

ABSTRACT

Business employ a number of strategies to improve financial profitability, including streamlining processes, outsourcing and integrating new technologies. The study sought to determine the effects of financial leverage on profitability of listed manufacturing firms in Kenya. More specifically the study examined the effect of short term debt, long term debt and debt equity, on profitability of listed manufacturing firms in Kenya. Theories that guided the study include; Market Power Theory, Pecking Order Theory, and The Market Timing Theory. The target population of the study was ten manufacturing firms quoted in Nairobi Stock Exchange. Secondary data for all the ten (10) listed Manufacturing firms was collected using a data collection sheet for a period of six years between 2012-2016. The data was analyzed using both descriptive and inferential statistics with the aid of the Statistical Package for Social Sciences. Descriptive analysis involved means, standard deviations, trend analysis, maximum and minimum across all variables. Inferential statistics included; Pearson correlation and multiple regression analyses. Pearson correlation coefficient was used to show the effects of variables while multiple regression analyses was used to test the magnitude of the relationship and also test formulated hypotheses. The study revealed a negative effect of short term debt (-0.362) and debt to equity ratio (-0.062) on profitability of listed manufacturing firms. On the other hand long term debt (0.349) positively and significantly affected listed manufacturing firms. The research findings is significant to the management of listed manufacturing firms in Kenya in coming up financing policies that will ensure sustainability of the financial performance of the firms. The study findings assists the capital market regulator that is Capital Market Authority (CMA) and other policy makers in formulating appropriate mechanisms necessary to continuously monitor and evaluate the financing aspect of corporations. The study further contributes to the existing body of literature, and form a reference point for future scholars researching in this area The study recommend that debt to equity should be reduced by the manufacturing firms since it largely affects the earning before tax and manufacturing firms should consider where possible, using their internally generated funds to finance their projects and only go for debt financing when they have fully exhausted their internal funds.

Keywords

Financial leverage on profitability