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Short-Term Debt Financing and Shareholder Value: Evidence from Listed Manufacturing Firms in Kenya

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Abstract

Listed manufacturing firms in Kenya play a critical role in driving economic growth, contributing approximately 18% to the country's Gross Domestic Product (GDP) and creating over 2.3 million jobs in both formal and informal sectors. However, these firms have faced challenges in consistently generating shareholder value over the past decade, raising concerns about their ability to sustain value creation. While shareholder value has increased among listed firms in general, the performance of listed manufacturing firms remains notably weak. Previous studies investigating shareholder value have produced inconsistent findings, leaving uncertainty about how financial structure influences shareholder value in these firms. This study addresses this gap by examining how short-term debt financing affect shareholder value among listed manufacturing firms in Kenya. Anchored on the Modigliani and Miller Theory and the Trade-off Theory, the research adopts a positivist philosophy and a causal research design. The target population included 21 listed manufacturing firms on the Nairobi Securities Exchange (NSE). Secondary panel data for the period 2012–2023 was extracted from published financial statements and analyzed using Stata software, employing both descriptive and inferential statistical techniques. The study found that short term debt had a positive and significant effect on shareholder value ($\beta = 0.284519$, $p = 0.015 < 0.05$), suggesting that efficient use of short term borrowing to support liquidity and operations enhances value. In view of the findings, the study recommends that managers and regulators should focus less on altering ownership structures and more on limiting costly long term borrowing, supporting working capital discipline, and deliberately growing and redeploying retained earnings to drive shareholder value. In addition, policymakers, especially the National Treasury, Capital Markets Authority, and Nairobi Securities Exchange, should consider formulating financial policies that encourage manufacturing firms to adopt balanced financing approaches.

Keywords: *Short-Term Debt Financing, Shareholder Value, Capital Structure, Manufacturing Firms, Nairobi Securities Exchange*

1.0 Introduction

Generating shareholder value remains a fundamental objective within the global corporate sphere, closely linked to corporate profitability. As observed by Chávez, Kramer and Santillán (2015), firms hold two primary aims: creating shareholder value and maximizing profits. Whereas profit maximization tends to prioritize short-term gains, maximizing shareholder value emphasizes the sustainability of long-term returns. Shareholder value represents the current wealth derived by shareholders due to their investment in a company's stock and continued ownership of that stock. Corporate leadership endeavors to boost shareholders' value through astute financial decision-making (Atiyet, 2015). The manufacturing industry significantly contributes to Kenya's economic growth. Kenya's Vision 2030 blueprint emphasizes the need for the sector to grow by 8% over 20 years to achieve its strategic objectives (Bulle & Omagwa, 2017). Currently, ten firms are listed under the manufacturing and allied sector on the Nairobi Securities Exchange. These companies drive economic growth by producing a wide range of goods, including agricultural products, edible oils, motor vehicles, tobacco, fabricated metals, cement, furniture, textiles, soap, beverages, chemicals, pharmaceuticals, sugar, dairy products, leather, flour, and other essential items (CMA, 2022). Identifying the factors that drive value creation within these firms is crucial to sustaining and enhancing this vital sector.

Short-term debt holds significant importance for manufacturing firms, playing a pivotal role in their operational and financial strategies (Muhammad & Isah, 2017). According to Ngure (2018), short-term debts encompass financial obligations due within the trading period, notably including overdrafts, serving as a capital source for the organization. Short-term debt provides manufacturing firms with the flexibility needed to seize growth opportunities swiftly, whether it is investing in new equipment, expanding production capacity, or exploring new markets, access to quick and flexible funding enables these firms to capitalize on strategic initiatives without committing to long-term debt obligations (Venugopal & Reddy, 2016). Short-term debt has been assessed using various financial metrics and ratios, such as the Current Ratio (Muhammad and Isah, 2017), the natural logarithm of short-term debt (Titman, Keown, and Martin, 2011), the Debt-to-Equity Ratio (Hamam et al., 2020), and the ratio of short-term debt to total assets (Mwangi, 2016). In alignment with prior research Titman, Keown and Martin, (2011); Venugopal and Reddy (2016), this study will utilize the natural logarithm of short-term debt to measure the variable.

In Kenya, shareholder value creation is a critical focus for companies, particularly those listed on the Nairobi Securities Exchange (Muthoni, Jagongo & Muniu, 2019), with the firms striving to enhance shareholder value by delivering sustainable financial returns through dividends and stock price appreciation (Makeni, 2018). Manufacturing firms in Kenya, however, have faced challenges in maintaining consistent shareholder value due to factors such as economic fluctuations, regulatory changes, and operational inefficiencies (Kenya Association of Manufacturers, 2020). Research indicates that listed manufacturing firms in Kenya have experienced variable performance, highlighting the need for improved financial structures and governance practices.

1.1 Statement of the Problem

Manufacturing firms play a significant role in driving economic growth in Kenya. The sector, which encompasses various industries such as food and beverage, paper manufacturing, plastic production, and metal-related industries, contributes approximately 18% to the GDP of Kenya and provides employment to over 2.3 million individuals across both formal and informal sectors (KAM, 2020). Specifically, the listed manufacturing firms attract foreign investment and foster international trade because their listing provides them with access to capital markets, enabling them to raise funds for expansion, modernization, and technology adoption (Mwangi, 2016). Moreover, foreign investors are often attracted to listed firms, leading to increased foreign direct investment (FDI) inflows (Nyamoma, 2020). Based on the above contributions of the firms, to Kenya's economy, it is important that their shareholder value adding capacity is enhanced. This is because finance theorists and practitioners observe that shareholders' value creation is one the most important goals of the firm (Achieng, Muturi & Wanjare, 2018).

Although listed manufacturing firms in Kenya contribute significantly to the economy, they have consistently struggled to create and maintain shareholder value over the past decade. For example, despite a reported increase in shareholder wealth on the NSE in 2019, much of this growth was concentrated within a few companies, with East Africa Breweries PLC being the only manufacturing firm among them (CMA, 2020). This underlines the limited contribution of the manufacturing sector to shareholder value creation. Furthermore, some firms have faced significant challenges in sustaining value, with Mumias Sugar Company PLC and ARM Cement Limited being suspended from trading in the years 2018 and 2019 respectively (CMA, 2020). Their suspension reflects a broader failure to protect or enhance shareholder value. As Kariuki, Jagongo and Muniu (2019) point out, diminished firm value expose companies to risks such as falling share prices, hostile takeovers, and eventual delisting from the stock market.

Several empirical studies have explored the relationship between financial structure elements and shareholder value. However, these studies have limitations that make their findings less applicable to listed manufacturing firms on the Nairobi Securities Exchange (NSE). For instance, Kaumbuthu (2019) examined the impact of capital structure and financial performance on the industrial and allied sectors of the NSE but did not include extensive diagnostic assessments, which may weaken the reliability of its conclusions. Gul, Khan, and Rehman (2013) found an inverse relationship between the short-term debt ratio and profitability. However, their study did not consider the effects of long-term debt and retained earnings on performance, which are relevant factors in the current research. Haque et al. (2019) investigated the impact of long-term debt on financial performance in the context of the Dhaka Stock Exchange and found a positive but statistically insignificant effect. Since their study included all firms, its findings are not directly applicable to listed manufacturing firms in Kenya.

Although existing empirical research has linked financial structure elements with shareholder value, several research gaps remain that require further exploration. First, many studies (Kaumbuthu, 2011; Gul, Khan, Rehman, 2013; Haque et al., 2019; Machado and Prado, 2016; Khasawneh and Dasouqi, 2017; Gul, Khan & Rehman, 2013; Haque et al., 2019; Machado & Prado, 2016; Khasawneh & Dasouqi, 2017) have been conducted in different geographical contexts, highlighting the need to investigate the specific challenges and dynamics within Kenya's listed manufacturing firms. Second, the above studies have focused on non-manufacturing firms, making their findings less applicable to the manufacturing sector. Third, some of the above studies have used cross-sectional data, which limits understanding of how time influences the relationship between the independent and dependent variables. Additionally, previous studies have assumed a direct effect between these variables, without

considering the moderating and mediating effects of ownership concentration. The impact of ownership concentration on the relationship between financial structure and shareholder value among Kenya's listed manufacturing firms remains unexplored. Therefore, this study aimed at determining the effect of short-term debt on shareholder value in listed manufacturing firms in Kenya.

1.2 Research Objective

To determine the effect of short-term debt on shareholder value in listed manufacturing firms in Kenya.

1.3 Research Hypothesis

H_0: Short-term debt has no significant effect on shareholder value among listed manufacturing firms in Kenya.

2.1 Theoretical Review

A theoretical framework, as explained by Suresh (2010), illustrates the interconnection of variables in a study through hypotheses. According to Gathii et al. (2019), it is within this framework that the hypotheses guiding the research are formulated. This study is grounded Modigliani and Miller Theory and the Trade-off Theory.

2.1.1 Modigliani and Miller (MM) Theory

This theory was developed by Modigliani and Miller (M&M) (1958). M&M Proposition II was developed as a response to their initial proposition, which stated that in a perfect market free of taxes, bankruptcy costs, and information asymmetries, a firm's capital structure has no impact on its value. Recognizing the limitations of this assumption, Modigliani and Miller revised their theory in Proposition II (1963) to account for the real-world impact of taxes. The introduction of corporate taxes highlighted that debt financing, due to tax-deductible interest payments, can increase firm value, thereby providing a framework for firms to understand how leverage (debt) contributes to shareholder wealth maximization (Al-Najjar & Kilincarslan, 2018).

Proposition II introduces key constructs such as cost of equity, cost of debt, weighted average cost of capital (WACC), and leverage (Islam et al., 2019). It posits that the cost of equity increases with leverage, as equity holders require higher returns to offset the additional risk associated with debt. Despite its significant influence, Proposition II has drawn criticism for oversimplifying real-world conditions. Critics highlight its neglect of factors like bankruptcy costs, agency costs, and information asymmetries (Elikanah, 2019). Furthermore, excessive debt in practice can lead to financial distress, diminishing the advantages of the tax shield and ultimately reducing firm value. Critics also argue that capital structure decisions are affected by inefficiencies in markets, as well as factors like behavioral finance and managerial discretion (Al-Najjar & Kilincarslan, 2018).

Modigliani and Miller theory Proposition II provides a solid theoretical foundation for analyzing the effect of financial structure on shareholder value among listed manufacturing firms. By focusing on how different levels of leverage (short-term debt, long-term debt) and equity impact firm value, your study can examine whether firms optimize shareholder wealth through their capital structure choices (Ahmad *et al.*, 2018). The proposition's emphasis on the tax advantages of debt is particularly relevant for understanding why some firms may rely more heavily on debt financing. Additionally, by considering the rising cost of equity as leverage increases, your study can explore how firms balance these dynamics to maximize shareholder value, while accounting for the risks of excessive debt.

2.1.2 Trade-off Theory

Kraus and Litzenberger (1973) first introduced this theory, which gained traction through subsequent works by Myers (1984) and Frank & Goyal (2007). This theory modifies some assumptions of Modigliani and Miller's (1961) model, particularly those concerning taxes, transaction costs, financial distress costs, and agency costs. The proponents of this theory argue that when firms determine the optimal proportion of debt for financing their operations, they focus on balancing the benefits of increased debt with the potential risks it introduces. In essence, the trade-off involves considering the advantages of debt, such as tax shields, against the drawbacks like the increased risk of financial distress.

The trade-off theory asserts that firms aim to maintain an optimal debt-equity ratio to manage their capital structure effectively, minimizing the risk of financial distress. To achieve this, companies must implement robust financial management systems that consider factors such as taxes, risks, assets, and profitability. Balancing debt financing is essential, as firms must weigh its tax advantages against the potential costs of bankruptcy. The theory further suggests that more profitable firms face lower bankruptcy risks, allowing them to sustain higher debt levels comfortably, as highlighted by Jensen and Meckling (2009). However, it also posits that profitable firms may prefer to rely on retained earnings rather than debt to finance their operations, resulting in a negative relationship between leverage and profitability.

The relevance of the trade-off theory to both financial structure and dividend payout decisions lies in its emphasis on achieving an optimal balance between the benefits and costs of leverage to maximize firm value. As outlined by Acaravci (2015), firms strive to maintain an equilibrium between debt and equity, which ensures long-term financial stability and growth. The theory also proposes that a firm's desired debt level is influenced by three key factors: the tax implications of debt, the costs of financial distress, and agency-related conflicts within the firm. By navigating these competing factors, companies can design a capital structure that meets the needs of shareholders while maximizing overall firm value.

2.2 Empirical Review

Matusin, Martiningtiyas, Matusin, Safitri and Hutauruk (2024) examined the effect of short-term debt financing on firm value among 60 manufacturing companies listed on the Indonesia Stock Exchange over 2015-2020. The study employed purposive sampling and multiple regression of firm value on short-term debt to total assets (STDA), long-term debt to total assets (LTDA), total debt to total equity (TDTE) and control variables. The study found that short-term debt to total assets had a significant negative effect on firm value, while LTDA and TDTE were not significant (Matusin et al., 2024). The study concluded that reliance on short-term debt for manufacturing firms is value-detracting in Indonesia, particularly because of repayment and refinancing risks. In view of the findings, the study recommended that firms should consider reducing reduce short-term debt usage and prefer longer-maturity obligations for asset financing.

A study by Donkor (2025) investigated the impact of short-term debt on the performance of manufacturing companies listed on the Ghana Stock Exchange over the eight-year period 2015-2023, using descriptive and causal research design and regression analysis where short-term debt was measured and return on assets was the performance measure. The study found a significant negative relationship between short-term debt and ROA, with short-term debt and firm size explaining about 9.9% of the variation in performance. The conclusion was that higher reliance on short-term financing reduces profitability and hence shareholder value in Ghana's manufacturing sector. The study thus recommended that manufacturing firms to focus more on internal funds, diversify funding sources and be cautious with short-term borrowing.

In a separate study, Amugada and Mwangi (2025) studied listed manufacturing firms on the Nairobi Securities Exchange Kenya over a period from 2010-2022, using panel regression (Stata 17) on a census of nine listed manufacturing firms, with short-term debt ratio of short-term debt to total assets as an independent variable and profitability (ROA/ROE) as the dependent variable. They found that short-term debt had a negative and significant effect on profitability, and by implication shareholder value, of the manufacturing firms. They concluded that heavy short-term borrowing affects the firm negatively in that context due to high refinancing and liquidity risk, and recommended firms changes to longer-term funding or ensure short-term debt is strictly matched to short-term assets.

Adelabu and Adelabu (2025) studied listed manufacturing firms in Nigeria using panel data from 2014-2023 having selected five firms and measuring short-term debt by overdrafts, short-term loans and trade credits, and measuring performance by return on assets in a fixed-effect and random-effect panel regression. The study found that short-term debt had a significant negative effect on ROA (t-stat = -4.700738, p = 0.0000). The study thus concluded that excessive short-term debt lowers shareholder returns in Nigeria's manufacturing sector largely because of high debt servicing and liquidity risk; the recommendation was that firms reduce reliance on short-term borrowing and instead consider equity or long-term debt options.

2.3 Conceptual Framework

A conceptual framework offers a visual representation of how various factors relate to one another. In this framework, short term debt is the independent variable, while shareholder value is the dependent variable. This can be observed in the conceptual framework in Figure 1.

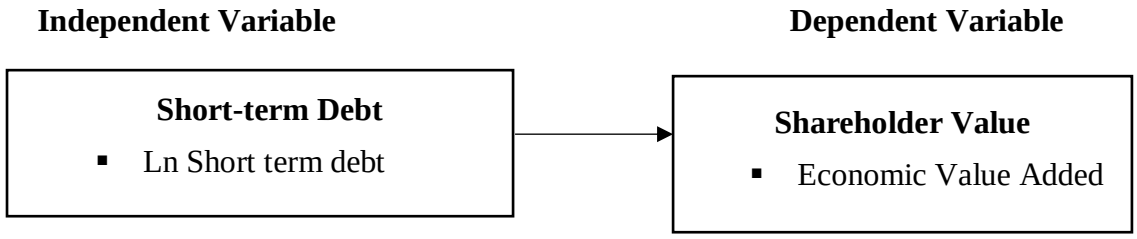

Figure 1: Conceptual Framework

3.0 Research Methodology

In this study, the quantitative paradigm was adopted to uncover cause-and-effect relationships among quantitative variables, employing a correlational research design. Crotty (1998) notes that the positivism philosophy evaluates real, objective, neutral, and predictable facts about social phenomena, often with little regard for individual subjectivity. Positivism serves as the relevant philosophical foundation to guide the study's purpose, investigation type, extent of involvement, data collection time frame, analysis, and presentation. Furthermore, the positivist paradigm maintains that the researcher remains independent of the observations made during the study. By adopting a positivist perspective, this approach does not begin from established theories (Saunders et al., 2008). Positivism emphasizes objectivity and impartiality in research. This study adopted a causal research design based on its philosophical approach, objectives, and data accessibility. The causal design aims to demonstrate how certain variables influence others and seeks to uncover the underlying causes of observed changes (Kerlinger & Lee, 2000).

3.1 Empirical Model

The study adopted the static panel data model developed by Arellano and Bover (1995). The Arellano and Bover (1995) model is well-suited for examining the relationship between financial structure and shareholder value over time (Adenutsi, 2014). To test the direct effect of the independent variable on the dependent variable of shareholders' value creation measured by Economic Value Added (EVA), the following static panel data regression Model 1 was employed:

$$\boldsymbol{SV_{it} = \beta_0 + \beta\, STD_{it} + \varepsilon_i}$$

Where $\boldsymbol{SV_{it}}$ is Shareholder's Value for firm i during year t;

$\boldsymbol{STD_{it}}$ is short term debt for firm i during year t

$\boldsymbol{\varepsilon_i}$ is the disturbance term

The study targeted twenty-one listed manufacturing firms as of December 2023 on the Nairobi Securities Exchange (NSE, 2023). The listed firms were selected because of their important role in Kenya's manufacturing sector and the availability of reliable data, as they are mandated to publish their financial statements, which ensures the credibility of the variable measurements. The study conducted a census of the specific firms in focus and thus all 21 listed manufacturing firms at the NSE (Nairobi Securities Exchange, 2023) were examined. Secondary data was sourced from the published financial statements of 21 listed manufacturing firms, focusing on their financial structure, Economic Value-Added variables, and ownership concentration. The data covered the period from 2012 to December 2023, providing a total of 252 data points.

The collected panel data was analyzed using Stata statistical software due to its strong capability in handling econometric and panel data models. The analysis comprised both descriptive and inferential statistics. Descriptive statistics included measures such as means, standard deviations, minimum, and maximum values, which summarized the characteristics and variability of the study variables across firms and time periods. Trend analysis was also conducted to observe the direction and movement of key financial indicators and shareholder value over the study period (2012-2023). Inferential statistics included Pearson's correlation analysis and panel regression analysis. Pearson's correlation was employed to examine the strength and direction of the linear relationships between financial structure variables. Panel regression analysis was then applied to estimate how variations in short-term debt influenced shareholder value over time.

4.0 Results, Findings and Discussion

4.1 Descriptive Statistics

Descriptive statistics provided overview of the general financial position of the sampled manufacturing firms, including their reliance on short-term utilization. These patterns were analyzed in relation to their potential influence on shareholder value which was measured using economic value added. The descriptive statistics results are presented in Table 1.

Table 1: Descriptive Statistics

Variable	Obs.	Minimum	Maximum	Mean	Std. Deviation
STD	250	52181.7	199957.7	123523	42508.32332
SV	250	-92233.7	92233.72	-9223.37	9223.372037

STD=Short-term debt, = SV= Shareholder Value

Source: Research Data, 2025

The descriptive findings on Table 1 depicts that short-term debt recorded a mean value of KSh 123,523 million with a standard deviation of 42,508.32, indicating moderate variability across the sampled firms. The minimum and maximum values were KSh 52,181.7 million and KSh 199,957.7 million respectively, indicating that even though some firms were relying moderately on short-term financing, others depended heavily on it to meet their operational and liquidity needs. These findings suggest that most listed manufacturing firms in Kenya were using short-term debt as an essential component of working capital management within the study period (2012-2023). This result is consistent with the outcome if a study by Moyo and Ndlovu (2018), who found that manufacturing firms globally prefer short-term debt due to its flexibility and lower cost of capital compared to long-term financing. However, the variation across firms indicates differences in financial policies, liquidity positions, and credit access.

Shareholder value, measured by Economic Value Added (EVA), had a mean of -9,223.37 with a standard deviation of 9,223.37, ranging between -92,233.7 and 92,233.72. This wide dispersion shows that while some firms generated positive economic value, others eroded shareholder wealth during the study period. The negative mean suggests that, on average, listed manufacturing firms in Kenya faced challenges in achieving returns above their cost of capital. This contrasts with Achieng, Muturi, and Wanjare (2018), who found positive EVA trends in other emerging markets, indicating that firms there were able to enhance shareholder value.

4.2 Trend Analysis

4.2.1 Trend Analysis on Short Term Debt

The trend analysis for short-term debt examined the yearly fluctuations in firms' reliance on short-term financing between 2012 and 2023. This helped determine whether listed manufacturing firms in Kenya increasingly depended on short-term obligations to support operational liquidity over time. The trend line is shown in Figure 2.

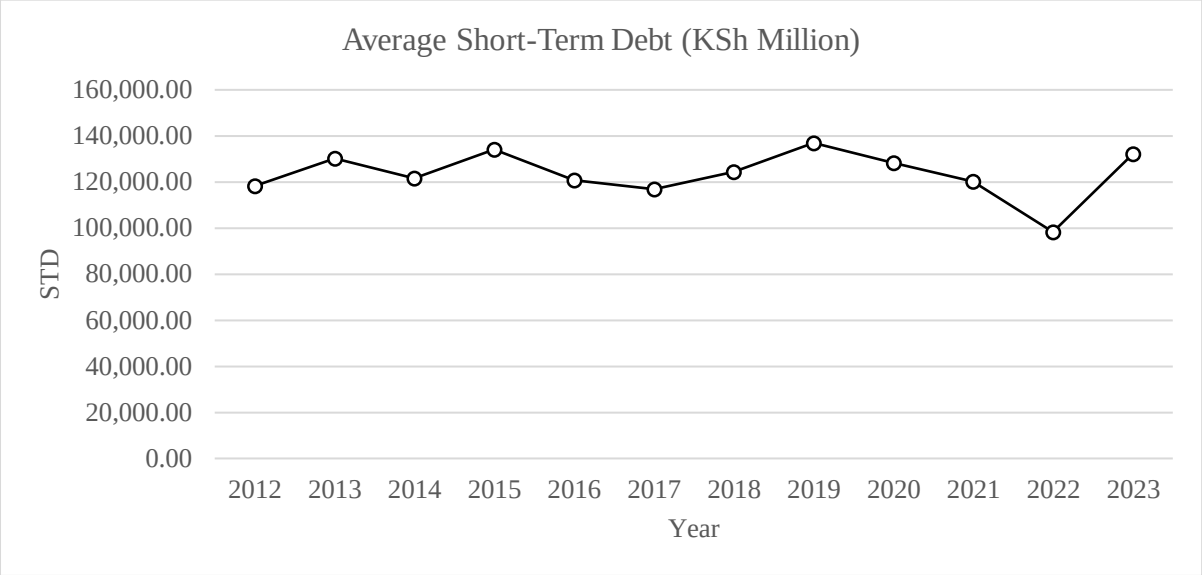

Figure 2: Trend Line on Short Term Debt

Source: Research Data, 2025

The trend line in Figure 2 illustrates the annual changes in the average short-term debt of listed manufacturing firms in Kenya from 2012 to 2023. In the year 2012, the average short-term debt stood at KSh 118,344.41 million, indicating moderate reliance on short-term borrowings to finance daily operations and working capital needs. This value increased in 2013 to KSh 130,319.95 million, reflecting greater use of short-term financing possibly due to expanding production capacity and inventory buildup following improved macroeconomic conditions in the manufacturing sector. In 2014, there was a slight decline in short-terms debt to KSh 121,574.77 million, suggesting reduced dependence on short-term loans. However, this was followed by another increase in 2015 to KSh 134,243.74 million, marking one of the highest levels in the twelve-year period. This can be attributed to firms turning to short-term credit to manage liquidity challenges amid increased production costs. The subsequent year, 2016, registered a reduction in short term debt to KSh 120,669.89 million, possibly indicating efforts by firms to restructure debt portfolios and shift toward long-term financing options.

Between 2017 and 2018, short-term debt levels fluctuated moderately, with KSh 116,935.28 million in 2017 and KSh 124,384.18 million in 2018, demonstrating a period of stabilization. This trend points to deliberate financial management decisions aimed at balancing liquidity and solvency. A slight rise occurred in 2019, reaching a peak of KSh 136,955.74 million, the highest in the entire study period. This suggests heightened short-term borrowing, possibly to cushion against economic uncertainties and supply chain disruptions during that time.

In 2020, short-term debt decreased slightly to KSh 128,193.67 million, likely due to the adverse effects of the COVID-19 pandemic, which constrained credit access and dampened operational activity. The decline continued into 2021, reaching KSh 120,198.15 million, and dropped further in 2022 to KSh 98,322.65 million, the lowest point in the twelve-year span. This substantial fall may reflect firms' cautious approach to debt financing amid recovery uncertainties. However, in 2023, short-term debt levels rebounded to KSh 132,210.67 million, indicating renewed confidence in short-term borrowing as economic stability improved. The trend reveals an erratic pattern characterized by alternating increases and decreases in short-term debt. This indicates that listed manufacturing firms in Kenya adjust their reliance on short-term financing depending on prevailing economic conditions, production cycles, and access to credit.

These findings are in agreement with the outcome of a study by Gul et al. (2013), who established a negative relationship between short-term debt and profitability among SMEs in Pakistan, suggesting that high reliance on short-term borrowing could strain liquidity and reduce returns. Similarly, Mwangi and Njoroge (2017) reported a negative association between short-term debt and shareholder value among listed manufacturing firms in Kenya, indicating that increased short-term obligations may heighten financial risk and reduce stock performance. On the other hand, Kaumbuthu (2019) found that firms in Kenya's industrial sector preferred equity financing over debt to minimize risk exposure, consistent with the Pecking Order Theory, which posits that firms prioritize internal financing before resorting to external debt.

4.2.2 Trend Analysis on Shareholder Value

The trend analysis for shareholder value, the dependent variable in this study, examined the variations in firms' economic value added (EVA) among listed manufacturing firms in Kenya between 2012 and 2023. This analysis aimed to evaluate how effectively these firms generated wealth for shareholders over time by comparing returns to the cost of capital. A positive EVA indicates value creation, whereas a negative EVA signifies value erosion. The observed trend pattern is illustrated in Figure 3.

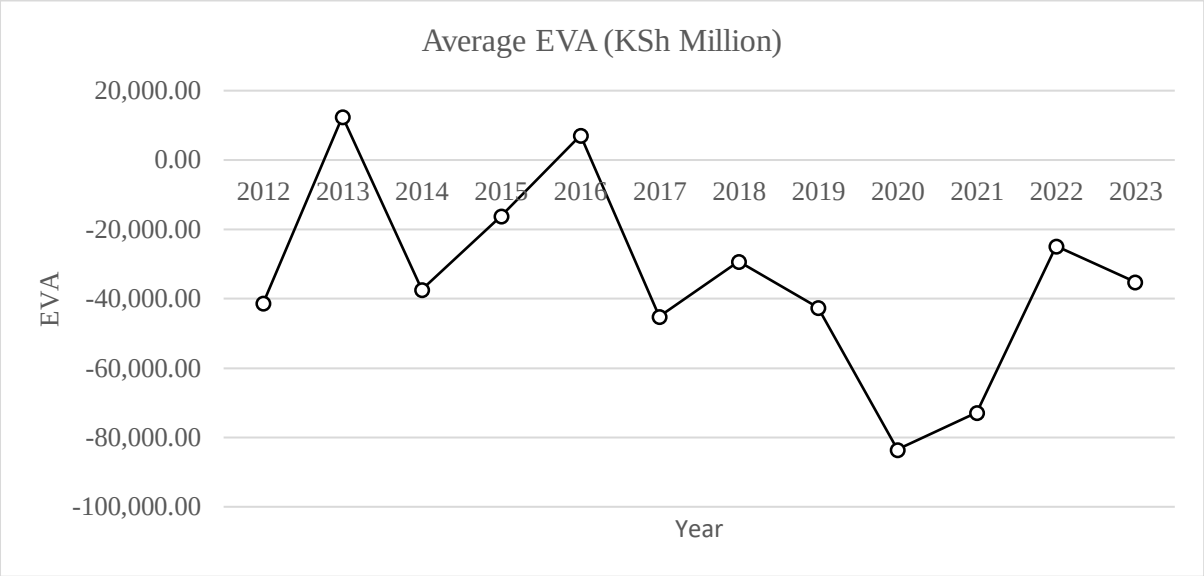

Figure 3: Trend Line on Shareholder Value

Source: Research Data, 2025

The trend analysis of economic value added among listed manufacturing firms in Kenya from 2012 to 2023 reveals fluctuating performance, indicating inconsistent value creation for shareholders over the period. In 2012, the average EVA stood at –41,279.9 million, signifying that firms were unable to generate returns above their cost of capital. An improvement occurred in 2013, with EVA rising to 12,546.7 million, suggesting enhanced profitability and operational efficiency, possibly due to better cost management and favorable market conditions. However, this improvement was short-lived, as EVA declined to –37,282.4 million in 2014, reflecting a regression in performance and potential increases in financing or operational costs.

In 2015, EVA improved modestly to –16,081.7 million, indicating reduced value erosion as firms possibly optimized working capital and adopted leaner cost structures. The only other positive EVA was recorded in 2016 at 7,211.8 million, suggesting that listed manufacturing firms briefly managed to achieve returns exceeding the weighted average cost of capital

(WACC), thereby creating shareholder value. Unfortunately, this momentum reversed sharply in 2017, where EVA dropped to –45,112.6 million, marking one of the lowest points in the period, likely due to rising production costs and external market shocks.

Between 2018 and 2021, EVA remained negative, reflecting continued challenges in value creation. In 2018, EVA averaged –29,305.4 million, a moderate improvement compared to 2017, possibly driven by stabilization in operating margins. However, subsequent years recorded deeper declines: –42,570.2 million in 2019, –83,457.3 million in 2020, and –72,746.3 million in 2021. The sharp drop in 2020 aligns with the economic slowdown caused by the COVID-19 pandemic, which disrupted supply chains, reduced demand, and increased financing constraints. By 2022, firms appeared to recover slightly, with EVA improving to –24,882.6 million, before dipping again to –35,195.7 million in 2023, indicating lingering inefficiencies and slow post-pandemic recovery in profitability. The trend suggests that Kenya's listed manufacturing firms struggled to maintain consistent shareholder value creation over the twelve-year period. The sporadic positive EVA values (2013 and 2016) demonstrate that while firms have the capacity for value creation, structural and operational inefficiencies continue to hinder long-term performance.

These findings agrees with the assertions by Chen and Dodd (2017) that EVA is a more comprehensive measure of financial performance than traditional accounting metrics, as it integrates both profitability and capital costs. They observed that firms with persistent negative EVA often face challenges in aligning operational efficiency with capital structure optimization. Similarly, Uwuigbe, Jafaru, and Ajayi (2018) analyzed listed manufacturing firms in Nigeria and found that financial leverage and cost of capital significantly influenced EVA, where high debt exposure often eroded value creation potential. This supports the observed volatility in Kenya's manufacturing sector, where financing costs and market pressures have constrained profitability.

4.3 Correlation Analysis

Correlation analysis was employed to explore how short-term debt relate to shareholder value among listed manufacturing firms in Kenya. The correlation matrix results are presented in Table 2.

Table 2: Correlation Matrix

Variables	SV	lnSTD
SV	1.0000	
lnSTD	0.5023*	1.0000

SV=Shareholder's Value, STD=Short-term debt,

Source: Research Data, 2025

The correlation results in Table 2 depicts that short-term debt (lnSTD) has a positive and statistically significant relationship with shareholder value (r = 0.5023*), indicating that moderate reliance on short-term financing supports firm value among listed manufacturing firms in Kenya. This indicates that firms using short-term credit efficiently are able to meet working capital needs without incurring high financing costs. This finding is contrary to the findings of a study by Gul et al. (2013), who found a negative but significant relationship between short-term debt ratios and profitability among SMEs in Pakistan, supporting the idea that excessive short-term borrowing have the potential to reduce returns. In contrast, the positive association established in this study reflects the ability of larger manufacturing firms to manage short-term credit prudently, minimizing liquidity risks while enhancing value.

4.4 Panel Regression Analysis

The study sought to determine whether there exists a statistically significant relationship between short term debt and shareholder value among listed manufacturing firms in Kenya. To achieve this, a panel regression analysis was performed using firm-level data covering the period 2012 to 2023. The findings revealed that short-term debt has a positive and statistically significant effect on shareholder value ($\beta = 0.284519$, $p = 0.015 < 0.05$). This suggests that use of short-term financing significantly affect shareholder value, likely because short-term borrowing is often less costly and provides the liquidity needed for working capital and operational efficiency. Therefore, the null hypothesis (H0) which was tested at 0.05 significance level was rejected, indicating that short-term debt has a positive and statistically significant effect on shareholder value. This finding suggests that moderate usage of short-term debt enhances shareholder value by improving liquidity and facilitating operational efficiency. These results contrary to the findings of Mwangi and Njoroge (2017), who found a negative association between short-term debt and shareholder value among Kenyan manufacturing firms. The inconsistency may be attributed to improvements in liquidity management and credit discipline over time, enabling firms to use short-term debt effectively. The findings are however consistent to the findings of Nyamoma (2020), who reported that both debt and equity financing positively influenced shareholder value, supporting the Trade-Off Theory, which posits that firms can optimize value by balancing the tax benefits of debt against bankruptcy risks.

5.0 Conclusion

Effective and prudent use of short term debt can be value enhancing in the manufacturing sector when it is used to support liquidity rather than to cover structural weakness. Firms that deploy short term borrowing to manage working capital, bridge cash conversion gaps, and maintain operational continuity are more likely to protect and enhance shareholder value. This means that access to flexible, low cost short term funding is not inherently harmful, provided it is controlled and matched to productive uses. However, that benefit is conditional. The conclusion here is that manufacturing firms must continue improving credit discipline, cash flow planning, and supplier financing arrangements. Short term debt can strengthen value when it is governed tightly. It becomes destructive only when it is used to plug inefficiency or delay necessary restructuring.

6.0 Recommendations

The study recommends policy interventions aimed at improving access to affordable financing for manufacturing firms. The high cost of long-term debt remains a major constraint that undermines shareholder value creation. Policymakers should strengthen industrial financing institutions such as the Industrial and Commercial Development Corporation (ICDC) and Kenya Industrial Estates (KIE) to provide targeted credit facilities at competitive interest rates. In addition, the Central Bank of Kenya (CBK) and commercial banks should collaborate to develop credit guarantee schemes that enable manufacturing firms to secure long-term loans for capital-intensive investments. By reducing borrowing costs and enhancing access to patient capital, such policies would enhance firm competitiveness, stimulate production capacity, and contribute to sustained shareholder wealth creation.

Furthermore, corporate governance policies should be supported to ensure that ownership structures do not hinder firm performance or capital efficiency. The study found that ownership concentration did not significantly moderate the relationship between financial structure and shareholder value, indicating that policy emphasis should shift from ownership control to governance quality. The CMA and NSE should strengthen existing corporate governance codes

to promote independent oversight, transparency, and accountability in financial decision-making. Regulators should also enforce policies that protect minority shareholders from expropriation risks associated with concentrated ownership. By doing so, the policy environment would foster equitable participation, enhance investor confidence, and ensure that all shareholders benefit fairly from firm performance.

In addition, manufacturing firms should limit overdependence on long-term debt and instead prioritize internal financing to support capital investment. The findings established that excessive long-term borrowing erodes shareholder value due to high finance costs. Firms should therefore adopt a conservative long-term financing policy by aligning borrowing decisions with cash flow projections and return on investment. To enhance sustainability, financial managers should negotiate favourable terms with lenders, focusing on low-cost loans and stable interest regimes. Regulatory agencies such as the Capital Markets Authority (CMA) and the Central Bank of Kenya (CBK) should also strengthen oversight mechanisms to discourage reckless borrowing and ensure that debt financing is tied to capital projects with measurable returns.

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