EFFECT OF FINANCING DECISIONS ON FINANCIAL PERFORMANCE OF LISTED COMPANIES AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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Abstract: The study focused on the effect of financing decision on financial performance of listed companies at Nairobi Securities Exchange. The specific objectives were capital structure, liquidity decision, dividend decision and investment decisions. The study targeted 66 listed firms at the NSE. Data spanning five years, 2012 to 2016 was collected. Multivariate regression approach was used for analysis. The study findings showed that capital structure has a positive but not significant effect on ROA but a positive and significant effect on ROE. Liquidity decision has a positive and significant effect on both ROE and ROA. It was also established that investment decision has a positive and significant effect on both ROA and ROE. However, dividend decision has a negative and not significant effect on both ROE and ROA. The study recommends that since debt to equity ratio can significantly affect returns on equity and assets significantly; there is a need for listed firms to balance their financing using debts and equity. There is a need to revise the financing policies to incorporate financing with less equity and more debts since it improves the returns. The study also recommends that since liquidity decision has a positive effect on financial performance of listed firms, there is a need for the listed firms to have a balance in their liquidity decisions by ensuring that they have enough current assets to offsets the current liabilities. This enables the day to day running of the business to be more easier and sustainable thus improving performance. The study also recommends that since investment decisions affect performance positively and significantly, there is a need for the listed firms to invest more in firm machinery, plants, equipment and property, so as to enhance the returns form these investments.

Key Words: *Capital Structure, Liquidity Decision, Dividend Decision, Investment Decisions, Financial Performance*

Introduction

A corporate finance organization is mostly concerned with shareholders wealth maximisation. In order to increase shareholders wealth there are key financial decisions which the finance manager must deliberate on. The four key decisions which a finance manager is mostly involved on are capital structure or leverage decision, liquidity decision, investment decision and dividend decisions that have individual or collective influence on shareholders wealth as well as companies profit (Faulkender & Wang, 2006). Financial performance is influenced by several factors among them capital structure due to debt covenants, dividend decision which can determine the retained earnings which influence future company's growth, investment decision which will determine whether investors wealth increases or decreases as well as liquidity decisions which will determine the foregone benefits associated with particular amount held in current assets such as work in progress. Loof and Heshmati (2008) investigated the relationship between investment decision and financial performance among Swedish companies. Results of the study showed a positive significant relationship between investment decision and financial performance. Grazzi, Jacoby and Treibich (2013) analysed the dynamics of investment and financial performance. Results of the study showed a positive relationship between investment decision and financial performance.

Ayaydin and Karaaslan (2014) found a positive relationship between investment decision and firm performance. Uwuigwe, Jafari and Ajayi (2012) investigated the relationship between dividend payout and financial performance a Nigerian case, results of the study showed a positive significant relationship between dividend payout ratio and financial performance. Ajanthan (2013) showed that dividend payout ratio have a significant positive influence on profitability of companies listed in Tourism and hospitality. Iavorskyi (2013) investigated the impact of capital structure: evidence from Ukraine, results of the study showed a negative significant relationship between leverage and financial performance. Ali (2014) showed a negative significant impact on leverage and financial performance among non-financial firms listed in Nairobi Securities Exchange. Coricelli, Diecidue and Zaffuto *(*2011*)* showed a negative significant relationship between optimal leverage and financial performance.

According to Block and Hirt (2000) liquidity decision is the management of current assets and liabilities; since they change instantaneously. Wise decisions should be made on how much should be spent on current assets such as inventory as such to minimize opportunity cost associated with them. Block and Hirt (2000) argued that liquidity decisions have implications on whether a firm can position itself in effective strategies which influences the attainment of their long term goals. Past studies on the relationship between liquidity decision and firm performance for example Waithaka (2012) showed a negative significant relationship between average credit collection period and financial performance among firm listed in Agricultural segment in NSE. Lingesia and Nalini (2013) showed a negative significant relationship between inventories, debtors and financial performance among manufacturing companies listed in Sri Lanka. Vural, Sokmen and Cetenak (2012) showed that the shortening of the credit collection period had a positive significant relationship with financial performance of firms. Moreover, the study showed a positive significant relationship between cash collection period and financial performance among the companies listed in Turkey.

Statement of the Problem

Due to limited resources in an organization, the finance manager must make financing decisions which will lead to organization positive growth. Better financing decisions are associated with good financial performance (Loof & Heshmati, 2008). However listed firms at NSE have been recording varying results in their performance in the past. This declining performance has led to firms being delisted from the NSE. In the year 2010, a number of public and private companies, such as Hutchings Biemer, Everready East Africa Ltd and Uchumi Supermarkets Ltd were put under statutory management (NSE, 20l0). Between the year 2000 and 2009, 7 firms were delisted

from the Nairobi Securities Exchange (NSE, 2010). Chebii, Kipchumba and Wasike (2011) argue that the main reason for putting the firms under statutory management was financing decisions. This worrying trend in the financial performance of the listed firms warranted a relook into the financing decisions of these firms.

Most studies on the subject matter have focused on financial restructuring and not decisions (Muchiri, Muturi & Ngumi, 2016). More so many of the studies on the theme have been conducted in developed economies. These include Hasan *et al*., (2014); Akeem *et al*., (2014) ; Ogobe, Orinya & Kemi (2013) ; Umar *et al*, (2012) ; Soumadi and Hayajneh (2008) have focused on a similar theme as the current study by looking at leverage decisions versus performance but with a focus on other contexts of developed economies such as Bangladesh and pakistan. This creates a need for focusing on a developing economy like Kenya. The studies have also used various indicators of performance for instance Hasan *et al*., (2014) ; Soumadi and Hayajneh (2008) measured performance using Tobin's Q and Akeem *et al*., (2014) used return on investment. This creates a conceptual knowledge gap and elicits a need to investigate similar aspects on other measures of performance such as ROE and ROA which the current study seeks to establish. They provide a clearer presentation of a company's performance. Return on Equity shows whether management is growing the company's value at an acceptable rate while Return on Assets focuses on return to the shareholders of the company and it focus management attention on the asset required to run the business. The previous studies have also used various methodologies to achieve their objectives, for instance, Ogobe, Orinya and Kemi (2013) used a fixed effects panel regression analysis, while Hasan *et al*., (2014) used a pooled panel regression thus presenting methodological knowledge gaps. This study used a multiple regression model.

Objectives of the Study

1. To assess the effect of leverage of firms listed at the Nairobi Securities Exchange on their financial performance.
2. To determine the effect of liquidity decisions of firms listed at Nairobi Securities Exchange on their financial performance.
3. To ascertain the effect of the dividend decision of firms listed at the Nairobi Securities Exchange on their performance.
4. To determine the effect of investment decision on financial performance of firms listed at Nairobi Securities Exchange.

Literature Review

Theoretical Framework

The Operating Cycle Theory proposed by Weston (1979) collaborates the liquidity decision which is an independent variable of the study. The operating cycle theory is one of the very important theories in liquidity management. The traditional approach of relying on current or acid-test ratios as solvency indicators is quite defective compared to the operating cycle approach of relying on current or compared to the operating cycle approach where accounts receivables and inventory turnover measures are incorporated as useful in liquidity management. According to operating cycle theory when firms grants more liberal credit terms to its customers there is a higher tendency of having a bigger, but ultimately less liquid investment in cycle (that is, the inventory turnover) shows the number of times with which business firms converts the totality of their raw materials stock, their work-in-progress and ultimately the finished goods into product sales.

The Agency theory proposed by Jensen and Meckling (1976) collaborates investment decision variable of the study. The agency theory is based on the relationship between the principal (owners) and the agent (managers). Manager's investment decision is key to the performance of the company. The most important basis of agency

theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders' interests and maximizing shareholder value. If the management are more motivated by their personal gains then there will be little amount which will be spent on profitable investment since the higher the amount spent to motivate the management the higher the expenses and consequently the amount of profit available to the shareholders will be limited.

The Risk and Return Trade off Theory proposed by Sharpe (1964) hinges on investment decision which is an independent variable of the study. It states that higher risk is associated with greater probability of higher return and lower risk with a greater probability of smaller return. The concept of risk and return trade off assumes that there exists an efficient and no riskless profit that can be earned. According to Krantz and Zhnag (2013) if the investors anticipate that prices will be high then they would rush to purchase the particular security and owing to forces of demand and supply then prices would increase since there will be limited supply. Moreover, an investor will be motivated to purchase securities when prices are high on anticipation he will get fair return. In contrast when there is anticipation that the prices will decline then investors will be in a hurry to dispose their securities as such to mitigate against any anticipated loss in future.

Modigliani and Miller Theory insists the irrelevant relationship between business value and capital structure in the case of perfect market. In 1963, the MM was amended by taking income tax into account; the more debt company rose the more value an enterprise realized. The enterprise value reaches the maximum when all financing comes from liability in theory. Modigliani and Miller (1958) proposed capital structure irrelevance theory which had the following assumptions there were no taxes, existence of perfect markets, no capital market frictions no transaction costs, asset trade restrictions or bankruptcy costs, symmetric access to credit markets firms and investors can borrow or lend at the same rate.

Conceptual Framework
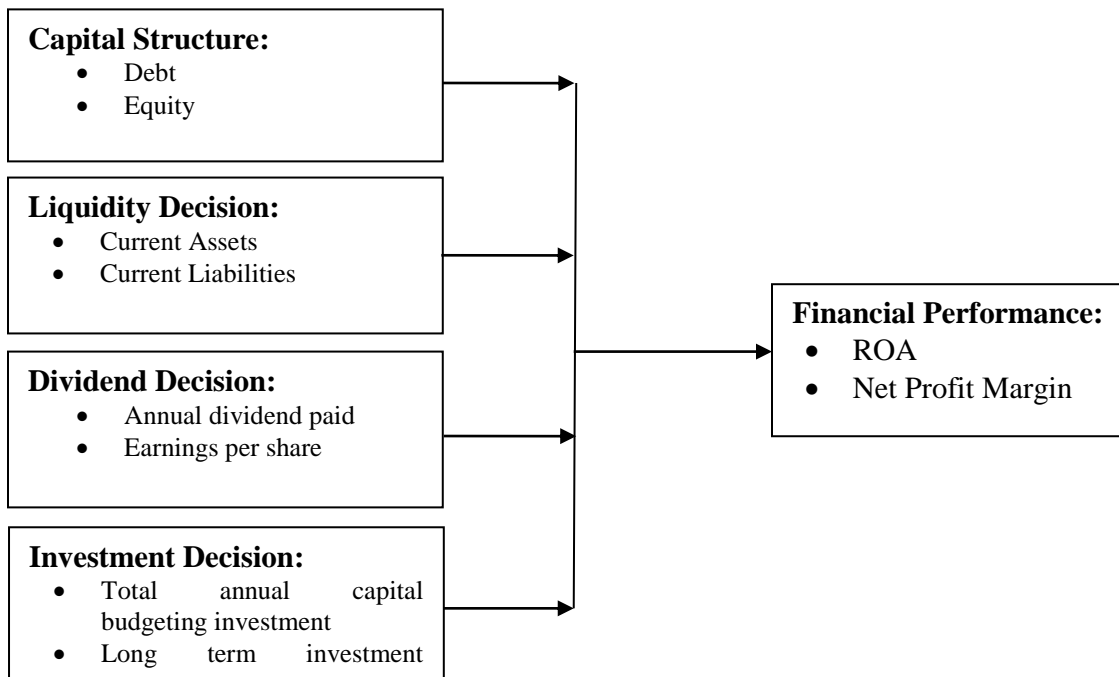
Figure 1: Conceptual Framework

Independent Variables   **Dependent variable**

Empirical Review

Hasan *et al.,* (2014) investigated the influence of capital structure on firm performance using four firm performance measures which were return on assets, return on equity, earnings per share and Tobin's Q, while capital structure was measured using three ratio which were short term debt ratio, long term debt ratio and total debt ratio. Results of the study found a positive and significant effect of short term debt on EPS and negative significant effect of long term debt on EPS. Akeem *et al.,* (2014) investigated the effects of capital structure on firm performance among Nigerian manufacturing companies. The study found that there was a negative but significant relationship between total debt ratio and ROI while both DE and long term debt ratio had negative but insignificant relationship with ROI. Ogobe, Orinya and Kemi (2013) investigated the impact of both macroeconomic indicators and capital structure on firm performance using fixed effects panel regression analysis. Results of the study found a significant negative relationship and ROI among listed firms in 2000 to 2010. Mousavi and Jari (2012) investigated the effect of working capital on firm performance among companies listed in Iran. The study found a positive significant relationship between net working capital and firm performance as measured using ROE, ROA and market value to book value. Vural, Sokmen and Cetenak (2012) tested the effects of working capital management on firm performance among firms listed in Turkey. The study found an inverse significant relationship between cash conversion cycle and accounts receivable collection period.

Thoa and Uyen (2014) tested the relationship between working capital management and firm performance among firms listed in both Ho Chi City securities exchange and Hanoi securities exchange in 2006 to 2012. The study found a negative but significant relationship between cash conversion cycle, inventory conversion period, receivables conversion period, payable conversion period and gross profit.

Murekefu and Ouma (2013) used regression analysis to examine the effect of dividend payout on firm's performance among selected companies in Kenya. They found out that dividend payout has a strong and significant impact on firms' profitability and concluded that dividend payout was a major factor affecting firm's performance. Uwuigbe, Jafaru and Ajayi (2012) applied regression and correlation analysis to correlation analysis to examine the relationship between dividend policies and firm performance among Nigerian listed companies in 2006 -2010. Results of the study showed a positive significant relationship between dividend policy and profitability. Grazzi, Jacoby and Treibich (2013) argued that though there is a significant effect of investment policies on economic growth. Maherani, Ranjbar and Fathi (2014) used OLS and correlation analysis to investigate the relationship between earning quality, corporate firm performance, and investment decision among companies listed in Tehran stock exchange. Results of the study showed a positive significant relationship between investment decision and earnings quality.

Research Methodology

The study adopted correlational research design. In the current study the target population was 66 companies which are listed and actively trading at NSE (NSE, 2016). In the current study judgemental sampling was used and those companies which were listed and actively trading in the past five years in 2012-2016, the firm ought not to be listed in banking or insurance segment owing to their balance sheet structure, the firm ought not to have been suspended or delisted in the past five years and the firm should have data for the five years. The choice for five years was guided by past studies such as Velampy *et al.,* 2014, Uwuigbe *et al.,* 2012 ; Githira & Nasieku, 2015 among others. The data collected was analysed using Statistical Package for Social Science (SPSS Version 21). The study conducted trend analysis, descriptive analysis and inferential analysis. Multivariate regression model was adopted based on its use in related studies carried out by Ebaid (2009) to investigate the impact of choice of capital structure on the performance of firms in Egypt. The regression models testing the effect of financial

decisions on both ROA and ROE were established.

The study models were of the form:

$$Y_1 = \beta_0 + \beta_1 X1 + \beta_2 X_2 + \beta_3 X_3 + \beta_3 X_4 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_3 X_4 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where;

$Y_1 = $ ROA

$Y_2 = $ ROE,

β_0 is the regression constant, β_1, β_2, β_3 and β_4 are the coefficients of independent variables, X_1 is Capital structure, X_2 is Liquidity Decision, X_3 is Dividend Decision, X_4 is Investment Decision and $\varepsilon = $ error component.

Research Findings

Descriptive Statistics

The study conducted a descriptive statistics analysis to establish the means and standard deviation of each study variable in the study period. The findings revealed that on average, the capital structure whose proxy is debt to equity ratio was 2.143 with a standard deviation of 3.251 which revealed a high variation in the capital structure among the firms listed at NSE. Liquidity decision captured as the ratio of current assets to current liability was an average figure of 1.74 with a standard deviation of 2.302 which also revealed a high variation of current assets to liability ratio among the firms listed at NSE.

The investment decision captured as a log of amount of machinery, property and plant was also an average figure of 14.604 with a standard deviation of 3.761 which revealed a small variation in the amount of investments towards plant, property and machinery. Dividend decision captured as the dividend payout ratio had an average of 4.564 with a standard deviation of 6.053 which revealed high fluctuations in the dividends payout among the listed firms. The mean return on assets and return on equity was 0.307 and 0.237 respectively with standard deviations of 0.666 and 0.467 which revealed high fluctuations in performance of firms listed at NSE. The small variations in the investment decisions, dividend decisions, liquidity decisions and leverage decision reveal consistency in these decisions and support the arguments by Hasan *et al.,* (2014) that a firm must be consistent in its financing decisions in order to perform well.

Table 1 Descriptive Statistics

Predictor Variable	Mean	Std. Deviation
Capital Structure	2.143	3.251
Liquidity Decision	1.740	2.302
Investment Decision	14.604	3.761
Dividend Decision	4.564	6.053
ROA	0.307	0.666
ROE	0.237	0.467

Correlation Analysis

The study established the association between financial decisions and firm performance of listed firms using a Pearson Correlation analysis. The findings are established in Table 2. The study results revealed that capital structure had a positive but not significant relationship with ROA (r = 0.081, Sig > 0.05) but a positive and significant relationship with ROE (r = 0.128, Sig < 0.05). This implies that the debt to equity ratio can significantly affect returns on equity but not assets. However, the effect is significant in both cases. Generally, a balance between a firm's debts and equity, through financing with more debts and less equity, leads to an improvement in firm performance in terms of returns on equity. The findings are consistent with Akeem *et al.,* (2014) who investigated the effects of capital structure on firm performance among Nigerian manufacturing companies and established a positive significant relationship between debt equity ratio and ROA. The findings are however not consistent with the findings of a study by Hasan *et al.,* (2014) who investigated the influence of capital structure on firm performance and established a negative significant effect of ROA on capital structure in contrast there was no significant effect of ROE on capital structure.

The study results also revealed that liquidity decision had a positive and significant relationship with ROA (r = 0.132, Sig < 0.05) but a positive and not significant relationship with ROE (r = 0.101, Sig > 0.05). The findings reveals that a balance between current assets and current liabilities affects the returns on assets positively and significantly, however it affects returns on equity positively but not significantly, they imply that a better balance between current assets and liabilities, through reducing liabilities, so as to increase the ratio, leads to an improvement in firm performance in terms of returns on assets. The findings are inconsistent with the findings of a study by Lingesiya and Nalin (2012) who analyzed the effect of liquidity on performance of manufacturing firms in Malaysia and established an inverse significant relationship. The study results also revealed that investment decision had a positive and significant relationship with both ROA (r = 0.313, Sig < 0.05) and ROE (r = 0.337, Sig < 0.05). The findings imply that when a firm invests more in firm machinery, plants, equipment and property, it leads to an improvement in its returns on assets and equity by a significant margin. The findings are consistent with Maherani, Ranjbar and Fathi (2014) who used OLS and correlation analysis to investigate the relationship between earning quality, corporate firm performance, and investment decision among companies listed in Tehran stock exchange and revealed a positive significant relationship between investment decision and earnings quality. The findings are however inconsistent with the findings of a study by Grazzi *et al*. (2014) who carried out a comparative analysis to investigate the effect of dynamic investment on firm performance in France and Italy and established an inverse relationship between investment in expansion and firm performance.

Dividend decision was also established to have a negative but not significant relationship with both ROA (r = -0.009, Sig >0.05) and ROE (r = -0.016, Sig >0.05). These findings reveal that dividend decision negatively affects performance of listed firms although the effect is not significant. When a firm increases its dividend payout ratio,it negatively but insignificantly affects its financial performance. The findings are consistent with the findings of a study by Velnampy, Nimalthasan and Kalaiarasi (2014) who applied regression and correlation analysis to examine the relationship between dividend policies and firm performance among manufacturing companies listed in Colombo securities exchange in 2008-2012 and established an insignificant relationship with firm performance. The findings are not consistent with the findings of a study by Uwuigbe, Jafaru and Ajayi (2012) who applied regression and correlation analysis to examine the relationship between dividend policies and firm performance among Nigerian listed companies in 2006 -2010 and found a positive significant relationship between dividend policy and profitability.

Table 2 : Correlation Results

		Capital Structure	Liquidity Decision	Investment Decision	Dividend Decision	ROA	ROE
Capital Structure	Pearson Correlation	1					
	Sig. (2-tailed)						
Liquidity decision	Pearson Correlation	0.039	1				
	Sig. (2-tailed)	0.502					
Investment Decision	Pearson Correlation	.130*	0.085	1			
	Sig. (2-tailed)	0.029	0.133				
Dividend Decision	Pearson Correlation	.116*	0.035	0.006	1		
	Sig. (2-tailed)	0.047	0.529	0.91			
ROA	Pearson Correlation	0.081	.132*	.313*	-0.009	1	
	Sig. (2-tailed)	0.165	0.017	0.000	0.878		
ROE	Pearson Correlation	0.128*	0.101	.337*	-0.016	.984*	1
	Sig. (2-tailed)	0.028	0.068	0.000	0.772	0.000	
* Correlation is significant at the 0.05 level (2-tailed).							

Regression Analysis

The relationship between financial decisions and firm performance of listed firms was established using an ordinary multiple regression analysis. Regression analysis involved the analysis of coefficient of determination, model significance and model coefficients. Two regression models were run to establish the effect of financial decisions on ROA as well as ROE separately.

Coefficient of Determination

Coefficient of determination indicates the changes in the dependent variables (ROE and ROA) that is explained by the independent variables (capital structure, investment decision, liquidity decision and dividend decision) in a regression model. The regression analysis results presented in Table 3 indicates that the coefficient of determination (R squared) for the relationship between financial decision and ROA was 0.171 which implies that 17.1% of the changes in financial performance (ROA) of firms listed at NSE is explained by financial decisions while 82.9% of the changes in financial performance (ROA) is explained by other factors such as firm size, age of the firm and corporate governance.

The results also indicated that the coefficient of determination (R squared) for the relationship between financial decision and ROE was 0.184 which implies that 18.4% of the changes in financial performance (ROE) of firms listed at NSE is explained by financial decisions while 81.6% of the changes in financial performance (ROE) is explained by other factors. The findings also reveal that financial decisions have a positive relationship with financial performance of listed firms as shown by positive correlations (R) values of 0.414 and 0.429 which were positive.

Table 3: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	.414	0.171	0.159	0.588177
ROE	.429	0.184	0.172	0.410418

Analysis of Variance

The study also established model significance of the two regression models linking financial decisions to financial performance in terms of ROA and ROE of firms listed at NSE. The study findings revealed that the overall model linking financial decisions to ROA had a significant F value of 14.314 (Sig < 0.05) implying that it was significant. The study further revealed that the overall model linking financial decisions to ROE had a significant F value of 15.642 (Sig < 0.05) implying that it was significant. This therefore implies that financial decisions that is capital structure, dividend decision, liquidity decision and investment decision can be used to significantly predict performance of listed firms in terms of ROA and ROE.

Table 4: Analysis of Variance (Model Significance)

Model	Indicator	Sum of Squares	df	Mean Square	F	Sig.
	Regression	19.807	4	4.952	14.314	0.000
	Residual	95.829	277	0.346		
ROA	Total	115.636	281			
	Regression	10.539	4	2.635	15.642	0.000
	Residual	46.659	277	0.168		
ROE	Total	57.198	281			

Model Coefficients

The model coefficients presented in Table 5 were used to establish the effect of each financial decision on financial performance (both ROA and ROE). These findings were used to achieve the specific objectives and answer the research questions. The findings revealed that capital structure has a positive but not significant effect on ROA (B = 0.021, Sig > 0.05). This implies that a 1 unit increase in capital structure in terms of debt to equity ratio, leads to a 0.021 unit increase in ROA although the increase is not significant. The findings further revealed that capital structure has a positive and significant effect on ROE (B = 0.021, Sig < 0.05). This implies that a 1 unit increase in capital structure in terms of debt to equity ratio, leads to a significant 0.021 unit increase in ROE. The findings are consistent with Ogobe, Orinya and Kemi (2013) who investigated the impact of both macroeconomic indicators and capital structure on firm performance using fixed effects panel regression analysis and established a positive relationship. The findings is inconsistent with the findings of a study by Mwangi, Makau and Kosimbei (2014) who investigated the relationship between capital structure and firm performance among non-financial firms listed in NSE and established a negative but significant relationship between capital structure and firm performance as measured by ROE and ROA.

The findings also revealed that liquidity decision has a positive and significant effect on ROA (B = 0.060, Sig < 0.05). This implies that a 1 unit increase in liquidity decision in terms of current ratio, leads to a significant 0.060 unit increase in ROA. The findings further revealed that liquidity decision has a positive and significant effect on ROE (B = 0.035, Sig < 0.05). This implies that a 1 unit increase in liquidity decision in terms of current ratio, leads to a significant 0.035 unit increase in ROE. The findings is consistent with Mousavi and Jari (2012) who investigated the effect of working capital on firm performance among companies listed in Iran and established a positive significant relationship between net working capital and firm performance as measured using ROE, ROA and market value to book value. The findings are however inconsistent with Vural, Sokmen and Cetenak (2012) who tested the effects of working capital management on firm performance among firms listed in Turkey and established an inverse relationship. It was also established that investment decision has a positive and significant effect on ROA (B = 0.064, Sig < 0.05). This implies that a 1 unit increase in investment decision in terms of amount allocated to fixed assets, leads to a significant 0.064 unit increase in ROA. The findings further revealed that investment decision has a positive and significant effect on ROE (B = 0.048, Sig < 0.05). This implies that a 1 unit increase in investment decision in terms of amount allocated to fixed assets, leads to a significant 0.048 unit increase in ROE. The findings are however inconsistent with the findings of a study by Grazzi *et al.* (2014) who carried out a comparative analysis to investigate the effect of dynamic investment on firm performance in France and Italy and established an inverse relationship between investment in expansion and firm performance.

Lastly, it was also established that dividend decision has a negative and not significant effect on ROA (B = -0.00001, Sig > 0.05). This implies that a 1 unit increase in dividend decision in terms of dividend payout ratio, leads to an insignificant 0.00001 unit decrease in ROA. The findings further showed that dividend decision has a negative and not significant effect on ROE (B = -0.00001, Sig > 0.05). This implies that a 1 unit increase in dividend decision in terms of dividend payout ratio, leads to an insignificant 0.00001 unit decrease in ROE. The study findings are consistent with Salehnezhad (2013) who used a fuzzy regression analysis to study the relationship between firm performance and dividend policy among listed firms in Iran and established a negative relationship. The findings are however not consistent with the findings of a study by Murekefu and Ouma (2013) who established the effect of dividend payout on firm's performance among selected companies in Kenya and found out that dividend payout has a strong and significant impact on firms' profitability.

Table 5: Model Coefficients

Model	Predictor Variables	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
	(Constant)	-0.798	0.158		-5.05	0.000
	Capital Structure	0.021	0.011	0.105	1.889	0.060
	Liquidity Decision	0.060	0.016	0.208	3.780	0.000
	Investment Decision	0.064	0.009	0.375	6.773	0.000
ROA	Dividend Decision	-0.00001	0.006	-0.003	-0.055	0.956
	(Constant)	-0.585	0.11		-5.306	0.000
	Capital Structure	0.021	0.008	0.153	2.766	0.006
	Liquidity Decision	0.035	0.011	0.172	3.147	0.002
	Investment Decision	0.048	0.007	0.400	7.273	0.000
ROE	Dividend Decision	-0.0001	0.004	-0.002	-0.037	0.970

Optimal Regression Models

***ROA** = -0.798 + 0.060 (Liquidity Decision) + 0.064 (Investment Decision)*

***ROE** = -0.585 + 0.021 (Capital Structure) + 0.035 (Liquidity Decision) + 0.048 (Investment Decision)*

The optimal regression models reveal that only liquidity decision and investment decision can be used to predict financial performance in terms of ROA significantly with investment decision having the most significant effect (t-statistic = 6.773) and then liquidity decision (t-statistic = 3.780). However, capital structure and dividend decision don't have a significant effect on ROA (sig >0.05). The optimal regression models also revealed that only capital structure, liquidity decision and investment decision can be used to predict financial performance in terms of ROE significantly with investment decision having the most significant effect (t-statistic = 7.273), followed by liquidity decision (t-statistic = 3.147) and lastly capital structure (t-statistic = 2.766). However, only dividend decision don't have a significant effect on ROE (sig >0.05). The findings are consistent with Vural, Sokmen and Cetenak (2012) who indicated that better liquidity decisions affected performance positively. The findings are also consistent with Fathi (2014) who indicated that investment decisions had a positive significant relationship with performance.

Conclusions

The study findings led to the conclusion that the debt to equity ratio can significantly affect returns on equity but not assets. However, the effect is significant in both cases. Generally, a balance between a firm's debts and equity, through financing with more debts and less equity, leads to an improvement in financial performance in terms of returns on equity. The study also concluded that when listed firms have a better balance between current assets and liabilities affects the returns on assets positively and significantly but affects returns on equity positively but not significantly. A better balance between current assets and liabilities, through reducing liabilities, so as to increase the ratio, leads to an improvement in financial performance in terms of returns on assets. The study concluded that investment decision has a positive effect on financial performance of firms listed at NSE in terms of both ROA and ROE. It was also concluded that when a firm invests more in firm machinery, plants, equipment and property, it leads to an improvement in its returns on assets and equity by a significant margin. Lastly, the study concluded that dividend decision negatively affects performance of listed firms although the effect is not significant to mean that when a firm increases its dividend payout ratio, it negatively but insignificantly affects its financial performance. When a firm considers giving out dividends, there is a need to consider other factors so as to realize a significant improvement in its financial performance.

Recommendations of the study

The study recommends that since debt to equity ratio can significantly affect returns on equity and assets significantly; there is a need for listed firms to balance their financing using debts and equity. There is a need to revise the financing policies to incorporate financing with less equity and more debts since it improves the returns. The study also recommends that since liquidity decision has a positive effect on financial performance of listed firms, there is a need for the listed firms to have a balance in their liquidity decisions by ensuring that they have enough current assets to offsets the current liabilities. This enables the day to day running of the business to be more easier and sustainable thus improving performance. The study also recommends that since investment decisions affect performance positively and significantly, there is a need for the listed firms to invest more in firm machinery, plants, equipment and property, so as to enhance the returns form these investments.

Conflict of Interest

No potential conflict of interest was reported by the authors

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