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*Relationship between use of Interest Bearing Debt and
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Abstract

Company financial performance has emerged to be a key issue in addition to other goals firms exist to meet. This study aimed at studying the relationship between the use of interest bearing debt and financial performance of listed firms in Kenya. The variables studied were the size of the firm, number of directors, extend of audit work and the working capital management. The study involved all the 65 firms that are listed in the Nairobi Securities exchange. Secondary data on the mentioned variables was collected from published financial statements of the listed firms using a data collection schedule. Regression analysis was used in determining the relationship. The research findings revealed that use of interest bearing debt has a positive significant effect on the financial performance of listed firms in Kenya. Based on this finding, managers should not have a negative attitude towards loans as if well utilized they will increase financial performance which forms a good basis for shareholder wealth maximization. Policy makers should also base their decision making on this research finding to make debt markets more accessible as they increase financial performance of economic units which will in turn increase the status of the economy as a whole. More specifically, the government should maintain the interest rate capping and expand the control to cover all credit facilities in the country in order to enable the positive impact be felt. The research agrees with the policy makers that cheap loans will be more accessible and will increase the economic performance in the whole economy. It was also established that the extend of audit function as measured by the audit cost, management of working capital and the board size affect firm financial performance in a way. Whereas the audit function affects the financial performance positively, the liquidity levels and big board sizes affect the financial performance negatively. Research findings also suggest that too much liquidity affects financial performance negatively. Based on this, the researcher recommends having the minimum possible liquid assets to optimize on them.

Keywords: Debt, Financial Performance, Interest Bearing

Introduction

Enterprises will always be in need of financing for their operations and it is the company management that makes the very critical decision on the source of financing for such projects(Feng, Ghosh & Sirmans, 2007).A financing decision involves consideration of both debt and equity (Muritala, 2018).Of key interest is the interest bearing debt because while interest payments raises the expenses of an entity, the use of the debt gives a company financial power to invest and therefore use of such interest bearing debt is expected to have some form of impact on the financial performance of businesses. If interest bearing debt is used to

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raise a return higher than its cost, then a positive impact is expected to be felt and a negative effect is expected if a return lower than the cost of the debt is achieved (Adair & Adaskou, 2014).

Numerous theories have been advanced to advise on capital mix the oldest being capital structure irrelevance theory by Modigliani and Miller (Modigliani & Miller, 1958). Other newer theories developed are like pecking order theory advocated by Myers and Majluf (1984), trade-off theory advanced by Myers (1984) and signalling and liquidity risk theory Spence (1973) among others. Whereas pecking order theory ranks internal financing before debt and ranks equity as the most inferior, signalling and liquidity risk theory looks at the perception of other players in the industry and how they interpret the company capital structure. Trade-off theory emphasises on ensuring a match between costs incurred and benefits derived from a specific source of finance and a choice is chosen if its benefits outweigh the costs. Considering debt financing, a finance manager would look at the bankruptcy costs and compare them with the savings on tax derived when the company uses debt (Kraus & Litzenberger, 1973).

Kenya has in the recent past seen some major corporations fail from glory and a closer look at the books of such companies have revealed that they have been struggling with debt. This is more serious taking in to consideration that such miseries are arising after the interest rate capping which was done with the idea of making loans cheaper and more accessible (CBK, 2016). A research by Makanga, (2015), a period before interest rate capping showed a negative though insignificant relationship while Ng'ang'a (2017) conducted a research on the same (but focused on private schools in Kajiado County) after interest rates were fixed and found a positive relationship. These two contradicting conclusions among others show a very diverse debt situation in the country which needs to be well researched and explored. Failure to do so exposes finance managers and other financing decision makers exposed to making wrong financing decisions which can lead to more corporate failures.

Interest Bearing Debt

Debt financing is a kind of financing which entails purchase of an interest-bearing instrument mostly protected by an asset security (Githaigo & Kabiru, 2015). A debt, which is usually a liability, is classified as interest bearing if it requires payment of an interest. The interest binds the company and failure to pay may have negative consequences on the survival of the business. According to Kerrigan (2014) debt is one of the ways in which a firm finances its investment activities, the other one being equity. Management needs

to be very keen as there are many factors determining the choice of financing for an enterprise and a wrong choice may be very detrimental to the survival of an enterprise (Feng et al. 2007).

The observations by Feng et al. (2007) are however in contrast to an earlier argument by the proponents of MM hypothesis that the choice adopted for financing the operations of an entity, and thus use of debt, does not affect in any way the worth of the enterprise (though based on unrealistic assumptions). According to Saad et al. (2015), debt financing can cause an improvement on the owners' return on investment if well-structured to produce returns higher than its cost. According to O'Brien and David (2010), use of debt is packaged with both advantages and disadvantages. Advantages for using debt as identified by Fama and French (2002) are the tax savings due to tax deductibility and the stabilization of cash flows for a company. Debt also poses some drawbacks like the costs associated with bankruptcy and possible agency related conflicts specifically between those who provide debt to a business and the business owners.

Regardless of its problems, debt has been found to be the major source of financing for continuing businesses (Baltaci & Ayaydin, 2014). This has been driven by business factors like the size of a business, profitability, nature of the corporation assets and liquidity position among other factors (Kayo & Kimura, 2011). According to Saad et al. (2015), debt is expected to produce a return higher than its cost and consequently improve owners' ROI. Levels of interest bearing debt can be measured by the actual book values of the debt and also can be measured by the actual interest payments made. This study considered the actual interest expenses booked in the income statements as the payment indicates the actual effect on the financial strength of the entity.

Financial Performance

Financial performance is an expression of effects of a firm's operations and policies in monetary terms (Harelimana, 2017). It was observed by Ng'ang'a (2017) that financial performance helps in establishing in monetary terms by how much have a company attained its financial objectives. According to Musila (2015), Pin itself shows how better off, or in worst cases, worse off an enterprise owner is in the end of a certain period of time. As such, it can be looked at as the returns investors get for their capital commitment in a company.

Financial performance determination is very important as it sends the relevant information to different parties useful for decision making. Investors are able to know how better off or worse off they have become at the end of a given period of time (Musila, 2015). According to Harelimana (2017), different parties can also gauge management ability and the effectiveness of controls and policies by doing financial performance analysis. Any stakeholders in a business will be concerned in the performance (Financial) of an entity due to its close relatedness to the operations of a business. Stakeholders include customers, suppliers, government entities, employees and other interested parties with the ability to affect or can be affected by the accomplishment of business goals (Freeman, 1999).

In determination of the same, ratios (financial) have been advocated for as they present a simplified and clear analysis of the firm financial state in comparison to previous periods and also suggest to management possible areas of improvement (Tauseef, Lohano & Khan, 2015). Some of the measures as advanced by Abshir and Nagib (2016) are the operating profit margin, EVA, sales growth, EBIT, ROE and ROA. This study will consider the ROE as the measure of FP. Zenios et al. (1999) advised that ROA gives a good measure on whether the firm is making a good return on borrowed funds.

Interest Bearing Debt and Financial Performance

Interest bearing debt has become very common in all firms and with this kind of integration, investors and other company stakeholders need to have a concern on how the debt would affect their interests in the company. Although Modigliani & Miller (1958) advocated for irrelevance, in firm performance, of a firm capital structure, subsequent researches have proved otherwise in a real world. The use of debt has both advantages and disadvantages and some of the advantages identified by Farma and French (2012) are the tax saving on use of debt and reduction of a company cash flow distress. They also identified the stressing disadvantages of increasing agency problems between owners and managers and bankruptcy costs. A wise manager would put both the advantages (tax savings on debt payments) and also the disadvantages (agency and bankruptcy related costs) Kraus and Litzenberger (1973) in to consideration in making a financing decision.

Apart from the use of interest bearing debt, researchers have identified other features which influence financial performance of an organization. Among the identified factors are firm size by Ayako, Kungu and Githui (2015) and liquidity position of the company Mwaura (2015). Others include the board size Yusuf

et al. (2014) and advertising intensity (Mueller et al., 1980). These factors have an influence in the overall relationship and all of them cumulatively together with use of interest bearing debt affects the financial performance of a company.

Researches have been conducted on leverage and capital structure but have not been exhaustive enough to advise decision makers appropriately. A research by Kebewar (2013) on French firms established a positive correlation between financial performance and usage of debt. Though this research is very insightful, it ignored size of the companies in its analysis and may thus not be a good reference. Another study done by Pouraghajan et al. (2012) in Iran concluded a strong negative correlation between debt ratio and FP in Iran which also contradicted the research by Kebewar in French. In one of the well developed markets in the world, Baum et al. (2010) had earlier found nonexistence of any relationship between leverage in businesses and profitability in America but was later contradicted by a later research in a developing country in Zimbabwe where a positive correlation was found (Dude, Mazviona & Sakahuhwa, 2017).

In Kenya, some researches have been done but most of them have concentrated on overall capital structure ignoring the existence of different categories of debt. Maina and Ishmail (2014) established a negative influence on performance by capital structure of NSE listed firms while Githaigo and Kabiru(as cited by Ng'ang'a, 2017) found a negative effect of debt on performance (financial) of SMEs. These findings were echoed by Chepkemoi (as cited by Njagi, 2017) basing the research on SMEs but these researches cannot be used as they are as they may not give a true impact of interest bearing debt on FP. A research using the overall capital structure assumes that all debt is similar whether interest bearing or not which is not the case. Also focusing on segments in the economy or using the unregulated SMEs may give different findings and may misadvise listed firms' managers if used as such. This research seek to answer the question; what is the relationship between use of interest bearing debt and financial performance of listed firms in Kenya?

Literature Review

Trade-off Theory

This theory was advanced by Litzenger and Kraus (1973). It views the subject matter in light of deficiencies in the Modigliani and Miller hypothesis on how the capital mix is immaterial on firm's performance as per (Adair & Adaskou, 2014). Under this theory, financing decision is made by considering

a trade off or an endeavour to ensure a balance between associated costs and the expected benefits obtained from a source.

In debt use, a balancing is usually done by considering the cost implication (bankruptcy costs) and the anticipated benefits (tax savings) (Salubi & Marcella, 2016). Tax benefits arise since interest payments are considered tax allowable expense therefore reducing tax liability, hence increasing the after tax cash flows of a firm. The benefits increase as tax rates increase but at higher levels above the optimal debt level, bankruptcy costs increases and shareholders may lose the firm control to debt holders. Adair and Adaskou (2014) indicated that an optimal debt level would be that debt level of which its marginal benefits as a result of tax advantages equals the marginal costs related to bankruptcy as a result of leverage. Though helpful in determination of debt levels to use according to Serrasqueiro and Nunes (2010) this theory is limited in applicability as it focuses on tax savings only whereas there were other important considerations of debt even before discovery of tax shield benefit (Vikneswaran et al., (2019).

In my study, this theory advises on use of interest bearing debt as it positively impacts on company performance provided the considerations for costs and benefits are well analysed. Trade off theory regardless of its deficiency of failing to consider all considerations in capital structure apart from tax saving is still very important in advising on when a choice can be made in using debt. Managers can thus base their decisions on this theory to maximise returns to their shareholders by taking advantage of tax savings not available when equity is used. They should however be careful about the levels of the debt they use as the trade-off imbalances as more and more debt is used.

Determinants of Financial Performance

Several studies done have suggested that there may be some other factors that also influence a firm financial performance. Such factors may be either internal or external (Ayako, Githui & Kungu, 2015). Internal features include factors like firm size, leverage levels, governance style and also the size of the firm while the external factors, also known as industry factors include things like advertising intensity among others (Ayako, Githui & Kungu, 2015). In this study, the researcher took in to account the firm size, liquidity position, board size and the level of advertising intensity of the company.

Firm Size

This may be considered as a key factor affecting an enterprise performance as identified by (Ayako, Githui & Kungu, 2015). The size is determined by the amount of revenue generated in a year or by the asset base of the company. According to Chandrapala and Kn`apkov`a (2015), the assets value controlled by a firm and area of coverage in terms of services and products offered by a firm can be a good measure of a firm size. A big business usually enjoys some benefits not available to small firms. Such advantages include production and selling in huge quantities enjoying benefits of scale Rayan (2010), better credit rating and hence good chances for external financing and minimal reliance on internal financing Al-Tally (2014) and a competitive advantage as a result of a higher market penetration (Ani`c, Rajh & Teodorovi`c, 2009).

From such earlier statements and findings by other scholars, it is very evident that size has some degree of influence on firm's FP. Chandrapala and Kn`apkov`a (2015) demonstrated in the probability of success and performance of larger firms matched to small ones. Firm size was measured by value of assets, in this research, as opposed to the area of coverage in terms of services and products offered by a firm and revenue generation.

Liquidity Position

The term liquidity has been used to denote firms' ability to service their obligations as they mature (Brunnermeier & Pedersen, 2008). Such obligations may be in loan instalment repayment, salaries falling due, payables maturing and bills maturing among others. The ability is usually determined by comparing the firms' liquid assets and its current liabilities at a given point in time (Hovard & Likar, 2015). This comparison is known as the current ratio and other ratios like the quick test ratio and cash ratio can be used to measure and better understand the liquidity exposure of the company. Mwaura (2015) in his study shows that a company with more current assets than current liabilities will be in a better position to meet obligations as they fall due.

According to Herelimana (2017) a company with a good liquidity rank is considered healthier in the economic performance perspective. Such a company will thus benefit from uninterrupted operations, supplies and a better corporate image. The company will also have a good credit rating than a less liquid company and thus better access external financing to boost its operations and thus better financial performance. For this study, the researcher considered liquidity position based on the current ratio.

Board Size

Board size is the number of directors appointed to manage an organization on behalf of the owners (Oludele, Oloko & Olweny, 2016). According to their study, a bigger board size has better cumulative skills and thus a better probability of superior performance but the optimal number varied across industries and firms (Zimmerman, 2004). Bigger than optimal board size may however delay decision making as it needs more compromises (Cheng, 2008). The company will also benefit from expert opinions and advice in such fields like legal, technical and such, will therefore save on expert advice costs, and will have less exposure to litigations and less critical errors (Oludele, Oloko & Olweny, 2016). This will be so if the composition of the board is diverse and large enough to accommodate that.

According to a research conducted by Ebere et al. (2016), in a bigger board size, members complement each other in the decision making process in the organization which means low risk of errors in the decisions made. As a result of these better performance could be easily achieved in the organization due to elimination of errors which could impact adversely the listed firm's performance. On the other side, the bigger the board size, the longer the duration extended in decision making hence the firm may miss some opportunities due to such delays.

Extent of Audit Function

Several researches have been done on auditing both internal and external and all have pointed to a high importance of this function in the success of a firm. Different approaches to auditing have been advocated by several researchers with the intention of helping auditors and business manager's better respond to emerging trends. Mutual (2012) advocated for a risk based auditing to increase on the ability to detect risks, increase transparency, accountability and consequently enhance financial performance. From his conclusion, there is clarity that the type of approach used in audit for an organization has an impact on the financial performance of an organization.

Ondieki (2012) emphasised on the use of internal audit to compliment the work of external auditors. She pointed out that, internal controls, which are part of internal audit help in flagging off fraudulent transactions but is subject to auditor professional competence. Due to the nature of audit function, it is clear that it has an impact on the financial performance of a firm.

Empirical Review

Kebewar (2013) studied on French firms to define the effect leverage on corporate profitability. He used panel data from 2240 non-listed companies from 1999-2006 and utilized generalized method of moment's econometric technique. It was established that debt does not affect profitability of a concern regardless of its size. The results of this study may however not be applicable in today's business world considering the elapsed time since the research was done and the developments in debt markets compounded with economic transformations necessitating a fresh research.

Another study was done by Pouraghajan and Malekian (2012) on Tehran listed firms. Data for 400 listed firms between 2006 and 2010 was used to determine the relationship between capital mix and performance. Debt ratio was used to measure capital structure and ROE and ROA to measure FP. Using multiple regression model and Pearson correlation, the researchers found a strong negative relationship between debt ratios and financial performance of the Iranian listed entities. There is a major drawback with this research as the researcher excluded financial institutions and therefore managers in such firms and financial companies' stakeholders cannot rely on the findings of the research.

Manual, Lee, Rashid and Basirduddin (2019), studied on influence of capital structure on financial distress in non-financial firms in Malaysia. They utilised secondary data collected from 768 listed companies and adopted a panel quantitative research design. Data was collected from annual statements filed at KLSE exchange for the period 2013-2017. Financial ratios were computed using Microsoft excel and panel regression done using Eviews version 10. Using Altman's Z-score for financial distress and financial leverage, internal equity, external equity and asset structure for capital structure, capital structure was found to significantly influence financial distress. Apart from the internal equity, the rest were found to increase the financial distress in a company. Though very elaborative, this research was in Malaysia which has different economic conditions and especially in leverage from Kenya. Kenyan managers may need a local research done to establish the relationship in Kenya.

A research done by Yazdanfar and Öhman (2015) in Sweden focusing on SMEs intended to define the relationship between debt levels and performance of such firms. The research was done using 15,897 businesses between the years 2009-2012 running across sectors and used three stage least squares and fixed effects models for analysis. It was established that debt ratios (as determined by trade credit and short and

long term debt) affects performance (measured by profitability) negatively. The study however considered SMEs only and studied within a period of 4 years only which is a short period for an empirical study and considering that the research is done in one country only.

Ng'ang'a (2017) researched on effect of debt funding on FP of private secondary schools in Kajiado county. He based his research on a descriptive research design and data from available 43 non-governmental schools out of the possible 61 in the county. He collected data using data collection forms administered by the bursars for three years ending with the year 2016. The research found a weak positive correlation between the study variables. His study was however very geographically limited and also carried out in a specific industry. The same results may not be applicable outside the education sector. The research was also very limited in time span as it used data for three years only.

Simiyu et al. (2016) studied the relationship between sources of business financing on FP of SMEs in Lurambi Sub-County in Kenya. Their research was based on primary data from a sample of 88 SMEs in a population of 450 SMEs obtained through stratification and then simple random sampling. They used questionnaires to collect the data and descriptive statistics design was used. It was established that commercial loans have a significant positive effect on financial performance of SMEs. The study was limited to SMEs only and was carried out in a specific sub-county which may have different characteristics from the rest of Kenya.

Methodology

Dista (as cited by Ng'ang'a, 2017) posits that a good research design enables a researcher to obtain solutions to research questions validly and accurately and in an objective and economical manner. In light of this statement, the researcher adopted an experimental research design. Experimental research design has been favoured since it can determine the accurately the effect of the independent variable (use of interest bearing debt) on the depended variable (financial performance) (Creswell, as cited by Makanga2015). The population targeted was the 65 listed firms in Nairobi stock exchange. Since there are only a few and their data is readily available, census survey was conducted. This ensured that all industries are covered and well the best representation of the economy is done. The research findings are thus applicable in a wider range.

Data was collected from secondary sources by using financial statements the selected companies file with the Nairobi securities exchange. The statement of comprehensive income was the main source, other sources being the statement of financial position and report to shareholders. Data collected included the amounts of profits and loss for the specific years reported in income statements, interest expenses charged to the income statements, value of company assets in statements of financial positions, and the value of current assets and current obligations both found in the statements of financial positions. Data about the number of directors was obtained from the report to the shareholders and audit cost charged for the years was collected from the income statements. To ensure adequate data for proper analysis and decision making, the same data collected for the past 5 years ending with 2018. Diagnostic tests applied included multicollinearity, heteroscedasticity, test of linearity, test for omitted variables, test for auto correlation and test for stationarity. Multiple regression analysis was used in determining the relationship.

Research Findings

Descriptive Statistics

The researcher was able to collect 93% data for the return on assets, 78% in the interest bearing debt, 93% of firm size data and 93% on liquidity in NSE listed firms. The researcher also collected 92% data on the board size and 87% on the extent of audit function. Overall response rate is 73% based on complete availability of data for all variables in any specific year. According to Mugenda et al. (2013) that data above 70% is excellent. In view of this observation, the researcher considers the response rate in this study as excellent and the available data is fit for regression and can be a good estimator of the research objectives.

Table 1: Response Rate Table

Variable	Financial performance	IBD	Firm size	Liquidity	Board Size	Extend of audit function
Data collected	302	253	302	301	301	278

Unavailable data	23	72	23	24	24	47
Total	325	325	325	325	325	325
Response rate (%)	93%	78%	93%	93%	92%	89%

The average financial performance as measured by the return on assets in the NSE is -0.0017 with a standard deviation of 0.4587. The minimum performance is -7.6316 and the maximum profitability is 0.5032. This shows that a prospective investor in the NSE listed firms should expect a worst case scenario negative return of 763%. The investor should also expect a best case scenario performance of 50.32%. The mean value of times interest earned is 32.6 showing that listed firms are more able to meet their interest obligations several times using a year's profit. This has a standard deviation of 134, a minimum value of -256 and a maximum value of 1,485. The mean size of a listed firm as measured by the Ln of assets is 23 with a standard deviation of 2.16. The minimum and maximum sizes are 17 and 18 respectively.

The other variable under study is the liquidity which has a current ratio of 12.8 and a standard deviation of 137. The minimum and maximum liquidity positions is 0.029 and 2069.78 respectively. Another variable is the board size which ranges between 4 and 18 for the listed firms. The mean board size is 9 with a standard deviation of 2. The last variable is the extent of audit function as measured by the Ln of audit cost. For the years under consideration, the mean extend of audit function is 16 with a standard deviation of 1.2, a minimum value of 10.4 and a maximum value of 17.9.

Table 2: Table for Data Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FP	236	-.0017119	.4587126	-7.6316	.5032
IBD	236	31.61224	134.2618	-255.8132	1484.84
Ln Firm Size	236	23.49069	2.160611	17.7316	27.2946
Liquidity	236	12.80053	137.4135	.029	2069.776
Board Size	236	8.986667	2.839018	4	18

Ln Extend of audit	236	15.94626	1.222343	10.4341	17.8676
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Correlation Analysis

Correlation analysis was done using the Pearson correlation coefficient. The correlation analysis show very low levels of correlation between the independent variables. The only high levels of multi- collinearity observed were between the size of the firm and both the board size and extend of audit. The high levels did not pose a challenge as the firm size was left out of regression as it also had high values of variance inflation factor. There were also observed negative correlations all of which were related to the interest bearing debt and the other independent variables except the board size.

Table 3: Correlation Analysis Results Table

	FP	IBD	Ln Firm size	Liquid	Board Size	Ln Audit Extend
FP	1.0000					
IBD	0.2226	1.0000				
Ln Firm Size	0.1153	-0.0794	1.0000			
Liquidity	0.0077	-0.0111	0.0427	1.0000		
Board Size	0.0290	0.0901	0.6142	0.0064	1.0000	
Ln Audit Extend	0.0313	-0.0286	0.6828	0.0951	0.4457	1.0000

Regression Analysis and Hypotheses Testing

Regression confirms the effect of the independent variables on the dependent variable. Using the regression results the researcher was able to determine that the use interest bearing debt positively and insignificantly affects the financial performance enterprises. It has also been established that 70.28% of the changes in financial performance can be attributed to the use of interest bearing debt, liquidity position and the number of directors in a firm.

Regression results have also established that liquidity and board size affect the financial performance of a firm negatively. The regression was done omitting the size of the firm due to its high multi-collinearity level. The effect by board size is significant while the effect by liquidity is insignificant. The regression results have also shown that there is a great portion of company specific factors which affect the financial performance of a business. The analysis established that company specific factors have the highest impact on the financial performance.

Table 4: ANOVA

Source	SS	df	MS	Number of obs = 23
				F(60,175) = 6.90
Model	2.40010577	60	.040001763	Prob > F = 0.0000
Residual	1.01516664	175	.005800952	R-squared = 0.7028
				Adj R-squared = 0.6008
Total	3.41527241	235	.014533074	Root MSE = .07616

Table 5: Regression coefficients

ROA	Coef.	Std. Err.	t	P> t 	[95% Conf. Interval]	
IBD	.0000608	.0000516	1.18	0.241	-.0000411	.0001627
Liquidity	-.0000104	.0000715	-0.15	0.884	-.0001515	.0001307
Board Size	-.0135555	.0053259	-2.55	0.012	-.0240668	-.0030441
Ln audit extend	.0028377	.0101979	0.28	0.781	-.017289	.0229644
_cons	.1021624	.1692805	0.60	0.547	-.2319316	.4362565
Company	F(56, 175) =	6.712	0.000	(57 categories)		

The research findings confirmed that use of interest bearing debt has a positive impact on the financial performance of firms. This is in agreement with the tradeoff theory but contradicts the propositions of the MM hypothesis. More research however needs to be done to confirm the ranking by the pecking order theory but the positive relationship suggests a higher ranking in terms of preference. As a consequence of the positive impact, measures should be taken to make interest bearing debt more accessible to businesses so as to boost their financial performance. This study also established that liquidity affects financial performance negatively. This can be explained in terms of holding too much liquidity losing out on opportunity costs. The findings contradict the findings of Mwaura (2015) and Herelimana (2017). Both of them had established a positive impact on financial performance by liquidity. As such managers need to be keen on their choice of financing and their liquidity levels.

Research findings also revealed that there is a negative relationship between the size of the board and the financial performance of listed firms. This shows that there may be some agency problems in the NSE listed firms. Though bigger boards have been associated with adequacy of ideas, this may have been watered down by other factors like longer decision making process to bring a net negative effect. The research findings have contradicted the findings of Oludele, Oloko and Olweny (2016), Cheng (2008) and Eber et al (2016) who concluded that bigger boards are better in financial performance. In terms of the importance of audit in an organization, the research found a positive relationship between the audit cost and the financial performance of firms. This shows that higher audit costs are as a result of extensive engagement with the clients and investors are getting value for the expense. Hailing firms can thus engage the services of auditors

for different assignments to boost their position since their work have been associated with good financial performance in firms.

Conclusions

The research found a positive significant influence on the financial performance by the use of interest bearing debt in the listed firms in Kenya. As a result the researcher concludes that good use of interest bearing debt have a positive impact on financial performance of listed firms in Kenya. This also shows that debt markets and debt financing management has been good in the country and particularly with the listed firms. This research also concludes that interest rate capping was well informed and that any adverse review for the same may be compromising the financial performance of corporations.

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