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Financial Leverage Management as a Determinant of Corporate Investment Financial Perceptions of Firms Listed On Nairobi Securities Exchange in Kenya

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Abstract
Financial challenge is one of primary limiting factor in corporate investment decisions. Corporate investment is financially supported internally, including savings, savings profits, depreciation facility or outsourcing, including external debt / debt. Although many studies have improved our understanding of corporate investment specifications in Kenya, there lacks of studies that have focused on internal variables and investment performance. Therefore, this study attempts to analyze the financial leveragemanagement impact on corporate financial perception targeting companies listed on the Nairobi Security Exchange in Kenya. The agency named Agency, Portfolio Theory, Theory-of-Theory and Prospect Theory to direct this study. The study targeted 62 companies listed by the Nairobi Securities Exchange (NSE), from which data was collected from 32 companies and assessed the investment regulatory effects on financial terms. The data were analyzed using unit root test analysis. Research findings shows that financial leveragemanagement has a positive effect on business financial investment perception. This study concludes that financial leverage management has a significant impact on comprehensive financial perception in an organization. The study recommends that corporate governance listed on the NSE determine good financial management strategies to direct investment decisions and increase shareholder wealth for effective financial management and risk management strategies.

Keywords: *Financial leverage management; investment financial perception*

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I. Introduction

Companies often deal with financial constraints in all reasonable investment decisions. Corporate investment can be financially supported internally, including savings, savings profits, depreciation facility or our outsourcing, including external debt / debt. In financial statements, research suggests that corporate investment is influenced by direct or financial factors such as leases (debt), cash flow (revenues), sales, and liquid asset reserves (Folorunsho, 2017). Evidence that strong level factors influence the investment perceptions of capital firms suggests that corporate executives (financiers) have some control over the creation of capital, and therefore the price and value of capital. Keynes (1936) emphasized the important role of investment in the concept of exit and joint employment (Folorunsho, 2017). Keynes received financial assistance to invest in profits in substantial monetary results or in various monetary results.

All companies have a growth goal and therefore, the investment models of companies are greatly influenced by the financial climate and the financial conditions in which they operate. In addition to large changes such as real interest rates, firms carefully examine their equity assets in their investment decisions. The decision to invest in companies is one of the most important lessons in the lives of companies because investing can destroy strong values that lead to liquefaction or increase the fair value that leads to good organization.

The financial situation or financial difficulties of the company are the key factor for strong investment. According to Ferre-Mensa and Lungquist (2013) and Silva and Carrera (2012), financial difficulties can measure the nature of a business's balance sheet, such as the firm's financial position or strong cash flow, consistency and size. This study is based on this understanding and the following sections discuss the basics of business risk management.

According to Jonathan and Katharina, (2016), the interaction between investment decisions and financing is a major financial problem for the business. It is now well established that a firm’s financial choice affects its investment focus because taxes, tariffs, agency disputes and credit information related to debt and equity affect the cost of capital under both internal and external financial costs. Differences and change between management incentives for different projects. .

Note Awa, Labor, Rashid, and Khurshid (2016), looking at experience and history gives managers a better opportunity to make better investment decisions. The authors state that there are three main causes of the risk; risk is caused by uncontrolled factors that cannot be measured correctly, and risk is caused by the cost of

information. Some organizations may not have the capacity or fail to use the information available to decision makers (Ava, et al., 2016).

In Mauritius, Mohan (2008) focused on the impact of financial sustainability on firm investment decisions and the impact of financial assistance on investment rates using firm-level data. The researcher found a negative relationship between financial debt and low growth investment; the financial results revealed a negative relationship between the two categories of high resilience.

In Kenya, companies have identified corporate profits as a major source of capital. However, the credit usage of companies listed on the Kenya NSE has shown different results. While some companies use borrowing funds to boost growth and profits, some companies get into financial trouble by making poor financial decisions. Some of the latter category are excluded from the NSE and are subject to adoption as a result (Maina and Ismail, 2014).

The Nairobi Securities Exchange came into existence in 1954 while trading for a cup of tea at the New Stanley Hotel. The Nairobi Securities Exchange was formed as a voluntary shareholders' association under the Associations Act in 1954 and 1991; The Nairobi Securities Exchange is a limited liability company and has been funded under Kenyan law. Subsequent market developments saw an increase in the number of retailers, the introduction of investment banks, the establishment of banking institutions and credit rating agencies, and the number of listed companies over time. Secure Trades includes shares, shares and preferred shares (Republic of Kenya, 2012).

Problem statement

Investment decision making is an important part of strategic decision making for all businesses. During decision-making process, companies are guided by their own ideas in investing individually. The success of new projects has had a significant impact on the growth of the business, for example, the Safaricom Grape Project, which has grown to full capacity at Ksh. 23.9 billion in 2016 (Kamau and Kagiri, 2015).

Listed companies allow shareholders to participate in the ownership of these shares, which maximizes their profits. By repaying the capital invested, the listed companies pay dividends regularly. It is through this relationship that the growth target in the stock market emerged (Azidade, Amuda&Olurin, 2019). Joint investment decisions guide the goal of increasing the assets of a company listed on the NSE. Although many studies have improved our understanding of corporate investment specifications in Kenya, there lacks of studies that have focused on internal variables and investment performance. Therefore, this study analyzed the financial leveragemanagement impact on corporate financial perception targeting companies listed on the Nairobi Security Exchange in Kenya.

General Objective

The general objective of this study was to analyse effect of financial leverage management on corporate investment financial perception on firms listed at the Nairobi Securities Exchange in Kenya.

Hypothesis

H_{o4}: Financial leverage management does not significantly affect corporate investment financial perceptions of firms listed at the Nairobi Securities Exchange in Kenya.

II. Literature

Debt is so far known to have great impact on companies and their performance has led to better performance and failure. There are two different types of uses for financial management. The operating leverage is defined as the result of liability due to all fixed costs without interest and on the other hand is effective due to financial costs and acceptable interest (Gathara, Kilika, &Maingi, 2019). Financial leverage used by companies is generally designed to make a lot of money in relation to financial expenses. Financial leverage applies to a portion of a shareholder's income in response to changes in operating income, resulting in a company's assets being funded by its preferred reserve or credit (Aliu, 2010).

The definition of the role of financial performance of organizations is one of the main goals of modern research. However, this role has always been controversial and continues to attract the attention of many researchers. The researchers analyzed the debt balance with the intention of determining whether there is a combination of debt and equity with other financial instruments. A proper credit rating measure is intended to reduce the cost to the financial institution, while at the same time increasing the value of the organization. Therefore, it is a measure of increasing a company's profitability (Kebewar,, 2012). Experts have come up with three ideas to explain the impact of debt on tangible benefits; Signature theory, agency theory and tax implications. According to the signature principle, the relationship between debt and equity is true in information situations such as diversity. According to the agency's call theory, the debt is matched by strong leverage due to similar costs of the agency between the shareholder and the managers. However, this

relationship does not weaken due to the cost of debt between borrowers and lenders. Finally, the effects of tax on business profits are difficult to explain because they are influenced by a variety of factors, including income tax, interest-free tax returns, and interest rate reductions (Mostafa&Boregowda, 2014). The unrelated relationship between debt and profitability was confirmed by Kieber (2012), Shubita and Alsawala (2012) and Jason and Jung (2005). Alkhatib(2012), on the other hand, achieved positive results, while Bhutta and Hasan(2013) revealed two effects in their study. Many factors may be involved in variability in the results of intensive studies. For example, the use of different model types, the use of different gain measurements such as reliable variables and independent variables. In conclusion, these studies followed different research methods.

Equity and debts are common means used by companies to fund their investments(Adenugba, Ige&Kesinro, 2016). The use of a financial institution's investment base is supported by a variety of conceptual foundations. The first is Majluf and Myers (1984), which explains why most companies look to foreign exchange options without sponsoring financial equity in the context of Peking order theory. The order of funding is based on the costs associated with these types of funds and their availability (Mule and Mukras, 2015). The Modigliani and Miller Theory (MM) (1958) guarantee a complete market, in which the value of the company is never affected by the equity or debt used by the company. The concept of illicit trade also defines corporate debt financing to establish equity and borrowing costs (Nyamita, 2014). Jensen and Meckling(1976) Agency theory believe that large debt keeps the firm in control and is therefore associated with improved financial performance (Evgeny, 2015). In addition, market recovery theory suggests that debt is positively correlated with stock recovery (Brealy, Myers & Allen 2011).

During periods of financial instability, Jensen and Mekling(1976) found that tangible assets supported lenders and acted as security for loans. In addition, high-quality financial institutions are more sensitive to income than small debt-paying companies and therefore, it can be difficult for companies to make more money because they are at risk of collapsing due to inflation. Managers may refrain from making profitable investments to fulfill their short-term debt obligations. Opler and Titman (1994) found consistent results that a large percentage of cash flow times are financially volatile and collapse as money is strong and sales fall. Therefore, according to him, the financial slowdown is problematic because the money runs low and the cash flow of the company is uncertain, so it affects the level of investment in the company. Ruiz-Porrasand Lopez-Mateo (2011) purport that strong size, investment opportunities and cash flow influenced investment decisions.

In the financial world, decisions about debt utilization or equity in an organization are very important because high cost can cause financial difficulties for the organization. Lintner (1956) and Gordon (1959) stated that there was a rate of depreciation equal to the return on the loan, e.g. Companies use financial leverage to make more money from their expenses (Enekwe, Agu&Eziedo, 2014). Financial liability is more than the amount spent for the financial structure of the firm and therefore this increase arises as a strong financial expense for the firm. It has a fixed interest rate (Adenugba, Ige&Kesinro, 2016). Two different results can be achieved through the use of grants, which increase profits or reduce negativity. The company incurs losses due to large amounts of debt, which must be repaid in full (Al-Otaibi, 2013). Companies use financial funds to get investment returns. High debt or low employment can be dangerous if the company is not managed properly (Tungt,2018).

III. Methodology

This study assumed the notion of objectivism, in which social entities are described by the real circumstances of communal players in relation to their existence (Saunders, Louis, &Thornehill, 2007). The study used descriptive design and a mixed method design, which considered concurrent transformative design. The study targeted 64 companies listed by NSE as at 2017. All the 64 firms listed at the NSE formed the sampling frame for this study. The target population for this study was 64 firms listed at the NSE between 2013 and year 2017. Simple random sampling was applied in selecting 32 companies from whose panel data was studied and analyzed. This eliminated any biasness as the selected group contained elements representative of the characteristics found in the entire group. Researcher administered questionnaires to the sampled of the companies targeting management staff from the Operations, Finance and Accounts departments. The study used both primary and secondary data. Primary data was collected using a questionnaire while panel data helped in acquiring secondary data. The questionnaire was tested for criterion related validity, content validity and construct validity and reliability using Cronbach Alpha

A fixed simple linear regression model was used to link the independent variables to the dependent variable as follows:

$INVit = \beta 0 + \beta 1CFit + \varepsilon it$ Where:

INVit = Investment financial perceptions at time *t*

CFit = Financial Leverage at time t

B_0= constant

β_1,= are coefficients to be estimated

e= stochastic term at time t

IV. Results

The mean for investment financial perception variable was 0.724490. The maximum of investment financial perception variable level stood at 1.000000 and the minimum was 1.000000, while the standard deviation was recorded at 0.447533 as shown by Table 1. The interpretation was that overconfidence variable data had a normal distribution.The finance leverage management for 294 observations showed a mean of 0.874966, a standard deviation of 2.200360 and a maximum and minimum of 24.16000 and -0.200000, respectively suggesting that. The conclusion was that finance leverage management variable had no significant deviation from the expected mean.

Table 1: Results of Descriptive statistics

	Investment Financial Perception	Financial Leverage
Mean	0.724490	0.874966
Median	1.000000	0.640000
Maximum	1.000000	24.16000
Minimum	0.000000	-0.200000
Std. Dev.	0.447533	2.200360
Skewness	-1.004943	8.046089
Kurtosis	2.009911	71.17671
Jarque-Bera	61.49403	60111.01
Probability	0.000000	0.000000
Sum	213.0000	257.2400
Sum Sq. Dev.	58.68367	1418.585
Observations	294	294

Unit Root Test

Financial institutions and corporations, as well as individual investors and researchers, often use financial time series data (suchas asset prices, exchange rates, GDP, inflation and other macroeconomic indicators) in economic forecasts, stock market analysis, or studies of the data itself. Using non-stationary time series data in financial models produces unreliable and spurious results and leads to poor understanding and forecasting. The solution to the problem is to transform the time series data so that it becomes stationary. Panel unit root test was applied on all variables used in the analysis to determine whether the panel data was stationary. The results from the unit root test for all the cross-sections in the variables: financial leverage management and dependent variable, corporate investment financial perceptions.

Unit Root Test for financial leverage management

Results for financial leverage management was found to be stationary in the test with a p-value of 0.0000 that is less than 0.05. The null hypothesis (H0, financial leverage management has a unit root) was rejected and alternative hypothesis (H1, financial leverage management has no unit root) accepted. The test of stationarity was important because it helped to identify the order of integration of a variable and avoid spurious regression.

Table 2: Unit Root Test for financial leverage management

Null Hypothesis: VAR0000401 has a unit root

Exogenous: Constant

DF-GLS Test Equation on GLS Detrended Residuals

Dependent Variable: D(GLSRESID)

Method: Least Squares

Date: 05/18/19 Time: 11:43

Sample (adjusted): 9 294

Included observations: 286 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GLSRESID(-1)	-0.209492	0.057551	-3.640137	0.0003
D(GLSRESID(-1))	-0.184970	0.069777	-2.650874	0.0085
D(GLSRESID(-2))	-0.145474	0.067241	-2.163460	0.0314
D(GLSRESID(-3))	0.186114	0.062068	2.998578	0.0030
D(GLSRESID(-4))	0.201807	0.063062	3.200134	0.0015
D(GLSRESID(-5))	-0.245439	0.064198	-3.823177	0.0002
D(GLSRESID(-6))	-0.152362	0.062329	-2.444474	0.0151
D(GLSRESID(-7))	-0.228846	0.058387	-3.919498	0.0001

R-squared	0.347660	Mean dependent var	-0.001224
Adjusted R-squared	0.331234	S.D. dependent var	1.864326
S.E. of regression	1.524610	Akaike info criterion	3.708928
Sum squared resid	646.1934	Schwarz criterion	3.811194
Log likelihood	-522.3767	Hannan-Quinn criter.	3.749919
Durbin-Watson stat	1.991989		

Unit Root Test for corporate investment financial perceptions

Results for corporate investment financial perceptions was found to be stationary in the test with a p-value of 0.0003 that is less than 0.05. The null hypothesis (H0, corporate investment financial perceptions has a unit root) was rejected and alternative hypothesis (H1, corporate investment financial perceptions has no unit root) accepted. The test of stationarity was important because it helped to identify the order of integration of a variable and avoid spurious regression.

Table 3: Unit Root Test for corporate investment financial perceptions

Null Hypothesis: Group variables has a unit root

Exogenous: Constant

DF-GLS Test Equation on GLS Detrended Residuals

Dependent Variable: D(GLSRESID)

Method: Least Squares

Date: 05/18/19 Time: 11:46

Sample (adjusted): 6 294

Included observations: 289 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GLSRESID(-1)	-0.266008	0.071741	-3.707866	0.0003
D(GLSRESID(-1))	-0.512835	0.077837	-6.588545	0.0000
D(GLSRESID(-2))	-0.333599	0.077580	-4.300090	0.0000
D(GLSRESID(-3))	-0.261514	0.071835	-3.640496	0.0003
D(GLSRESID(-4))	-0.260464	0.057322	-4.543844	0.0000

R-squared	0.417001	Mean dependent var	0.003460
Adjusted R-squared	0.408790	S.D. dependent var	0.562103
S.E. of regression	0.432202	Akaike info criterion	1.177304
Sum squared resid	53.05086	Schwarz criterion	1.240737

Log likelihood	-165.1204	Hannan-Quinn criter.	1.202721
Durbin-Watson stat	2.023858		

Unit Root Test for group variables

The first part of each section for each variable presented the common unit root tests developed by Levin, Lin and Chu (2002) and the one developed by Breitung (2001) t-statistic. The test showed that considered simultaneously all the cross-sections were stationary for all the variables. In other words, they did not have the unit root problem since the null hypothesis of unit root was rejected as depicted by the significant p-value of 0.0000. The second section presented three other tests of stationarity in panel data setting. These were Im, Pesaran and Shin (2003), ADF - Fisher Chi-square Maddala and Wu (1999), PP - Fisher Chi-square (Choi, 2001). These tests assumed that there was a unit root process on individual cross sections. As depicted by the p-values which were statistically significant, the null hypothesis of non-stationarity was rejected. The interpretation was that all the variables were found to be stationary in the two cases of test. In conclusion, the test of stationarity was important because it helped to identify the order of integration of a variable and avoid spurious regression. In this case, all the variables were found to be integrated of order zero (0).

Table 4: Unit Root Test for group variables

Group unit root test: Summary

Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-24.9247	0.0000	5	1457
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-23.6676	0.0000	5	1457
ADF - Fisher Chi-square	380.667	0.0000	5	1457
PP - Fisher Chi-square	478.762	0.0000	5	1465

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Panel estimation

Under the random effect model, the unobservable time effect was assumeduncorrelated with the explanatory variables and that the component had time element. In using the random effect, the estimator was the EGLS (Efficient Generalized Least Square). The EGLS was assumed to be a consistent estimator under random effect than OLS. The results in Table 8 indicates that the overall model is a goodness of fit statistics since the value of F-statistic was found to be 4.689528 and the p-value was found to be 0.000 which was less than the critical value of 0.05. The value of the adjusted R square was 0.060951. This value clearly suggested that after adjusting for the degrees of freedom, there was significant effect on corporate investment financial perceptions.

From the above regression model it was revealed that holding financial leverage management of a company to a constant zero, investment financial perception of firms listed at NSE in Kenya would stand at 0.658. A unit increase in financial leverage management would lead to an improvement in investment financial perceptions of by a 0.042 factor.

The regression model predicted the outcome variables well as per results of Table 8. The regression model was found significant where P is 0.001 which is less than 0.05 hence an indication that in general, the model applied is significantly good enough in predicting the outcome dependent variable (Investment financial perceptions) using cashfinancial leverage management as independent variables.

Table 5: Panel estimation Results

Dependent Variable: ID

Method: Least Squares

Date: 05/18/19 Time: 11:59

Sample: 1 294

Included observations: 294

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FL	0.041609	0.011617	0.358822	0.0207
C	0.658161	0.031648	20.79616	0.0000

R-squared	0.060951	Mean dependent var	0.724490
Adjusted R-squared	0.047954	S.D. dependent var	0.447533
S.E. of regression	0.436671	Akaike info criterion	1.197585
Sum squared resid	55.10686	Schwarz criterion	1.260231
Log likelihood	-171.0450	Hannan-Quinn criter.	1.222673
F-statistic	4.689528	Durbin-Watson stat	1.627542
Prob(F-statistic)	0.001109		

Hypotheses Test

H_{o4}: Financial leverage management does not significantly affect corporate investment financial perceptions of firms listed at the Nairobi Securities Exchange.

Financial leverage management had a coefficient positive 0.421 and significantly influenced corporate investment financial perception as shown p-value of 0.020< α=0.05. Therefore, we reject the null hypothesis that financial leverage management does not affect corporate investment financial perceptions of firms listed at the Nairobi Securities Exchange and conclude that financial leverage management affect corporate investment financial perceptions of firms listed at the Nairobi Securities Exchange Leverage is the relationship between debt financing and equity financing, also known as the debt-to-equity ratio. Thus, a negative debt-to-equity ratio means firms will not invest in the NSE until such figures than to be positive. The table below summarizes the hypothesis and ranks the four factors influence of firm investment financial perceptions.

Table 6: Hypotheses Test summary

Hypothesis	Rank	P-value	Significance	Decision
H_{o4}: Financial leverage management does not significantly affect corporate investment financial perceptions of firms listed at the Nairobi Securities Exchange	2	0.020	Significant	H_0 Rejected

V. Conclusion

The study concludes that investors take into account the fact that the companies they want to invest in have lower regulatory rates so that they do not have to bear the cost of equity and current debt compared to current assets.

VI. Recommendations

The study recommends that management of companies listed on the NSE devise a good strategy to achieve good cash flow and this can be done through effective financial management. The listed companies do not have credit policies, which managers must ensure compliance with the terms of the credit agreement. The study recommended that managers of companies listed on the NSE strengthen their goal of expanding the stock market so that investors can benefit from the services imposed on the company. The study recommended that NSE and CMA officials in Kenya work together to ensure that financial experts and analysts are available to guide investors in decision-making processes.

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