

BUSINESS RISK, PROFITABILITY, ASSET STRUCTURE AND FIRM VALUE OF NON-FINANCIAL FIRMS LISTED IN THE NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

The declining and highly volatile firm value observed in the Nairobi Securities Exchange (NSE) among the non-financial companies over the last decade has raised concern among scholars and financial practitioners. The Kenyan securities market has undergone periods of decline in firm value among the non-financial firms listed in NSE as shown by reduction in Tobin's Q values from a high of 4.64 in year 2015 to a low of 0.81 in year 2022. Firm's characteristics have long been linked with firm value. However, there has not been a consensus amongst empirical studies on the effect of firm characteristics variables including business risk, profitability and asset structure on firm value. This study investigated on business risk, profitability, and asset structure and firm value of non-financial firms listed in the Nairobi Securities Exchange, Kenya. Study objectives covered; examining the effect business risk, profitability and asset structure on firm value of non-financial firms whose shares trade publicly on NSE. The study was anchored on Enterprise Risk Management Theory and financial constraint theory. The study adopted positivist philosophy and explanatory research design. The target population was all the 39 non-financial companies recorded in NSE, Kenya as at 2016. The study used secondary data that was collected from the audited financial statements for the period 2016-2022. Panel data analysis was used to

determine the relationship. Data analysis was run on the Stata 13 package and findings presented in tables while delivering conclusions and recommendations for the study findings. The study findings showed that business risk ($p=0.004$, <0.05) profitability ($p=0.003$, <0.05) and asset structure ($p=0.021$, <0.05) had statistically significant impact on firm value. Profitability and asset structure had positive significant effects while business risk had negative significant effects. The study established that business risk can positively impact firm value through the potential for higher returns. However, care should be taken on amount of risk taken to avoid financial distress. The profitability allows the company to have a strong financial position. Companies with a strong asset structure typically have a higher proportion of tangible assets. The study advocated that firms should manage business risk through diversification. The firms should enhance their profitability by implementing cost-reduction approaches and reflect on contracting subsidiary activities to minimize overhead expenses. The firms should spread their asset portfolio like real estate, stocks, bonds, and commodities to reduce their exposure to any one particular asset class.

Keywords: Business Risk, Profitability, Asset Structure, Firm Value.

INTRODUCTION

Firm's value refers to the stockholders' opulence which is stipulated using proportion of market capitalization to assets book value (William & Cambariham, 2016). Wahyudi and Pawestri (2006) posit that the value of a business enterprise matches with the amount a potential purchaser intends to pay if the entity was to be liquidated. Shama and Kumar (2010) noted that there is increasing demand for firm administrators to manage, estimate and give account of the firm's value frequently. According to shareholders theory, the key goal of a business enterprise is to boost shareholders affluence by enhancing the firm value. The theory observes that stockholders are the ideal proprietors of firm's assets and hence the prime concern for company executives is to safeguard and increase these assets for the benefits of the stockholders. Shareholders wealth maximization is assumed to be the dominant purpose a business enterprise should set out to pull off as it involves motivation for efficiency, development, long term growth and value formation (Vogit, 2019; Gatauwa, Aluoch & Adhinga, 2024). Unlike the traditional profit maximizing goal, value maximization goal considers time value of money and is objective (Mwendwa, Gatauwa & Mungai, 2024; Maragia & Gatauwa, 2024). The Kenyan securities market has undergone periods of decline in firm value among the non-financial firms listed in NSE as shown by reduction in tobin Q values from a high of 4.64 in year 2015 to a low of 0.81 in year 2022. Firm's value can be computed using various indicators but the values gotten from each indicator are probable to be contrasting (Thavikulwat, 2014). To get rid of the complications associated to forecasting, Tobin-Q designed by James Tobin in the year 1969 was utilized to represent business enterprises value of non-financial companies quoted in NSE in this study.

Business risk is pointed out as the chances that business cash flows are not enough to cover its operating expenses. Trend analysis of the average business risk levels for non-financial firms quoted in NSE, Kenya in the interval between 2016-2022 as proxied by operating/investment income ratio was 0.2, 0.31, 0.45, 0.3, 0.5, 0.6 and 0.8 respectively. This reflects an increasing trend in business risk levels. A business exposure to risk is negatively related to its value. Njuku (2009) observed that reducing business risk is not only important for business success but also in maximizing its value. Adam et al (2009) argues that companies which enter in perilous investments are probable of having undetermined net cash flows later. Kale, Noe and Ramirez (1991) pointed out that regardless of the general view that business uncertainty (risk) is amongst key factors affecting company capital composition, prevailing theoretical /empirical studies do give questionable solution to the inquiry of if growth of company risk engineers lower degree of debt in its capital composition for value maximizing firm. Various researches done on the connection linking business risk and firms value have given different and occasionally conflicting outcomes. Whereas a number of researches support the connection is negative (Oskouei, 2014; Otanga, 2021; Kassi, Rathnayake, Louembe, & Ding, 2019), some have indicated the relationship is positive (Kim, Yasuda, 2016; Iyakaremye, 2015). Onsongo (2019) suggested a weak relationship. Furthermore, most of the researches on business risk

have been done in banking sector. This clearly implies that the appropriate degree of the business risk for the influence of business risk on business enterprise value so as to boost value remains unresolved in non-financial companies in Kenya.

Profitability relates to what remains after all the commitments that are accrued from operations have been paid (Gatete, 2015). Trend analysis of the average profitability levels for non-financial companies quoted in NSE, Kenya for the time span between 2016-2022 as proxied by net profit margin was 0.2, 0.4, 0.21, 0.33, 0.15, 0.13 and 0.1 respectively. This reflects a decreasing trend in profitability levels. A capital is most profitable when generally cost of capital is lowest and gives the highest earning per share. Buyung Sarita et al (2016) in his study on the connection betwixt profitability and company value in manufacturing business enterprises quoted in Indonesia security market observed a positive connection betwixt business enterprises value and profitability. Muthoni (2019) observes that profitable firms make use of equity funding only when they are not in a position to generate adequate finance from earning surplus. For the last decade, a number of listed non-financial firms have experienced great losses such as Ever-Ready ltd, Mumias sugar company ltd, Kenya Airways, Uchumi supermarket ltd, ARM Cement Ltd among others. Others have issued profit warnings. Asset structure can be analyzed with regard to fixed assets and current assets of a firm. Trend analysis of the average asset structure levels for non-financial business enterprises quoted in NSE, Kenya for the interval between 2016-2022 as proxied by fixed asset ratio was 0.6, 0.7, 0.58, 0.65, 0.5, 0.4 and 0.35 respectively. This reflects a decreasing and volatile trend in asset structure levels. Nyamasege (2014) opines that assets base of a firm is highly relied by lender in deciding whether to loan a firm or not since assets act as collateral security in case of non-payment. It's this fund that enable the firm to procure a lot and become more efficient which translates to increased profit for the firm hence increased value (Peterson et al, 2014). Proper asset portfolio of a firm enables it to take advantage of business openings when they available. This explains the reason why most stable firms have high investment in fixed assets. However, the asset portfolios should be composed of assets which are negatively correlated to minimize risk level and maximize the assets returns (Peterson, 2014). Momanyi (2016) observes that firm's managements should ensure that assets composition meets the strategic requirements of the firm through regular monitoring and evaluation of the asset structure of the company. Asset structure positively influences firm value and therefore there is need of prudent use and management of firm's assets to increase its value (Omondi, 2018).

Statement of the Problem

The declining and highly volatile firm value observed in the Nairobi Securities Exchange (NSE) among the non-financial companies over the last decade has raised concern among scholars and financial practitioners. For the last decade a portion of quoted companies in Nairobi stock market had serious financial crises. Ever-ready ltd reported huge losses in the financial year 2016/2017 ended 30/9/2017 to a tune of ksh 116395000. Kenya airways and Mumias sugar company ltd have also been making huge losses. All this have led to the serious decline of their share value. In 2017 Kenya airways, Mumias sugar, Uchumi supermarket and ARM cement limited were recorded among the top five biggest losers on the Nairobi stock exchange in 2016(CMA report 2017). Other non-financial companies posted losses include;

Express ltd which recorded a loss of ksh97 million, Atlas development and support services; loss of 216 million and Deacons (east Africa): loss of ksh276 million. Limuru tea company reported the worst decline in profitability from a net profit of ksh 2.5 million in 2015 to net **loss** of ksh 19 million in 2018(NSE report 2018). A number of listed non-financial companies have been issuing profit warnings. Two in every three NSE listed non-financial companies have reported tough times (NSE 2022). The average tobin-Q of non-financial companies have recorded a declining trend from a high of 4.64 in 2015 to a low of 0.81 in 2022. Musah and Kong (2019) contended that firm characteristics if poorly managed the organization may face financial distress, poor corporate governance, low firm's value and hence collapse of the firm. Company characteristics are reproofing in any firm for its eventual continuity and boosting of shareholders' value and therefore they must be placed at superlative levels (Nassab, 2019). However, Tally (2020) heeded that the connection between firm characteristics and firm value has given different outcome after Modigliani (1958) study and therefore advocated that more studies be done in several contexts.

Profitability has been extensively examined as a dependent variable in numerous studies such as (Sharma &Singh, 2018; Mittal & Madam, 2018; Onyema & Oji, 2018; Awolowo & Salawu, 2009; Kimanthi, 2018; Saleh & Biglar, 2009). However, there is insufficient literature on profitability as independent variable and its impact on business enterprise value of non-financial business enterprises registered in NSE, Kenya. This presents a knowledge gap. Asset structure has been extensively studied as an regressor in connection to financial performance such as (Ahmed,2012; Gopalon et al,2017; Anwar,2019; Ariyani et al ,2019; Oyesela,2008). However, insufficient researches have been done on the effects of asset structure on company's value in Kenya among the non-financial company's quoted in the Nairobi security market. Moreover, there is lack of agreement on the connection between asset structure and firms value with certain studies showing a positive connection such as (Fattah, 2019; Nengah et al, 2014) others showing a negative relationship such as (Ansari, 2017; Setiadhama, 2017) and others no significant effects such as Solihah (2002). Business risk has also highly been researched in developed countries such as (Oskouei & Vakilifard, 2014; Nieto et al, 2016; Kim & Yasuda, 2016; Choi, 2021; Kassi et al, 2019; Amit & Wernerfelt, 2007) but insufficient researches have been carried out in developing economies like Kenya. The studies reviewed above present gaps from the concepts discussed, context covered and methodologies adopted. This therefore presents a justification for assessing the effects of profitability, business risk and asset structure on firm value of non-financial firms listed at the NSE in Kenya.

Objectives of the study

The following objectives were used in the study

- i. To access the effects of business risk on firm value of non-financial companies registered in NSE, Kenya.
- ii. To examine the impact of profitability on firm value of non-financial companies registered in NSE, Kenya.
- iii. To determine the impact of asset structure on firm value of non-financial firms registered in NSE, Kenya.

Research hypotheses

- H01:** Business Risk does not have statistical significant effects on firm value of non-financial companies quoted in NSE, Kenya.
- H02:** Profitability does not have statistical significant impact on firm value of non-financial companies quoted in NSE, Kenya.
- H03:** Asset structure does not have statistical significant effects on firm value of non-financial firms quoted in NSE, Kenya.

Significance of the Study

The research outcomes would be of considerable use to policy makers especially the government in drawing up relevant plans for the various industries in the non-financial sector hence help them minimize losses that are prompted by suboptimal firm characteristics. These policies would ensure that these companies follow the law but also get substantial profits by customizing their firm characteristics especially profitability, business risk and asset structure in the right direction. Financial advisors are also expected to benefit in that they would employ the study findings to advise their clientele on how to boost the company's value through adjusting their firm characteristics. Academicians and researchers would gain from the research outcomes as it would provide them with views that would assist them in scientific investigations. The study outcome would add to the theory of business risk, profitability, asset structure decision and firm value.

THEORETICAL REVIEW

Enterprise Risk Management Theory

Tseng (2007) asserted that a firm that decides to manage risks can follow two fundamentally separate ways: It can manage risk at a time or it can manage risk holistically. Holistic approach is basically referred as enterprise risk management (ERM). ERM is a frame work which centers on embracing structured and persistent perspective to control every risk facing an enterprise. ERM involves the general procedure of dealing with organizations vulnerability to risks with more weight put on noting and controlling the factors that can possibly deter the firm from meeting its objectives. ERM is company's strategy that put in every levels of the firm. According to Tseng (2007) its assumed that ERM process is used by an organization's executive board, administration and other staff involved in planning in all areas of the firm and is meant to single out the possible incidence that can influence the firm so as to ensure risk lies inside the required limits hence providing rational guarantee of the attainment of firm's goals. Kim and Yasuda (2021) observed that ERM mainly focuses on internal factors of a firm as the principle source of firm value. ERM enables a firm to put at equilibrium the twain most important firm pressure; the duty to bring favorable outcomes to stakeholders and the uncertainty related with and brought about by the firm alone in a financially attainable method (Njuku 2018). Through that the risk controllers are always conscious of the uncertainties the firm is exposed to and consequently continuously monitor its vulnerability and be ready to adjust plans or direction to make certain the degree of risk it absorbs is bearable (Choi 2021). The theory is therefore pertinent to this research in describing connection betwixt business risk and company value.

Financial Constraint Theory

Modigliani (1961) asserted that source of finance a firm decides to use doesn't affect the firm value. No cost is associated with the funding chosen by a firm to finance its projects. The theory assumes that young firms may not take advantage of positive NPV projects opportunities on time since they have insufficient internal funds and less fixed assets hence unable to get adequate external financing due to lack of collateral security leading to reduced firm value. The theory argues that financial frictions arise because debt contracts have limited enforceability thus leading to reduced internal and external debt limits. It's assumed that free contracts determines the internal borrowing limits

Nevertheless, these investment funds comes besides several costs other than for perfect competition in which any source of finance may be taken to finance firms projects and activities. However it's rare to find a perfect market. Hillier (2013) observed that the presence of financial constraints impact negatively on value of a firm. Brigham and Ehrhardt (2010) posit that businesses which have high amount of fixed assets may acquire greater investment finances than companies with few fixed assets. This is because such assets may be utilized as security in the event of non-payment.

Liesz (2020) observed that companies which have more fixed assets can either access debt market or equity market in case of financial constraints while firms with few fixed assets have only equity as the major source of finance hence unable to tap opportunities in the market leading to reduced firm value. Salinen (2013) asserted that firms experiencing financial challenges find it difficult to compete favorably in the job market hence they may have few investments thus remaining small which greatly impacts on their value. Firms with high fixed assets find it easy to access investment funds hence can make investment decision easily and in time before their competitors (Muthoni, 2019). Lenders are likely to impose friendly terms to firms with high fixed assets compared to small firms with few fixed assets hence giving them a competitive edge over them (Ansari, 2017). Waswa (2012) observed that information asymmetry implicate that the availability to investment funds is not the same to all firm executives. Some firms may have the capacity to acquire greater investment funds due to lower costs related to investment fund leading to higher firm value. The theory is therefore applicable in this research in expounding the connection betwixt asset structure and firm value.

Empirical Review

Profitability and Firm Value

Acaravci (2015) investigated elements of capital structure in Turkish manufacturing segment. The research utilized panel data method. The sample session spanned from 1993-2010 for 79 companies in the manufacturing segment quoted in Istanbul security market. The variables utilized were, non- debt tax shields, tangibility, profitability, size and growth chances as the specific elements that influence business enterprise capital composition decisions. Profitability was measured at net income to total assets. The outcome portrayed that leverage had negative connection with firms profit levels. These results of the research were inconsistent with trade off theory that assumes that companies with high profitability levels possess high book

leverage. Higher leverage leads to higher profitability hence increased firm's value according to trade off theory due to tax shield. Moreover, the study was restricted to only companies belonging to Turkish manufacturing sector and cannot be generalized to the other sectors. Salehi and Biglar (2009) investigated the influence of capital composition decisions on company performance at Tehran security market, Iran. The research operationalised capital composition using book to market values ratio and employed five indicators of company performance. The research embraced correlation techniques to determine casual connection betwixt the response and explanatory parameters. The Research results portrayed that profitability was negatively correlated to financial leverage. Pratheepkanth (2011) found similar results in a study covering five years for 117 firms in the Tehran security market (TSE). Study outcome demonstrated that capital composition decisions influence firm value contrary to MM irrelevance theory. The study by Salehi and Biglar (2009) was done in Iran which has contrasting macro-economic environments to those in Kenya. For that reason it's imperative to experiment these outcomes in Kenyan set up. Moreover, the ongoing research shall adopt panel data models

William et al (2016) sought to investigate the connection betwixt profitability and company's value of varied companies in Philippines. He sampled 86 firms listed in Philippines stock exchange market using purposive sampling. He analyzed the 2014 financial statements for these companies in so as to arrive at the connection betwixt the regressand and regressors. The research used multiple analysis models. Tobin-Q was employed to measure firm's value. The explanatory variables were company age, profitability and industry profile. The multiple regressions revealed that out of the three variables presumed to affect firms value using Tobin-Q, profitability is the only one which showed significantly positive effects on company's value. The findings were consistent with Bartram et al (2011) and Luax and Naito (2011) who also found that profitability had significantly positive power on company value. Nevertheless, the R-squared showed that only 23% of the company's value was capable of being explained by other factors. The methods of sampling used was not the best since each firm has its own specific features hence census method was better to give viable results. Moreover, the researcher analyzed only financial statement for 2014 which was not enough period of study to make viable conclusion. The current study therefore adopted census method where all the non-financial firms in NSE were included. A longer period of study (2016-2022) was used in order to arrive at reliable results.

In another study, Zuhroh (2019) investigated the impact of profitability, company size and liquidity on company value using leverage as intervening parameter among public property and real estate business enterprises at Indonesia security market for the interval between 2012-2016. 31 companies were purposively sampled. ROE was employed as indicator of profitability. The study used path analysis with a multiple regression technique to analyze data. The purposive sampling method adopted choose only the property and estate firms continuously listed at Indonesian security market for the time span between 2012-2016, had all financial reports and didn't have any negative profit in the period of study. Firm's value was measured using PBV. The study outcomes portrayed that profitability was significantly and positively connected to company's value. The study investigated one sector and thus could not be

popularized to the rest of the segments. Moreover, the research was carried out in Indonesia with varied economic, technological and political setups to the ones in Kenya. The current study made use of all non-financial sections in Kenya and included other parameters influencing firm's value. Moreover, value based indicators were employed to measure firm's value formation.

Asset Structure and Firm Value

Saleh (2015) examined the effects of capital composition, market risk and asset structure on profitability, growth, and firm value among the manufacturing firms quoted in Indonesia security market for the period between 2011-2013. Company value was measured by price earnings ratio and market value to book value proportion. Purposive sampling was used where 29 out of 91 manufacturing companies that received highest net income were sampled. The test was conducted with interaction using software of smart PLS to obtain test results that fit. The test outcome established that asset structure was significantly positively related to capital composition and firm's value. The research though was confined to a short period which could not give valid results, and the macro-economic environments in Indonesia are dissimilar from those found in Kenya. Solihah and Taswan (2002) in his study on the effects of asset composition on company's value with capital composition as mediating parameter among the manufacturing firms in Jakarta security exchange for the period of 1993-1997 established that asset structure had positive effects on capital composition but no significant effects on company's value. The above inconsistencies in findings between Solihah and Saleh have motivated this study.

Ansari (2017) studied the effects of asset structure and capital composition on firm's performance of quoted oil and gas firms in India for the interval between 2007 to 2016. The research utilized EPS and fixed assets to total assets as indicators for firm's performance and asset structure in that order. Descriptive statistics, Pearson correlation and linear regression procedures were employed in the research. The research results showed that capital composition was significantly positively related to firm's performance. Asset structure possessed a significantly negative influence on company's performance. However, the investigation is confined to the petroleum industry and so the study outcomes can't be comprehensively applied to the other non-financial firms in other sectors. The ongoing research considered all non-financial companies registered in Nairobi securities market. Moreover the research utilized Tobin-Q as the indicator for business enterprise value. Panel data and models was used which had the advantage of giving more informative, changeability and reliable results

Nengah, Suhadak, Sri Mangesti (2014) examined the effects of asset structure and profitability on capital structure, dividend scheme and firm value among the manufacturing firms quoted in Indonesian security market in the period 2008 to 2012. Descriptive statistical method and generalized structural component analysis (GSCA) were employed in data examination. The research findings showed a negatively significant association between asset structure and capital structure. The effects of capital structure on asset structure was also significantly negative. The connection between asset structure and firm value was positive and significant. However, asset

structure had no effects on dividend policy. Dividend policy had positive significant effects on asset structure. The study however focused on manufacturing sector only and thus the results can't be generalized to the other non-financial firms in other sectors. The ongoing research therefore involved all the non-financial companies registered at Nairobi security market. Furthermore, the research was carried out in Indonesia with different macro environment from Kenya and thus it's necessary to test the conclusions in Kenya.

Mwaniki and Omagwa (2017) examined the influence of asset structure on financial performance among the commercial and services section companies listed in Nairobi security market for period between 2010-2014. Asset structures was analyzed with regard to non-current investments and funds, property, plant and equipment, intangibles and current assets which composed the explanatory variable. Census was done for all the companies quoted under this section by the year 2014 for the interval between 2010 to 2014. Multiple regression outcomes showed that plant, property and equipment had fairly strong negative significant effects on company's performance. Current assets and intangible assets had insignificant positive effects on firm's performance. Long term investment and funds was positively and significantly connected to firm's performance. The research however focused on commercial and service sector and thus the study results cannot be universally applied to other non-financial companies in other sections. The current research considered on all non-financial business enterprises registered in NSE.

Business Risk and Firm Value

Onsongo, Mwangi and Muathe (2019) examined the effects of company size and operational peril on firm's performance of commercial and services business enterprises registered in Nairobi stock market, Kenya for the period between 2013 to 2017 with company size as a moderating parameter. The research used Secondary panel data found in issued yearly financial publications. Data analysis was done using panel regression models whereby random effects model was employed established on the hausman specification test. Log of total assets and cost to revenue proportion were utilized to approximate business enterprise size and operational risk respectively. The study results portrayed that operational risk positively but insignificantly influenced company performance as estimated by ROA. Moreover, the outcome indicated that company size could moderate the connection betwixt operational risk and company's performance. The research however focused on commercial and services sector only and thus could not be popularized to other non-financial business enterprises in other sectors. The current study considered every non-financial company quoted in the Nairobi security market

Kassi, Rathnayake, Louembe, and Ding (2019) researched on the impact of market peril on firms performance of non-financial business enterprises registered at Moroccan security market for the time span of 2000 to 2016. Financial performance was measured using three measures; Profit margin, ROE and ROA. Market risk was measured using book value to market value proportion, equity ratio and Degree of leverage (DOL). The research utilized fixed effects model, random effects model Pooled ordinary least square model GMM model. The study results showed that the market risk indicators significantly negatively influence company's financial performance. Book to market ratio had the greatest negative significant influence on performance followed by DOL and lastly gearing ratio. Nevertheless, the research was done in

Morocco who's economic, technological and social environments are dissimilar from Kenya. The research employed financial performance as regressand. The ongoing research investigated the impact of business peril on company's value of non-financial business enterprises registered at Nairobi security market. Furthermore, ongoing research used firms value as the regressand as measured by Tobin-Q.

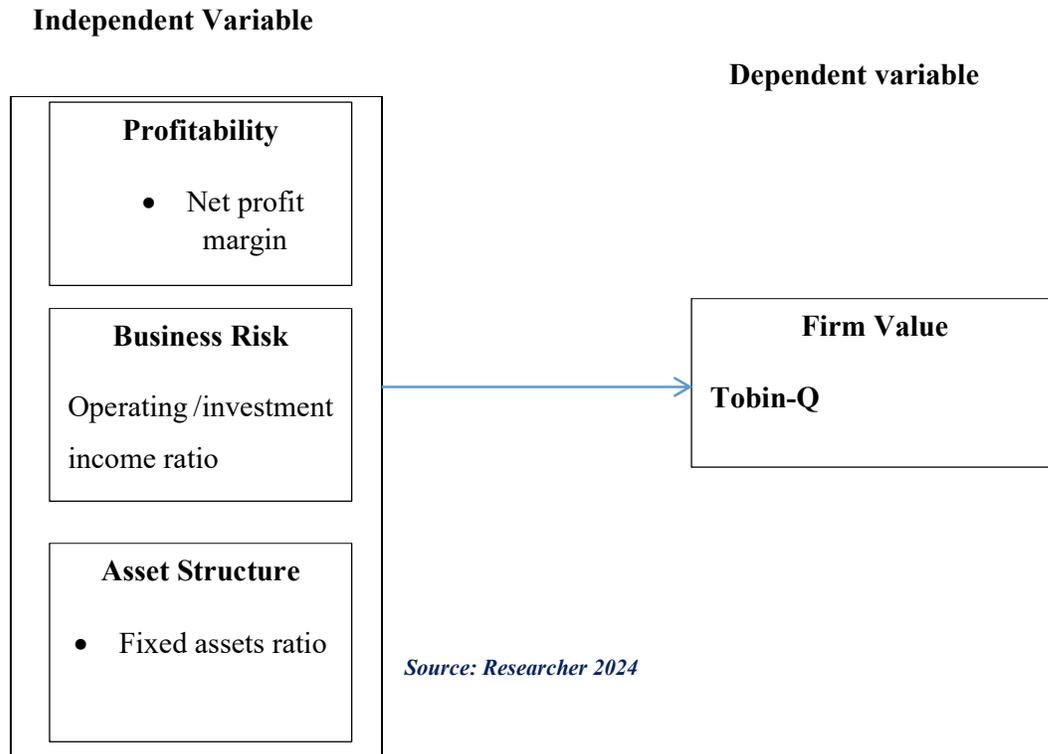
Mukanzi, Mukanzi and Maniagi (2016) determined the impact of financial peril on share returns of non-financial business enterprises quoted at NSE, Kenya. The study aimed at accessing how credit, liquidity and business risks influenced security gains of non-financial companies quoted at Nairobi security market, Kenya. Dividend per share was used as proxy for stock returns. Standard deviation of EBIT was used as proxy for Business risk. Out of the total population of forty-six quoted non-financial companies for the period between 2010-2015, only forty were selected for analysis. The research used descriptive study technique. ANOVA was employed to examine whether there would be any statistically significant relationship between the noticed and anticipated values in relation to Pearson chi-square showing the strength of significance of the relation. Study finding indicated negative significant correlation between business risk and stock returns. Nevertheless, the research looked at business risk as indicated by standard deviation of EBIT and stock returns as dependent variable. The current study looked at business risk as proxied by proportion of operating profit + investment income to total assets as explanatory parameter and Tobin-Q as measure for company value as regressand.

Iyakaremye (2015) carried out a study to analyze financial performance and financial peril in agricultural companies quoted in the NSE, Kenya. Descriptive research technique was applied. ROA, ROE and ROS were applied as indicators for performance. Financial risk was approximated utilizing debt to equity proportion and current ratio. Multivariate regression findings portrayed that financial risk possessed statistically significantly impact on performance of agricultural business enterprises. However, the investigation was carried only on agricultural companies and could not be generalized to other non-financial firms in other sectors. Moreover, the study used financial performance as dependent variable. The ongoing research included all non-financial companies registered at NSE, Kenya. Moreover, business enterprises value was used as regressand and Tobin-Q used as the indicator. Amit and Wernerfelt (2007) conducted a study to examine why firms reduce business peril. The investigation focused on investigating the influence of business peril on company value and cash flow of listed companies in Columbia. Tobin-Q was employed as indicator for firm's value. The research findings indicated that the connection betwixt business risk and firms value was significant and negative. The study didn't examine whether competitiveness can moderate the connection between the regressor and regressand. Moreover, the investigation was carried out in Columbia which has varied social, technological and economic set up to those in Kenya.

Conceptual Framework

A conceptual framework is a graphical representation of the interconnections between the many research concepts, variables, and points of emphasis. Below is an image that shows how profitability, business risk and asset structure are related to the firm value of non-financial

firms listed in the NSE, Kenya. Tobin-Q was used as the indicator for firm value where else Net profit margin, Operating /investment income ratio, Fixed assets ratio were used as proxies for profitability, business risk and asset structure respectively.



RESEARCH METHODOLOGY

Positivism research philosophy was employed while panel data model was utilized. The study utilized explanatory research design which does not involve experiment in establishing the effects of profitability, business risk and asset structure on company value of non-financial business enterprises registered in Nairobi security market. This design is applied once the investigator wants to investigate the level that variation in a certain parameter is displayed in variation in the supplementary parameter (Creswell & Garrett, 2008, Gatauwa, 2020; Mbuthia & Gatauwa, 2022). The scope of the research composed of all the 39 non-financial company quoted in the Nairobi security market for a span of seven years between 2016 to 2022. Both descriptive and inferential statistics to analyze data.

The general model of the study was given as;
 $TQ_{it} = \beta_0 + \beta_1 BUS_{it} + \beta_2 PROF_{it} + \beta_3 ASS_{it} + \epsilon_{it}$

Where

TQ_{it}=Tobin Q value

BUS_{it}=Business risk

PROF_{it}=Profitability

ASS_{it}=Asset structure

β_0 =constant

β_1-3 =Beta coefficients

ϵ_{it} =Observable histocastic error term

RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 1: Descriptive Statistics Results

Parameters	N	Minimum	Maximum	Mean	Standard deviation
Business risk	270	20.6450	99.0083	56.119	10.0904
Profitability	270	45.2614	109.3410	90.416	19.4621
Asset structure	270	60.9467	206.3845	100.643	10.9643

Source: Survey Data (2024)

The results in table 1 above indicate that business risk which was measured in terms of operating /investment income ratio had a average value of 56.119 and a standard deviation of 10.0904. The minimum and maximum value for business risk variable was 20.6450 and 99.0083 respectively. The values obtained are low which shows that a significant portion of the non-financial business enterprises recorded in the NSE, Kenya income could be derived from investment activities rather than its core operations. This could be due to factors such as a lack of profitability in the core business or a deliberate strategy to generate income through investments. The finding is in contrary to Mohamed (2020) research findings that a higher ratio indicates a stronger focus on core operations and is generally viewed positively by investors, leading to a higher valuation. However, the finding agrees with Kinyua (2021) research which established that a lower ratio may raise concerns about the firms’ capacity to give rise to sustainable income from its primary operations, potentially resulting in a lower valuation

The results indicate that profitability which was measured in term of net profit margin possessed average value of 90.416 and a standard deviation of 19.4621. The minimum and maximum value for profitability was 45.2614 and 109.3410 respectively. These descriptive statistics value obtained are high implying that the non-financial business enterprises quoted in the NSE, Kenya possessed a high net profit margin and therefore, they were able to effectively control costs and generate strong profits from their revenue. In addition, this could lead to higher ROE and ROA, which could further enhance the firm value of a company. The finding concurs with Muthoni, Jagongo and Muniu (2019) research, which observe that companies that are able to maintain a high net profit margin are likely to attract investors and achieve higher firm value, while those with low net profit margins may struggle to generate strong returns for their shareholders. The finding also concur with M’huriungi, Muturi and Oluoch (2020) research which observe that a high net profit margin results to improvement in the firm value as investors are particularly likely to be attracted to companies that are able to consistently generate high profits.

The results indicate that asset structure which was measured in terms of fixed assets ratio had a average value of 100.643 and a standard deviation of 10.9643. The minimum and maximum

value for asset structure variable was 60.9467 and 206.3845 respectively. The descriptive statistics obtained are high which indicates that the non-financial business enterprises registered at the NSE, Kenya had invested a significant amount of capital in long-term assets, which suggest a higher level of risk. The finding agree with Njagi, Josiah, Sifunjo and Cyrus (2017) research which found that a higher fixed asset ratio may indicate that a company is not effectively utilizing its fixed assets, which could result in lower profitability. The finding also agrees with Matara (2023) research which revealed that a higher fixed asset ratio may lead to a lower valuation as ventures may perceive it as a more risky investment.

Inferential Statistics

Diagonistic tests

Autocorrelation Test

The Durbin-Watson test was employed in the research to examine if the data exhibit any autocorrelation issue or if they are correlated over the period of study and beyond. The products are displayed in Table 2

Table 2: Auto-correlation Test

Variable	Durbin Watson
Business risk	2.094
Profitability	3.645
Asset structure	4.405
Firm value	3.397

Source: Survey Data (2024)

In step with the outcomes displayed in Table 2 the Durbin Watson values varied between 2.094 and 4.405. This finding is consistent with Sekaran and Bougie (2016) who said that value of 2 and above is an indication of lack of serial correlation.

Heteroscedasticity Test

The study employed the likelihood ratio (LR) approach to check the panel level of heteroscedasticity as observed by Poi and Wiggins (2001). This was achieved by using the Breusch-Pagan (1980) test for examining heteroscedasticity of data. The findings are portrayed in Table 3

Table 3: Heteroscedasticity Test

Test	Statistic	Prob.
Breusch-Pagan LM	401.3216	0.002

Source: Survey Data (2024)

The findings suggested in Table 3 manifest that the test statistic value of 401.3216 is significantly high, leading to rejection of the null hypothesis of constant variance at the usual 5% significance level. The outcomes also manifest that the p-value of this examination is below the predetermined threshold of 0.05, specifically at 0.002. Consequently, the null hypothesis was not supported and it was determined that heteroskedasticity was evident. Therefore, this

could lead to more accurate and precise approximations of the connection betwixt company features and firm value.

Panel Unit Root Test

The panel unit root test was utilized on every parameter in the investigation to prevent misleading regression outcomes. Panel Unit root approach was done by employing Levin, Lin and Chu (2002) to indicate if the data is stationary or non-stationary. Critical values at a degree of significance of 5% will be analogized to equivalent Levin, Lin and Chu test statistic. The complete findings can be found in Table 4.6.

Table 4: Panel Unit Root Test

Test	Statistic	Df	Prob.
Levin, Lin & Chu	10.254	39	0.0421

Source: Survey Data (2024)

The results of the panel test utilizing the Levin, Lin, and Chu test statistic are displayed in the above Table. The Levin, Lin, and Chu test statistic's alternative hypothesis suggests that the residuals are non-stationary. The Levin, Lin, and Chu test statistic was determined to be not as significant as the 5% level of significance as per the test outcomes. Based on Woolridge's (2002) theory, if the Levin, Lin, and Chu test statistic is less than the critical values, the null hypothesis of having a unit root should not be dismissed, leading to the conclusion that the data is stationary.

Correlation Analysis

Correlation analysis is a statistical procedure employed to determine the size and orientation of the link betwixt two parameters (Trafimow & MacDonald, 2017). Correlation analysis was used in the study to uncover relationships among the parameters. The outcomes are shown in Table 5

Table 5: Correlation Analysis Results

		Business risk	Profitability	Asset structure	Firm value
Business risk	Pearson Correlation	1			
	Sig. (2-tailed)				
Profitability	Pearson Correlation	.237	1		
Asset structure	Pearson Correlation	.310**	.435**	1	
Firm value	Pearson Correlation	.803**	.791**	.701	1

Source: Survey Data (2024)

The information in Table 6 shows that the correlation coefficients for business risk, profitability and asset structure with firm value were 0, 803, 0.791 and 0.701 correspondingly. This finding shows a strong positive correlation, meaning that as business risk, profitability and asset structure increase, the company value of non-financial companies quoted in NSE, Kenya also increases. Hence, it can be deduced that there was a strong correlation between the explanatory variables and dependent variable.

Panel Regression Analysis

Table 6: Regression Analysis

Firm value	Coef.	Std.Err	Z	P> z 	95 Conf.	Interval
Business risk	-6.39445	1.125	-0.209	0.004	-0.229	10.366
Profitability	16.3785	2.229	0.330	0.003	0.8745	14.266
Asset structure	19.008	3.336	0.631	0.021	0.495	96.452
_cons	14.4869	3.00	0.557	0.002	13.334	56.587
Wald $\lambda^2(4) = 19.6105$; Prob > $\lambda^2 = 0.0051$; Pseudo R-sq. = 0.709						

Optimal Model

The following regression model was developed;

$$FV_{it} = 14.4869 - 6.39445BS_{it} + 16.3785P_{it} + 19.008AS_{it} + \epsilon$$

Where:

FV_{it} = Firm Value at a time t

BS_{it} = Business Risk of company i at a period t

P_{it} = Profitability of company i at a period t

AS_{it} = Asset structure of company i at a period t

ϵ_{it} = Error

The research examined the null premise that business risk does not have significant influence on business enterprises value of non-financial business enterprise registered at the NSE. This hypothesis is important for understanding the connection betwixt business risk and company value, which impacts investors, policymakers, and corporate managers. At a significant degree of 0.05 null premise was examined. Key findings revealed that business risk had a p- value of 0.04 that was below 0.05 portraying a significant connection and coefficient of -6.39445, indicating a negative connection betwixt business risk and business enterprises value of non-financial business enterprises recorded at NSE. The study outcome thus revealed negatively significantly connection betwixt business risk and business enterprises value. The findings are in line with Kassi, Rathnayake, Louembe, and Ding (2019) research on impact of market peril on firms performance of business enterprises which are non-financial quoted at Moroccan security market for the time span of 2000 to 2016. The study results showed that the market risk indicators significantly negatively influence company’s financial performance. In addition, book to market ratio had the greatest negative significant influence on performance followed by DOL and lastly gearing ratio.

The study analyzed the null premise that profitability does not possess significantly impact on business enterprises value of non-financial business enterprises recorded at the NSE. At significant degree of 0.05 null premise was examined Outcome showed p-value of 0.03 and positive constant of 16.3785. This indicated a positive significant impact of profitability on company value. Based on results the research rejects the null that that profitability does not have significantly impact on the company value thus portraying that soaring profitability is linked to increased firm value of companies studied. The outcome is in line with a investigation

by William et al (2016) that sought to investigate the connection between profitability and company's value of varied companies in Philippines. The multiple regressions revealed that out of the three variables presumed to affect firm's value using Tobin-Q, profitability is the only one which showed significantly positive effects on company's value.

The study examined the null hypothesis that there is no significant connection between asset structure and the company value of non-financial business enterprises recorded in the NSE. At a significance level of 0.05 the null hypothesis was examined. As portrayed in table 4.9 the analysis revealed a p-value of 0.03 which is below 0.05 and coefficient of 19.008, indicating positive significant effects of asset structure on business enterprises value. The finding agrees with Nyamasege (2014) research on the effects of asset composition on company's value of firms registered at NSE, Kenya for the period between 2008-2012. The study outcome showed that firm's asset composition possessed a statistically significant and positive effects on firm value.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study concludes that business risk can positively impact firm value through the potential for higher returns because companies that are prepared to draw soaring levels of peril in pursuit of growth and innovation may be rewarded with higher profits and increased market share. Additionally, taking on calculated risks can too result to improved competitiveness and market leadership which leads to a well-built market situations and increased profitability, ultimately leading to a higher firm value. Furthermore, embracing business risk also lead to increased shareholder confidence and trust since ventures are high likely to venture in business enterprises that are willing to take risks and pursue growth opportunities, as they see the potential for soaring gains on their ventures.

The investigation comes to the conclusion that profitability directly impacts the financial health of a business enterprise which allows the firm to have a strong financial position and in turn increases its value. Ventures are more probable to venture in a profitable company as it indicates a higher potential for returns on their investment. Profitability enables companies to reinvest in their operations and expand their business because companies have more funds available to invest in research and development, marketing, and infrastructure. This allows them to improve their products or services, reach new markets, and gain a competitive edge. Profitability enhances a company's capacity to bring and maintain talented workers because it is able to offer competitive salaries, bonuses, and benefits to its employees.

The research concludes that firms with a secure asset structure typically possess a greater percentage of tangible assets like property, plant, and equipment which provide a solid foundation for the firm's valuation as they can be easily valued and provide a sense of security to investors. A strong asset structure provides stability and predictability to a firm's financial performance that assist in reducing the perceived risk by investors, leading to a elevated valuation for the company. Business enterprises with a strong asset structure use their assets as

security to obtain financing at lesser interest rates which help in minimizing the cost of capital for the company, which in turn can lead to a higher valuation.

Recommendations

The research advocates that the firms ought to manage business risk through diversification in areas such as product offerings, customer base, and geographic locations, companies so as to reduce their exposure to any single risk factor. The firms need to regularly assess their probable perils and come up with master plan to alleviate them by implementing robust internal controls, insurance policies, and contingency plans to address potential threats to the business. Additionally, companies can also manage business risk by maintaining strong relationships with main interested parties like customers, dealers and investors.

The investigation advocates that the companies ought to increase their profitability by implementing cost-cutting measures and contemplate contracting out non-essential activities to minimize running costs. The firm can focus on revenue growth and also lay out fund for research and development to innovate and bring new commodities or services that cater to changing customer needs. The firms can streamline processes, automate tasks, and put money into technology to increase productivity and minimize costs. Collaborating with other companies through strategic partnerships can provide opportunities for growth and profitability. This can involve joint ventures, alliances, or mergers and acquisitions.

The research advocates that the business enterprises ought to spread their asset portfolio like real estate, stocks, bonds, and commodities to reduce their exposure to any one particular asset class. The firms should actively manage the asset composition by regularly reviewing and adjusting the company's asset allocation to ensure that it aligns with the company's strategic objectives and market conditions. The firms can also enhance their asset composition by focusing on acquiring high-quality assets. This means investing in assets that have strong growth potential, generate consistent cash flows, and have a low risk of depreciation. Furthermore, companies can enhance their asset composition by adopting sustainable and socially responsible investment practices. This involves investing in assets which possess a positive influence on the environment, society, and governance.

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