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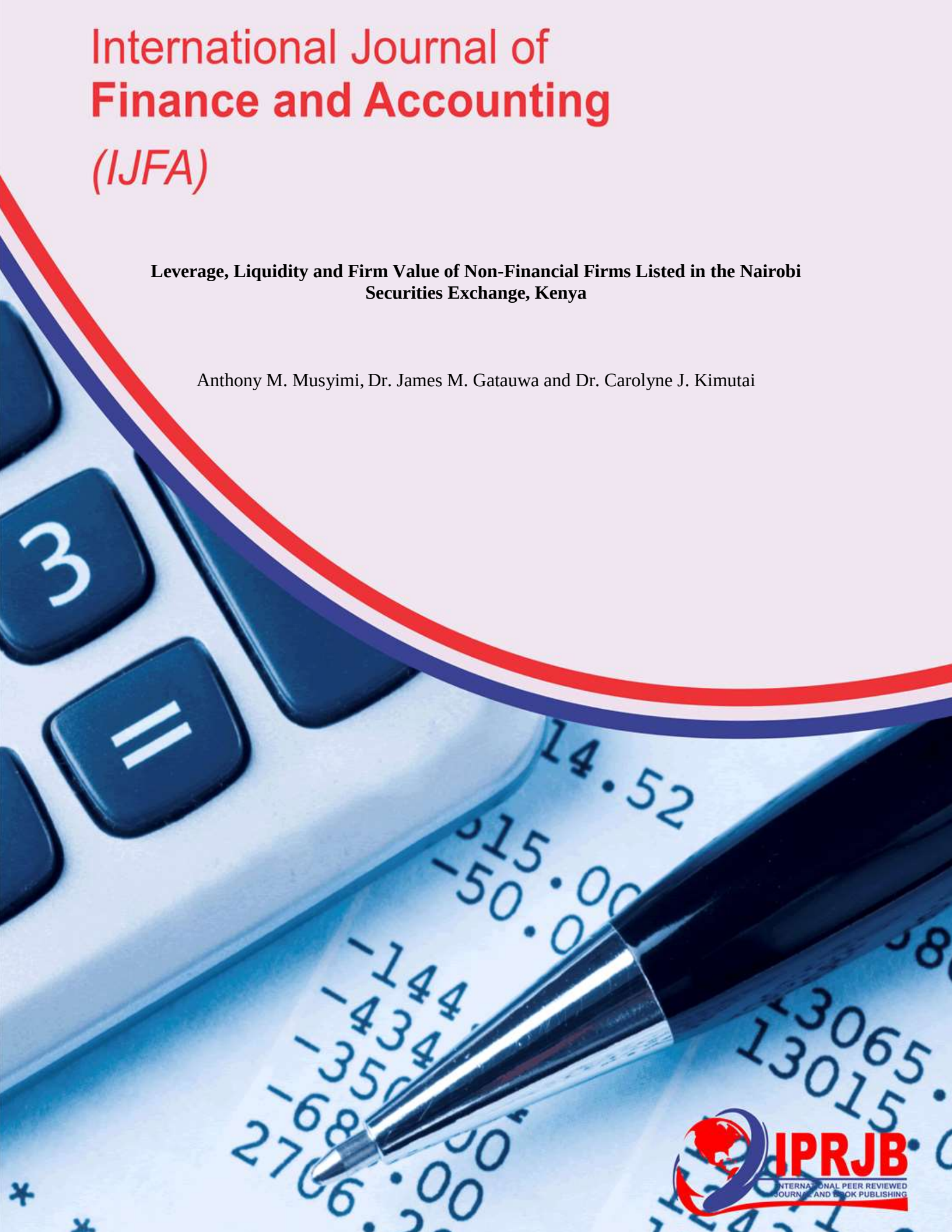

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Leverage, Liquidity and Firm Value of Non-Financial Firms Listed in the Nairobi Securities Exchange, Kenya

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Abstract

Purpose: Firm value maximization and profit maximization are listed as the key objectives of every firm. Firm value maximization is highly concerned on constant viability of revenue but not only business gains. Company specific features play extremely important function in overall performance of a firm and firms value maximization. The average Tobin-Q values of non- financial business enterprises registered at NSE in the years between 2016 - 2022 reflected a declining trend where else the world Tobin-Q values of non- financial companies over the same period showed increasing trend. The previous period between 2008-2015 reflected a rising trend of company value of non-financial companies' registered in NSE. This research therefore examined the influence of leverage, liquidity and company value of non-financial business enterprises registered in NSE, Kenya in an effort to give solution for this problem for the period spanning from 2017-2022. The study was anchored on agency cost of free cash flow theory, shareholder value theory and Modigliani and Miller Theory on Capital Structure.

Methodology: The target population was all the 39 non – financial companies registered in the NSE, Kenya. All the 39 non-financial business enterprises registered at the NSE were used in the investigation. The research used panel data coming out of secondary sources found in the yearly records and financial accounts of registered non-financial firms. The figures were gathered out of NSE listed non-financial firms annual reports for the interval of 2016-2022. Panel regressions analysis and Pearson's product moment correlation analysis were used for inferential analysis while means and standard deviations were used for purposes of descriptive analysis.

Findings: Panel regression results indicated that both leverage (p=0.003, <0.05) and liquidity (p=0.002, <0.05) had a statistically significant positive effect on firm value. The study concludes that both leverage and liquidity have very strong positive relationship with firm value. The research established that leverage amplify both the potential returns and risks for a company. High liquidity levels led to increased trading activity and higher demand for a company's shares.

Unique Contribution to Theory, Practice and Policy: The research advocated that the companies ought to expand their debt levels so as to potentially raise their overall value and improve their financial performance. The firms should increase investor awareness and participation in the market so as to increase liquidity levels and hence firm value.

Keywords: *Leverage, Liquidity, Firm Value, on-Financial Firms, Tobin-Q*

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INTRODUCTION

Business worlds have a great influence on the industrial development of a nation (Wafula 2019). The key objective of any firm is to increase its net worth. It's therefore imperative for business ventures and other concerned parties to be aware of the firm's value so as to make right decisions about the future. However a poor performance has been witnessed amongst the NSE registered non-financial firms in the latest years (Kamboja & Kangin, 2019). Out of the sixty-four companies listed at the NSE, Kenya, a good percentage is not in good financial position. When the firm's management destroy firms value the company is at risk of aggressive takeover, fall of share prices and inability to pay debts on time .All these puts the company at a danger of being received and finally liquidated (Narang & Mandeep, 2014; Gatauwa, 2020). Literature reveals that two in every three listed non-financial companies have reported tough times with some being deregistered, others making huge losses and others issuing profit warnings. (CMA 2022, Report).

Globally the market value of equity in the initial segment of the Tokyo security markets (TSE) in Japan from 2015 to 2022 for non- financial companies (in trillion Japanese Yen) was 371.23, 379.44, 399.24, 400.11, 408.22, 411.04, 415.11 and 415.89 which reflects increasing and fairly stable performance (TSE Report 2022). Detoriation in the environments surrounding the secondary and primary market due to economic downturn are the key factors that affects the share prices hence market capitalization of majority of the firms listed at Tokyo security market (TSE Report 2021). The world market capitalization for non-financial companies for the period between 2016 to 2022 (in million us dollars) was45,555,890; 45,601,948; 48,212,001; 52,821,421; 55,332,145; 67,291,885; 68,000,999 which also reflects rising and stable trend (NYSE, Statistical bulletin,2022).

Regionally, Nigerian stock exchange market capitalizations of registered non-financial companies for the interval between 2015 to 2019 were (in billions) 3.7, 3.9, 4.5, 4.61 and 5.0 respectively (Nigerian stock market report 2020). The stock market has been experiencing improved market capitalization for the last five years with the highest occurring in 2017which was 15.63% increase in comparison to 2016.The non-financial institutions had the highest improved improvement as it regards to market stock price over the period hence resulting to high and stable firms value compared to financial institutions (Nigerian stock market statistical bulletin 2021).

The Dar-es-salaam security market (DSE) ended up in December 2021 with a total market capitalization for non-financial companies of USD 16705.14 million compared to 15094.71 billion in December 2020 .This reflects 4.73% increase in market capitalization (DSE Report 2021). All share index was 1896.71 in 2021 compared to 1816.88 in 2020 reflecting 4.39% increase. Industrial and allied had 4971.35 points at close of 2021 compared to 4823.24 points in 2020 while commercial and services sector reflected a decrease from 2139.33 points in 2020 to 2134.28 points in 2021.Tanga cement company, Tanzania Portland cement, Nation media group ,TOL gases all recorded increase in firm value as measured by P/B by 120%,36%,15.63%,3.64% respectively over the same period (DSE Report 2021).Most of the non-financial companies listed in DSE experienced increase in firm value in 2021.

However locally Business enterprise value of non-financial business enterprises registered in NSE market has been declining since year 2016 as measured using Tobin-Q. Tobin-Q which is an

estimator of market value is calculated using the proportion for sum of listed price of equity and original cost of liabilities to original cost of assets. The advantage of using Tobin-Q over other measures of value such as total net assets and outstanding stock value is that it does away with the complications of approximating revenue percentages and incremental costs (Salehi, 2020).I investors always make comparison of performance of various markets to know where to invest.

The average Tobin-Q values between 2008 to 2015 for non-financial firms quoted in NSE,Kenya were 2.41 ,2.88 ,3.74 ,4.75 ,4.34 ,4.4 ,4.0 ,4.64.This reflects an increasing trend. The average Tobin-Q value between 2016 to 2022 for non-financial companies listed in NSE,Kenya were 2.96 ,4.21, 1.33, 1.21, 1.15, 1.11, 0.81(CMA Report,2022).This reflects a declining trend. The world Tobin-Q values between 2016-2022 for listed non-financial companies were 3.0, 4.1, 4.23, 4.15, 4.7, 4.6; 5.01. This reflects an increasing trend (World Bank Group Report, 2022).

Table 1: Trend Analysis in Firm Value of Non –Financial Firms Quoted in NSE as indicated using Tobin-Q

SEGMENT		YEAR'S TOBIN-Q VALUES					
	2016	2017	2018	2019	2020	2021	2022
Agricultural	2.6	2.573	2.317	2.168	2.050	1.96	1.5
Commercial and services	2.0	1.99	1.5	1.36	1.31	1.35	1.22
Automobile & accessories	0.84	0.737	0.735	0.793	0.772	0.763	0.65
Construction and allied	0.65	0.507	0.394	0.461	0.434	0.393	0.25
Energy and petroleum	0.88	0.742	0.684	0.557	0.402	0.306	0.29
Manufacturing and allied	10.77	18.731	2.361	1.943	1.912	1.867	0.93

Source: Annual Reports for Various Companies (2016-2022)

A trend analysis of the firms values of different segments of non-financial business enterprises registered at NSE in Kenya depicts declining movement in firm's values as indicated by Tobin Q for the period between 2016-2022 as shown in the table 1.1 above. From the table 1 above it can be seen that some of the sectors had Tobin-Q values which are less than one for the period between 2016-2022.Tobin Q values less than one implies that the company assets are undervalued in the market. Furthermore, the Tobin-Q values were not stable over the period as shown in Table 1.

The figures show a downward trend in firm value as proxied by tobin-Q over the years, suggesting that the non-financial firms in NSE have reduced their value. This trend may indicate challenges or obstacles faced by the firms, such as poor liquidity levels and poor leverage decisions. The declining firm value highlights the need for firms to evaluate their leverage strategies and liquidity strategies to improve their financial performance and ensure sustainable growth in the future firm value.

Financial leverage can be described in regard to the percentage of non-current liabilities in the capital composition. Jensen (1986) observed that capital structure is prime factor in regard to financial economics perspective as is associated to business potential in achieving needs for several interested parties. External and internal funding are the major sources of finance for a company. Retained earnings forms internal funding while issuance of equity shares and debentures, trade

credits, loans from financial institutions forms external funding. The creation of capital configuration may hence influence the firm's administration composition that may intern affects the firm's ability to make strategic decisions (Zachary, 2019).

Financial leverage is aimed to gain more of the fixed rate of return on funds than their costs (Tally, 2021). It's considered as the major determinant of company value (Onyema, 2018; Mwendwa, Gatauwa & Mungai, 2024; Maragia & Gatauwa, 2024). However research outcome on the impact of gearing on business enterprise value is however contradicting. Whereas some of researchers hold up the connection between the variables is negative (Mutegi, 2016; Rahman, Sima & Jahan, 2019), some have predicated positive relationship (Zachary, 2019: Abenugha et al, 2016: Laghari, 2017: Cheng & Tzeng, 2019). Wamugo (2014) has suggested weak relationship between the variables. This clearly implies that the appropriate level of financial leverage for maximization of firm's value remains unresolved in the finance field and hence requires further research. The management should be careful in their leverage decisions since it has a critical bearing towards the firms value (Mutegi, 2016).Debt ratio was utilized in the study as proxy for leverage to determine the relationship between leverage and firm value as utilized in other studies (Laghari, 2017, Cheng & Tzeng, 2019).

Liquidity is concerned with business enterprise capability of settling up its current liabilities. It may be employed to measure whether a business is financially doing well or not. Trend analysis of the average liquidity levels for non-financial companies quoted in NSE for the time span between 2016-2022 as proxied by cash ratio was 0.4, 0.45, 0.3, 0.26, 0.23, 0.2and 0.14 respectively (NSE reports 2023). This reflects a decreasing trend in liquidity levels. This implies the firms may have challenges in meeting short term obligations on time when they follow due. Financial institutions and business ventures check at liquidity levels of a firm before lending or putting their money in it. Zachary (2019) observed that parameters build on liquidity hinge upon the premise that companies may be put on the temptation of renouncing investments with NPV which positive hence enduring the agony of under-investment once the firm's cash holdings is insufficient. The efficient liquidity administration apart from procuring the firms existence aids a firm in maximizing its value through decreasing its input requirements (Mutegi, 2016).

Shama and Kumar (2010) noted that there is increasing demand for firm administrators to manage, estimate and give account of the firm's value frequently. There are number of firm's value measures available for analysis and the measure to be used by a business enterprise depends on its goals and performance being estimated. The diversity characteristics of firms make firm's value determination process complex. Hall (2013) posits that firm's value creation not only involves monitoring firm's performance but also the company's executive team ought to be vigorously participating in the process of value generation. Firm's value generation and accounting is tremendously becoming the worldwide standard measure for organizational performance (Iraya et al, 2012).

Statement of the Problem

Eventual live of business enterprise is fixed on its power to use the assets given by the stockholders with a view of raising the business enterprise value and consequently their opulence (Yartey & Adjas, 2007). However a poor performance has been witnessed amongst the NSE registered non-

financial firms in the latest years (Kamboja and Kangin 2019). Out of the sixty-four companies listed at the NSE, Kenya, a good percentage is not in good financial position. Literature reveals that two in every three listed non-financial companies have reported tough times with some being deregistered, others making huge losses and others issuing profit warnings. (CMA 2022, Report).

They recorded a declining trend in firm value over the period between 2016-2022.The previous period between 2008 up to 2015 there was an increasing trend in firm value. Moreover the world firm value as proxied by Tobin-Q for no-financial companies reflected an increasing trend between 2016-2022.This raised concern among researchers, policy makers and investors since they lost a lot due to decreased share value over the period. When the firm's management destroy firms value the company is at risk of aggressive takeover, fall of share prices and inability to pay debts on time .All these puts the company at a danger of being received and finally liquidated (Narang & Mandeep, 2014).

The significance of firm characteristics in enhancing firm's value is undebatable leading to many empirical studies on the subject matter. The literature reviewed revealed various research gaps that present some unresolved issues. Even though various studies have been conducted on firm characteristics in Kenya, there remains knowledge gaps, conceptual gaps, contextual gaps, geographical gaps and methodological gaps that require additional investigations.

There is a broad finance literature on the effects of leverage on various dependent variables such as (Zachary,2019; Cliff,2020; Wamugo,2014; Mutegi,2016; Rahman et al,2019; Cheng &Tzeng,2011) but very few have looked at the impact of leverage on business enterprise value among the non-financial business enterprises registered in the Nairobi securities market. Moreover, most of research works carried out on effects of leverage on company's value was carried out in developed economies such as Pakistan and Taiwan thus presenting a contextual gap. Moreover, there has been a different reaction on the influence of liquidity on company value with some investigators suggesting positive relationship such as (Reschiwati et al, 2020; Musah &Kong, 2019; Jinmin et al, 2016) others negative relationship such as (Waswa et al, 2018). Others suggested a weak relationship among the variables such as (Kamboja et al, 2017). Moreover, most of the studies have been carried in the banking sector such as (Ngungu and Abdul, 2020; Muthoga, 2019; Wafula, 2019; Reschiwati, 2020) whose liquidity levels are under strict control by the central bank and thus the results can't be universally applied to non-financial companies. All this presents a knowledge gap and contextual gaps which this study intended to fill.

Objectives

The following objectives were used in the study

i. To establish the impact of leverage on firm value of non-financial companies registered in NSE, Kenya
ii. To analyze the impact of liquidity on firm value of non-financial companies registered in NSE, Kenya.

Research hypotheses

The following research hypotheses were used in the study

H_{OI}: Leverage does not have statistical significant effects on firm value of non-financial companies listed in NSE, Kenya.

H_{O2}: Liquidity does not have statistical significant effects on firm value of non-financial companies quoted in NSE, Kenya.

Significance of the Study

Management and directors for companies would gain a lot from this study since they are charged with the responsibility of rising and deploying capital hence they were in a position to know what source of capital to use at any given time so as to boost the firm value. They were in capacity to know the ideal mixture of debt to equity. The outcomes of this investigation was of help to all non-financial business enterprises and related establishments since it provided them with extensive knowledge of the connection between leverage and liquidity on firm value. Investors would also benefit from the research in that it would assist them in coming up with wise resolutions pertaining the returns of the company to venture into. Most investors prefer to invest in companies that are able to create and maintain high value out of investors' funds.

Theoretical Review

Modigliani and Miller Theory on Capital Structure

Modigliani and Miller (1958) backed up the capital structure irrelevancy theory. The theory asserts that company value is not manipulated by capital structure options of the business enterprise. In addition the theory states other than the peril linked with investment, the valuation of a business enterprise is also influenced by subsequent firm expansion prospects. Nevertheless, in a succeeding study, Modigliani and Miller (1963) modified assumptions they had made in their earlier study in 1958 and revealed that in case of capital market imperfections in which interest on debts is allowable expenses for taxation purposes , company value will grow when the leverage is high. Hence this theory asserts that financial leverage can influence the rise or reduction in companies' value. Hillier (2013) posit that this advancement of the proposition finalizes that so as to exploit the worth of the company, firms ought to be one hundred percent financed by debt. This is due to the benefit associated with the shield (Brigham& Ehrhardt, 2016). Brigham and Gapenski (1996), nevertheless posit that Miller-Modigliani (MM) theory is correct theoretically, since in practical, bankruptcy cost exists and increases once equity is swapped with debt. Brigham & Ehrhardt (2010) observed that a adjustment of debt-equity proportion influences Weighted average cost of capital (WACC) implicating that once the debt degree is high, the WACC will be low. The theory is relevant in explaining the link between financial leverage decisions and firm value.Evidence has shown that the ideal capital composition shows a degree of leverage that puts at equilibrium bankruptcy costs and advantages of debt finance (Mwangi 2014).

Shareholders Value Theory

The model was promulgated by Friedman (1970).It puts forward that the key goal of a business enterprise is to boost shareholders affluence by enhancing the firm value.. The theory observes that a company ought to be run in a manner that addresses the demands of all the shareholders. The management is obliged to perform the firm's activities mainly focusing on improving the stockholders value by way of magnifying the earnings, decreasing costs and keeping down the

perils. The theory observes that stockholders are the ideal proprietors of firm's assets and hence the prime concern for company executives is to safeguard and increase these assets for the benefits of the stockholders.. It argues that a firm most important duty rest in the contentedness of the shareholders and hence a firm must every time aspire to blow up income to get bigger returns to shareholders.

Vogit (2019) observed that shareholders wealth maximization is assumed to be the dominant purpose a business enterprise should set out to pull off as it involves motivation for efficiency, development, long term growth and value formation. Gitagia (2020) pointed out that the certitude that any particular firm exists to amplify the interest of stockholders is so culturally embraced in the world of finance that the corporate world trust it's the factuality and so the value bloating concept is generated from and put into use and is vindicated by other sources. The theory therefore was used in this research to underpin the value maximization theme that shapes foundation of the regressand parameter. It too explains the significance of magnifying the firm value as a key objective in dealing with firm characteristics.

Empirical Review

Leverage and Firm Value

Abenugba, Ice, Kesinro (2016) investigated the effects of leverage on business enterprise value in Nigeria. A representative of five companies quoted in Nigerian security market for an interval ranging from 2007-2012 was employed. OLS statistical procedures were employed in data examination and test hypothesis. Market price of company's stocks was used as indicators of company value while total debt to total equity proportion was utilized as indicator of gearing. The research outcome indicated that the impact of financial gearing on business enterprise value was significantly positive. The research however was done in Nigeria of whom its macro-environmental factors are contrasting to Kenyan one.. The ongoing research considered all non-financial firms registered in Nairobi security market, Kenya..

Laghari (2017) examined the influence of financial leverage and operating leverage on the business enterprises value in Pakistan. Panel data for the period between 2005-2009 was employed using regression techniques. Operating and financial leverages were measured using level of operating and financial leverages respectively. Earning after tax was employed to measure firm's value. It used the model used by Salim and Faith (2010). The regression results showed that the influence of financial and operating leverage on company value were significantly positive. Nevertheless, the research was done in Pakistan whose social, economic and technological environments are unlike the Kenyan condition. Moreover, Tobin-Q was employed to measure firm's value.

Cheng and Tzeng (2011) looked at the impact of gearing on business enterprise value with financial quality as a moderator among 645 firms quoted at Taiwan stock market (TSE) from 2000-2009.Firms value was measured as a proportion of market price of equity to the total of book value of noncurrent debt plus current liabilities (V/FA). Leverage was estimated using total of book value of noncurrent liabilities and current liabilities to fixed assets ratio. GMM procedure and Z-Score were employed in data investigation. The outcome of the research portrayed that the value of geared business enterprise was above that of ungeared one provided bankruptcy probability is

not taken into account. Whenever pros and cons of debt were concurrently taken into account, the connection betwixt gearing and firm value was established to be positive and significant prior to arriving at the firm's ideal capital structure. The research found out that the positive effects of leverage on the company's value was greater when company's financial quality was superior (greater Z-Score). The study however used GMM procedure and Z-Score for analysis. The ongoing research employed panael data model for analysis of the relationship. The selection of panel data model was accredited to its superiority of enabling investigator to examine the conduct of every item (company) over space and time. More over the study employed Tobin-Q as estimator of firm's value.

Rahman, Sima and Jahan (2019) investigated the impact of gearing on business enterprise profitability among the quoted textile companies of Bangladesh between 2011-2015 utilizing panel data. ROE was employed to measure profitability. Current liabilities to sum of all assets; non-current liabilities to sum of all assets; and equity to sum of all assets were employed as proxy of leverage. Effects of profitability on firm value were tested using the following models; Pooled ordinary least square method, fixed effects and GMM Models. The research outcome portrayed that the connection betwixt leverage and profitability was negatively significant. However, the research employed profitability as the regressand. Moreover, the research was done on the textile firms and thus cannot be generalized to other non –financial companies in other sectors. The ongoing research analyzed the effects of leverage on company value. Furthermore, ongoing study considered all non-financial firms quoted in Nairobi security market.

Liquidity and Firm Value

Jinmin, Feiwu and Liang (2016) examined the influence of company's liquidity on company's value among China's listed firms. Pearson test was used to find relationship betwixt regressor and regressand. The study outcome established that the correlation betwixt liquidity and company's value was significantly positive. Liquidity had a negative correlation with firm size. However, the research was done in China with conflicting social, technological and economic environment from Kenya.. The on-going research established the correlation linking liquidity and company's value among the non –financial companies listed in Nairobi security market Kenya. Furthermore, ongoing research used panel data models.

Waswa, Mukras and Oima (2018) investigated the connection linking liquidity and firm's performance among the sugar industry Kenyan firms for the period between 2005-2016 using a sample of five sugar firms. Company size and liquidity were employed as explanatory parameters. The outcomes of random effects equation revealed that the connection linking liquidity and firm's performance was significantly negative. However the connection linking Firm size and firms performance significantly positive. Nevertheless the research was solely carried out in sugar industry and cannot be generalized to other non-financial companies in other sectors. Ongoing research established the effects of liquidity on company's value of all non-financial business enterprises quoted in Nairobi security market.

Reschiwati, Syahdina and Handayani (2020) investigated the effects of, profitability, company size and liquidity on business enterprise value utilizing capital structure as mediating parameter among banking sector firms quoted at Indonesia security exchange market. Fifteen banking sector

firms quoted at Indonesia security exchange market in the period between 2014-2018 were purposively sampled. The researcher applied Panel data. The technique of investigation used the E-Views 8.0 software that is panel data analysis technique and descriptive statistics. According to the investigation outcome, liquidity was statistically significantly positively linked to company's value and capital structure. However, the research was carried in the banking sector whose liquidity ratio and capital composition is dictated by central bank. Moreover, the study used capital structure as mediating variable. The current research established the effects of liquidity on company's value of non-financial firms registered in Nairobi security market, Kenya.

Kamboja, Kangin, Utara and Bali (2017) examined the effects of, leverage, profitability and liquidity on business enterprise value whereby dividend decisions was used like a moderator among the manufacturing firms quoted in Indonesia security exchange for the period between 2010-2014. Hypothesis examination applied mathematical methods and moderated multiple regression technique utilizing SPSS application. The research outcome revealed that liquidity had insignificant statistical effects on firm's value. Moreover dividend policy had insignificant moderating effects on the relationship betwixt liquidity and company's value. However, the study focused only on manufacturing companies and could not be generalized to the other non-financial firms in other sectors. Moreover, the study used dividend policy as moderating variable. The ongoing research covered every non-financial company listed at Nairobi security market.

Conceptual Framework

Conceptual frame work is a graphical delineation of the basic model of the variables to be researched and the connection between them (Myers, 2008). Firm value was used as the regressand where else Tobin-Q was employed as approximator for business enterprises value in the study. Leverage and liquidity were employed as the explanatory variables. The research thus investigated how leverage and liquidity influence firm value. Debt ratio and cash ratio were used as indicators for leverage and liquidity respectively. The conceptual frame work is portrayed in the Figure 1 below

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Independent Variable

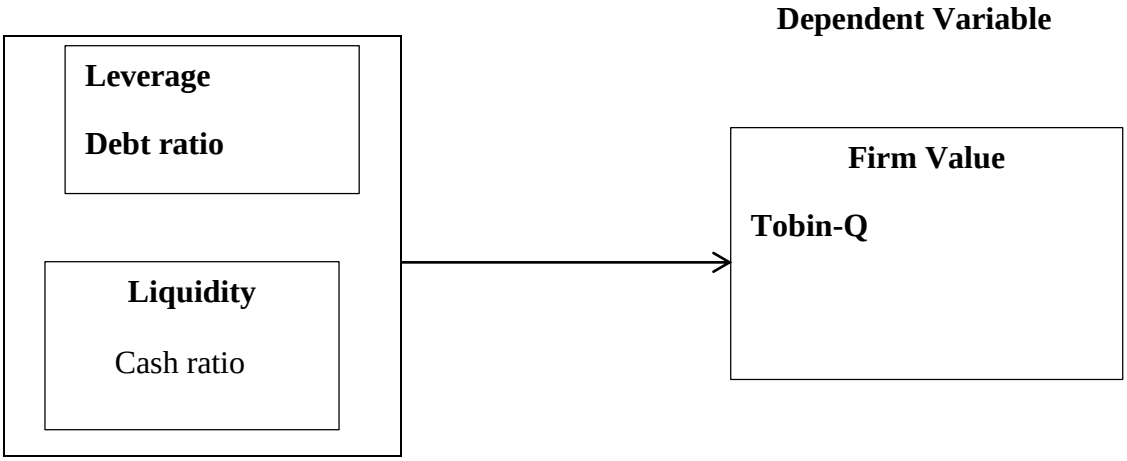

Figure 1: Conceptual Framework

Source: Researcher 2024

METHODOLOGY

The study adopted explanatory non-experimental research design. Corresponding to Kerlinger and Lee (2000), the design was more suitable in identifying factors that cause change in the value of companies, without influencing the firm characteristics variables. The data was obtained from the company's financial reports as published in the NSE handbook and Kenya National Bureau of Statistics for the period between 2016 - 2022. The study utilized data extraction tool. The study utilized both descriptive and inferential statistics to analyze data. Panel multiple regressions were used in the study since the data had time and cross section dimensions. Pearson's Product Moment Correlation analysis was used to determine the relationship between the variables. Panel data was used in the study because it has the advantage of providing better insights compared to time series and cross-sectional data since it is possible to put aside the theoretical effects and enhances comparison of industries over a period of time (Kothari, 2004).The general model of the study was given as;

$TQit= \beta_0+ \beta_1 LEVit+ \beta_2 LIQit+ \varepsilon it$

Where

TQit=Tobin Q value

LEVit=Leverage

LIQit= Liquidity

β_0=constant

β_{1-2}=Beta coefficients

εit =Observable histocastic error term

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Target Population

The scope of the research composed of every non-financial company quoted in the Nairobi security market for a span of seven years between 2016 to 2022. The non-financial business enterprise recorded in the Nairobi securities market on the last day of December year 2022 were 39. The firms are categorized into different sections .The basis on which only quoted companies were taken in to consideration is due to the accessibility and reliability of their financial reports bearing in mind that these firms are put through compulsory inspection by globally known audit organizations. Besides, the companies are prompted to announce superior financial results so that investors may be attracted to the stocks (Lazaridis & Tryfonidis, 2006; Kipngetich & Gatauwa, 2024).

The firms in the financial section were not involved in this study so as to do away with discrepancies related with this section that is greatly controlled by the CBK judicious on affairs of liquidity, leverage amid other elements. (Santos 2001). Furthermore, cash is the key asset used in financial institutions operations and so such firms possess a great deal of high levels of liquidity than companies in other segments (Mwangi et al, 2014; Mbuthia & Gatauwa, 2022). Leverage of financial section is quite unique in relation to non-financial companies hence can't be compared (Mwangi, Anyango, Amenya, 2014). Examination on the influence of leverage on companies' performance ought to be carried out on companies that are subjected to same tax procedure, common bankruptcy approaches, similar market regulations and financial traditions.

Sampling Design and Technique

The study made use of census method because the non-financial companies registered in the Nairobi securities market are few. Census method raises the validity of the data gathered (Saunders, Lewis, & Thorn hill, 2009).Watson (2001) posit that census approach does away with sampling error. The research therefore utilized all the 39 non-financial firms quoted in NSE, Kenya.

RESULTS AND DISCUSSIONS

Descriptive Statistics

Results in Table 1 show the summary of the descriptive statistics of Leverage and liquidity.

Table 1: summary of the descriptive statistics

Table 1: Descriptive Statistics Results

Parameters	N	Minimum	Maximum	Mean	Standard deviation
Leverage	270	50.1232	2017.00	52.5105	32.2848
Liquidity	270	148.1451	605.364	90.214	25.5611

Source: Survey Data (2024)

The data portrayed in Table 1indicates that the average and standard deviation values for the debt ratio, a metric used to measure leverage, were 52.5105 and 32.2848 respectively. The minimum and maximum values were 50.1232 and 2017.00, respectively. The descriptive values obtained are very low suggesting that the non-financial business enterprises quoted in the NSE in Kenya had

an inferior debt ratio which demonstrates a high convectional perspective to funding, with a prominent dependency on equity and retained earnings. In addition, the outcome show that the non-financial business enterprises recorded in the NSE, Kenya had a stronger ability to meet their debt obligations and could have more flexibility in pursuing growth opportunities. The finding agrees with Abenugba, Ice, Kesinro (2016) research on the impacts of leverage on business enterprise value in Nigeria. The research outcome indicated that the influence of financial leverage on business enterprises value were significantly positive.

The results suggest that the cash ratio, used to measure liquidity, had a average value of 90.214 and a standard deviation of 25.5611. The liquidity ranged from a minimum value of 148.1451 to maximum value of 605.364. The finding shows that the values of liquidity were very high. Therefore, the non-financial business enterprises registered in the NSE in Kenya possessed a high cash ratio which suggests that these companies had a strong ability to achieve their short-term liabilities, which is seen as a positive indicator of financial health and stability. The finding concur with Kibaya (2019) research, observation that firms with well-built cash positions are anticipated to be valued exceedingly exceptionally high by ventures. The results also agree with Kinyua, (2021) research, which found that investors may view companies with high cash ratios more favorably, as they are less likely to face liquidity issues in the short term. This can result to elevated valuations for these firms, as ventures are ready to recompense a premium for the perceived safety and stability of their financial position.

Inferential Statistics

Diagonistic Tests

Multicollinearity Test

The multicollinearity was appraised by conducting a test utilizing the variance inflation factor (VIF) that evaluates the degree of multicollinearity present. The outcomes are shown in Table 2.

Table 2: Multicollinearity Test

Variables	Collinearity Statistics	
	Torelance	VIF
Leverage	0.779	3.006
Liquidity	0.800	4.115

Source: Survey Data (2024)

The findings shown in Table 2 reveals that the Tolerance and VIFs research variables have values exceeding 0.10 and below 10, respectively. Multicollinearity was absent as the VIF values were below 10.

Normality Test

The normality test was run by employing the Shapiro-Wilk test to assess whether the residuals in a regression model, which are the discrepancies between the observed and predicted values, follow a normal distribution. Table 3 displays the findings.

Table 3: Normality Test

	Shapiro- Wilk test	
Variable	**Statistic**	**Significance**
Leverage	0.801	0.2154
Liquidity	0.774	0.3369

Source: Survey Data (2024)

The results in Table 3 indicate the p-values across all the variable as $p>0.05$. This is an indication of presence of normality assumption in the data which is desirable for running regression analysis.

Autocorrelation Test

The Durbin-Watson test was employed in the research to examine if the data exhibit any autocorrelation issue or if they are correlated over the period of study and beyond. The products are displayed in Table 4.

Table 4: Auto-correlation Test

Variable	**Durbin Watson**
Leverage	4.051
Liquidity	3.335
Firm value	3.397

Source: Survey Data (2024)

In step with the outcomes displayed in Table 4, the Durbin Watson values varied between 3.335 and 4.405. Consequently, based on the suggestions provided by Garson (2012), it was determined that the residuals of the model failed to show autocorrelation. As a result, inferential statistics can be applied to analyze the study data since there were no biased and inefficient approximates of the connection betwixt company features and firm value.

Correlation Analysis

Correlation analysis is a statistical procedure employed to determine the size and orientation of the link betwixt two parameters (Trafimow & MacDonald, 2017). Correlation analysis was used in the study to uncover relationships among the parameters. The outcomes are shown in Table 5

Table 5: Correlation Analysis Results

		Leverage	Liquidity	Firm value
Leverage	Pearson Correlation	1		
Liquidity	Pearson Correlation	.117**	1	
Firm value	Pearson Correlation	.773**	.709**	1

Source: Survey Data (2024)

The information in Table 5 shows that the correlation coefficients for leverage and liquidity, with firm value were 0.773, 0.709 correspondingly. This finding shows a strong positive correlation, meaning that as leverage and liquidity increase, the company value of non-financial companies

quoted in NSE, Kenya also increases. Hence, it can be deduced that there was a strong correlation between the regressor and regressand.

Regression Analysis

Panel Regression Analysis

Table 6: Regression Analysis

Firm value	Coef.	Std.Err	Z	P>IzI	95 Conf.	Interval
Leverage	12.3654	3.336	0.234	0.003	15.5121	0.6464
Liquidity	10.2667	4.589	0.406	0.002	5.6321	22.684
_cons	14.4869	3.00	0.557	0.002	13.334	56.587
Wald $\lambda^2(4) = 19.6105$; Prob > $\lambda^2 = 0.0051$; Pseudo R-sq. = 0.709						

Optimal Model

The following regression model was developed;

$FV_{it} = 14.4869 + 12.3654Le_{it} + 10.2667Li_{it} + \acute{\varepsilon}_{it}$

Where:

FV_{it} = Firm Value at a time t

Le_{it} = Leverage of company í at a period t

Li_{it} = Liquidity of company í at a period t

$\acute{\varepsilon}_{it}$ = Error

In the first place, the investigation tried to test the impact of leverage on firm value of non –financial business enterprises registered in the NSE, Kenya and the findings are as portrayed in Table 7. The corresponding null hypothesis was examined at 0.05 significance level. The results (p= 0.003) indicate significance. Hence, the null sub hypothesis which indicated that, leverage doesn't possess significant impact on business enterprise value of non –financial business enterprises recorded in the NSE, Kenya was rejected at 0.05 level of significance.

The analysis revealed a coefficient for leverage of 12.3654, indicating a positive connection betwixt leverage and company value. Hence the study revealed positive significance connection betwixt leverage and firm value of non-financial companies recorded in the NSE. The discoveries are in accord with Laghari (2017) research findings on the impact of financial leverage and operating leverage on the firm's value in Pakistan. The regression outcome portrayed that the influence of financial and operating leverage on company value were significantly positive The findings are in contrary to Rahman, Sima and Jahan (2019) who examined the influence of leverage on company's profitability among the quoted textile companies of Bangladesh and found a negative significant relationship .This contradicting results can be attributed to the different contexts and time scope used in the studies

The research did a comprehensive analysis to investigate the null hypothesis that posits that liquidity had no statistically significant effects on the company value of non-financial firms recorded in the NSE. This hypothesis serves as a foundational premise for understanding the connection betwixt liquidity and company value, particularly in the Kenyan market setting. At a

significance level of 0.05 the null hypothesis was examined. The study outcome as potrayed in table 7 showed p-value of 0.02 and a coefficient of 10.2667. This indicate that liquidity had positive significant impact on firm value of non-financial business enterprises recorded in Nse, Kenya implying that as liquidity increases, the firm value of these non-financial companies tends to rise as well. The finding concurs with Reschiwati, Syahdina and Handayani (2020) study on the effects of profitability, company size and liquidity on business enterprises value using capital structure as mediating parameter among banking sector firms quoted at Indonesia security exchange market. According to the study outcome, liquidity was statistically significantly positively linked to company's value and capital structure.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The investigation inferred that leverage had significant effects on the valuation of non-financial business enterprises recorded at the NSE in Kenya because they amplify both the potential returns and risks for a company. Leverage affects a company's cost of capital because when a company takes on debt, it incurs interest expenses, which increase its overall cost of capital. Leverage can also impact a company's financial flexibility because once a company has soaring degrees of debt, it may have limited capacity to invest in growth opportunities or respond to unexpected challenges. The level of leverage can influence how investors perceive a company's risk profile.

The study concludes that high liquidity levels led to increased trading activity and higher demand for a company's shares resulting in a higher valuation for the company as ventures are ready to remit a premium for stocks which are easily tradable. Companies with high liquidity levels are often seen as less risky investments by investors which lead to a lesser cost of capital for the firm as they are able to attract capital at lower interest rates. High liquidity levels also increase investor confidence in a company's stock because ventures are highly likely to venture in firms which have high liquidity levels as they are seen as more stable and less volatile.

Recommendations

The research advocates that the companies ought to expand their debt levels so as to potentially rise their overall value and improve their financial performance. The non-financial companies should access additional funds to invest in growth opportunities which may include expanding their operations, acquiring new assets or businesses, or put money into in research and development. The business enterprises should balance their debt and equity to achieve an optimal combination that reduces the cost of capital. The firms should leverage their balance sheets to enhance shareholder value and attract more investors. The firms should also enhance their creditworthiness to allure new ventures and expand the company's overall value.

The research advocates that the companies should extent investor awareness and participation in the market through targeted marketing campaigns, investor education programs, and outreach efforts to attract both domestic and international investors. The non-financial companies can also consider implementing measures to increase their free float and trading volume, such as stock splits, share buybacks, or secondary offerings. Furthermore, enhancing the visibility and

accessibility of non-financial companies through improved disclosure practices, regular financial reporting, and investor relations activities can help increase market liquidity and company value.

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