Effect of Debt Leverage and Debt-Equity Leverage on Financial Performance of Commercial and Services Companies Listed at the Nairobi Securities Exchange, Kenya

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Abstract

Financial performance is very critical for firms, management, and other stakeholders of all organizations. All stakeholders are very interested in performance and are concerned about it. Measuring a company's financial performance helps management in collecting information on how money is invested and how money flows inside and outside the company. The main aim of the investigation was to determine the effect of debt leverage and debt equity leverage and the financial performance of commercial and services companies listed at the Nairobi Securities Exchange, Kenya. The target population was Eleven (11) service and commercial firms listed with the NSE. Purposive sampling was used to sample 7 firms that have been consistently listed in NSE from 2017 to 2021. STATA, a statistical program that assisted in presenting descriptive and panel data models for analysis, was used to analyze the data. There was testing for diagnostic indicators such as normality, autocorrelation, multicollinearity, heteroscedasticity, and linearity. Tables and panel regression tables were used to display the results. Effective citations and participant permission, among other ethical issues, were followed. The research revealed that debt leverage had a sizeable impact on ROA. It was discovered that -debt-equity leverage had a considerable impression on the success of listed businesses and services. However, it was discovered that equity leverage did not meaningfully impact financial success. The policymakers at commercial and service firms should develop policies and regulations that can guide debt management among commercial and service firms. The policymakers at CMA need to develop suitable policies on debt.

Keywords: *Financial performance, debt leverage, equity leverage, debt-equity leverage*

1.0 Introduction

Financial performance is very critical for firms, management, and other stakeholders of all organizations. All stakeholders are very interested in performance and are concerned about it (Javadi, Alimoradi & Ashtiani, 2017). Measuring a company's financial performance helps management collect information on how money is invested and how money flows inside and outside the company (Kalyani & Mathur, 2017). Furthermore, managers should make the right decisions based on details about the firm's results (Oladeji, Ikpefan & Olokoyo, 2015). The success of a business affects its stock value, the expansion of its industry, and ultimately the health of the economy as a whole (Kumar & Kaushal, 2017). This explains why, despite

attracting little coverage in the past, measuring the financial performance of publicly traded corporations has gained popularity in corporate finance literature (Klimenok, 2014).

As the strain on a firm's performance to deliver appropriate returns on investment for shareholders has risen, managers have been finding techniques to raise corporate financial performance to maximize shareholder wealth (Tahmoorespour, Ali-Abbar & Jbaran, 2015). This is a global phenomenon that has impacted all sectors, including the business sector, as shown in the US, the UK, Australia, Canada, Brazil, and Germany. The corporate world is without a question one of the fastest-growing businesses in terms of its contribution to employment, governmental revenue, and today's global economy (Raheel & Shah, 2015). Because Swedish commercial and service businesses have historically relied on bank credits to make funding of their procedures, national guidelines have advanced productions in avoiding unexpected and widespread bankruptcy. Short-term debt financed 31% of the studied Swedish SMEs, whereas long-term debt financed 9%, demonstrating a predilection for internal funding, according (Kalyani & Mathur, 2017).

The Chinese government is debating whether it is more important to continue to grow the economy at a rapid pace or to consider environmental conservation and long-term growth. The Chinese economy started to transition toward the "new standard" in the middle and late years of the "Twelfth Five-Year Plan" (2011–2015), and the economic system continued to be streamlined and updated from extensive development to new development based on creativity and environmental friendliness which has affected the commercial and service companies positively (Yoon et al., 2018).

Since China announced its organization in 2001, the position of the services segment in the Chinese economy has increased, several companies in the commercial and service industry have seen improved financial performance through improved debt financing (Cano, Carrillat, & Jaramillo 2018). The growth of the commercial sector is especially important in this context, and the Chinese government has implemented a number of industrial and supporting policies in this regard (Zhi et al., 2014).

Deposit money banks in Nigeria give priority to loan requests from commercial, service, oil and gas firms, in opposition to the business people who are in the entrepreneurship sector which is viewed to be very risky. Due to the rise in invention in the commercial and service sector in recent years, these decisions have become an important part of management and a requirement for a company's financial performance survival. Insufficient capital edifice choices to fund a corporation's operations have led to liquidation, financial distress, or bankruptcy (Omukaga, 2017). Without a strong liquidity position, which is possible with the use of debt, a company cannot exist. Many businesses utilize debt to increase their capital and profits. However, businesses may utilize leverage to expand assets to boost profits (Shalini, & Mohua, 2017).

According to Githira and Nasieku (2015), the growth of East African companies is on the verge of declining due to weak financial leverage management, and companies must improve their actions and enhance profits to evade relying on debt. According to Modigliani and Miller, rising financial leverage lowers the cost of capital for companies (MM, 1958). Yegom and Cheruyot (2014) found that many factors, including legislation, human resources, and leverage, influenced financial performance in the majority of energy and petroleum firms. They contend that having a strong has no bearing on the performance of the company because of the unique characteristics of mutually short- and long-term debt. The conflicting results of several studies on the bearing of liquidity on profitability in Kenya have made it necessary to conduct a study in Kenyan commercial and services firms.

1.1 Problem Statement

Businesses that provide goods and services are essential to the economy since they help to create jobs, money, and GDP. However, the business and services industry is the most impacted industry among those that trade on the NSE, with more businesses issuing cash dividends (Longhorn Publishers, 2022). Financial leverage and competitiveness have been mentioned as some of the variables impacting the sector (Mutai 2017, Kenya Airway, 2019). Depending on these patterns, the researcher decided to look at whether businesses listed on the NSE's industrial and services market were more likely to use economic power. The trend in the financial performance of commercial and service companies is alarming. For instance, the financial results reported by Kenya Airways and Longhorn Publishers indicates more than 20% decline in profit after tax from 2017 to 2021 which has affected the return on assets in the respective years. In general, the ROA of the commercial and service firms declined from 0.43% in the year 2017 to 0.32% in the year 2018 and further dropped to 0.29% in the year 2019. The poor and declining ROA is attributed to the level of leveraging in the companies. Studies suggest that there is a strong correlation between capital structure and profitability, according to several research (Bui, 2017; Basit &Irwan, 2017; Kirmi, 2017). Despite the importance of leverage, Kenyan trade and business organizations have little empirical investigation on the impression of liquidity on profitability.

1.2 Study Objectives

The main goal of the investigation was to investigate the effect of debt leverage and debt-equity leverage on the financial performance of service and commercial companies listed on the Nairobi Securities Exchange in Kenya.

2.0 Literature Review

2.1 Theoretical Review

The Trade-off Theory

This theory states that businesses should compare the advantages (interest payment shield value) of debt financing against the costs (economic stress and insolvency) to determine the ideal (target) capital base, as well as the benefits and drawbacks of taking on more debt (Brounen et al., 2005). The Trade-off Theory emphasizes that if the net tax benefits of bank loans can offset the power to negotiate costs of insolvency and financial hardship, the best capital architecture will be found (Bufena et al., 2005).

Many people have criticized the trade-off theory, as Fama and Fench (2002) demonstrate. For example, studies that have been conducted inside the trade-off theoretical model and geared at identifying the determinants of corporation personal debt typically approximate a simple pass regression to make predictions in association with the proportions that are acknowledged debts and also sets off the dynamic models. Static empirical study is unable to clarify the fluid behavior of invested capital, that is, it does not examine as to if corporation debt demonstrates a regression to a summary of the overall optimum levels and also how rapidly this reintroduction occurs (Myers, 1977). Identified debt doesn't inevitably ought to be in recognition with the real debts because this only means not regarding the company's problems when one is making trials to make adjustments to the capital base.

According to this hypothesis, economic performance is enhanced by maintaining reasonable debt levels (Vicol, 2010). From this hypothesis, the ideal debt ratio is calculated by balancing the benefits of debt financing (such as the tax shield) against its drawbacks (such as the cost of financial crisis) (Bauer, 2004). The marginal income tax shielding from each additional

currency unit of debt falls as leverage grows. Due to their lack of positive income taxes, companies would almost certainly be not required to pay taxes. Leverage also raises expectations for expenditures associated with financial collapse. Again, when debt increases, the proportional cost of financial crisis invariably outweighs the tax break for interest. The ideal debt ratio finds a compromise between rising future value of tax benefits from additional debt and rising current value of expenditures associated with financial difficulty (Brunen et al., 2005). This theory, therefore, supports the debt variable and its relationship with improved financial performance.

The Pecking-Order-Theory

Myers and Majluf popularized this hypothesis (1984). This hypothesis contends that corporate finance practices follow a hierarchy of funding sources. To preserve dividend payments or to finance investment options, most businesses give internal funding priority. Following it lengthy debt with elevated danger or brief debt with minimal risk. New stock issuance is seen as a last resort. According to the Power Hierarchy Capital structure theory, corporations often reduce the need for outside financing by linking growth and profit opportunities to their own long-term goal dividend payment ratios.

In addition to the foregoing, the theory foresees a pyramid relationship in a company's finance strategy. The sources of funds that are least impacted by transaction costs and have the lowest risk are at the top of the list. Internal resources are preferred as a source of funding. Low-risk short-term debt is next, and then riskier protracted debt. The final choice is fresh capital, which has the greatest information costs of all financial sources (Donalson, 1962; Myer, 1985; Myer and Maluf, 1985). According to this strategy, the changes that come from the debt amount are not gotten from the requirements to achieve a debt goal but more so form the need for getting funds from outside. In this case once the resources that are existing are utilized then an assumption is made that there are chances of lucrative venture.

Although the Trade-off Theory predicts loan use at somewhat higher rates, businesses would rather use internal equity. Differences in debt levels depend on the requirement for additional debt following the use of equity to get more lucrative investment possibilities. These requirements are independent of planned capital structures as always. This theory contends that businesses do not strive for debt capacity and that actual levels of debt are determined by the gap between retained profits and expenditures (Yator & Gitagia, 2023; Afey & Warui, 2019). The sum of debt a company needs to finance itself is determined by its debt ratio. The link between debt-to-equity control and the monetary outcomes of organisations listed at the NSE is examined in this study using the pecking order hypothesis.

Modigliani - Miller Theory

According to Modigliani -Miler (1959), the organization's value is gritty by the assets' ability to provide income and their associated risks. This theory also claims that decisions regarding the financing of investments or the distribution of dividends have no impact on the market value of the company. A company may choose to fund its expenditures through the issuing of shares, the borrowing of money, or the reinvestment of cash flows. According to this hypothesis, using debt or equity to support a firm's development makes no difference in a market with imperfections. According to this theory, a company's worth is not based on the money raised or financing choices taken; as a result, the value of the company is unimportant when estimating its value. Therefore, the working capital mix has no discernible impact on a firm's value, regardless of how leveraged it is (Modiglini & Miler, 1964).

Additionally, Miller and Modigliani contend that while investment risk does not influence a firm's market price, the firm's potential for future development does. This implies that a company's market worth and stock prices will increase if it has strong potential for future expansion. Accordingly, businesses with strong growth possibilities will be more appealing to investors than those with limited growth prospects (Miller, 1977). According to this idea, the principal assembly element has no impact on the firm's value regardless of the tax system. Additionally, it contends that a firm's equity and debt holders have a common interest and order of precedence, and hence. The advocate further contends that bondholders of a corporation have the advantage of claiming its earnings, which raises the cost of debt, raises expenditures and lowers profit before tax (EB IT).

In a perfect market, the proportion of debt to justice in the performance has no impact on the company's value. The first and second variables in this study are connected to this argument (debt-ratio and debt-equity ratio). According to this idea, a firm's financial strain/debt level and cost of stock are directly inversely related. As a result, as debt levels rise, equity holders face more risks, which drives up the price of stock. The first and second variables in this study are also connected to this argument.

2.2 Empirical Review

By creating a link between debt and profitability, Kirimi (2017) investigated the connection between capital assembly and profit of listed fuel and energy firms in Kenya. There were both causal and descriptive study designs. Four petroleum and energy businesses with operations in Kenya were the study's target population. With the aid of SPSS, inferential statistics were used for data analysis. It was discovered that neither the short-term loans nor the long-term debts had any meaningful impact on ROA. There are technical flaws in the study. STATA, which is highly recommended for panel data analysis, was used in the current investigation.

The impression of obtainability on the revenue of Nigerian pharmaceutical initiatives was examined by Ofoegbu et al. (2016). The investigation analyzed secondary info from several listed pharmaceutical firms' fiscal statements and annual reports for the centuries 2000 to 2011. According to the manifold linear regression examination of the study, the debt ratio had a negligible influence on the businesses' financial success as shown by ROA. The study identifies methodological and contextual knowledge gaps. The pharmaceutical industry's emphasis on revenue and the scientific gap since regression analysis was utilized are examples of situational and scientific gaps. By concentrating on businesses that provide goods and services and utilizing the panel regression approach to analyze the data, the current study closed the gaps.

Aziidah (2017) examined the business statements of Kenyan petroleum and energy corporations registered on the NSE relative to the financial leverage. The impact of financial strain on liquidity and profitability management was examined in the study. The research design was descriptive. For years, from 2012 to 2016, information was gathered. The debt-to-capital proportion was employed as a metric of financial influence. The outcomes of the investigation were clear that there was a significant inverse connection amongst profitability leverage, with more leverage being associated with more profitable enterprises and lower financial leverage being associated with less profitable ones. The investigation made use of a descriptive research approach, and as the data were only gathered from 2012 to 2016, there was an opening that needed to be filled. The present study did this by using a cause-and-effect research design using panel data modeling methodologies.

Ali (2017) in Pakistan's based their investigation on their market capitalization from 2005 to 2014, ten oil and gas firms with operations in Pakistan were chosen. The Regression and

Correlation models are being used to test the findings and scrutinize the possessions of sum of debt to wealth and the sum of debt leverage on market outcomes. The investigation was clear that, the modification in asset base does partake an impression on oil and gas in Pakistani firms' stock earnings. Influence and the ratio of sum of debt to equity also have a favorable impact on stock performance. The sum of debt-to-sum of equity ratio and leverage ratio both have a favorable impression on stock performance. Conceptual and methodological gaps were identified, the study was on stock return in oil and gas segment in Pakistan, and linear regression models were used despite the use of panel data. The current study focused on the monetary success of commercial and services industry in Kenya and Panel regression analysis was used.

Echekoba and Ananwude (2016) studied the impression of debt-to-equity proportion on profitability, paying particular attention to Nigerian oil and gas companies. Ten (10) of the fourteen (14) oil and gas corporations registered on the Nigerian Stock Exchange were chosen. The Nigerian Stock Exchange factbook was used to compile the financial statistics for the years 1993 to 2013. The discoveries of the estimation displayed that the debt-to-equity proportion had a detrimental result on the profitability of companies of gas and oil as determined by assets ratio, earning per share, operating income, and profits per unit. The current investigation would address the gap by concentrating on commercial and service enterprises in Kenya. The study's backdrop was petroleum & energy firms in Nigeria.

Baah, Freeman, and Ellis (2017) assessed how the financial structure of Ghana's oil marketing firms (OMCs) affected their profitability. The study used return on assets (ROA), earnings per share (ROE), and margin of net profit. Multiple regressions were used to examine the secondary data included in the investigation. The discoveries showed that firm size, sales growth, total debt to total capital, short-term debt to total wealth, and long-term debt to total capital had different and mixed correlations with the success of the Oil Marketing Corporations (OMCs) in terms of returns on asset and equity return.

Kithandi (2019) examined all the Nairobi Securities Exchange's publicly listed energy and oil companies. The research design was explanatory. Through the use of a statistical tool for the social sciences, qualitative secondary data was gathered and examined. Additionally, metrics of central tendency like the means, frequency, and percent as well as measures of spread like the standard error were used to depict these facts. To ascertain the correlation among the factors in this investigation and to calculate the models for the investigation, a multiple regression equation was run. In conclusion, the findings showed that the success of service firms has an association that is negative when compared to the coverage ratio.

Debt and the monetary consequences of non-financial enterprises registered on the Ghana Stock Exchange were explored by Musah and Kong in 2019. (GSE). Panel data for the years 2008 to 2017 was taken from the inspected and released annual reports of the eight Ghanaian businesses. The investigation made use of both descriptive and inferential data analysis approaches. ROE, ROA, and ROCE were used to gauge the companies' financial success. STATA was used to analyze every single piece of data. The companies' economic results as evaluated by ROA was strongly negatively correlated with the interest expense. For the study that concentrated on nonfinancial enterprises listed in GSE, the context disparity is clear. The study's emphasis on business and service organizations closed the gap.

Using secondary data from 2006 to 2014, Liaqat et al. (2017) indicated that ROA and ROE of businesses in Pakistan's fuel and energy sectors were significantly negatively impacted by the interest coverage ratio, according to empirical findings from a recognized econometric model

of multiple linear regression, whereas only the size had a substantial beneficial influence on EPS. The employment of a multiple regression economic model made the methodological flaw clear. The panel regression model used in the current work closed the gap.

Mathur and Kalyani (2017) ascertained the effect of independent variables such as debt service capacity, interest coverage ratio, and levels of economic leverage as well as extent of leverage ratio of the companies in India's oil and gas industry is taken into account, as well as the profitability. For this investigation, the financial information from seven corporations that are listed on the NSE and BSE were sampled, covering the years 2005 through 2015. In this study, a non-random sampling method called judgment sampling was used to pick the study's sample population. Methodological study gap is identified, judgment sampling which is a non-probabilistic sampling technique, and linear regression analyses were used. The current study used a census study and panel regression analysis method.

2.3 Conceptual Framework

The contextual framework presents the connections among variables.

Independent Variables   **Dependent Variable**

Financial Leverage

Debt Leverage
- Rate of Total liabilities vs total Assets

Debt /Equity Leverage
- Rate of Total liabilities vs total Equity

Equity Leverage
- Rate of Total equity vs total Assets
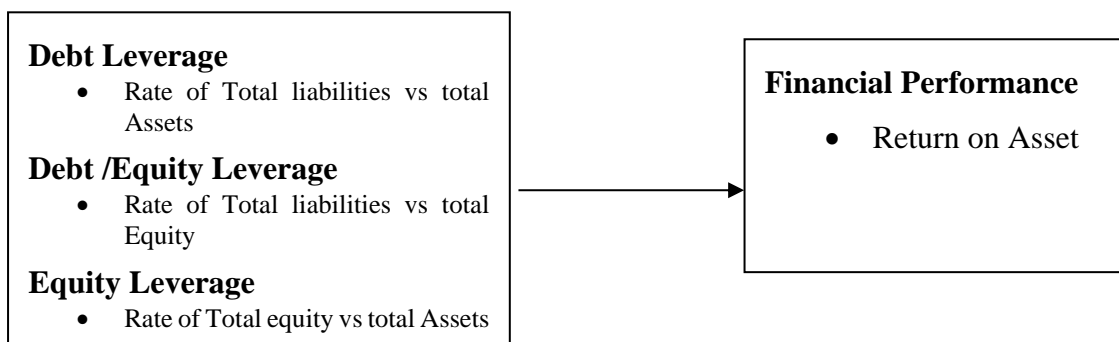
Financial Performance
- Return on Asset

Figure 1: Conceptual Framework

3.0 Methodology

The target organizations were not all included in the study, which adopted a causal research approach. Eleven (10) service and commercial firms listed with the NSE were the focus of the study. Purposive sampling was used to sample 7 firms that have been consistently listed in NSE from 2017 to 2021. STATA, a statistical program that assisted in presenting descriptive and panel data models for analysis, was used to analyze the data. There was testing for diagnostic indicators such as normality, autocorrelation, multicollinearity, heteroscedasticity, and linearity. Tables and panel regression tables were used to display the results.

4.0 Research Findings, Interpretation, and Discussions

4.1 Descriptive Analysis

Table 1 shows descriptive data, followed by interpretations.

Table 1: Outcomes for Descriptive Statistics

	Obs	Minimum	Maximum	Mean	Std. Deviation
Debt Leverage	35	.3189	1.5357	.727650	.3346715
Debt Equity Leverage	35	-101.6699	14.8480	-3.994827	20.4563013
Equity Leverage	35	-.5357	1.1402	.405654	.4009506
Return on Asset	35	-.2698	.4964	.016927	.1406854

The results show descriptive statistics for seven (7) firms for 5 years hence 35 observations (Orbs=35). The debt leverage ratio indicates that the minimum debt leverage was 0.3189 and maximum was 1.5357. This indicates that the debt leveraging ranged from 153.57% to 31.89%. On average the firms studied had 72.7650% of debt capital (0.727650). The standard deviation was low at 0.3346 indicating that there was a low variation debt ratio from the mean. The study indicates that the debt leverage was utilized highly by the services and commercial firms listed in NSE. These resulted in huge fixed-interest payments and other restrictions from the lenders. It is indicated that the majority of these companies are struggling to meet these fixed mandatory payment requirements. As a result, this has led to two companies being delisted from the bourse; Uchumi supermarket Ltd and Hutchings Ltd which were in the same sector.

The sum of debt- to sum of equity (D/E) ratio is used to assess the economic power of a corporation. In the case of a corporate downturn, it demonstrates the capacity of shareholder sum of equity to pay off all existing obligations. The investigation outcomes in Table 1 show the regular debt-equity level was -3.99. The results also show that the minimum debt-equity level was -101.6699 and the maximum was 14.8480. There was a huge standard deviation of 20.5 indicating a huge variation from company to company in terms of their debt-to-equity ratio. The negative huge debt-equity ratio shows that most of the companies had a huge negative equity capital. This was caused by most of the companies in the commercial and service sector having huge negative comprehensive losses for the years studied from 2017 to 2018. It is indicated that the debt was huge compared to capital contributed to the owners of the companies. The ratio demonstrated that these firms were mostly struggling to meet the short sum of debts and a long-term sum of debts as reflected in the negative total equity capital.

By comparing the 'corporation's entire equity to its total assets, equity leverage calculates the value of assets funded by owners' investments. The results presented in Table 1 present an average equity leverage ratio of 0.4056 with a minimum of -.5357 and a maximum of 1.1402. This ratio was arrived at after comparing the equity vs the total assets. The study therefore indicates that on average the equity capital was equivalent to 40.56% of the average total assets of the firms studied. These indicated that 59.44% of the total assets of the majority of the firms were financed by debt. The negative 0.5357 indicates that some of the companies had negative equity capital as a result of making huge losses over the years 2017 to 2021. The ratio was a reflection of a sector struggling to maximize shareholders' wealth. The standard deviation value of 0.400 was low indicating that the majority of the firms in the commercial and services sector did not differ much in their equity leverage.

The outcome related to ROA in Table 1 indicates that on average the firms under commercial and services had an average mean of 0.016927. The minimum return on assets was -.2698 and the maximum was 0.4964. The standard deviation was low at 0.1406854. The result indicates that the companies made a low ROA of 1.69% on average for the period under study 2017 to

2021. Further, the study demonstrates that some of the companies were making negative huge ROA for the period 2017 to 2021. The low variations in standard deviation show that the majority of the companies in the commercial and service sector performed poorly their utilization of assets to generate revenue.

4.2 Correlation Analysis

The investigation used the Pearson Correlation to carry out the correlation between financial leverage and financial success of services and commercial corporations in NSE.

Table 2 Outcomes for Correlation

		Debt Leverage	Debt-Equity	Equity Leverage	ROA
Debt Leverage	Pearson Correlation	1			
	Sig. (2-tailed)				
Debt-Equity	Pearson Correlation	-.483**	1		
	Sig. (2-tailed)	.103			
Equity Leverage	Pearson Correlation	-.080	.731**	1	
	Sig. (2-tailed)	-.649	.200		
ROA	Pearson Correlation	.767**	.808**	.114**	1
	Sig. (2-tailed)	.000	.000	.005	

**. Correlation is significant at the 0.01 level (2-tailed).

The study results in Table 2 indicated there was a positive and statistically noteworthy correlation (r=0.767, P=0.000) between debt leverage and financial success of services and commercial corporations.   The outcomes also indicate that there was a negative and arithmetical strong connection (r=-0.808, P=0.000) amongst debt-equity leverage and financial success. The investigation outcomes in Table 2 also showed that association between equity

4.3 Regression Results

The current study tested assumptions of normality, heteroscedasticity, multicollinearity, autocorrelation, stationarity, and examination for Hausman.

Test for Normality

Table 3: Outcomes for Normality

Variable	Obs	Statistic of Shapiro-Wilk	P-value
Debt Leverage	35	0.3538	0.062
Debt/Equity Leverage	35	0.8778	0.522
Equity Leverage	35	0.9458	0.059
ROA	35	0.9736	0.147

When the values of p are more than 0.05, the data are considered normal and the null hypothesis is true. The Shapiro-Wilk statistic has an array of -0.1 to +1.0. When the value of p is higher than 0.05, the null proposition is not disproved.

Test for Heteroscedasticity

This examination used the test of Breusch-Pagan.

Table 4: Outcomes for Heteroscedasticity

Ho: Constant variance	
Variables: fitted values of ROA	
chi2(1) = 1.98	
Prob>chi2 = 0.1684	

Source: Researcher (2023)

The outcomes stated that the variances of the error components are constant homoscedastic and that the prob > Chi2 of 0.1684 shows significance above 0.05, suggesting that the null hypothesis of constant variance is not excluded.

Test for Multicollinearity

Table 5: Outcomes for Multicollinearity

Constructs	VIF	1/VIF
Debt Leverage	7.95	0.1257
Debt/Equity	6.22	0.1608
Equity Leverage		
	5.91	0.1692
Mean VIF	**6.69**	

Source: Researcher (2023)

The outcomes in Table 5 show that multicollinearity was absent; all variables had VIFs of less than 10, and the mean was likewise less than 10 at 6.69. Similar to this, each of the variables under consideration had tolerance levels above 0.1, indicating that multicollinearity was not an issue

Tests on Autocorrelation

Table 6 demonstrates the autocorrelation outcomes.

Table 6: Outcomes for Autocorrelation

Examination for autocorrelation	
F{1, 35}	2.644
Prob> F	0.1675

Source: Researcher (2023)

The outcomes show that the coefficients are statistically insignificant. The no-serial autocorrelation passed the test. According to the test, there is a serial correlation between the residuals of 0.1675>0.05. Therefore, in this analysis, there is no connection between the error terms for various observations.

Stationarity Test

Table 7 displays the findings.

Table 7: Outcomes for Unit Root Test

Variable	Statistic	Prob.*	Decision
Sum of Debt Leverage	-17.3647	0.00	The variable is stationary
Sum of Debt to Sum of Equity	-5.37107	0.00	The variable is stationary
Sum of Equity Leverage	-7.98591	0.00	The variable is stationary
ROA	-7.71509	0.00	The variable is stationary

Source: Researcher (2023)

The state of significance for this examination was 0.05 for each variable, as demonstrated in Table 8. Since all of the variables encompassed in the investigation had values of p being less than 0.05, the alternative hypothesis, which states that the info does not have a unit root (is motionless), was preferred to the null hypothesis.

Hausmann Test for Model Specification

Table 8 shows the results.

Table 8: Outcomes for Hausman Test

	B	B	b-B	Sqrt (diag(V b-V_B))
	Fixed	Random	Difference	S.E.
Debt Leverage	6.807	6.938	-0.134	.011
Debt/Equity	4.098	9.193	-5.095	.075
Equity Leverage	5.952	6.154	-0.194	.041
chi2(3)	3.11			
Prob>chi2	0.9597			

Source: Researcher (2023)

With Prob>chi2 = 0.9597, the Hausman test showed a significance level above the 0.05 level. Therefore, the researchers' null hypothesis (H0) is not refuted. This demonstrates that the Random effects panel data model offers the greatest fit for the data. Therefore, the following sections only included the results of the random effects panel regression.

Random Effects regression analysis was then conducted.

Random Effects Regression Analysis

Outcomes are displayed in Table 9.

Table 9: Outcomes for Random-effects Regression Model

ROA	Coef.	Std. Err.	Z	P>|z|	[95% Conf.	Interval]
Debt Leverage	-.029406	.0732104	-0.40	0.00	-.1787196	.1199076
Debt/Equity	-.0002928	.0012348	0.24	0.00	-.0022257	.0028113
Equity	.11534 97	.0617538	1.87	0.071	-.010598	.2412975
_cons	-.0072986	.0651973	-0.11	0.912	-.1402694	.1256723
R squared	0.7325					
Adj R-squared	0.5366					
F statistics	52.9					
Prob> chi2	0.00					

Source: Researcher (2023)

The adopted model was; ROA= -0072986 -.029406X_1 + 0.0002928X_2+ ε.

The fallouts in Table 9 showed that the constant of fortitude (R squared) result of 0.5366 demonstrates that fluctuations in debt leverage, debt equity leverage, and equity leverage accounted for 73.25% of disparities in ROA. The value of ROA is revealed as Cons= -.0072986 when the three independent variables were upheld constant. The outcomes in Table 4.9 showed that debt leverage was seen to have an optimistic and noteworthy impression on financial success (β=-.029406, p=0.000). This infers that an upsurge in debt leverage would decline the financial success of commercial and services companies by 0.029406. Further outcomes in Table 4.9 showed that the sum of debt to the sum of equity leverage was seen to have an optimistic and noteworthy result on financial performance (β=-.0002928, p=0.000). This implies that an upsurge in debt/equity leverage might impose a lessening of the financial success of commercial and services companies by 0. 0002928. Further outcomes displayed that equity leverage had an optimistic and noteworthy impact on financial success (β=.11534 97, p=0.071). This suggests that an upsurge in equity leverage would not lead to any variation in the financial success of services and commercial corporations.

5.0 Conclusion

From investigation, debt leverage and the financial success of commercial and services companies have a substantial association. Companies with little debt might generate higher returns on their assets. Therefore, a company must lower the amount of debt employed in its capital structure if it intends to increase earnings. This means that a company should employ retained earnings before turning to debt when it comes to investing.

Debt equity leverage also had a substantial impact on the financial success of service and commercial corporations. Due to the higher interest rates and debt, increasing debt-equity leverage raises the company's risk and costs. Additionally, investments that are financed by debt only yield modest returns.

Additionally, the financial performance of Kenya's listed commercial and services enterprises was unaffected by equity leverage. Companies that have focused on boosting shareholder interest do not in any way improve their return on assets. As a result, equity leverage is not a significant factor in the financial performance of Kenya's commercial and services enterprises.

Further, equity leverage had an unimportant outcome on and financial success of service and commercial corporations in Kenya. Firms that have concentrated on increasing the interest of the shareholders do not improve their return on assets in any way. Therefore, equity leverage is not a critical driver when it comes to and financial success of commercial and service companies

6.0 Recommendations

The policymakers at commercial and service firms should develop policies and regulations that can guide debt management among service and commercial firms. As the regulator, CMA needs to develop suitable policies on debt management among the service and commercial firms. The policymakers working in the service and commercial firms in Kenya should review the existing policies on debt management in their firms.

To prevent businesses from raising debt capital, which has a detrimental impact on business performance, the Kenyan government should adopt policies around the elimination of tax incentives, an increase in interest rates, the control of inflation, and the reduction of credit ratings.

Commercial and service enterprises should stop relying too heavily on indebtedness because doing so may increase financial risk, increase the likelihood of financial trouble and bankruptcy, and result in subpar financial performance. Management should make extra efforts to enhance performance by creating financial plans that are in line with maximizing shareholder wealth.

The investors and shareholders of the listed service and commercial firms in Kenya should be more active and demand prudent utilization of the short and long-term debts by the management. This can be well realized through the board of directors who have an oversight role on behalf of the shareholders.

The outcomes of the investigation were clear that the financial success of the corporations was detrimentally impacted by the debt leverage. For this reason, the service and commercial sector need to make considerations of coming up with policies that will permit the use of financing by debt more so where the money might be used to boost the utilization of assets. In this case, the corporation should borrow money only when it can make use of its current assets in a better way.

Based on the study findings, debt-equity leverage had a negative and noteworthy result on financial performance. The research advises that the management of commercial and services firms ought to decrease debt-equity funding. This facilitates the corporations to effectively achieve their properties.

Additionally, businesses should balance their use of debt and equity funding. A company's financial performance would be poor if it used debt finance excessively. Debt financing raises creditors' liabilities, which reduces profits. Unwarranted use of equity sponsoring implies significant dividend payouts, which reduces the amount of earnings that would have been reinvested in the company's operations and used to generate revenue.

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