

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## Effect of Current Liability Structure on Financial Performance of Manufacturing Firms in the Building and Construction Sector in Kenya

**Bernard Muli**

Student, Department of Economics, Accounting and Finance,  
Jomo Kenyatta University of Agriculture and Technology, Kenya

**Willy Muturi**

Professor, Department of Economics, Accounting and Finance,  
Jomo Kenyatta University of Agriculture and Technology, Kenya

**Dr. Joshua Matanda**

Senior Lecturer, Department of Economics, Accounting and Finance,  
Jomo Kenyatta University of Agriculture and Technology, Kenya

### **Abstract:**

*Financial performance especially returns on capital invested in businesses is a great concern of all organizations including those that operate in the building and construction sector. Organizations gauge their financial performance to check how well their operating, financing and investing activities are being run to generate firm profits. It is however noteworthy that despite this concern for firm profitability, extant literature is still not clear on how current liability structure (the proportion of current liabilities out of the entire business financial obligations) affect the financial performance of businesses particularly those in the building and construction sector which forms a key economic segment in Kenya. Companies have a variety of current liability management policies that range from extremely low ratios of current liabilities on one hand to extremely high ratios. There is lack of theoretical and empirical consensus on how the variations in current liability management policies affect the financial performance of these targeted companies. Empirically, extant research arrives at conflicting findings as to how current liability structure is related to financial performance ranging from negative, zero to positive effect on profitability. Theoretically, whereas the agency theory of Jensen and Meckling (1976) fails other to pinpoint a clear association between the current liability structure and financial performance. The trade-off theory of Gitman (1974) implies direct relationship between current liability structure and financial performance. This study is designed as a causal exploratory survey using the largest 44 companies in the building and construction sector in Kenya over a 5-year period covering 2016 to 2021. This forms 220 firm-year observations. Fixed effects bivariate panel regression model was adopted after conducting model specification tests. The test of hypothesis was conducted using the t-statistic at 95% confidence interval. Based on the positivist research philosophy, the findings reveal that current liability structure (CLS) as measured by the current liability to total liability ratio had a positive effect on financial performance as measured by return on equity. The study was limited to the large firms in the building and construction sector and recommends an enhanced sample for all company sizes to check out if size has an effect on the robustness of the findings.*

**Keywords:** *Current liability structure, financial performance, returns on equity*

### **1. Introduction**

Liability management is one of the critical financial managerial decisions of corporate finance managers (Lakew & Rao, 2014). Liabilities are financial obligations of business and other entities that originate from past events and transactions, the settlement of which in the future is bound to lead to outflow of resources from the business. They are usually classified as current liabilities (if the settlement term is in the short run within one financial period) or long term (when the settlement period is in the long run, beyond one financial period). Oluoch (2014) states that some scholars identify other liabilities as medium term when they range up to three years. They are critical because they have an implication on the risks and returns of a business.

Long term liabilities like bonds, debentures, mortgages and long-term loans are less risky since the outflow of resources due to them is in the long-term (Oluoch, 2014). Despite the low risk, they often have high costs because of the capital market floatation conditions and other related restrictive covenants. On the flipside, current liabilities like creditors, accruals, commercial papers, bank overdrafts, promissory notes and short-term notes have a high risk because of the need and possible inability to settle the dues to them on a short notice. They however involve a low cost of finance.

The liability management practices and policies instituted must therefore strive to have some sort of a trade trade-off between these risks and the related returns (Lakew & Rao, 2014).

Looking critically from the perspective of current liabilities and long-term liabilities, a firm can have a liability structure that shows the proportion of the respective liabilities out of all the business financial obligations. Current liability structure is therefore the proportion of current liabilities to either all the liabilities to the rest of the non-current liabilities (Seru & Sufi, 2021). A risk averse company would finance most of its assets including some of the illiquid current assets using long term liabilities. On the flip side, since the use current liabilities in financing assets involve a high level of risk, the risk-seeking companies opt to finance most of the assets using current liabilities particularly because current liabilities are associated with very low costs if any (Seru & Sufi, 2021).

According to Seru and Sufi (2021), the management of liabilities and the associated liability structures is aimed at reaching an optimal level that minimizes the risks associated with the liabilities while maximizing returns through the control of the cost of short term and long-term financing. The liability structure of a company reflects the liability management practices that surround such issues as how much of current liabilities to hold, the expected level of long-term liabilities, the capital structure decisions, the financial structure decisions, the liability payment period, the liability periodic turnovers and the associated practices of financing these liabilities. All this must ultimately achieve a conducive risk-return tradeoff level (Zada, Yukun, & Zada, 2019).

Ukhriyawati, Ratnawati and Riyadi (2017) agree with Seru and Sufi (2021) and assert that a company's attitude towards risk and its risk profile is reflected in the liability management practices it adopts. Ukhriyawati, Ratnawati and Riyadi (2017) indicate that there are three main strategies that can be used in the financing of assets using the available liabilities. These are the aggressive approach, the hedging approach and the conservative approach. In the aggressive approach that defines companies that have risk taking managers, most of the assets are financed using current liabilities. The cost is low but the risk of failure to fulfil the attendant financial obligations is quite high. In the hedging approach, the management is likely to carry out practices that involve balancing off the terms of the liabilities and those of assets. In this respect, current assets are financed using current liabilities while non-current assets are financed using non-current liabilities. On the extreme side is the risk averse approach, where the management wishes to avoid risk of failure as much as possible such that they finance most of the assets using the less risky long-term liabilities.

The management of current liabilities and management of long-term liabilities are closely associated with both short term and long-term financing decisions and structure. Financing decision making entails establishing the sources of funds for the company and their mix in the capital structure. According to McLaney (2017), after making the investment decision, an organization should then make decisions regarding where to get the finances to commit to the planned investments. Baños-Caballero, García-Teruel and Martínez-Solano (2012) further indicates that the financing decision must consider the mix of the different financing sources in the capital structure so that weighted average cost of capital is minimized. Besides, Erambo, Mulwa, Aketch, Sangoro and Muchibi (2016) indicate that effective financing decisions enable the firm to take up profitable investment opportunities for hence performance and firm value. This indicates that poor financing decisions could increase cost of capital for the firm, increase its riskiness and impair its performance and value. From this perspective, it is not clear how current liability structure affects financial performance as expounded in the following section of the paper.

## 2. Literature and Hypothesis Development

In order to arrive at the hypothesis postulated in this paper, three approaches to literature are appraised. These are the conceptual, theoretical and empirical approaches to literature. From a conceptual point of view, liability structure simply defines the relative proportions of various categories of liabilities in the business (Seru & Sufi, 2021). Taken to its logical conclusion, this definition implies that of the various categories of liabilities identified by Oluoch (2014), each can be related to the other or the total and all these would remain valid concepts of liability structure. Oluoch (2014) identifies liabilities as current liabilities (accounts payables, short term debt, bank overdrafts, accrued expenses, papers and the like) and long-term liabilities (mortgages, debentures, bonds, notes, long term debt and the like). Oluoch (2014) further asserts that it is not uncommon to have some liabilities being categorized as medium term when their settlement time horizon is beyond one year and not exceeding three to five years depending of the time perspective of the reporting business. Accordingly, one can conceptualize current liabilities as a proportion of total liabilities or current liabilities as a proportion of the long-term liabilities. For the purposes of this study, current liability structure is taken as the ratio of current liabilities to the total liabilities of a business.

From the theoretical perspective, there are a variety of theories that try to explain the interrelationship between liability and financial performance of a business. The agency theory of Jensen and Meckling (1976) fails to pinpoint a clear association between the current liability structure and financial performance. Its theoretical assumptions imply that managerial self-interests and their clash with owners' wealth maximization interests may produce a liability structure that is wide and varied in line with how well these interests are aligned. Whereas the logical structure will be one that avoids extreme risk while not compromising on the shareholder wealth maximization agenda, the actual structure could be one that protects the interests of the managers at the expense of those of the shareholders. Managers are in charge of liability structuring and may shy away from highly profitable albeit high risk liability structures to low return low risk liability structures. This action is likely to assure them of long-term employment because of the reduced risk. In a nutshell, the agency theory of Jensen and Meckling (1976) suggests that the actual inter-relationship between profits and liability structure is a function of the severity of the agency problem in the business. The greater the agency conflict, the poorer the returns and vice versa.

A contradictory theory is the irrelevance theory which can be abstracted from the works of Modigliani and Miller (1958) on capital structure which indeed has implications on liability structure. According to the capital structure irrelevance theory of Modigliani and Miller (1958), the structuring of financial obligations be they long term or short term as is the case in this study has no bearing on the cost of the finances, the value of the firm and indeed the financial performance of the business. Modigliani and Miller (1958) persuasively argue that in the world free of taxes and other sources of frictions, how the assets of a firm are financed, and therefore the liability structure does not affect value and that it is the investing policy and the asset structure of a firm that influences performance and therefore value. This theory holds true under the set assumptions and when these are relaxed, it is observed that the way a firm is financed is bound to have an effect on financial performance and ultimately on its value and cost structure.

The trade-off theory of Gitman (1974) can also be used to make an argument that the structuring of liabilities has implications on risks and returns of a business. That current liabilities are largely low cost and often times like in the case of expenses payable cost free (and therefore high return). They however have very high-risk implications on the business given that they need to be paid off on short notice and a firm can easily default on these obligations leading to negative business consequences. Excessive reliance on current liabilities to finance the business becomes an extremely risky approach to business, albeit a low cost one. On the flip side, the use of long-term liabilities involves a higher cost than that of short-term liabilities but is accompanied by a low level of risk given that the settlement time horizon is long enough not to overly expose the firm to risk. Analysis of the trade-off theory in the context of the liability structure implies that the higher the use of current liabilities, the greater the profitability and vice versa. Accordingly, current liability structure is positively related to financial performance and that firms can improve

The confounding conceptual and theoretical positions are also noted in the extant studies from around the globe. In Indonesia for instance, Mwendu, Muturi and Njeru (2019) conducted research on financial management practices of micro and small enterprises in Kenya a case of Kibera and found out that liability and financing management practices are an important factor in the performance of SMEs. Siba (2012) did a study on the relationship between liability risk management practices and financial performance of commercial banks in Kenya. The research found out that bank managers are financial risk averse and avoid uncertain business ventures. Thus, their performance relies on decisions that they deem not risky.

Nyongesa (2011) looked at the relationship between financial performance and financial management of insurance companies in Kenya. The study revealed that there was a consistent, significant positive association between financial management decisions and financial performance. However, the study did not establish reasons for this correlation and neither did it narrow down to the specifics of liability management. Mabonga and Kimani (2017) sought to review selected financial management decisions adopted by small enterprises in Kenya. The study found out that 66% of the respondents did not undertake cash budgeting, 70% of the business owners kept surplus cash with themselves and over 56% of the business owners were handling cash personally as the security to their money.

A study by Tipape and Jagongo (2019) investigated the influence of financing decisions, on financial performance of family-owned businesses in the manufacturing industry in Kenya. The study targeted 833 manufacturing firms that are family owned in Kenya and collected primary data through questionnaire. The study also relied on secondary data which was collected from audited annual reports of the firms. Study results established that financing decisions, such as mix of debt and equity, sourcing finance from the lowest cost source and negotiating for the best rates had an influence on financial performance of the firms.

In a study in Somalia by Bari and Muturi (2019) assessed the influence of financing decisions on financial performance of food and beverage retailers. The study was conducted using descriptive survey design. The focus was on 39 foods and beverages retailers. The study used secondary data for five years. The study established that most of the retailers had limited finance sources. Moreover, the study established that there were large disparities in finance levels of the retailers. Findings from regression analysis indicated that finance decisions had a significant positive effect on financial performance of the surveyed companies.

In Jordan, a study by Alshehat and Al-Nimer (2017) investigated the financing decisions on financial performance of insurance companies in the country. The study focused on mix of debt and equity and cash from financing activities and how they influenced financial performance which was measured through return on assets. The study focused on 23 insurance companies and covered a period of five years (2009 – 2013). The collected data was analyzed using panel regression model. The study results showed that cash from financing activities had significant effect on ROA. However, mix of debt and equity did not have a significant effect on financial performance.

A study by Eton, Uwonda, Mwosi, Ogwel and Obote (2019) in Uganda examined the influence of financing decisions on financial profitability of firms in Lira district. The study applied a cross sectional study design. Primary data for the study was collected using structured questionnaire. The target respondents for the study were business owners. The collected primary data was analyzed using descriptive statistics and multiple regression analysis. The study findings established that the business owners who participated in the study had effective processes of seeking finance and ensured that adequate finance was raised to take up all the profitable investment projects planned. However, the business owners were poor in forecasting future finance needs and budgeting. The multiple regression findings indicated that financing decisions had a significant effect on financial performance of the firms.

Locally, Soet, Muturi and Oluoch (2018) investigated the influence of financing decision making on financial performance of mutual funds in Kenya. The study used a causal research design and collected secondary panel data. This data was collected from audited financial statements of the 22 mutual funds that were the focus of the study. The data was collected for a period of five years (2011 – 2016). The collected secondary data was analyzed using descriptive statistics

and panel data regression analysis. The study findings established that mix of debt and equity finance sources had a positive and significant influence on financial performance which was measured using return on assets.

In Pakistan, Khan, Shaikh, Shah, Zahid and Shaikh (2017), evaluated the influence of financing decisions on financial performance of firms listed in the Karachi Securities Exchange. The population targeted by the study was 100 organizations. Secondary data was collected for six years from 2004 to 2009. The study applied Ordinary least squares regression to model the collected data. Financing decisions were measured through the mix between debt and equity while financial performance was measured using market capitalization, ROA, Tobin's Q and ROE. The results from the study indicated that financing decisions did not have a significant influence on financial performance of the listed firms.

From the contextual point of view, the Competition Authority of Kenya, CAK (2017) notes that Kenya is in this period undergoing rapid expansion in the construction and building sector. According to CAK (2017), the construction and building boom is attributed to the rapid growth in Kenyan population from 39 million people in 2009 to a figure that has topped 50 million in 2021. In addition, the construction sector had hitherto been underdeveloped and it the boom is an inevitable consequence of the increasing modernization of the sector. CAK (2017) further notes that in 2015, the sector delivered a massive growth of 13.6% with respected to value addition. The growth however declined to 9.2% in the year 2016. Within Nairobi County, CAK (2017) shows that new private buildings grew from 70.9 billion shillings in 2015 to 76.2 billion in the subsequent year. In a summary, CAK (2017) notes that the construction sector in Kenya is regulated by the National Construction Authority.

There is also a market performance problem that compounds the research problem. That despite the growth in the building and construction sector which has enhanced the demand for construction materials, manufacturing firms in the building and construction sector in Kenya continue to experience erratic financial performance. Despite the unprecedented growth rates in the building and construction sector in Kenya, fueled by the economic policy of the government and the rapidly growing populations, the financial performance of firms in the construction industry has been erratic with mixed results from the industry ranging from negative profitability, flat performance to very high financial performance. In addition to the erratic profitability, evidence from the industry reveals that the growth last part of the second decade of this millennium has been decreasing. The building and construction sector registered a slower growth rate of 5.9% in 2019, 6.3 percent in 2018 and 8.5 per cent in 2017 the previous year (Kenya National Bureau of Statistics, 2019).

It is from the foregoing that the statement of the problem for this research merges. In this respect, all business organizations including those in the building and construction sector are always concerned about their financial performance. This is usually with respect to how their operating, investing and financing activities not only help generate revenues but also how to keep the costs of all these operations down so as to optimize on business profitability. Despite the concern for financial performance in general and profitability in particular, it is still not clear how the current liability structure (that reflects business policy on management of current liabilities) affect the financial performance of companies in the building and construction sector in Kenya. The variations in the liability management policies across the industry is reflected in the variations in the liability structures ranging from very low current liability to total liability ratios to very high of these ratios.

The confounding literature leads to the postulation that it is not clear how current liability structure affects financial performance of manufacturing companies in the building and construction sector in Kenya. This is presented as:

- $H_0$ : Current liability structure has no significant influence on financial performance of manufacturing firms in the building and construction sector in Kenya

Using return on equity (ROE) as the dependent variable and current liability structure (CLS) as indicated by the ratio of current liabilities to total liabilities as the independent variable, this hypothesis can be mathematically be shown that in a bivariate relationship of ROE and CLS, then the coefficient of CLS is not significantly different from zero

$$H_0 = \beta_1 CLS_i \approx 0$$

The findings of study contribute to the knowledge of financial performance of manufacturing firms in the building and construction sector in Kenya. The findings of financial performance of manufacturing firms in the building and construction sector in Kenya in this study expands the literature of financial management decisions in general and especially on financial performance of manufacturing firms in the building and construction sector in Kenya. The findings of the study offer valuable contributions from both a theoretical and practical standpoint where it contributes to the general understanding of the role of financial performance of manufacturing firms in the building and construction sector in Kenya.

### 3. Methodology

The study is rooted in the positivism philosophy which in the context of this study as per Aliyu, Bello, Kasim and Martin (2014) embraces the scientific approach to design that started from problem identification that it is clear how current liability structure influences financial performance of companies in the building and construction industry. This was then conceptualized based on literature review before hypothesis testing was done. Exploratory causal research design is utilized in the research. This is considered suitable since it firstly explores the interrelationship between liability structure and financial performance in the building and construction industry and secondly, there is an expected causal relationship as specified in the research model.

The study relies on a purposive sampling of all the large building and construction industry companies using their annual turnover (sales income) as the indicator of size. The large companies were chosen because of availability of published financial statements from internal and regulatory sources since the study relied on these statements for collection of secondary data used. The data in this case was collected using a secondary collection sheet and it included the

sales turnover, the earnings after tax (EAT), shareholders' equity, the current liabilities and the total liabilities. The time scope of the study was 5 years covering 2016 to 2020.

A bivariate panel regression model was used in the analysis as specified in the model 1.

$$ROE_{i,t} = \beta_0 + \beta_1 CLS_{i,t} + e_{i,t} \dots \dots \dots (1)$$

$$CLS_{i,t} = \frac{Current Liabilities_{i,t}}{Total Liabilities_{i,t}} \dots \dots \dots (2)$$

$$ROE_{i,t} = \frac{Earnings After Tax_{i,t}}{Shareholders Equity_{i,t}} \dots \dots \dots (3)$$

The identification of the best panel data to use for the study was based on model specification tests in choosing between fixed effect and random effects study model. The testing of hypothesis was done at 95% confidence interval using the t-statistic and the p-value at 0.05 level of significance. This was for the purposes of inferential statistical analysis and was done after the descriptive statistical analysis.

**4. Findings and Discussion**

The findings in the study are established at two levels. This is the descriptive level and the inferential level. The descriptive statistical findings are provided in table 1 for both Return on Equity (ROE) and current Liability structure (CLS) as indicated by the ratio of current liabilities to total liabilities. With respect to current liability structure, the minimum proportion of current liabilities in the structure is 6.89% while the maximum is 16.05% percent. The mean is presented as 10.69%.

Variable	Mean	Median	Minimum	Maximum	Std. Dev	C.V.
ROE	0.119680	0.119936	-0.135828	0.174251	0.0259147	0.216533
CLS	0.106933	0.106136	0.0689486	0.160451	0.0191016	0.178631

Table 1: Summary Statistics, Observations 1:1 - 44:5 (220 Observations)

Based on the trade-off theory off Gitman (1974) it can be observed that the risk appetite of firms in this sector is generally very low given that the average proportion of current liabilities to total liabilities is 10.7%. These findings are in line with those of Cheng (2010) who found that unlike Anglo-American and other companies from the west, companies in China are generally risk averse. The implication is that despite the heavy working capital requirements among the building and construction companies, those in Kenya generally rely on medium- and long-term finances to finance their businesses. It may also be that they generally sell on cash basis and barely rely on trade credit in the financing of inputs and that they pay salaries and other associated expenses on time. This could partly explain the low profitability that is reported in table 1 based on return on equity. When the time series and cross-sectional volatility of current liability structure is evaluated on the basis of the coefficient of variation (CV), the findings from table 1 indicate a value of 0.1786. This indicates a relatively stable level of current liability structure. This could be explained by the focus companies which are relatively large compared to the typical companies in the sector.

For return on equity, the returns range from a loss of 13.58% (the minimum) to a profit of 17.43% (the maximum) having registered a mean of 11.97%. The relatively low level of profitability could be attributed to the high cost of doing business in Kenya especially with respect to manufacturing as has also been registered by Were (2016) who underscored the high cost of production given the high cost of direct inputs and production overheads. The Kenya Chamber of Commerce and Industry (2021) has also given this as the biggest concern for the manufacturing sector in Kenya. The findings on ROE also indicate high levels of volatility as shown by the CV of 0.2165.

Inferential analysis involved firstly testing the panel data assumptions and then carrying out test of hypothesis as well as correlation analysis. The findings are indicated in Table 2.

	Coefficient	Std. Error	t-ratio	p-value
const	0.0174836	0.00736901	2.3726	0.01875**
CLS	0.955705	0.06791	14.0731	<0.00001***
Mean dependent var	0.119680		S.D. dependent var	0.025915
Sum squared resid	0.060371		S.E. of regression	0.018574
R-squared	0.589524		Correlation Coeff	0.698401
F(44, 175)	2.452701		P-value(F)	0.000020
Shapiro-Wilk	0.912711		Shapiro-Wilk P-value	0.13121
Breuch-Pagan LM	2.271721		LM P-value	0.68262
Observations	220		Durbin-Watson	1.70771

Correlation coefficients, using the observations 1:1 - 44:5  
5% critical value (two-tailed) = 0.1323 for n = 220

ROE	CLS	
1.0000	0.6984	ROE
	1.0000	CLS

Table 2: Included 44 Cross-Sectional Units Time-Series Length = 5 (220 Observations) Dependent Variable: Roe

At the first level Shapiro-Wilk Statistic was used for checking normality and with value of 0.912711 and a p-value of 0.13121 being higher than the critical value of 0.05, the data is normally distributed. With respect to heteroscedasticity, Breuch-Pagan LM was used and its p-value of 0.68262 is also higher than 0.05 which indicate that the model upholds the homoscedastic expectations. With respect to serial correlation, the Durbin-Watson d-value of 1.70771 is approximately 2 thereby indicating a data absence of statistically significant autocorrelation as is articulated by Gujarati (2011). The stability of the model in carrying out the analysis is checked using the model F-test. This provides an F-value of 2.452701 which is greater than the significant F-value of 0.000. This indicates that the model is suitable for analysis as suggested by Gujarati (2011).

The model provides an R-squared value of 0.589524 an indicator that 58.95% of the changes in ROE are explained by the variations in CLS while the remainder of the variations are attributable to other factors outside of this independent variable. This is expected because business organizations have numerous internal and external factors that influence their performance. Several scholars like Wamiori (2019); Mater and Eneizan (2018) and even Mirza and Javed (2013) have tried to identify these factors and narrowed them to micro and macro-environmental factors such as financial factors, management attributes, economic factors, regulatory factors, operational factors, ownership structures, governance issues, market competitive factors among others. The error term from the findings of this study is therefore attributable to these variety of factors among others.

The null hypothesis presented in the study is that current liability structure has no significant effect on financial performance of companies in the building and construction sector in Kenya. The findings presented in the table 2. The results show a CLS coefficient of 0.955705. The corresponding t-statistic for a two tailed test at 95% confidence interval and 219 degrees of freedom is 14.073. This is greater than a two tailed critical value of 1.9709. This leads to the rejection of the hypothesis and the conclusion that current liability structure has a positive effect on financial performance and that the higher the ratio of current liabilities to total liabilities the better the financial performance and vice versa. This position is supported by the p-value which is less than 0.00001 at 0.05 level of significance. In line with Gujarati (2011) whenever the output t-value is greater than the level of significance, reject the null hypothesis and assume the output effect. The takeaway from the bivariate panel evaluation is that there is a direct causality relationship between CLS and financial performance. This is evident also from the coefficient of correlation that is indicated in table 2 between CLS and ROE (the indicator of financial performance). There is a strong positive correlation shown by the coefficient of 0.6884. This is perfectly in line with the trade-off theory of Gitman (1974) high levels of current liabilities (which are largely cost free) corresponds with high profitability and vice versa. The risk profile of the business as shown by the risk return tradeoff has a big impact on the financial performance of the business. This clearly contradicts the postulation of Modigliani and Miller (1958) when the assumptions are applied on short term liabilities. The downside to use of excessive current liabilities in the liability structure is that profitability is increased at the expense of enhanced risk given that the current liabilities are subject to payment on short notice (Seru & Sufi, 2021).

The findings from this study can be compared with empirical findings from other similar studies. The results are for instance in agreement with those of Rotich (2015) who while studying microfinance banks in Kenya found out that their financial performance is positively related to financial structure. Rotich (2015) however used debt to equity as an indicator of financial structure as opposed to the ratio of liabilities utilized in this study. Still in Kenya, Kasomba and Omagwa (2020) tried to establish the effect of financial structure on the performance of airlines in Kenya. The findings showed that debt structure positively influenced financial performance of the airline firms in Kenya. Basing their study on listed companies at the Nairobi Securities Exchange, Gathara, Kilika and Maingi (2019) also confirmed that leverage, has a positive effect on the financial performance of the listed companies contrary to the expectations of the Modigliani and Miller (1958) theorization.

Some studies have provided contradictory evidence from the findings in this study. Evidence from Nigeria provided by Ehekoba and Ananwude (2016) in their study on how financial structure affects the performance of Nigeria consumer goods firms for instance shows that financial structure has a negative effect on financial performance. This applied for both short term liability structure and long-term liability structure as they relate to the equity of these firms. The seeming difference in the findings could be attributed to the differences in the operating environment as well as the focus on a different sector other than the building and construction sector that was the focus of this study.

## 5. Conclusion

The study was carried out over a five-year period of 2016 to 2020 and was based on panel data analysis to establish how current liability structure affects financial performance of firms in the building and construction industry in Kenya. The sample was purposively based on the largest 44 firms in this sector because of the availability of data which formed 220 firm year observations. The null hypothesis that the current liability structure has got no significant influence on financial performance as measured by return on equity was rejected with the conclusion that it bears a positive effect on the financial performance of these firms. The finding seemed to agree with the trade-off theory that current liabilities are largely low cost (hence high return) but are correspondingly high risk and that one needs to strike a balance between risks and returns that emanate from using current liabilities in financing business operations as espoused by Gitman (1974).

The study was adequate in establishing how current liability structure affects the financial performance of manufacturing companies in the building and construction industry. The study was however faced by a number of limitations. Firstly, the study focused purely on the manufacturing companies in the construction and building sector in Kenya. In this sense, the results are specific to this sector and do not include other critical sectors of the economy. This however was not deemed too limiting and the findings are generalizable to similar standardized segments of the economy

given that the construction and building sector plays one of the largest roles in the economy as per the Kenyan government's development agenda espoused by the vision 2030. Secondly, the design was limited to exploratory causal survey. This was important in order to use the secondary data collected from financial statements data as indicators of the structures that are used to manage liabilities. This was however deemed not too limiting because the diagnostic tests necessary for panel regression were used and all the necessary data adjustments were made. Further, the performance data was collected over a long period of time of five years which was adequate to smooth out the fluctuations in earnings as opposed to single year performance information.

Thirdly, the study was limited to Kenya as a geographical region. This means that the findings are generalizable for the country but may not be done across the border. It should however be noted that Kenya has unique economic and regulatory fundamentals, and that a country with similar fundamentals can have the findings being generalizable to such jurisdiction. In addition, the findings being unique to Kenya can form a basis of comparing and contrasting with empirical findings from other regulatory regimes that are distinctly different so as to broaden the knowledge scope. Lastly, the study was limited in conceptual scope but focusing on one category of liability structure and one indicator of financial performance. A multivariate situation could bring out other empirical elements not sufficiently catered for in this study. In light of this it is recommended that a similar study be undertaken with a keen analysis of a multiple number of liability structures and even capital structures. This can be expanded to include a wide section of companies besides the largest companies in the building and construction sector. This could also be expanded to include other sectors in Kenya.

## 6. References

- i. Aliyu, A. A., Bello, M. U., Kasim, R., & Martin, D. (2014). Positivist and non-positivist paradigm in social science research: Conflicting paradigms or perfect partners. *J. Mgmt. & Sustainability*, 4, 79.
- ii. Alshehat, N., & Al-Nimer, M. (2017). Empirical study of the relationship between cash flow management and financial performance of the Jordanian insurance companies. *International Business Management*, 11(3), 776-782.
- iii. Baños-Caballero, S., García-Teruel, P. J., & Martínez-Solano, P. (2012). *How does working capital management affect the profitability of Spanish SMEs?* *Small Business Economics*, 39(2), 517-529.
- iv. Bari, M. A., Muturi, W., & Samantar, M. S. (2019). Effect of Cash Management on Financial Performance of Food and Beverage Retailers in Puntland State of Somalia: A case of Garowe District. *International Journal of Contemporary Applied Researches*, 6(3), 130-153.
- v. Competition Authority of Kenya- CAK (2017). Kenya and the Construction Report. Retrieved from <http://www.cak.go.ke>. Accessed 21.11.2021
- vi. Echekoba, F., & Ananwude, A. (2016). The effect of financial structure on the performance of Nigeria consumer goods firms. *Journal of Scientific Research & Reports*, 10(4), 1-15.
- vii. Erambo, G. E., Mulwa, J. M., Aketch, J. R., Sangoro, O., & Muchibi, W. M. (2016). *Financial management decisions and firm performance among micro and small enterprises in Busia Town, Kenya*. *International Journal of Management and Commerce Innovations*, 4(2), 303-310.
- viii. Eton, M., Gilbert, U., Fabian, M., Benard, P. O., & Dennis, O. (2019). Cash management and financial performance of business firms in Northern Uganda a Case of Lira District.
- ix. Gathara, Z. M., Kilika, J. M., & Maingi, J. N. (2019). Effect of leverage on financial performance of selected companies listed in Nairobi Securities Exchange, Kenya. *Int. J. Innov. Financ. Econ. Res*, 7(1), 10-33.
- x. Gitman, L.J. (1974). Estimating corporate liquidity requirements: a simplified approach. *The Financial Review*, 9(1), pp. 79-88. doi: <http://dx.doi.org/10.1111/j.1540-6288.1974.tb01453.x>.
- xi. Gujarati, D. N. (2011). *Econometrics by example* (Vol. 1). New York: Palgrave Macmillan.
- xii. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360.
- xiii. Kasomba, B. V., & Omagwa, J. (2020). Financial Structure and Financial Performance of Domestic Commercial Airlines in Kenya.
- xiv. Kenya Chamber of Commerce and Industry (2021) available at <https://www.kenyachamber.or.ke>. Accessed on 21.12.2021.
- xv. Khan, A., Shaikh, M., Shah, A. B., Zahid, I., & Shaikh, F. M. (2017). Impact of Financing Decisions on Firm's Performance: An Empirical Study of Pakistani Listed Firms in KSE. *International journal of management and information technology*, 12(1).
- xvi. Lakew, D. M., & Rao, P. D. P. (2018). Effect of financial management decisions and characteristics on profitability: A study on business enterprises in Jimma Town, Ethiopia. *National Monthly Refereed Journal of Research in Commerce & Management*, 2(5), 64- 75.
- xvii. Mabonga, M. W., & Kimani, E. N. (2017). Financial management decisions and financial performance of microfinance institutions in Bungoma County, Kenya. *International Academic Journal of Economics and Finance*, 2(3), 335-347.
- xviii. Matar, A., & Eneizan, B. M. (2018). Determinants of financial performance in the industrial firms: Evidence from Jordan. *Asian Journal of Agricultural Extension, Economics & Sociology*, 22(1), 1-10.
- xix. McLaney, E. (2017). *Business Finance: Theory & Practice (11th Ed.)*. London: FT / Prentice Hall.
- xx. Mirza, S. A., & Javed, A. (2013). Determinants of financial performance of a firm: Case of Pakistani stock market. *Journal of economics and International Finance*, 5(2), 43-52.

- xxi. Modigliani, F. & Miller, M. (1958). The cost of capital, corporation finance, and the theory of investment. *American economic Review*, 48, June, 261-197
- xxii. Mwendu, M. J., Muturi, P. W., & Njeru, D. A. (2019). Effect of Equity Finance on Financial Performance of Small and Medium Enterprises in Kenya. *International Journal of Business and Social Science*, 10(5).
- xxiii. Nyongesa, M. N. (2011). *An examination of the relationship between financial performance and financial management practices adopted by insurance companies in Kenya* (Doctoral dissertation).
- xxiv. Oluoch (2014). *College Introductory Financial Accounting*. TPCL, Nairobi.
- xxv. Rotich, G. (2015). *the Relationship between Financial Structure and Financial Performance of Microfinance banks in Kenya* (Doctoral dissertation, University of Nairobi)
- xxvi. Seru, A., & Sufi, A. (2021). *Corporate finance* (pp. 617-623). University of Chicago Press.
- xxvii. Siba, M. A. (2012). *Relationship between financial risk management practices and financial performance of commercial banks in Kenya* (Doctoral dissertation, University of Nairobi).
- xxviii. Soet, M. A., Muturi, W., & Oluoch, O. (2018). Effect of operating cash flow management on financial performance of Mutual Funds in Kenya. *European Journal of Business, Economics and Accountancy*, 6 (5), 37, 46.
- xxix. Tipape, E. N., & Jagongo, A. (2019). Financial decisions, resource constraints and financial performance of family-owned businesses in the manufacturing industry in Kenya. *International Academic Journal of Economics and Finance*, 3(3), 231-252.
- xxx. Ukhriyawati, C. F., Ratnawati, T., & Riyadi, S. (2017). The influence of asset structure, capital structure, risk management, and good corporate governance on financial performance and value of the firm through earnings and free cash flow as an intervening variable in banking companies listed in Indonesia stock exchange. *International Journal of Business and Management*, 12(8), 249-260.
- xxxi. Wamiori, G. M. (2019). *Determinants of Financial Performance of Manufacturing Firms in Kenya* (Doctoral dissertation, JKUAT).
- xxxii. Were, A. (2016). Manufacturing in Kenya: Features, challenges and opportunities. *International Journal of Science, Management and Engineering*, 4(6), 15-26.
- xxxiii. Zada, M., Yukun, C., & Zada, S. (2019). Effect of financial management practices on the development of small-to-medium size forest enterprises: insight from Pakistan.