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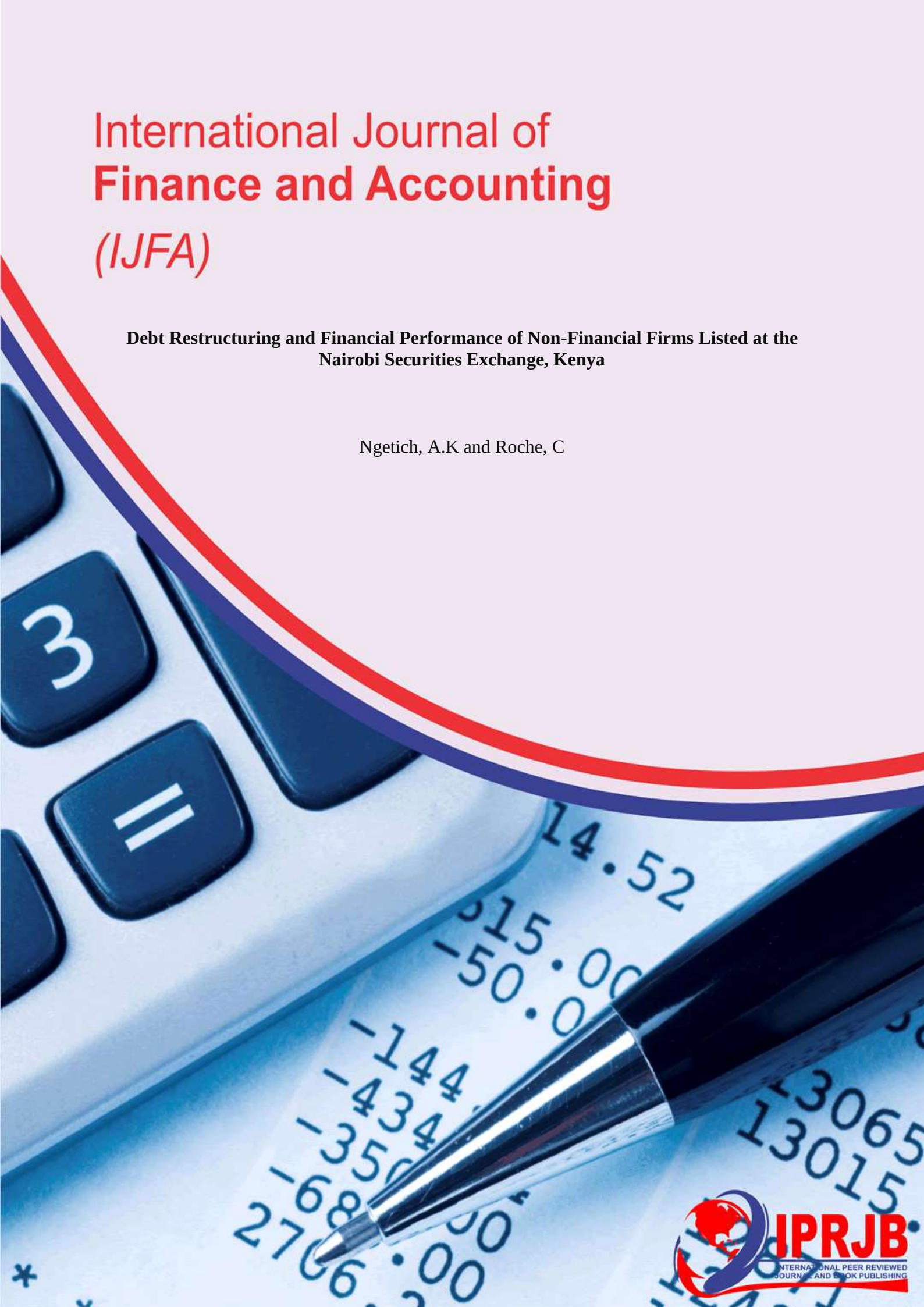
Ngetich, A.K and Roche, C



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Debt Restructuring and Financial Performance of Non-Financial Firms Listed at the Nairobi Securities Exchange, Kenya

[1]Ngetich, A.K
[1]Master of Science in Finance, Jomo Kenyatta University of Agriculture and Technology
[2]Roche, C
[2]Lecturer, School of Business and Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology

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Abstract

Purpose: Non-financial institutions, including those listed at the NSE, Kenya, have in the recent past carried out restructuring strategies in an attempt to stay afloat in their respective competitive business segments. Some of these restructurings have not turned around the respective firms as per the expectations of stakeholders. The general objective of the study was to investigate the influence of debt restructuring on the financial performance of non-financial firms listed on the NSE, Kenya.

Methodology: This research used a descriptive research design and a census technique in which all the 45 non-financial firms listed at NSE, Kenya, were analysed. Data was gathered from secondary sources with the aid of a secondary data collection sheet and analysed using descriptive and inferential statistics. The descriptive statistical tools will include frequencies, percentages, means, variances, and standard deviations. Inferential statistical tools included Pearson's Product-Moment correlation and panel regression analysis. A diagnostic test was conducted to test the assumptions of the regression model and panel regression for inferential analysis.

Findings: The panel regression results revealed that debt restructuring had a positive and significant effect ($\beta = 0.1926$, $p = 0.0075$). The model explained approximately 53.68% of the variation in financial performance ($R^2 = 0.5368$), indicating that debt restructuring is a key determinant of firm performance. The study concludes that debt restructuring significantly enhances the financial performance of non-financial firms listed at the NSE.

Unique Contribution to Theory, Practice and Policy: The study recommends that firm management should adopt proactive and integrated debt restructuring strategies. Policymakers, including the CMA, should develop supportive regulatory frameworks that facilitate efficient restructuring processes and enhance transparency in financial reporting.

Keywords: *Debt Restructuring, Financial Performance, Non-Financial Firms, Nairobi Securities Exchange, Kenya*

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INTRODUCTION

In theory, a firm's goal is profit maximisation; in practice, this doesn't occur in a vacuum. Profit and financial performance are influenced by both external factors, such as legislation, competition, and economic shocks, and internal factors such as organisational structure and employee competencies. These internal and external factors create an environment that shapes how a firm achieves or fails to achieve its financial goals (Baba & Nasieku, 2017). Financial performance is therefore crucial for the long-term viability and operation of any business, and it cannot be emphasised enough (Wachira, 2021). Mutinda and Ngahu (2018) define financial performance as the ability of the organisation to sustain itself over an extended period of time by meeting expenses without the need for external funding.

The business climate in Kenya has changed significantly in the last few years. These shifts include, but are not limited to, the ongoing government economic reforms, opening the economy to foreign direct investment, privatisation, and public-private partnerships (Ingow & Opuodho, 2019). Through restructuring, these firms can strengthen liquidity positions and improve their capacity to absorb economic shocks and enhance firm value by lowering the cost of capital and enabling firms to reallocate resources toward productive investment, which has been shown to positively influence performance among NSE-listed firms (Gitari, Agong & Kariuki, 2024). According to Norley et al. (2024), restructuring is defined as the act of reconfiguring a company's ownership, legal, operational, financial, or other structures to increase profitability and meet its current requirements.

Debt restructuring is the process by which a borrower and a lender decide to modify the conditions of an existing debt agreement, usually in order to ease financial strain (Duong et al. 2020). This may entail lowering the interest rate, extending the payback time, or even lowering the principal amount due. By managing and rearranging the company's outstanding debt obligations, debt restructuring seeks to maximise the capital structure of the business (Duong et al., 2020). The study focuses on non-financial firms listed at the NSE, Kenya, because their restructuring decisions are largely driven by internal managerial, operational, and organisational considerations rather than regulatory compulsion (Ithuku & Mwangi, 2020; Mwangi et al., 2017). The aim of the study is to establish the effect of debt restructuring on the financial performance of non-financial firms listed at the NSE, Kenya.

Statement of the Problem

Over the past decade, non-financial firms listed at the NSE have faced growing financial performance challenges. In response, many firms have undertaken debt restructuring initiatives to restore stability and improve their financial performance (CMA 2024). However, the success of these strategies remains uncertain given the highly volatile ROA of non-financial firms during the period, as shown by statistical trends from the NSE (2016- 2024) and CMA (2025) reports. According to the CMA (2025) report, the benchmark of 5% is indicative of good financial performance among listed non-financial firms; however, many firms listed at the NSE have persistently recorded ROA levels below this threshold, with some falling below 1%, levels that are widely associated with financial distress and heightened failure risk. For instance, in 2015, the average ROA for non-financial firms listed at the NSE, Kenya, stood at 4.6% to decline to 4.2%, 3.5% and 2.8% in 2016, 2017, and 2018, respectively, before rebounding to 4.4% and 5.1% in 2019 and 2020, respectively. In 2021, ROA plunged further down to -1.7% but sharply rose to 3.0% in 2022 and 3.6% in 2023 (NSE report 2022–2025). The ratio dropped again to 2.5% in 2024 and 2025, and further dropped to 2.1% (NSE, 2025). Despite widespread

debt restructuring, particularly during 2021–2022, the CMA Financial Stability Report (2024) indicates that over 55% of non-financial firms failed to achieve sustained ROA improvement two years after restructuring. Furthermore, firms in key non-financial sectors such as manufacturing, construction, and agriculture have continued to record low ROA, with companies including Uchumi Supermarkets and Mumias Sugar undergoing multiple restructuring phases without meaningful performance recovery (CMA, 2024). Empirical literature on debt restructuring and financial performance also reveals divergent and inconclusive findings, reflecting persistent conceptual, contextual, and methodological gaps. While some studies report positive effects of debt restructuring on firm performance (Mwaura, 2020; Oduor et al., 2022; Laitinen, 2021), others document negative or insignificant relationships (Chen et al., 2024; Kinyua, 2021; Singh & Kumar, 2021), with several reporting mixed outcomes (Mwangi et al., 2017; Chikweche & Mudzamba, 2023). Moreover, most existing studies focus on other sectors or contexts, including financial firms at the NSE (Mwaura, 2020), all listed firms without sectoral distinction (Okello & Muriithi, 2018), hospitality firms in the United States (Krause & Tse, 2023), and the public sector in Zimbabwe (Chikweche & Mudzamba, 2023), while others are conducted outside Kenya, such as in Nigeria (Olawale et al., 2017), the United Kingdom (Yazdifar et al., 2022), Finland (Laitinen, 2021), and the United States (Krause & Tse, 2023). Given the structural and performance differences across sectors and countries, these findings cannot be readily generalised to Kenyan non-financial firms. Consequently, the observed inconsistency in ROA trends and empirical contradictions highlight a critical research gap, which this study sought to address by examining the effect of debt restructuring on the financial performance of non-financial firms listed at the NSE over the period 2016–2025, to determine whether restructuring has enhanced performance or merely delayed financial decline.

Objectives of the Study

The general objective of this study is to evaluate the effect of debt restructuring on the performance of non-financial firms listed at the NSE, Kenya.

Hypotheses of the Study

H_{01}: Debt restructuring has no significant effect on the performance of non-financial firms listed at the NSE, Kenya

Theoretical Review

This chapter entails a theory relevant to the study topic

Debt Overhang Theory

The Debt Overhang Theory was formulated by Myers in 1977. The theory argues that firms burdened with excessive debt may avoid investing in NPV projects because the returns from such projects primarily benefit debt holders rather than equity shareholders. This leads to a scenario in which high leverage discourages investments that add value, which could restrict company expansion and lower overall financial performance. The theory makes the following assumptions: markets are imperfect, managers, investors, and creditors have unequal access to information, enterprises are highly leveraged, and investment payoffs are asymmetrically allocated between debt and equity holders.

In particular, management is presumed to have better knowledge of the company's actual worth and project prospects, and equity investors are deterred from funding more expenditures because debt holders are anticipated to absorb the advantages. These presumptions illustrate

the importance of the theory in situations of corporate financial hardship and restructuring by illuminating why overleveraged corporations may underinvest even when profitable initiatives exist (Myers, 1977; Stiglitz, 1974). Despite its significant influence in corporate finance, the Debt Overhang Theory has faced criticism. One major criticism is that it makes the assumption that debt levels are constant while neglecting dynamic changes that businesses could make over time, including strategic stock issues, refinancing, or renegotiation.

Furthermore, managerial incentives such as managers' ability to implement strategic restructuring plans or take corrective action to lessen overhang effects are not fully taken into account by the theory. According to empirical data, some overleveraged companies continue to make active investments, even though some underinvest as expected. This is especially true when debt covenants, external oversight, or supportive governance mechanisms are in place (Graham, 2000; Hennessy & Whited, 2007). According to these criticisms, the theory offers insightful conceptual understandings, but its applicability may differ based on institutional setting, governance frameworks, and firm-specific traits.

Empirical studies have validated the theoretical relationship between debt overhang and debt restructuring. For instance, Ithuku and Mwangi (2020) discovered that debt restructuring, by lowering the effective debt burden and encouraging investment activity, greatly improved the financial performance of overleveraged non-financial companies listed on the Nairobi Securities Exchange. Similarly, restructuring enhanced profitability and total business value by reducing the negative consequences of high debt, according to Barasa, Tibbs, and Shitseswa (2023). The significance of using structured financial solutions to manage debt overhang is underscored by these findings. Thus, in addition to explaining the underinvestment issue in overleveraged companies, the Debt Overhang Theory supports empirical approaches to creating successful debt restructuring plans that maximise shareholder value and financial performance (Myers & Majluf, 1984).

Conceptual Framework

The conceptual framework depicts the relationship between the debt restructuring and the dependent variable, financial performance.

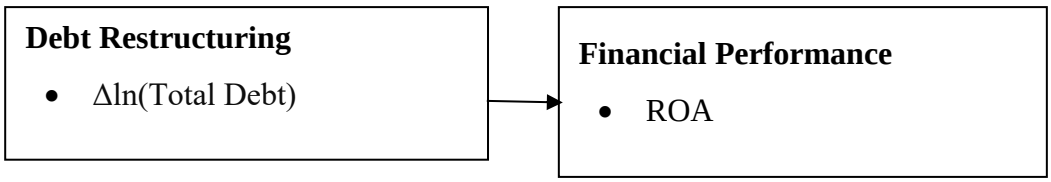

Figure 1. Conceptual Framework

Empirical Review

Achbah (2024) conducted a study on the effects of debt restructuring on financially distressed SMEs in France. The study adopted a quantitative research design, grounded in the upper echelons theory, and utilised archival data from a sample of 342 SME managers facing financial distress. Data was drawn from official insolvency records, restructuring filings, and firm-level databases, which captured both the restructuring decisions (in-court vs. out-of-court) and the personal characteristics of the manager. For analysis, the study applied a binary logistic regression model to examine whether debt restructuring has an effect on financially distressed

SMEs in France. The findings revealed that debt restructuring was positively and significantly associated with financially distressed SMEs in France.

Ithuku and Mwangi (2020) explored the relationship between debt restructuring and the financial performance of firms listed at the NSE, Kenya. The research was carried out between 2010 and 2019. Utilising a descriptive research design and examining panel data derived from NSE annual reports and audited financial statements. The study used secondary data from the 2010–2019 audited financial statements of 48 companies registered on the Nairobi Securities Exchange (NSE). Additionally, complementary data was extracted from the firm's financial filings and the NSE annual reports. The study evaluated the impact of capital restructuring on Return on Assets (ROA) using multiple regression and correlation analysis. According to their findings, debt to capitalisation had a strong positive impact on ROA, indicating that companies that increased their leverage (within the framework of capital restructuring) saw an improvement in profitability and operational efficiency.

Barasa, Tibbs, and Shitseswa (2023) investigated the impact of debt restructuring on the performance of commercial banks in Kisumu, Kenya. A descriptive survey design was used in the study, which was based on risk management theory. The population included 34 Kisumu City-based commercial banks that were open from 2017 to 2021. Using standardised questionnaires and purposeful sampling, data were gathered from 102 bank managers. Using both descriptive statistics (frequencies, percentages, averages, and standard deviations) and inferential methods (hierarchical regression and Pearson correlation), the study was carried out at a significance level of 0.05. According to the findings, debt restructuring techniques greatly improved the financial performance of banks.

METHODOLOGY

This study used a descriptive research design, which is appropriate for describing the nature of the variables under study and comparing their attributes and the relationships between them (Kothari, 2014; Creswell & Creswell, 2025). The research was based on a quantitative research approach. This study's target population included 45 non-financial firms listed at the NSE, Kenya, for the financial year 2016-2025. The study was therefore run for 10 years. The study focuses on non-financial firms listed at the NSE, Kenya, because their restructuring decisions are largely driven by internal managerial, financial, and strategic considerations rather than regulatory compulsion (Ithuku & Mwangi, 2020; Mwangi et al., 2017).

This research adopted the census method of data collection, where data were collected from all the listed non-financial firms in Kenya. The data for this study were collected from secondary sources using a secondary data collection sheet to capture the financial statements-related data. The information was obtained from official documents like annual reports, financial statements, regulatory documents, and other publications of non-financial firms listed at the NSE during the period under review. The data were then imported into STATA 18 software for analysis. The study used descriptive and inferential statistics. The descriptive statistics included mean, minimum, maximum, standard deviation, skewness, and kurtosis. Inferential statistical tools included Pearson's correlation analysis and the panel regression analysis. Inferential statistical methods were used to determine connections among examined variables. The study employed a panel regression model. The research was performed using hypothesis testing through t-tests alongside F-tests to establish the statistical significance of the findings and achieve robust conclusions.

The panel regression analysis model will be expressed as follows.

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$$Y_{it}=\beta_0 + \boldsymbol{\beta_1} X_{1it}$$

FINDINGS AND DISCUSSIONS

This section presents the empirical findings of the study and discusses the results in relation to the study objectives and the underlying theoretical framework.

Descriptive Statistics

This section presents the descriptive statistics for financial performance and debt restructuring of non-financial firms listed at the Nairobi Securities Exchange for the period 2016–2025. Table 1 summarises the results.

Table 1: Descriptive Statistics

Statistics	Obs	Min	Max	Mean	SD	Skewness	Kurtosis
ROA	450	0.0162	67.1454	2.5377	5.6765	6.5189	57.4623
Debt Restructuring	450	-4.3429	4.0294	-0.0048	1.2530	0.0003	4.3273

According to Table 1, ROA recorded a minimum value of 0.0162, implying that the least profitable firm-year observation generated approximately 1.62% return on its asset base, indicating weak asset utilisation during that period. The maximum value of 67.1454 suggests that certain firms experienced exceptionally high profitability relative to their asset base. The mean ROA was 2.5377. According to the CMA (2024) report, an ROA benchmark of 5% is considered indicative of good financial performance among listed non-financial firms. The observed mean of 2.5377, therefore, falls significantly below the regulatory benchmark, implying that, on average, firms are generating only about half of the expected profitability threshold.

The standard deviation of 5.6765 indicates substantial variability in profitability across firms and time, implying heterogeneous performance within the market. The skewness of 6.5189 indicates strong positive skewness, meaning that a few extremely profitable firm-years pull the distribution to the right. According to Kline (2011), skewness values exceeding ±3 indicate severe non-normality. The kurtosis value of 57.4623, which is significantly higher than the normal benchmark of 3, indicates extreme leptokurtosis (heavy tails), implying the presence of outliers in profitability distribution. This suggests that robust estimation techniques may be necessary in subsequent regression analysis.

Debt restructuring, measured as the change in the natural logarithm of total debt, recorded a minimum value of −4.3429, indicating that some firms experienced substantial proportional reductions in debt levels, likely reflecting aggressive deleveraging or financial restructuring initiatives. The maximum value of 4.0294 suggests significant debt expansion in certain years. The mean value of −0.0048, being close to zero, implies that debt adjustments were generally balanced across the period, with increases and reductions averaging out. The standard deviation of 1.2530 reflects moderate variability in debt restructuring intensity across firms. The skewness value of 0.0003 indicates an almost perfectly symmetric distribution, implying that debt increases and decreases are evenly distributed. The kurtosis of 4.3273, slightly above the benchmark of 3, indicates mild leptokurtosis but remains within acceptable limits. Hair et al. (2019) suggest that kurtosis values below 10 do not pose serious normality concerns. Therefore, debt restructuring exhibits acceptable distributional properties for panel regression analysis.

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Trend Analysis

Trend analysis was used to examine the movement of the dependent variable (financial performance) over time to identify patterns, direction, and consistencies. Figure 1 presents the trend of financial performance measured by ROA from 2016 to 2025.

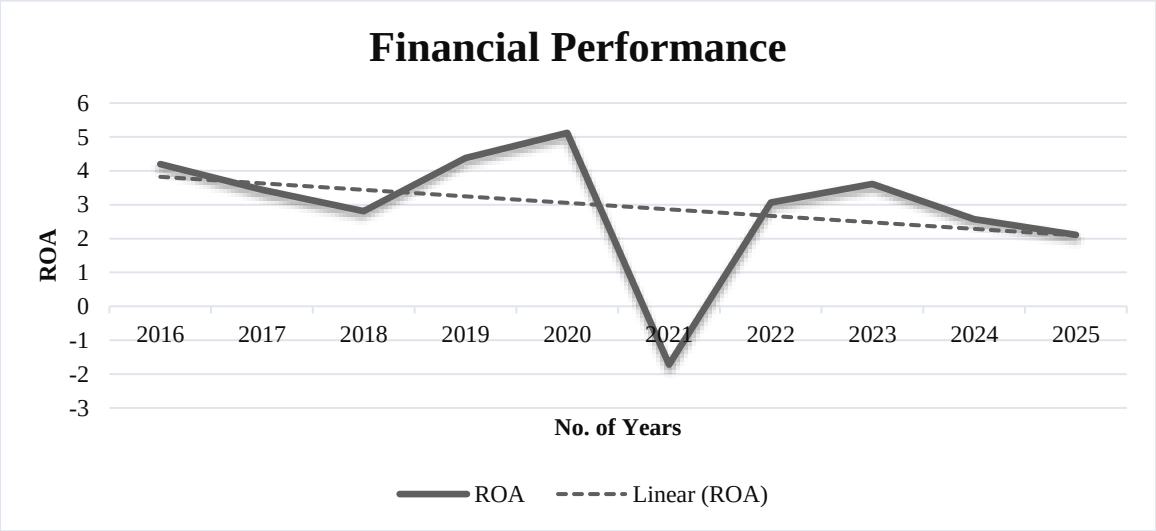

Figure 1: Trend Analysis for Financial Performance

Figure 1 shows that in 2016, ROA was relatively strong, indicating efficient asset utilisation and favourable operating conditions. However, in 2017 and 2018, profitability declined steadily, suggesting rising operational costs, weakening demand, or increased financing constraints affecting firm performance. A recovery is observed in 2019, followed by a peak in 20120, where ROA reached its highest level during the period. This improvement may be attributed to firm-level restructuring efforts or cost rationalisation. In 2021, ROA dropped sharply into negative territory, reflecting a significant deterioration in financial performance. In 2022, financial performance rebounded strongly, driven by economic reopening, restructuring adjustments, and improved market conditions. ROA continued to improve in 2023, although the growth was moderate, suggesting partial stabilisation rather than full recovery. From 2024 to 2025, ROA declined gradually, indicating renewed pressure on profitability. This downward movement suggests that firms continued to face challenges such as rising input costs, inflationary pressures, high interest rates, and delayed restructuring benefits, which constrained sustained performance improvements.

The observed fluctuating and generally declining trend in ROA directly supports the study's problem statement, which highlights persistent financial performance challenges among NSE-listed non-financial firms despite ongoing restructuring efforts. The inability of firms to sustain profitability improvements over time suggests that restructuring measures may be reactive, delayed, or insufficiently aligned with firm-specific conditions. These findings are consistent with prior studies that document unstable financial performance in emerging markets. For example, Mwangi and Oduor (2022) find that Kenyan listed firms experience volatile profitability due to high operating costs and macroeconomic instability. Similarly, Kinyua (2021) reports that restructuring initiatives often yield short-term gains but fail to generate sustained performance improvements when governance and cost structures remain weak. Internationally, Laitinen (2021) and Ozili (2023) also observe that firms undergoing restructuring tend to exhibit performance volatility, particularly when restructuring is driven

by distress rather than proactive strategic planning. Overall, the trend analysis confirms that financial performance among NSE-listed non-financial firms remains fragile and inconsistent, justifying the need for this study to empirically examine how different forms of corporate restructuring influence firm performance over time.

Inferential Statistics

Inferential statistics were employed to determine the direction, strength, and statistical significance of the relationship between debt restructuring and financial performance measured by ROA.

Correlation Analysis

The analysis was carried out using the Pearson Product-Moment Correlation Coefficient, which measures the degree of linear association between variables.

Table 2: Correlation Matrix

Variable	ROA	Debt Restructuring
ROA	1.0000	
Debt Restructuring	0.6015***	1.0000
Sig P Values	(0.002)	

***p< 0.01

Table 2 shows that debt restructuring has a strong positive correlation with ROA (r = 0.6015, p = 0.002), implying that firms engaging in debt restructuring tend to experience improved profitability. This suggests that restructuring reduces financial distress and enhances firm efficiency. The findings are consistent with Ithuku and Mwangi (2020), who found that debt restructuring positively influences financial performance among firms listed at the NSE, Kenya.

Model Summary

This section presents the overall model summary of the panel regression analysis examining the effect of debt restructuring on the financial performance of non-financial firms listed at the Nairobi Securities Exchange.

Table 3: Model Summary

Statistic	Value
R-squared (R^2)	0.5368
Adjusted R-squared	0.5214
F-statistics	19.2847
Prob > F	0.0003
Number of Observations	360
Number of Firms	45

The results indicate that the model has a relatively strong explanatory power, with an R-squared value of 0.5368, implying that approximately 53.68% of the variation in financial performance (ROA) among non-financial firms is explained by the debt restructuring. The adjusted R-squared of 0.5214 further confirms that the model remains robust even after accounting for the number of predictors, suggesting that the explanatory variable meaningfully contributes to the model. The F-statistic of 19.2847 with a corresponding probability value of 0.0003 indicates that the overall model is statistically significant at the 1% level. The findings suggest that debt

restructuring plays a significant role in explaining firm performance among non-financial firms listed at the NSE. However, the R-squared value also indicates that approximately 46.32% of the variation in financial performance is explained by other factors not included in the model.

Analysis of Variance (ANOVA)

The Analysis of Variance (ANOVA) was conducted to assess the overall significance of the regression model in explaining the relationship between debt restructuring and the financial performance of non-financial firms listed at the Nairobi Securities Exchange.

Table 4: ANOVA Results

Source	Sum of Squares	df	Mean Squares	F-statistic	Prob > F
Regression	18.6423	4	4.6606	19.2847	0.0003
Residual	16.1257	355	0.0454		
Total	34.7680	359			

The ANOVA results indicate that the regression model is statistically significant. The F-statistic value of 19.2847 with a corresponding probability value of 0.0003 is less than the 0.05 level of significance. This leads to the rejection of the null hypothesis that all regression coefficients are equal to zero. It therefore implies that the independent variables debt restructuring, has a significant effect on financial performance.

The regression sum of squares (18.6423) represents the variation in ROA explained by the model, while the residual sum of squares (16.1257) represents unexplained variation. The relatively higher explained variation confirms that the model has good explanatory power. The statistical significance of the model further supports the validity of proceeding with individual coefficient analysis and hypothesis testing.

Regression Coefficients

This section presents the results of the Fixed Effects regression model used to examine the effect of debt restructuring on the financial performance of non-financial firms listed at the Nairobi Securities Exchange. Robust standard errors were applied to correct for heteroscedasticity and potential non-normality arising from the moderately unbalanced panel data.

Table 5: Fixed Effects Regression Results (Robust Standard Errors)

Variable	Coefficient	Robust Std. Error	t-Statistic	p-value	95% Co. Interval
Constant	0.8124	0.2053	3.9572	0.0001	(0.4101, 1.2147)
Debt Restructuring	0.1926	0.0715	2.6944	0.0075	(0.0524, 0.3328)

Based on the Fixed Effects regression results, the estimated model for the study is expressed as follows:

$$Y=0.8124+0.1926X_{1it}$$

Hypothesis Testing

To establish the effect of debt restructuring and financial performance of non-financial firms listed at the NSE, Kenya, in line with the first objective, the null hypothesis (H_{01}) showed that debt restructuring has no significant effect on the financial performance of non-financial firms listed at the NSE, Kenya. The results presented in Table 5 show that when controlled, debt

restructuring had a coefficient Beta of $\beta = 0.1926$ and $p = 0.0075$, implying that, holding other factors constant, when nonfinancial firms increase their debt restructuring, it increases the financial performance of these firms by 0.1926 units. The increase will significantly impact their financial performance, given the p-value of 0. 0075. The null hypothesis is thus rejected, and the study concludes that debt restructuring significantly improves the financial performance of non-financial firms listed at the NSE, Kenya.

This finding supports the Debt Overhang Theory, which posits that reducing excessive debt enhances firm performance by restoring investment incentives. The result is consistent with Ithuku and Mwangi (2020) and Barasa, Tibbs, and Shitseswa (2023), who found that debt restructuring positively influences firm performance. However, the findings contradict those of Deepika and Shashi (2017), who reported that debt restructuring had no significant effect on firm performance, and Magoro and Abeywardhana (2017), who found a negative relationship. These differences suggest that the effectiveness of debt restructuring may depend on firm-specific and contextual factors.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This section presents a summary of the key findings of the study, draws conclusions based on the empirical results, and provides recommendations for policy and practice.

Summary

The first objective of the study was to evaluate the effect of debt restructuring on the financial performance of non-financial firms listed at the NSE. The findings revealed that debt restructuring has a positive and statistically significant effect on financial performance. This implies that firms that restructure their debt obligations are able to reduce financial distress, improve liquidity, and enhance operational efficiency, which ultimately leads to improved profitability. The results further indicate that debt restructuring reduces the burden of excessive debt, allowing firms to reallocate financial resources toward productive investments and operational activities. Consequently, debt restructuring enhances firm stability and supports sustainable financial performance, particularly for firms experiencing financial constraints.

Conclusion

The study concludes that debt restructuring has a statistically significant and positive effect on the financial performance of non-financial firms listed at the NSE. This indicates that restructuring debt obligations is an effective mechanism for alleviating financial distress and restoring firm performance. By reducing repayment pressure and improving liquidity, debt restructuring enables firms to reallocate resources toward productive investments, thereby enhancing profitability. The findings affirm the relevance of the Debt Overhang Theory, which posits that excessive debt discourages investment and performance, and that restructuring mitigates this constraint. Therefore, debt restructuring is a critical financial strategy for firms seeking to improve operational efficiency and long-term financial stability.

Recommendations

Based on the finding that debt restructuring has a positive and significant effect on financial performance, the study recommends that firm management should adopt early and continuous debt restructuring strategies as part of their financial management practices. Firms should not wait until financial distress becomes severe before restructuring their obligations. Instead, periodic debt reviews should be conducted to identify unsustainable debt levels and initiate renegotiation of repayment terms promptly. Additionally, firms should focus on restructuring

debt in a way that improves liquidity and reduces short-term repayment pressure, such as extending maturity periods or revising interest terms. This will enable firms to free up resources for operational activities and investment, thereby enhancing profitability and long-term financial stability.

Areas for Further Research

This study examined the effect of financial restructuring on the debt restructuring of non-financial firms listed at the Nairobi Securities Exchange. While the findings provide important insights, several areas warrant further investigation. First, the study established that debt restructuring explains approximately 53% of the variation in financial performance, leaving about 47% unexplained. Future research should therefore incorporate additional firm-specific and macroeconomic variables such as firm size, corporate governance structures, ownership concentration, market competition, and macroeconomic indicators (e.g., inflation and interest rates) to enhance the explanatory power of the model.

Second, the study focused exclusively on non-financial firms listed at the NSE. Future studies should extend the analysis to financial institutions such as commercial banks, insurance firms, and microfinance institutions, which operate under different regulatory frameworks and capital structure requirements. Comparative studies across sectors would provide deeper insights into how debt restructuring influences performance in different institutional contexts. Third, this study utilised a moderately unbalanced panel dataset due to the irregular occurrence of financial restructuring events. Future research could employ balanced panel datasets or alternative estimation techniques such as dynamic panel models (e.g., Generalised Method of Moments) to further address potential endogeneity and capture dynamic relationships between debt restructuring and performance over time.

Fourth, the study adopted quantitative methods based on secondary financial data. Future research could incorporate mixed-methods approaches, combining quantitative analysis with qualitative insights from managers and financial experts, to better understand the strategic motivations and decision-making processes underlying financial restructuring. Finally, future research could explore the moderating and mediating effects of variables such as corporate governance, firm size, and market conditions on the relationship between financial restructuring and financial performance. This would help to explain the mixed findings observed in existing empirical literature and provide a more nuanced understanding of the debt restructuring –performance nexus.

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