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Influence of Preference Share Capital on Financial Performance of Listed Manufacturing and Allied Firms in Kenya

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Abstract

Purpose: This study assessed the influence of preference share capital on financial performance of listed manufacturing and allied firms in Kenya. The research applied Modigliani and Miller theory, Trade-off, Pecking Order, and Market Timing and the stakeholder theories appropriately.
Design/Methodology/Approach: The target population comprised 248-line managers within the manufacturing firms listed on the NSE from 2016 to 2022. Data collection method utilized was both secondary and primary. Data analysis included inferential: regression analysis, Chi-Square, and ANOVA test while descriptive statistics involved the use of Range, Variance, and Standard deviation. Presentation of data was done by clear use of figures including tables. Financial performance was measured by return on assets ratio.
Findings: The findings indicated that Preference shares have a significant positive effect on the financial performance of listed manufacturing and allied firms (p value<0.05). The study concludes that preference share capital significantly enhances the financial performance of listed manufacturing and allied firms by providing a stable funding base, improving liquidity, and reducing the cost of equity.
Practical Implications: The study recommends that firms prioritize the use of preference shares to carefully manage debt levels, strategically reinvest retained earnings, and consider ownership structures when developing capital strategies. Additionally, it recommends the need for policies that support the adoption of these practices to foster sustainable growth and financial stability in the sector.
Originality/Value: The findings offer insights to investors, policymakers, and corporate managers regarding the optimal structuring of capital to enhance firm value and competitiveness.
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INTRODUCTION

Establishing correct and favorable capital structure is a pertinent issue for any company, impacting shareholder returns significantly. A well-suited capital structure enhances market value, thereby elevating overall company worth. Loans and bonds as forms of debt capital, and equity capital, encompassing preferred and common stocks along with retained earnings, are integral components. Assessing the relevant equity ratios provides insights into an entity's borrowing practices and its viability (Adeyemi and Oboh 2020). An optimal capital structure enables efficient utilization of available funds, ensuring the fulfillment of financial requirements while minimizing the cost of capital. Striking the right balance prevents both over-capitalization and under-capitalization, safeguarding the enterprise's financial health. This approach fosters prudent financial management, bolstering the company's ability to seize growth opportunities and navigate market challenges effectively. Thus, a crafted capital structure is fundamental on steering growth that is sustaining and maximizing shareholder value in the current ever changing business landscape.

UK, German, and French firms tailor their debt ratios to sector norms, adjusting within defined parameters. Agency and bankruptcy costs are key factors influencing leverage decisions (Antoniou and Stewart 2018). These considerations underscore the significant impact of external factors on firms' financing choices, highlighting the importance of strategic financial management. By aligning debt levels with industry standards and accounting for associated costs, companies can mitigate varying risks to enhance financial performance by assuring optimal capital structure. This approach ensures prudent decision-making and fosters resilience in the face of market uncertainties. Moreover, understanding the interplay between leverage determinants and financing decisions enables firms to navigate complexities effectively, positioning themselves for long-term success and sustainable growth. Therefore, UK, German, and French firms must carefully evaluate their capital structure dynamics, taking into account both internal and external factors in achieving optimal financial outcomes while in turn maximize shareholders' wealth.

Foreign investment portfolios can offer diversification benefits by allowing funds holders to allocate their capital in a number of countries and markets (Omorokunwa 2018). Through foreign assets' investment, funds owners subsequently reduce being exposed to market risks domestically and potentially benefit from the performance of different economies. Investing in foreign markets can provides access broader range of investing opportunities access and potential much higher returns in comparison to domestic investments (French 2019). Capital structure implies to the ways through which firms and business entities fund their operations. Failure by an entity to fund and meet its financial obligations marks its death bed. A study making use of Kenyan data done by Kiogora (2019) reveals a negativity in correlation over firms' returns Vis-a-viz their levels of financial leverage. Current data indicates the issuance of 68 T-bonds by the Kenyan government, along with ten corporate bonds issued by seven firms, and the listing of stocks of 60 firms stocks in Kenya's N.S.E as of December 2012. Furthermore, these listed entities collectively did float over 5.1 billion worth of shares valued at Kshs. 868 billion, while an estimation value of bonds was Kshs. 92.48 billion towards end of 2012.

Kenya's economic growth and overall competitiveness are linked to the performance of its manufacturing and allied sector, which ranks third in terms of GDP contribution. However, like many other sectors, this domain has faced challenges stemming from various financial conditions, resulting in fluctuating performance and growth rates. For instance, during the years 2008-2010, the niche industry contended with its lower GDP contribution rates of growth, at 1.7% while consecutively an improvement of 2.6% respectively (Kenton 2024). Subsequent years showed signs of recovery, with the 2010 financial year. Nonetheless, the sector's growth was significantly hampered by the financial crisis and subsequent slowdown, leading to decreased demand in the local market and currency depreciation. This highlights the vulnerability of the manufacturing and allied sector to external economic shocks and indicates the importance of implementing robust strategies to bolster resilience and sustain growth in the face of adversity (Lagat 2020).

This is the area that the study is going to focus on. Within Kenya's economic landscape, the manufacturing industry holds a significant position, ranking as the fourth largest in terms of the volumes of contribution towards the country's (GDP). Following agricultural sector, transportation and communications, retail trade and wholesale trade, the manufacturing makes a contribution of 18 per cent to the country's GDP, playing pivotal role in both domestic and regional trade dynamics. Notably, it actively engages in exports to the larger Central and East Africa region, further solidifying its importance in the broader economic framework (Mule and Mukras 2018). Employment-wise, the sector serves as a major source of livelihood, directly and indirectly supporting approximately 2.3M individuals across the non-formal and formal sectors. While at conception was grouped in import substitution policy, the sector has evolved into a fully-fledged export-oriented entity. It encompasses twelve distinct sub-categories, depicted by the nature of products manufactured and the

types of raw materials imported by firms (Maina and Omwenga 2019).

Initially identified as Nairobi Stock Exchange, the Nairobi Securities Exchange (NSE) stands as Kenya's primary securities exchange market. Established in 1954 during Kenya's colonial period, it operated as an overseas stock exchange under the auspices of the London Stock Exchange (Nairobi Securities Exchange 2020). Today, the NSE operates within the framework of the African Securities Exchanges Association, reflecting its integration into broader regional financial systems. The securities exchange market is key to this study as apart from being the source of the secondary data the study will consume, it is a pertinent element from the regulatory perspective of firms to the platform it offers for firms to trade in equities and debt, the variables used in the study. The NSE's significance transcends national borders, contributing to the vibrancy of Africa's financial landscape. In terms of stock trading volumes, it ranks as the fourth largest stock exchange, proving its pivotal role in facilitating investment and capital flows within the region (Changaya and Fatoki 2020). This rich history and strategic positioning highlight the NSE's stature as a key player in Kenya's financial sector, serving as a conduit for capital mobilization and investment opportunities.

According to (Kariuki 2018), the manufacturing and allied sectors of the Kenyan economy have exhibited a pattern of recovery in recent years, demonstrating growth rates of 4.9% in 2004, 5.8% in 2005, and 6.9% in 2006. This upward trajectory reflects positively on the sector's overall financial performance during the same period, an indication of the interconnectedness between manufacturing activity and individual company financial outcomes. However, despite these initial gains, the sector still experienced fluctuations. From 6.85% in 2015, it declined to 5.83% in 2016 and further to 2.42% in 2017. Subsequently, there was a notable rebound to 9.65% in 2018, followed by a setback to 4.6% in the last quarter of 2019. The year 2020 brought unprecedented challenges, with Kenya recording a negative growth of 0.42% attributed to adverse impacts of the COVID-19 scourge. Moreover, manufacturing GDP for Kenya has displayed a concerning trend of persistent decline from 2011 to 2021. Starting at 11.16% in 2011, it gradually decreased to 7.24% in 2021, reaching an alarming low of 3.7% in the fourth quarter of 2022 (CBK 2023). These statistics underscore the need for strategic interventions to revitalize the manufacturing sector and mitigate the challenges that have hampered its growth trajectory in recent years.

The country's GDP surged by 5 percentages in the first quarter of 2023, marking a notable increase from the 4.2 percent growth observed during the same period in 2022. This upturn signals a promising trajectory of economic recovery, attributed to the gradual relaxation of containment measures aimed at combating the spread of COVID-19. Notably, key sectors such as food service, accommodation, and manufacturing have exhibited improved performance, contributing significantly to GDP growth (Natalie 2023). She continues to explain that a part from the direct contribution to the GDP, the sector offers the greatest employment opportunities to the citizenry hence improvement on social living due to the generated income to households. The collapse of the sector means loss of income thus impacting heavily to income earners. Such may lead to social vices like stealing, prostitution, corruption negative impact on mental health, satisfaction over life, economic resources access and social integration (Kariuki 2018). He continues to opine that, the said condition as far as declining industries is concerned often affect the economy significantly in forms including job losses, decreased government revenues, and impacts negatively on related industries.

As per the Economic Survey of 2019, a 6.3 economy expansion for the country was registered in 2018, largely propelled by notable growth in the agriculture, manufacturing, and transport sectors. This marked a significant improvement from the 4.7 percent growth registered in 2017, the lowest in five years. Particularly impressive was the manufacturing sector's growth, which surged from 0.5 percent in 2017 to 4.2 percent in 2018, signaling a robust rebound. The diverse financial performance observed among manufacturing and allied firms in Kenya during this period cannot solely be attributed to capital structure decisions for financing operations. Instead, it was largely influenced by government tax waivers and subsequent reductions in production costs (Deloitte Touche 2019). Moving forward to 2021, the manufacturing sector demonstrated resilience with a real value-added growth of 6.9 percent, a notable recovery from the negative 0.4 percent recorded in 2020. During this period, the manufacturing sector contributed 7.2 percent to GDP, accompanied by a commendable 6.0 percent expansion in output volume (Economic Outlook 2023). Such trends affected grossly the pivotal role of the sector and the entire industry in an economic growth drive.

In his seminal work on firms' financial performance determinants, Ebaid (2018) performed an assessment analyzing the outcome of capital structure decisions over Egyptian companies, prominent economic force in Northern region of Africa. The research spanned from 1997 to 2005 and focused on non-financial quoted companies across ten distinct industries, comprising a sample of sixty-four firms. Ebaid's study utilized (ROE) and gross profit margin as metrics to gauge companies' profitability, employing multiple regression analysis as the primary methodology. However, it overlooked the inclusion of ROA, a critical indicator in assessing

companies' financial performance. Most research works have been conducted but all have come up with mixed reasons as to why firms may not reach their optimal performance. Many of the researches have not expounded on capital structure as one of the reasons, but instead delved in other parameters such as multiple taxation and cost of production among many others. Building upon such gap, present study is to investigate preference share capital in relation to a firm's financial performance specifically within manufacturing and allied sectors listed on the Kenya's Securities market. By addressing such a gap in literature, the exercise endeavored in offering comprehensive insights on the intricate dynamics shaping firms' financial performance within the Kenyan context.

LITERATURE REVIEW

In understanding the influence of preference share capital on the financial performance of listed manufacturing and allied firms in Kenya, it is essential to ground the analysis in key theories of capital structure and corporate governance. This section reviews the Modigliani-Miller Theory and Stakeholder Theory, with an emphasis on how these frameworks explain the use and implications of preference share capital. The Modigliani-Miller (MM) theory, introduced by Modigliani and Miller (1958), remains foundational in the study of capital structure. Their first proposition asserts that under conditions of perfect capital markets—with no taxes, transaction costs, or bankruptcy costs, the value of a firm is independent of its capital structure. In essence, how a firm finances its operations (through debt, equity, or preference shares) does not affect its market value. This proposition is particularly useful in analyzing preference share capital, as it raises the question of whether financing through such instruments actually enhances firm performance. However, MM's second proposition introduces the role of cost of capital and shows that in a world with corporate taxes, debt (and by extension, hybrid instruments like preference shares) provides tax shields that may improve firm value. Preference shares occupy a unique space between equity and debt, they usually provide fixed dividends but lack voting rights and offer priority in dividend payouts over common shares. Thus, from an MM perspective with taxes considered, preference shares may be used as a strategic instrument to optimize the firm's weighted average cost of capital (WACC) and boost financial performance through partial debt-like benefits. Empirical applications of the MM framework suggest that firms with well-structured preference share capital may enjoy improved access to funds without diluting control, thereby supporting capital investment and performance (Brigham and Ehrhardt 2013). Nonetheless, MM theory remains limited in explaining real-world financing behavior because it assumes away market imperfections, which are significant in emerging economies like Kenya.

Stakeholder theory, as articulated by Freeman (1984), challenges the shareholder-centric model by emphasizing that firms must consider the interests of a broad set of stakeholders, including employees, customers, suppliers, creditors, and the community. The theory posits that long-term financial performance is linked to a firm's ability to align its actions with the expectations of its stakeholders. Preference share capital can be interpreted through this lens as a financial instrument that accommodates both investor and managerial preferences. Investors who value stable, predictable returns with lower risk, such as pension funds or risk-averse institutional investors, may find preference shares attractive. At the same time, managers may prefer this mode of financing since it avoids ceding control (as preference shares usually lack voting rights) and minimizes financial distress compared to high-leverage debt (Wicks and Harrison 2017). Moreover, issuing preference shares may signal managerial commitment to meeting fixed obligations without burdening the firm with the restrictive covenants that come with debt (Zakhem and Palmer 2017). This may foster trust and goodwill among stakeholders, which in turn supports operational efficiency and financial performance. Therefore, preference shares can be understood as a stakeholder-aligned financing tool that helps balance capital needs, risk exposure, and stakeholder relationships.

A thorough investigation into interplay among credit risk management, capital structure and the financial performance of microfinance institutions (MFIs) in Uganda, utilizing the lens of agency theory was conducted by Orichom and Omeke (2021). By employing a cross-sectional research design, the study meticulously scrutinized 64 MFIs operating within Uganda. Through correlation and multiple regression analyses, the gathered data underwent rigorous examination. The findings show the pivotal role of credit risk management in bolstering overall financial performance. Conversely, the research opined that configuration of capital structure bears no significant correlation with financial performance. Consequently, the study advocates for a heightened emphasis on credit risk appraisal, monitoring, and mitigation strategies to fortify the financial robustness of MFIs. While the choice between debt and equity structures remains inconsequential to financial performance, prudent risk management practices emerge as indispensable for sustaining positive outcomes in the realm of microfinance.

In his study, Ngoc (2018) thoroughly examined the efficacy of preference share capital on the financial advancement and profitability of thirty logistical companies listed on Ho Chi Minh City Stock Exchange (HOSE) trading as from 2012 to 2019. Making use of a rigorous regression analysis methodology, the research meticulously parsed the data. The outcome suggested distinct results: a confirmed negative correlation between financial progress and long-term borrowed funds, alongside positive correlations between size and debt, consistent and at par with both Trade-off and signaling theories. In summary, the study provided substantial support for prevailing capital structure theories, elucidating the factors influencing corporate debt decisions. Ngoc further advocated for additional research endeavors to deepen comprehension of the applicability of preference share capital, particularly within industries characterized by modest scale, notably in developing economies. This insight carries significant implications for strategic decision-making in financial management, prompting a reevaluation of capital structure strategies on and above the broader context of corporate finance.

Orichom and Omeke (2021) Carried out an in-depth exploration into the connection over credit risk management, capital structure, and the financial performance of microfinance entities (MFIs) in Uganda, under the framework of agency theory. By employing a cross-sectional research approach, the study meticulously scrutinized 64 MFIs across Uganda. Through robust correlation and multiple regression analyses, the dataset underwent thorough examination. The findings unequivocally underscored the significant contribution of credit risk management to fostering sound financial performance. Conversely, the exercise suggested, capital structure exhibited no significant connection with financial performance. Consequently, the study emphasizes the paramount importance of credit risk appraisal, monitoring, and mitigation strategies in bolstering the financial stability of MFIs. While the specific configuration of debt or equity may not directly impact financial performance, prudent risk management practices are deemed essential for mitigating credit risks and steering MFIs towards positive financial outcomes.

A comprehensive analysis on influence of capital structure over financial performance within Nigeria's retail sector was conducted by Muhammad (2019). The exercise focused on firms quoted on the Nigeria's Securities market, a sample size consisting of 6 selected firms was made use of. By utilizing a filtering sampling technique, data spreading in a five-year period of time as from 2012 to 2016 was analyzed. Dependent variable used was financial performance, Proxified by return on assets (ROA), and the independing dimensions included short-term debt, long-term debt (LTD), and shareholders' funds (ROE). The data analysis was conducted using description statistics, regression analysis and correlation through E-views 8.0, with significance level set at 0.05 (5%). Outcomes revealed, short-term debts had no significance with no impact on financial performance of the listed firms within Nigeria's retail sector. Conversely, equity (Preference share capital) demonstrated a real significant effect on the financial performance of these listed firms. Regarding these outcomes, the research offered valuable recommendations for corporate decision-making. It emphasized the importance of companies critically evaluating and comparing the costs associated with obtaining various sources of capital against the anticipated benefits. Rather than making capital structure decisions based on unfounded generalizations, managers are encouraged to conduct thorough assessments to ensure a favorable outcome. This strategic approach enables managers to optimize capital structure, thereby maximizing gains and enhancing overall financial performance. Such insights are instrumental in guiding prudent financial management practices within the consumer goods industry and beyond.

In a study examining 85 listed firms in Tehran, Safari et al. (2016), researched on capital structure effects over performance. They realized that variables for measuring firm performance, that include return on assets and return on equity, market value of equity to book value of equity and Tobin's Q, exhibited positivity worth of significance in relation to capital structure. Similarly, in the other examination involving 63 listed Pakistan firms, researchers discovered a positive effect on capital structure components on ROA. Specifically, the debt to total assets ratio was found to positively influence return on equity, while equity over assets and long-term debts over assets demonstrated a negativity on return on equity. These findings highlight the intricate correlation between firm's profitability and capital structure, exhibiting important insights for strategic decision processes in corporate finance.

METHODS

The methodology of this study adopted a mixed methods approach, drawing from a fusion of positivistic and naturalistic perspectives within research philosophy. As articulated by Trochim (2016), research design opines as the cohesive framework that bonds together the various elements of a research endeavor. In alignment with these principles, the study embraced a causal research design, selected for its quantitative orientation and inherent pre-planned, structured methodology. In line with the outlined parameters, the unit of inquiry for this

study consisted of 248 line managers drawn from the manufacturing and allied companies listed on the Nairobi Securities Exchange. This distribution is clearly delineated in the accompanying form, ensuring transparency and precision in the research methodology. This study employed the census method, an approach that involves examining every unit, individual, or element within an entire population. Essentially, a census method constitutes a comprehensive enumeration, ensuring a thorough and exhaustive count.

Within these firms, the respondents comprised all 248 line managers working in finance, financial management, and related departments. This approach ensures a representative and thorough examination of the targeted population, thus factoring the robustness and reliability of the study's outcomes. In this assessment, a comprehensive approach was adopted to gather data from finance line managers of manufacturing and allied firms registered at the Securities Exchange market (NSE). Both open and closed-ended questionnaires were utilized for purposes of ensuring a thorough examination of the pertinent factors. These questionnaires encompassed inquiries into various aspects of firm performance, particularly focusing on the utilization of equity, debt, preference, retained earnings, and the influence of foreign investment. The closed-ended questionnaires were structured using a Likert scale format, providing respondents with a spectrum of options ranging from "Strongly Disagree" to "Strongly Agree." This systematic approach enabled precise measurement and analysis, ensuring robust and reliable deep understanding into the relationships between capital structure decisions and organizational performance within the manufacturing and allied sectors.

In relation to the findings of this research exercise, the methodology of data collection involved a combination of primary and secondary approaches. This strategic blend is chosen because it leverages both firsthand and existing information, ensuring a comprehensive analysis. Primary data to be used will be gathered through structured interviews and the completion of predefined questionnaires by selected respondents. Meanwhile, secondary data was acquired using a designed data collection schedule tool, facilitating the extraction of insights from various sources such as company profiles, financial statements, and other pertinent published reports between a 7-year period from 2016 to 2023. Financial performance was measured by return on assets ratio.

By employing a comprehensive approach, the analysis encompassed statistical methods such as mean calculation, correlation assessment, simple regression modeling, and ANOVA f-test application. The outcomes of this rigorous analysis were elucidated and exhibited by use of clear and concise figures and tables. Notably, correlation emerges as a vital statistic, delineating the interrelationship among the variables employed. Additionally, measures of central tendency were employed to provide further insight into the data. Regression analysis, a potent tool for probing causal relationships, was employed in the study. In order to ensure the conclusiveness of the analysis, collected data underwent scrutiny through the Shapiro-Wilk test in order to ascertain its normality. The researcher adhered to a significance level of 0.05, ensuring a rigorous and methodical approach throughout the analytical process.

RESULTS AND DISCUSSIONS

This section presents the descriptive statistics, regression analysis and the discussion of the study findings.

Descriptive Statistics

Table 1. Preference Shares

Preference Shares Component	Mean	Std. Dev
The firm capital structure contains preference shares.	4.28	0.781
The firm has issued paid up preference shares.	3.83	0.973
Preference shares issued by the firms have no voting rights.	3.96	1.172
Preference shares are long term and not easily redeemable.	4.00	1.005
Preference shares issued by the company are not convertible to equity.	3.71	0.891
Preference shares issued do not have ownership rights.	4.32	0.767
Average Mean score	**4.02**	**0.931**

Source: Research Findings (2025)

The first item assessed was whether the firm's capital structure contains preference shares, which received a mean score of 4.28 (Std. Dev. = 0.781). This indicates a strong consensus among respondents that preference shares are indeed a component of their capital structure, suggesting that these financial instruments are integral

to how firms finance their operations. The second statement addressed the issuance of paid-up preference shares, yielding a mean score of 3.83 and a standard deviation of 0.973. This indicates that while a majority of respondents agreed on the existence of issued paid-up preference shares, there is slightly less uniformity compared to the first item. This variance might suggest that not all firms are utilizing paid-up preference shares to the same extent, reflecting different strategic approaches to capital financing.

The perception that preference shares issued by the firms have no voting rights garnered a mean score of 3.96, (Std. Dev. = 1.172). This result reflects a solid agreement among respondents regarding the non-voting nature of preference shares, which is a defining characteristic of these instruments. Similarly, the assertion that preference shares are long-term and not easily redeemable scored an average of 4.00 with a standard deviation of 1.005, reinforcing the understanding that preference shares serve as a stable, long-term source of financing for the firms. This perspective is crucial, as it highlights the strategic role of preference shares in providing financial stability and predictability in capital management.

The item regarding the non-convertibility of preference shares to equity had a mean score of 3.71 (Std. Dev. = 0.891). This lower score compared to previous items suggests that there may be some uncertainty or variability in how firms view the convertibility of preference shares, which could be indicative of differing practices among the firms or a lack of clarity on this aspect. Lastly, the statement regarding the lack of ownership rights associated with preference shares scored an impressive 4.32, with a standard deviation of 0.767. This high mean reinforces the understanding that preference shareholders do not have ownership rights, which is a significant distinction from ordinary shareholders and impacts governance structures within firms.

The average mean score across all items was 4.02, (Std. Dev. = 0.931), reflecting a generally positive perception of preference shares among the firms surveyed. This score suggests that preference shares are widely recognized as a valuable component of capital structure, providing firms with a flexible financing option that does not dilute ownership control. Overall, the findings indicate that preference shares play a significant role in the financial strategy of these firms, contributing to their capital stability and financial performance. The positive attitudes towards preference shares highlight their importance as a tool for managing capital structure while maintaining operational control, which is crucial for firms seeking to optimize their financial resources in a competitive environment.

These findings align closely with studies, such as Kimani et al. (2023), which explored the role of preference share capital in the financial strategies of manufacturing firms in emerging markets. Kimani et al. (2023) reported an average score of 4.10 across similar metrics, emphasizing that preference shares are a favored instrument for firms seeking stable, long-term financing without ownership dilution. The study highlighted that over 80% of surveyed firms incorporated preference shares in their capital structure, consistent with the strong consensus (mean = 4.28) observed in the current findings regarding the inclusion of preference shares in capital structures.

Both studies underscore the strategic benefits of preference shares, particularly their role as non-voting instruments (mean = 3.96 in the current study, compared to 4.02 in Kimani et al. (2023), which allow firms to secure funding while maintaining governance control. Similarly, the perception of preference shares as long-term and not easily redeemable (mean = 4.00) resonates with Kimani et al.'s findings, which attributed stability in financial planning to this characteristic. The slightly lower agreement regarding the non-convertibility of preference shares to equity (mean = 3.71) mirrors Kimani et al.'s observation that some firms prefer convertible features to attract diverse investor profiles, reflecting variability in financial strategies.

The higher mean score for the lack of ownership rights (4.32) reaffirms Kimani et al.'s conclusion that firms value preference shares for their ability to raise capital without compromising shareholder control. These findings collectively highlight a consistent narrative across studies: preference shares serve as a vital component of financial strategy, enabling firms to balance operational control, capital stability, and financial performance. This alignment underscores the broader applicability of these instruments across diverse organizational contexts, particularly in industries that require a stable financial base to navigate competitive environments.

Regression Analysis

Table 2. Model Summary on the relationship between preference share capital and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.506[a]	0.256	0.253	0.705

a. Predictors: (Constant), Preference share capital

b. Dependent Variable: financial performance (measured by return on assets)

From Table 2, the coefficient of determination (Adjusted R^2) implied that the preference share capital could explain up to 25 percent of the variation in the financial performance. The remaining percent of the variation could be due to other predictors not in the model. The model test of fitness results is presented in Table 3 indicating the reliability of the model in predicting financial performance.

Table 3. ANOVA for the relationship between preference share capital and financial performance

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	35.927	1	35.927	72.300	.000[b]
	Residual	104.352	210	.497		
	Total	140.278	211			

The model result of fitness indicates an F-statistic of 72.300 and a p-value of 0.000<0.05. This indicates that the model is fit for prediction at 95 percent confidence level. Preference share capital had a significant effect on the financial performance. The study of multiple regression model coefficients obtained which could be used for prediction are presented in table 4.

Table 4. Model coefficients for the relationship between preference share capital and financial performance

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.665	0.302		5.508	0.000
	Preference shares	0.594	0.070	0.506	8.503	0.000

As shown above, preference share capital was found to positively influence financial performance in the listed manufacturing and allied firms. This implies that an increase in this practice will result in improvement of the financial performance. In addition, the variable has a p-value of 0.000, which less than 5% ($P < 0.05$) meaning that the variable is significant in explaining the variations in financial performance in the listed manufacturing and allied firms.

Discussion of Findings

The findings indicate that preference share capital positively influences financial performance, explaining up to 25% of its variation. The significant p-value (<0.05) reinforces this positive impact, suggesting that increasing preference share capital enhances financial performance in listed manufacturing and allied firms in Kenya. This could be attributed to the stability and fixed nature of returns associated with preference shares, which likely contribute to predictable earnings. However, the relatively moderate coefficient of determination implies other factors also play significant roles in influencing financial performance, highlighting the need for a balanced capital structure.

Preference share capital showed no issues of multi-collinearity, as reflected by a tolerance value of 0.576 and a VIF of 1.553. The normality test further supported the data's appropriateness, with skewness and kurtosis values of -0.311 and -1.976, respectively. Factor analysis results demonstrated that preference shares are integral to capital structure, as two principal components explained 53.59% of the variance. Variables like the non-convertibility of preference shares to equity and their lack of voting rights emerged as significant. This underscores that firms in the manufacturing and allied sectors of Kenya rely on preference shares as a stable source of financing, potentially mitigating risks associated with other capital forms.

The finding that preference share capital positively influences financial performance aligns with the studies by Mwiya et al. (2021) on Zambian listed firms and Fathi et al. (2022) on Middle Eastern firms, both showing that preference shares offer a stable dividend policy and reduce volatility in financial returns. However, Kojo and Amoako (2020) from Ghana contradict this, arguing that preference shares can limit growth because the fixed dividend payouts reduce retained earnings for reinvestment. Hussain and Alam (2023), studying firms in South Asia, assert that preference shares can cause liquidity strain when firms are struggling, which may negatively affect performance. Furthermore, Yoon et al. (2023) highlight the sector-specific nature of this relationship, finding that in capital-intensive industries such as infrastructure, preference shares enhance stability but in tech sectors, they may hinder innovation by restricting cash flow. In contrast, Chong and Wang (2021) examined Southeast Asian manufacturing firms and found no significant relationship between preference share capital and financial performance, arguing that firms relying on equity capital may suffer from shareholder constraints, weakening profitability.

CONCLUSION

The study concludes that preference share capital has a positive and statistically significant influence on the financial performance of listed manufacturing and allied firms in Kenya. The regression results indicated that preference share capital accounts for approximately 25 percent of the variation in financial performance, confirming its relevance as part of capital structure. The positive coefficient further suggests that greater use of preference share capital is associated with improved performance outcomes within these firms. Descriptive findings revealed that preference shares are widely acknowledged as integral to financing strategies, particularly due to their non-voting rights, long-term stability, and non-convertible nature. These attributes make preference shares attractive to firms seeking to raise capital without diluting ownership control, while also ensuring predictable financing commitments.

However, the explanatory power of preference share capital remains moderate, implying that other financial and operational factors beyond the current model also play a substantial role in determining firm performance. The study therefore recognizes preference share capital as an important, but not exclusive, contributor to financial outcomes in the manufacturing and allied sectors. The findings do not provide evidence to generalize about other financial aspects such as liquidity management, cost of equity, or long-term profitability beyond the measured relationship. Future research could expand the scope by incorporating other capital structure variables and industry contexts to provide a more comprehensive understanding of how preference share capital interacts with overall financial strategy.

The study recommends that listed manufacturing and allied firms should prioritize the inclusion of preference share capital in their capital structure strategies. Preference shares offer firms the advantage of securing capital without the pressure of immediate repayment, providing financial stability. Firms should develop policies to ensure the effective management of preference shares to maximize liquidity. It is also advisable for firms to leverage the benefits of preference shares in reducing their overall cost of equity. In doing so, companies can enhance profitability while maintaining financial flexibility. Proper assessment of market conditions and investor expectations should guide the issuance of preference shares.

The study recommends that policymakers encourage listed manufacturing and allied firms to adopt preference share capital as a viable source of funding. By providing regulatory incentives for the use of preference shares, the government can help firms reduce their reliance on high-cost debt. Preference shares offer a fixed return to investors, which provides firms with stability in their capital structure. Policymakers could also consider tax benefits for firms that issue preference shares, further encouraging their adoption. Such measures would help firms improve their liquidity and long-term financial sustainability. Additionally, policies should ensure transparent disclosure of preference share terms to protect investors and maintain market confidence.

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