Vintilla and Nenu (2015) analysed the effect of transparency and disclosure in reporting in on financial performance of Bucharest Stock Exchange Listed Companies. Studies such as Kanga and Achoki (2016), Kumar and Kaur (2016) have been carried out on firm size, liquidity and leverage in relation to financial performance. As shown herein some studies have only focused on a single factor which may make the findings inapplicable to particular cases. These findings show that the influence of factors on financial performance varies markedly from country to country, from one industry to another and from one time period to another within the same economy.

General Objective

The general objective of the study is to assess the impact of financial factors on the financial performance of public limited companies in Kenya.

Specific Objective

To determine the influence of access to finance on financial performance of the public limited companies in Kenya.

Research Question

What is the influence of access of capital on the financial performance of public limited companies in Kenya?

II. LITERATURE REVIEW

Theoretical Framework

Pecking Order Theory

Pecking order theory discussed by Meyers (1984), Meyers and Majful (1984) and Fama and French (2002), describes a firm's debt position as the accumulated outcome of the past investment and capital decisions. This theory points out that because of information asymmetry between managers and investors about the firm's investment opportunities, the market may undervalue a firm's new shares relative to the value that would be assessed if manager's information about their

firm's investment opportunities were revealed to the market. Thus, issuing new shares may harm existing shareholders through value transfer from old to new shareholders. Managers will prefer financing new investments by internal sourcing (that is retained earnings) first, if this source is not enough then managers seek external sources from debt as second and equity as last. Thus, according to the pecking order theory firms that are profitable and, therefore, generate high earnings to be retained are expected to use less debt in their capital structure than those that do not generate high earnings, since they are able to finance their investment opportunities with retained earnings. Pecking order theory states that companies prioritize their sources of financing from internal financing to equity. Therefore internal financing is used first then what is depleted, then debt is issued and when that is depleted, then debt is issued and when it is no longer sensible to issue any more debt, equity is issued.

The theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available, and debt is preferred over equity if external financing is required (equity would mean issuing shares which meant 'bringing external' ownership into the company). Thus, the form of debt a company chooses can act as a signal of its needs for external finance. The pecking order theory is popularised by Myers (1984) when he argues that equity is a less preferred means to raise capital because when managers issue new equity, investors believe that managers think that the firm is overvalued and managers are taking advantage of this over-valuation. As a result, investors will place lower value to the new equity issuance.

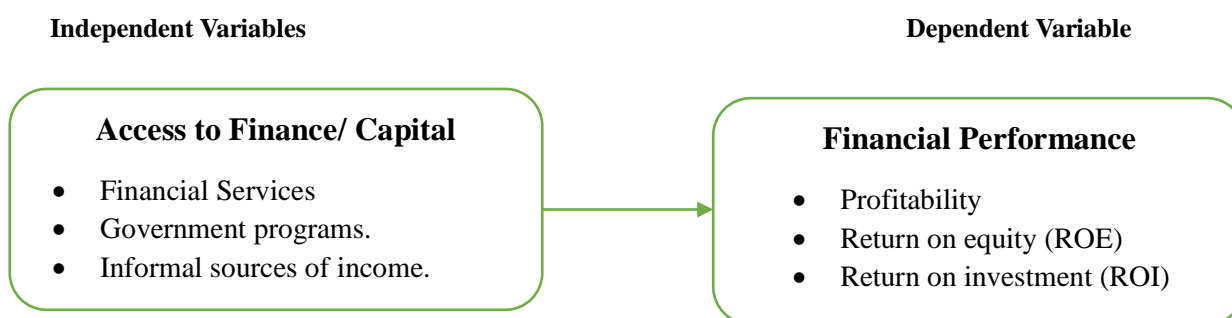


Figure 1: Conceptual framework

Figure 1 shows independent variables in the left side and dependent variable on the right side. The independent variables are the factors that affect and influence the dependent variable which is measured by financial performance. The theories in the theoretical framework underpins the variables in the conceptual framework.

2.1 Review of variables

Many finance factors influence financial performance. Some of these include access to capital, cost of capital, capital structure, and liquidity position, composition of the board, dividend policies and financial literacy among others. However for the purpose of this study focuses on access to capital.

2.1.1 Access to capital/ finance

Access to finance or capital refers to the possibility that individuals or enterprises can access financial services, including credit, deposit payment, insurance and other risk management services. World Bank (2014) argues that access to credit is the absence of price and non-price barriers in the use of financial services. Access to finance can be defined as the availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs (Claessens2016). Access is not easy to measure, it is important to distinguish between access, the possibility to use and actual use of financial services. The differences might reflect voluntary lack of demand or the lack of need. Understanding usage requires information on both demand and supply factors, which are difficult to disentangle.

Access in turn has many dimensions; services need to be available when desired and products need to be tailored to specific needs; the price to these commodities needs to be affordable. The limited access to credit has been attributed to factors such as lack of collateral and high risk. Financial access is an important determinant of the performance of companies as it provides them with working capital fostering greater firm innovation and dynamism, enhance

entrepreneurship, promotes more efficient asset allocation and enhances the company's ability to exploit growth opportunities. (Beck et al., 2012). Firms with access to finances are able to build up inventories to avoid stocking out crises, while the ability of credit increases the growth potential of the surviving firms during periods of macroeconomic instability (Atieno, 2013). Access to external resources allow for flexibility in resources allocation and reduces the impact cash flow problems on firm activity. Although access to finances is not easy to measure, financial depth (total loan outstanding) can be seen as an appropriate indicator with direct and indirect effects on financial firms. Greater debt is to be associated with greater access to firms. Demirguc- Kunt, Beck and Martinez (2015) identifies geographic and demographic penetration, average size and number of deposits as indicators of financial access. Financial access enhances financial inclusion thereby contributing to financial sector deepening an overall economic growth. Financial inclusion aims at drawing the unbanked population into the formal financial system to enable them access to wide range of financial services including savings, payments, money transfer, credit and insurance (Hanning et al, 2010).

Theoreticians have argued that lack of access to finance generates persistent income inequality or poverty traps and limits financial performance of small firms. Without inclusive financial systems, small enterprises need to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities (Nwanna, 1995). Financial market imperfections, such as information asymmetries and transactions costs, are likely to be especially binding on the talented poor and the micro and small enterprises that lack collateral, credit histories, and connections, thus limiting their opportunities and leading to persistent inequality and slower growth. The inability of the formal financial sector to satisfy the demand for credit leads to the reliance on the informal and semiformal financial units for credit (Bouman, 1989). The continued existence of informal financial institutions despite the development of formal and semiformal financial sector in developing countries has proven that these three sectors have differing strengths, and that they can coexist and have differing roles on the same market. Their products offer different characteristics and are demanded in different ways. The most cited differences are probably that the informal sector has an easier time dealing with problems regarding information and enforcement of contracts, while the formal sector can take advantage of economies of scale and the intermediation of funds over a longer period of time (Jain and Mansuri 2013). Access to financial services remains low among the small and micro enterprises mostly those that are operating from the slums. According to the Fin Access surveys of 2006 and 2009, formally included people (defined as those using a bank or insurance product) went up from 18.9% in the year 2006 to 22.6% in 2009. Across all income groups, informal sources of finance have become especially common with the number of people using them increasing from under one million in 2006 to over 1.5 Million in 2009 with estimated that about Kshs 60 Billion (US \$ 860 M) being intermediated through the informal financial sector annually. This fact underlines the significance of the informal/semiformal financial sectors in Kenya (FSD, 2009). SMEs use various ways of accessing finance such as internal and external finance. Internal finance is concerned with sourcing funds through personal saving, and those of friends and relatives.

However, as the firm grows its financing requirements may go beyond personal savings. The next source is external finance. External funding is based on merit according to the evaluation of financial institutions. There are two notable variants of external finance: debt financing and equity financing. Debt financing involves the procurement of interest bearing instruments. They are secured by asset-based collateral and have term structures, that is, either short or long term. The equity component of external finance gives the financier the right of ownership in the business and such may not require collateral since the equity participants will be part of the management of the business (Oguijiuba, Ohuche, and Adenuga, 2015). Despite efforts by financial institutions and public sector bodies to close funding gaps, SMEs continue to experience difficulty in obtaining capital. These funding gaps relate to firm size, risk, knowledge and flexibility. In addition, SME borrowing requirements are small and more collateral may be required than SMEs can pledge. Further, the financial institutions may lack expertise in understanding SMEs and also flexibility in terms and conditions of financing that are required by SMEs. Small firms have traditionally encountered problems when approaching providers of finance for funds to support fixed capital investment and to provide working capital for the firm's operations. The presence and nature of a "finance gap" for small firms has been debated for decades (World Bank, 2004). 5 Commercial banks and other formal institutions fail to cater for the credit needs of small businesses mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that poor are not bankable, and since they can't afford the required collateral, they are considered un-credit worthy (Adera, 1995). Hence despite efforts to overcome the widespread lack of financial services, especially among small businesses in

developing countries, and the expansion of credit among small business of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 2014)

2.1.2 Financial Performance

Financial performance is at the heart of the managerial function of an organization' (Samuel 1989) and its importance as it affects corporate sustainability in today's business can't be over emphasized. Financial performance refers to the degree to which financial objectives of an organization are accomplished. Financial performance will measure the results of a firm in monetary terms. Institutions will put in place best financial and non-financial structures in place to have competitive advantage over their competitors. It's from this competitive edge that an institution will enhance its financial performance through which an institution is able to meet its short term and long term obligation such as wealth creation to its shareholders .Poor financial performance of an institution will affect the attraction of institution to would be investors which may lead it to insolvency and eventual collapse (Amalendu and Sri, 2011). Different stakeholders of a company will evaluate the company performance from different perspective. We have shareholders, managers, creditors, tax authorities and other users who have interest in performance of a company. Shareholders will invest in an institution to generate value for their investment. Efficiency use of resources by institution is key aspect by the management to attain good financial performance. To evaluate financial performance of an institution, financial statements are used where different ratios are performed as per requirement of the user. Pouraghajan, Tabari, Ramezani, Mansourinia, Emamgholipour and Majd (2012) use ROA to measure corporate performance of firms listed on Tehran Stock Exchange. They defined ROA as investment return in assets, which represents the amount of profit that can be made use of corporate assets. Financial performance can be measured in many different ways, but all these ways should be aggregated. Siddik, Kabiraj and Joghee (2017) also use ROA as a proxy for Financial Performance. explained ROA as a picture of how effective the management of the bank is in generating profits with its available assets. Pouraghajan et. al. (2012) use ROE to measure corporate performance of firms listed on Tehran Stock Exchange. ROE shows how much return has been created from the funds invested by investors and also represent the real cost of use of invested funds. ROE is another good measure of bank performance as used by many researchers. ROE measures how effectively shareholders' funds are being used by the management of the corporate entities. Hall and Weiss, 1967 (in Siddik, Kabiraj & Joghee, 2017), while favouring ROE, argued that, due to the existence of an optimal borrowing level, ROA may vary amongst industries whilst ROE tends to be equal and thus offers a better measurement. ROA and ROE are without a doubt among the most widely used accounting criteria for measuring financial performance.

III. RESEARCH METHODOLOGY

This study used a mixed research design which includes both descriptive design, qualitative and quantitative design. The target population for this study is 306 employees from senior management, mid-level managers and junior staff of the KenGen Company and purposive sampling method used to identify a sample size of 201. Data was collected using primary and secondary data as explained under. Descriptive statistics such as, mean and frequencies was used to perform data analysis. The mean scores were used to rate the factors in order of their importance. SPSS was used to produce frequencies, descriptive and inferential statistics which were used to derive conclusions and generalizations regarding the population. The particular descriptive statistics was frequencies, mean scores and standard deviation. The particular inferential statistic was regression and correlation analysis. The analysis of variance (ANOVA) was checked to reveal the overall model significance. In particular, the calculated F statistic was compared with the tabulated F statistic. A critical p value of 0.05 was also used to determine whether the overall model will be significant or not. The individual regression coefficients were checked to see whether the independent variables significantly affected the financial performance. A critical p value of 0.05 was also used to determine whether the individual variables are significant or not. To address the specific research objective of the factors influencing financial performance of public companies, the study adopted regression analysis. The factors influencing financial performance will be independent variables while the financial performance will be the dependent variable. The study will use a linear multiple regression model shown below:

$$Y = \beta_0 + \beta_1 X_1 + e \quad \text{Equation (1)}$$

Where;

Y= Financial Performance

X1= Access to Finance

β_0, β_1 = regression coefficient to be estimated

ϵ = the error term

IV. RESEARCH FINDINGS AND DISCUSSION

Descriptive Results

Access to Finance/capital

The researcher sought to find out the influence the cost of capital had on the financial performance of public companies.

Table 4.1: Descriptive statistics for Access to finance/capital

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|--------|----------------|
| There are no delays of release of funds from the government | 7.8% | 10.5% | 15.97% | 19.73% | 46% |
| The companies have grown by more than 5% in the past 2 years | 6.57% | 13.15% | 2.65% | 52.63% | 25% |
| The company has access to other sources of finance other than government funding | 19.74% | 13.16% | 15.79% | 39.47% | 11.84% |
| Shareholders equity has helped grown the firm's capital in the past 3 years | 12.51% | 26.32% | 15.15% | 34.21% | 11.81% |

Respondents were asked to rate various statements on access to finance on a scale 1-5. The statement rating scale was ranging from, Strongly Disagree rated at 1, Disagree rated at 2, Neutral rated at 3, Agree rated at 4, Strongly Agree rated a 5. The results are represented in table 4.1. The researcher sought to find out the influence of access to finance on financial performance. The respondents were asked to rate questions on access to finance on a 5-point Likert scale. From the table 4.1 above 7.8% strongly disagreed, 10.5% disagreed, 13.15% were neutral, 19.73% agreed, 46% strongly agreed. When asked on whether there were delays by government on releasing funds on the organization. Asked if the company's capital has grown by 5% in the past 2 years due to increased number of projects, 6.57% strongly disagreed, 13.15% disagreed, 2.63% were neutral, 52.63% agreed while 25% strongly agreed. 19.74% strongly disagreed, 13.16% disagreed, 15.79% neither agreed nor disagreed, 39.47% agreed, 13.15% agreed on whether the company has access to other sources of finance other than government funding. 6.58% strongly agreed, 26.32% disagreed, 9.2% neither agreed or disagreed, 34.2% agreed, 11.84% strongly agreed that shareholders equity has helped grow the company's capital in the past 3 years. The findings conquer with the findings of Wamiori (2016) who found that access to finance had an impact on the financial performance of manufacturing firms in that firms that had access to other finances ended up performing well compared to those that have not thus hampering their emergence and growth. It further agrees with Memba (2011) whose study concluded that improving access to credit, enterprises are able to increase earnings and savings and plan for the future.

Table 4.2: Descriptive statistics for financial performance

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|--------|----------------|
| There has been an increase in earnings per share in the company over the past five years | 6.58% | 21.05% | 22.37% | 34.21% | 15.79% |
| There has been a return on equity over the past five years | 7.89% | 17.10% | 13.15% | 46.05% | 15.81% |
| There has been an increase in return on investment over the past five years | 5.26% | 23.68% | 18.42% | 40.79% | 11.84% |
| There has been an increase in profit after tax over the past five years | 3.95% | 10.53% | 13.16% | 55.26% | 17.11% |

The respondents were asked to rate questions on financial performance determinants using a 5-point Likert scale with strongly disagree at 1, disagree at 2, neutral at 3, agree at Sand strongly agree at 5. The results are presented in table 12. Researchers were asked if there has been an increase in earnings per share in the company over the past five years 6.58% strongly disagreed, 21.05% disagreed, 22.37% neither agreed nor disagreed, 34.21% agreed while 15.79% strongly agreed. Asked on whether there has been an increase in return on equity over the past five years 7.89% strongly disagreed, 17.10% disagreed, 13.15% neither agreed nor disagreed, 46.05% agreed while 15.81% strongly agreed. On the question of whether there has been an increase in return on investment over the past five years 5.26% strongly disagreed, 23.68% disagreed, 18.42% neither agreed nor disagreed, 40.79% agreed while 11.84% strongly agreed. On whether there has been an increase of profit after tax of the company over the past five years.

Inferential Analysis

Effect of Access to Finance on Financial Performance

The study sought to find out the effect of access to finance on financial performance. The measure of financial performance was profit after tax, ROA and ROI. Results for the Model Summary are presented in the table below.

Table 4.3: Access to Finance/ capital and Financial Performance (Model Summary)

| Model Summary ^b | | | | |
|----------------------------|-------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| ROA | .032 ^a | .066 | .059 | .070 |
| ROI | .015 ^a | .007 | .000 | .068 |
| Profit after tax | .057 ^a | .071 | .065 | .059 |

a. Predictors: (Constant), Access to finance

The results in table 13 indicate that access to finance affects both net profit, ROA and ROI positively as indicated by an R square of 0.071, 0.007 and 0.066 respectively. This implies that an increase in access to finance is associated with an increase in financial performance of public companies. Furthermore, the results indicate that only 6.6% of ROA and 0.7% of ROI are explained by access to finance as indicated by R square. A larger change in net profit, 7.1% is explained by access to finance

Table 4.4: Model Summary for Financial Performance

| Model Summary ^b | | | | |
|----------------------------|-------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .249 ^a | 0.062 | 0.043 | .586 |

Predictors: (Constant), Cost of capital, Liquidity Position, Access to finance

As indicated in the model summary in table 16, there is a positive relationship with the value of the coefficient of determinant (R²) of 6.2%. This further reveal that the model is perfect in explaining 6.2% of variability in financial performance. Therefore, 6.2% of variability in financial performance is accounted for by the predictor variable in the above model. The model is a good predictor with only 6.2% of variability in financial performance requiring explanation by other variables not included in the model.

Table 4.4: Analysis of Variance for Financial Performance

| ANOVA ^{a (Mine)} | | | | | | |
|---------------------------|------------|----------------|-----|-------------|-------|-------------------|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 3.356 | 3 | 1.119 | 3.258 | .023 ^b |
| | Residual | 50.827 | 148 | .343 | | |
| | Total | 54.184 | 151 | | | |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Cost of capital, Liquidity Position, Access to finance

As further indicated in table 17, the P value of $0.023 < 0.05$ at a confidence interval of 95 % also affirms that the model is significant in predicting the underlying influence that the independent variables have on financial performance. The beta coefficients are presented in table 18. While holding the independent variables at a constant, the financial performance will be at 3.943 as shown in table 4.4. An increase in access to finance will result into an increase in financial performance by 0.074, an increase in the liquidity position will result to a decrease in financial performance by 0.224, an increase in cost of capital will result into an increase in financial performance by 0.021. Apart from liquidity position ($p=0.002$), the rest of the predictor variables were statistically insignificant ($p \geq 0.05$).

Table 4.5: Coefficient of Financial Performance

| | | Coefficients ^a | | | | |
|-------|-------------------|-----------------------------|------------|---------------------------|-------|------|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 3.943 | .395 | | 9.988 | .000 |
| | Access to finance | .074 | .077 | .079 | .969 | .334 |

From the findings, the regression equation is expressed as: Regression equation $Y = \beta_0 + \beta_1 X_1 + \epsilon$

Regression equation $Y = 3.943 + 0.074 X_1$

Y= Financial Performance

X1= Access to Finance

Correlation analysis

The results in table 4.6 indicate that access to finance is negatively associated to ROA. It is also important that access to finance is associated with ROA at 5% level of significance. This further implies that an increase in access to finance will result to a decrease in ROA and vice versa. Furthermore, access to finance is positively associated with ROI, which insinuate that an increase in access to finance in association with ROI will result to an improvement in ROI and vice versa. It is important to note that access to finance in association with ROI are significant at a 5% level of significance.

These Results are in agreement with a study done by Mwangi, Mwathe and Koimbei (2014), which revealed that financial leverage had a statistically significant negative association with performance as measured by Return on assets (ROA) and return on equity ROE). However, Velnampy & Vick Eswaran (2014) results indicated that there is no significant relationship between listed telecommunications company's capital structure, liquidity position and financial performance thus disagreeing with my findings.

Table 4.6: Correlation matrix

| | Access to Finance | ROA | ROI |
|-------------------|-------------------|--------|-----|
| Access to Finance | 1 | | |
| ROA | -0.0970 | 1 | |
| ROI | 0.0824 | 0.4101 | 1 |

V. SUMMARY AND CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

The study sought to find the influence of finance factors on financial performance of public limited companies. Specifically, the study sought to examine the influence of access to finance on financial performance of public limited companies on financial performance of public limited companies. The results indicate that access to finance is negatively associated to ROA.

5.2 Conclusions

Based on the study findings, the study concluded that access to finance is positively and significantly associated with both net profits. ROA and ROE and that access to finance explains a larger change in net profit than in ROA and ROI. Furthermore, the study also concluded that access to finance is positively and significantly related to both ROA and profitability but not significantly related to ROI.

5.3 Recommendations

The study recommends that the government should release allocated funds to public companies on time to avoid stalling of operations. The companies should also find alternative ways of raising capital other than solely depending on government funds, they can do this through investing of their profits in income generating activities. The study recommends that public companies should come up with clear working capital management guidelines and put in place strong systems to ensure that the policies are adhered to in order to enable the company meet both its long term and short term financial obligations without much of a hustle while keeping its leverage level under control.

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