Abstract

In the last one decade, business environment in Kenya has become more turbulent with firms experiencing an increase in risk exposure as a result of changing consumer needs, changing economic conditions as well as global pandemics like COVID 19. To remain competitive, nonfinancial firms have adopted long-term debt financing as one of the strategies to financial their operations and expansions. However, even after the adoption of long-term debts, performance remains poor and firms remain exposed to various types of risks. Therefore, this study sought to examine the effect of long-term debt on risk exposure in non-financial firms listed on the Nairobi Securities Exchange. The study was anchored on the Modigliani–Miller theorem. The research design applied in this study was an explanatory research design. The target population was fortysix firms covering a period of period of five years from 2016 to 2020. Secondary data was used to collect data from audited financial statements of the various firms. The data was analyzed using descriptive statistical techniques and panel regression analysis. The study found that long term debt had a positive and significant influence on firm's liquidity risk exposure in nonfinancial firms listed in the Nairobi Securities Exchange. The study recommends that regulators should promote frameworks that encourage firms to align long-term debt with their liquidity profiles and operational cash flows. Implementing regular stress tests and requiring detailed reporting on long-term debt management could enhance oversight and prevent potential liquidity issues. In addition, firms listed at NSE should diversify sources of long-term debt by accessing different types of lenders, such as banks, bonds, or institutional investors. They should also assess the interest rate risks associated with long-term debt, especially if it includes variable-rate or floating-rate instruments.