Abstract

Capital structure management is one of the most crucial corporate financial management functions in a firm since appropriate debt policy is reported to maximize the value of a firm. Kenya is ranked second in Africa after South Africa in regards to financial deepness. This means that the cost of debt should not have adverse effect financial performance. This observation raises fundamental question: does debt financing leads to poor financial performance in Kenya? This research sought to investigate the role of observed leverage on financial performance of listed non- financial firms in Kenya. The study tested capital structure theories and therefore adopted a positivists approach, guided by causal research design. The study population was 35 non-financial sub-sector firms out of the 65 firms listed at the NSE, Kenya. 18 firms were excluded in this study since they belong to banking and insurance sub-sectors, which have a highly regulated capital structure. Secondary data collection sheet was used to collect data for each of the variables from audited financial statements of the listed firms for a 10-year period (2006-2015). Panel regression analysis revealed that observed leverage measured by (LDR) had a significant positive coefficient with performance metrics. However, the leverage measure using TDR showed a negative and significant role on performance metrics. This study recommends that for listed firms to improve their financial performance, they should use more long-term debts than short-term debts.