

**RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FINANCIAL  
PERFORMANCE OF INVESTMENT COMPANIES LISTED AT THE  
NAIROBI SECURITIES EXCHANGE**

**KARANJA DENNIS MACHARIA**

**D63/88252/2016**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENT FOR THE DEGREE OF MASTER OF SCIENCE IN  
FINANCE OF THE UNIVERSITY OF NAIROBI.**

**NOVEMBER 2018**

## DECLARATION

I declare to the best of my knowledge that this is my original work and has not been presented for a degree in this or any other university. To the best of my knowledge and belief, the research project contains no material previously published or written by another person except where due reference is made.

**Signature..... Date: 21<sup>st</sup> November 2018**

**Karanja, Dennis Macharia**

**D63/88252/2016**

### DECLARATION BY SUPERVISOR:

This is to declare that this research project has been presented for examination with my approval as the appointed University Supervisor.

**Signature..... Date: .....**

**Dr. Kennedy Okiro**

**Lecturer, Department of Finance & Accounting School of Business**

**University of Nairobi**

## **ACKNOWLEDGEMENT**

Most importantly, I give my thankfulness and humble appreciation to the Almighty God for the blessing of life and superb succeeding amidst my endeavors in this whole undertaking. Additionally, I wish to accord my manager, Dr. Kennedy Okiro, rise request, for outfitting me with the information and aptitudes on recommendation trim, support and bearing all through the work. As time goes on, I regard my family for the solace and remarkable help they gave me all through the examination.

God Bless You all!

## **DEDICATION**

This work is dedicated to my parents who have been my pillar and support in my entire academic journey; my siblings and friends who made my academic dream a reality. God bless you all!!

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	iii
<b>ACKNOWLEDGEMENT</b> .....	ii
<b>DEDICATION</b> .....	v
<b>ABSTRACT</b> .....	xi
<b>CHAPTER ONE: INTRODUCTION</b> .....	xi
1.1 Background of the Study .....	1
1.1.1 Capital Structure .....	2
1.1.2 Financial Performance .....	4
1.1.3 Investment Companies Listed at Nairobi Securities Exchange (NSE).....	6
1.2 Research Problem .....	7
1.3 Objective of the Study .....	8
1.4 Value of the Study .....	9
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	11
2.1 Introduction.....	11
2.2 Theoretical Literature Review .....	12
2.2.1 Capital Structure Irrelevance Theory .....	12
2.2.2 Pecking Order Theory .....	14
2.3 Determinants of Capital Structure .....	15
2.3.1 Debt Capital.....	14
2.3.2 Equity Capital.....	17
2.3.3 Debt Equity Ratio.....	18
2.4 Empirical Review .....	20
2.5 Conceptual Framework.....	23
2.6 Summary of the Knowledge Gap.....	24
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	26
3.1 Introduction.....	26
3.2 Research Design .....	28
3.3 Population of Study .....	27
3.4 Sampling Design.....	27
3.5 Data Collection .....	27
3.6 Data Analysis .....	27
<b>CHAPTER FOUR: ANALYSIS, FINDINGS AND INTERPRETATIONS</b> .....	31

4.1 Introduction.....	31
4.2 Descriptive Statistics.....	31
4.3 Regression.....	32
4.4 Summary of Findings in Relation to Literature Review.....	35
<b>CHAPTER FIVE: RESEARCH METHODOLOGY.....</b>	<b>38</b>
5.1 Introduction.....	38
5.2 Summary of the Findings.....	38
5.3 Conclusion .....	39
5.4 Recommendations.....	40
5.5 Limitations of the Study .....	40
5.6 Suggestions for Further Research.....	41
<b>REFERENCES.....</b>	<b>42</b>

## LIST OF FIGURES

Figure 2.1: Conceptual Framework .....	25
--	----

## LIST OF TABELS

Table 4.1: Descriptive Analysis Summary for the Firms.....	31
Table 4.2: Model Summary .....	33
Table 4.3: ANOVA .....	33
Table 4.4: Coefficients.....	34



## **LIST OF ACRONYMS**

<b>CIS</b>	Collective Investment Schemes
<b>CMA</b>	Capital Markets Authority
<b>EPS</b>	Earning Per Share
<b>NPM</b>	Net Profit Margin
<b>NSE</b>	Nairobi Securities Exchange
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SMEs</b>	Small and Medium Enterprises

## ABSTRACT

The examination attempted to take a gander at the association between capital structure and cash related execution of venture associations cited at the Nairobi securities trade. To accomplish this, the investigation concentrated on the accompanying explicit destinations; to decide the impact of obligation on money related execution among recorded venture organizations in Kenya; to establish the effect of equity, share capital on financial performance among the listed investment companies in Kenya; and to examine the effect of debt-equity ratio on financial performance among the listed investment companies in Kenya. The examination focused on the five (5) investment organizations quoted at NSE which are; Centum Investment, Olympia Capital Holdings, Trans Century Ltd, Home Afrika and Kurwitu Ventures. Applying phenomenological approach, the study accumulated profound data and recognitions through inductive, subjective strategies. This was achieved by gathering secondary information from published financial reports for the period between 2011- 2017. Data was analysed and summarized utilizing engaging measurements and relapse investigation. Association examination was used to choose the association between capital structure and the cash related execution of theory associations recorded at the NSE. The examination uncovered that there was variation of monetary execution of venture organizations recorded in the NSE because of variations in obligation value proportion, obligation financing, and value share capital. The investigation found a positive connection between obligation value proportion of speculation organizations recorded in the NSE and budgetary execution of venture organizations recorded in the NSE. The investigation found that the coefficients of the obligation value proportion were a sure sign that a unit change paying off debtors' value proportion would prompt an expansion in monetary execution of the venture organizations recorded in the NSE. The study recommends that it is basic for the administration of the Investment firms when trying to support the association's resources to comprehend the effect of capital structure on their association's monetary execution and also the expense of assets.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Capital structure suggests the route by which a firm backings its assignments which can either, be through duty or respect capital or a mix of both (Houston, 2015). Budgetary Performance is the blue print of the money related undertakings of a worry and it uncovers the association's capacity to make an illustration of its cash related assets into mission related exercises (Brigham, 2013). Trade on the connection between capital structure and firm cash related execution is progressing in the field of corporate bookkeeping (Rajan, 2014). As showed up by Rajan, the discussion has not gotten to an aggregate result and remains a damaged issue. Capital structure and money related execution has been the subject of wide trade all through the composition (Zingales, 2015). As indicated by Zingales the back factor is the fundamental driver of money related burden. Financing choices result in a given capital structure and deficient financing decisions can incite affiliation's foul up. The objective of all financing decisions is benefits development and the affect method for reviewing the likelihood of any financing decision is to convey a gander at the outcomes of such a choice on the association's execution.

An examination by Gianneti (2014) expressed that firm leverage is sensibly comparative crosswise over G7 nations. Gianneti affirmed that organizations in the UK had lower level of debt than in the other six G7 nations. As indicated by Messbacher (2014) capital structure affects the money related execution of a firm as it influences organizations' current ratio, operating leverage, earnings per share, and dividend pay-out ratio or share capital of a firm. Leverage ratios demonstrate the degree to which a

firm has utilized debt and its capacity to meet debt obligation commitments (Patrick, 2014). Leverage is that bit of a company's fixed costs that presents risk on the firm. Money related leverage, a proportion of budgetary risk, alludes to a long haul financing with fixed financing charges, of the organization's assets (Ruan, 2015). As indicated by Ruan, the higher the financial leverage the higher the monetary risk and in this way the higher the cost of capital. Leverage determinants of firms in developing nations are influenced by a similar firm-particular factors as in developed nations (Ngugi, 2014). Notwithstanding, there are contrasts in the manner in which leverage is influenced by nation particular factors, for example, improvement of stock and bond market and other financial elements (Kariithe, 2013).

As Harris (2015) contend, distinctive proportions of leverage can create diverse outcomes and furthermore can influence the understanding of the outcomes. The equity capital of a firm can be estimated as far as either market or book value (Njiru, 2013). Shim and Siegel (2014) posits that from a theoretical perspective the market value should be used, in light of the way that it factors every single available datum. In Kenya, debt premium is charge deductible (Central Bank of Kenya, 2014). The utilization of all responsibility to help the assignments of a firm is of preferred standpoint on one side as duty obligation interest is an overview and in reality side the firm is under the control of loaner to control their stake (Ngugi, 2014).

### **1.1.1 Capital Structure**

An association's capital structure suggests the blend of its budgetary liabilities (Nielsen, 2015). As shown by Mackie (2013), capital structure is the route by which a firm finances its general errands and change by utilizing different wellsprings of advantages. As money related capital is an unverifiable in any case fundamental asset for all affiliations, providers of back can apply control over firms (Munene, 2015). This mix

or blend impacts the general cost of capital (Bringham, 2013). As per Bringham, ordinarily capital structure will be the blend of equity and debt. The extent of this equity and debt to the aggregate capital is chosen by the organization as per the money related position and capacity to raise such capital (Maniagi and Gilbert, 2014).

Scarcely any capital structure speculations, for example, Modigliani and Miller (1958) theory, pecking request theory and market timing have been extensively examined, anyway have given blended results (Penman, 2015). As appeared by Hillier (2013), M&M theory conveyed that market estimation of a firm does not rely upon its capital structure. Modigliani and Miller speculation battles that if firms don't give the required returns, by then individuals can get their desired returns by making manufactured portfolios (Nissim, 2014). Different researchers have discovered the Modigliani and Miller speculation of capital structure insignificant to be unpleasant and have reliably tested it (Graham and Harvey, 2013). The theory gathers that the aggregate market estimation of every cash related asset issued by a firm is made by the hazard and return of the union's veritable assets, not by the mix of issued securities (Byström, 2015). The control thought behind Modigliani and Miller's speculation is that a sensible examiner can make any capital structure on his/her own. Everything considered, the firm ought not to concentrate much on its capital structure (Tianand, 2014).

As exhibited by the pecking demand hypothesis firms lean toward inside financing and if outside extra is required, firms issue the most secure security first (Rutherford, 2014). That is, firms begin with obligation, by then maybe season securities by then a rousing power if all else fails (Myers, 2014). This expect an alliance's devotion degree will be smart of its joined necessities for outside spare (Peterkort, 2014). Instead of the Modigliani and Miller's hypothesis and pecking request theories of capital structure, Baker and Wurgler (2013) found that association with low parts of usage raised capital

when their market valuations were high as concentrated by the market-to - book degree while firms with interesting degrees of use raised capital when their market valuations were low. As showed up by Wurgler (2013), this speculation is known as the market timing capital structure hypothesis.

### **1.1.2 Financial Performance**

Money related Performance is a passionate degree of how well a firm can utilize its purposes of enthusiasm from its essential business to make pay rates (Kaumbuthu, 2013). Kaumbuthu places that the budgetary execution of a firm is affected by their methodology and activities in advancing and non-monetary circumstances. Sizable, whole deal interests in considerable and superfluous resources have whole deal results (Berger, 2014). A meander today will pick the connection's key position for different years. William (2014) conveyed that these undertakings in like way stunningly impact the association's future money streams and the risk related with those money streams. An affiliations' cost of capital gives both a benchmark to study its money related execution and a refund rate for assessing capital undertakings (Klammer, 2015).Patti (2014) fight that lacking evaluation and decision gadgets chance the probability of applying uncommon resources for domains, which propel an arrival not as much as the cost of capital. The imperatives on cash related declarations in clearing up money related execution underline the manner in which that the wellspring of budgetary esteem is never again the age of material items, yet the making of scholarly capital (Masulis, 2014). Scholarly capital consolidates human capital and fundamental capital wrapped up in customers, shapes, databases, brands, and systems (Kim, 2013), and has been accepting a certainly basic part in influencing corporate to keep up a high ground. As demonstrated by Madhyam (2014), a bit of the proportions of cash related execution are shortened as CAMELS (Capital, Adequacy, Assets quality, Management, Earning,

Equity, Liquidity and Sensitivity examination) which controls the setting aside some cash part to set up their budgetary soundness.

The use of budgetary extents for business investigation is typical, and in this way, almost popular expression. Proportion examination frameworks can be seen as a business investigation perspective as a set up point of view (Kennerley, 2013). Jarrel (2014) attested that asking industry chairmen to apply the techniques of extent examination to study their performance requires a clear structure that packs a ton of data into a little course of action of execution markers. These execution pointers must fuse insignificant, non-money related segments that are consistently on a very basic level basic to heads (Abor, 2015). The affiliation's debt proportion is the degree of the organization's debt in association with the total value fund in the association's capital structure (Michael, 2014). This key proportion is comprehensively known as a pointer of the association's whole deal dissolvability position and besides marker of the cash related hazard position of the association (Johnson, 2014). It's gotten by detaching the total association commitment with the total financial specialists' benefits. Net advantage is the refinement among pay and cost of items sold (Meckling, 2014). Net Margin is the extent of gross advantage to pay (Pandey, 2015). According to Meckling, net advantages are the cleanest bookkeeping extent of genuine money related efficiency.

The Return on Assets extent (ROA), moreover called level of productivity, is a basic profit extent since it evaluates the capability with which the association is managing its enthusiasm for assets and using them to make advantage (Holmes, 2013). It evaluates the proportion of advantage earned in regard to the organization's level of enthusiasm

for every single outer asset. Hamilton (2015) states that the arrival on assets extent is related to the advantage organization class of fiscal extents.

### **1.1.3 Investment Companies Listed at Nairobi Securities Exchange (NSE)**

Throughout the years the investment organizations have kept on assuming a basic part in Kenya's monetary development (Gachoka, 2015). In Kenya, the foundation and authorizing of Investment Companies is done by the Capital Markets Authority {CMA} (CMA, 2013). These organizations are enlisted as Collective Investment Schemes (CIS) each ordered to work as an investment in light of the permit conceded. Kenya commands more than half of the monetary intensity of the East African nations, with the most dynamic securities trade: NSE (Ruto and Rueben, 2016). In Kenya there are three investment organizations recorded at the Nairobi Securities Exchange (NSE, 2016). This shows such ventures are professionally overseen and the profits inferred should impersonate the market patterns. The Investment organizations recorded at NSE are Centum Investment, Olympia Capital Holdings and Trans Century Ltd (NSE, 2016). The three investment firms are considered among the biggest listed Investment Companies in the East African area and together with their auxiliaries are occupied with the matter of venture crosswise over private value, development industry and foundation and listed private equity asset classes (Macharia, 2016).

Iraki (2013) posits that even with the development in the quantity of venture firms, the take-up of these investment openings has been needing. The volume of assets diverted to funds in contrast with different securities, doubts the ability of the tasks of assets, financial specialist certainty and information of the diverse speculation vehicles accessible. As indicated by Iraki, the recorded aggregate plans are overseen by investment organizations.



The Nairobi Securities Exchange once in the past Nairobi Stock Exchange was constituted as a wilful relationship of stock specialists under the general public act (Okoth, 2014). The NSE has empowered the investment organizations to draw in neighborhood support in their value, along these lines allowing Kenyans to claim shares. Organizations can likewise raise additional finance basic for extension and improvement (Ruto, 2016). NSE likewise upgrades the inflow of universal capital which can likewise be helpful devices for privatization programs (Stewart, 2013). It is for the most part acknowledged that investment firms proclaiming stock circulations of 25 for every penny or more prominent consider them as stock parts which, consequently, have no impact on held profit. Stock appropriations of under 25 for every penny are considered as stock profits that decrease the held income account (Owolabi and Inyang, 2013).

Over the prior decade, the NSE has seen different changes, robotizing its exchanging September 2006 and in 2007 making it profitable for stockbrokers to exchange remotely from their workplaces, discarding the prerequisite for shippers to be physically present on the exchanging floor (Rueben, 2016). Exchanging hours were besides associated from 2 a.m. to 6 p.m. (NSE, 2016). Nairobi Securities Exchange goes for supporting exchanging, clearing settlement of properties, commitment subordinates and other related instruments (Inyang, 2013). It is asked for to list relationship on the securities trade and connects with inspectors to exchange securities of relationship in that limit it is scolded for the flourishing of Securities Exchange. It's controlled by Capital Markets Authority (NSE, 2016).

## **1.2 Research Problem**

The decision of capital structure is central for any undertaking firm in some irregular division or economy (Fama, 2013). Capital structure is one of the standard determinants

of firms' cash related execution. If a wrong mix of spare is used; the execution and survival of the firm may be truly influenced. The hypothesis region in Kenya is depended on to recognize a key part in the movement and endeavoring to achieve the affiliation's vision 2030. In addition, the upkeep of a perfect capital structure is considered as one zone where supervisors can impact the affiliation's respect and risk (Winaina, 2015).

Spotlights on capital structure and budgetary execution have been appeared in changed made works. Blend puncher (2013) drove an examination on the effect of capital structure on advantage of cash related firms recorded at New York Stock Exchange. In any case, the examination did not consider distinctive parts especially experience firms which makes it difficult to add up to up the divulgences. In like way, Njenga (2014) encouraged an examination on capital structure and money related execution of recorded collecting relationship in Kenya. The examination did not address experience firms either. Siro (2012) drove an examination on effect of capital structure on firm estimation of recorded undertaking firms. Regardless, the time of study was 2012 when Kenya experienced political strain prompting absence of insurance in the securities show off. This shows an intriguing time of study considering the high fixations and low inspirations driving the trade cycle. Everything considered, get some information about in Kenya have exclusively reliant on capital structure and offer regard (Wambua, 2014). This leaves a gap in the sythesis focusing on capital structure and cash related execution of theory firms (Buigut, 2015; and Kipkorir, 2014). As such the motivation to take a gander at the connection between capital structure and cash related execution of undertaking affiliations refered to at the Nairobi securities trade.

### **1.3 Objective of the Study**

The purpose of the study was to examine the relationship between capital structure and financial performance of investment companies listed at the Nairobi securities exchange.

### **1.4 Value of the Study**

Impact of capital structure, how it is influenced by an affiliation return and how a change on it can affect the cash related execution of a firm is a recognized weapon to going up against the inconveniences of better association, capital advancement and examiner riches expansion.

The disclosures of this examination profit Investors in the recorded venture firms, theorists of the recorded speculation firms, academicians and budgetary specialists and the administration of venture firms. The more the information about a condition one has, the better set they are to face the inconveniences unbounded. Present and expected experts in these affiliations have the ability to see better the capital structure of the affiliations they have set resources into or plan to put resources into and its effect on the association's money related execution, how its change impacts on the connection's respect and if the affiliations return can take off it change its capital structure and what the inevitable results of such a decision would be. This, other than instruct their meander choices slicing down the dangers of contributing abnormally. In addition, the revelations from the examination are fundamental to the businesses in general since it uncovers more data into the part that capital structure has in picking budgetary execution.

Financial specialists take in additional about the capital structure, association's respect and connection's advantages and how they are related and along these lines affect each other. This helps them in settling on taught choices at the Annual General Meetings while being looked with issues of capital structure changes and firms respect certification.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The section is formed into various fragments: hypothetical survey, observational audit, theoretical system and an outline of the learning hole is given toward the finish of the part.

#### **2.2 Theoretical Literature Review**

This examination was maintained by two speculations that are proper to capital structure and cash related execution. These theories are: - Capital Structure Irrelevance Theory by Modigliani and Miller (1963); and Pecking Order Theory by Myers (1984) as separated underneath.

##### **2.2.1 Capital Structure Irrelevance Theory**

Modigliani and Miller (1963) changed a prior capital structure irrelevance theory in which they battled that capital structure truly makes a capacity in picking the estimation of a firm. The theory depended on the request that the utilization of commitment offers an assessment shield. In light of this endorsement, firms could pick an all-duty capital structure. Brigham and Mahrt (2013) notwithstanding, battle that the capital structure insignificance demonstrate is veritable just on a key dimension, in light of the route that all around that truly matters, liquidation costs exist and will even development when respect is traded off for obligation. Modigliani and Miller battled that the estimation of the firm will increase or the expense of capital will decrease with the usage of obligation on account of cost deductibility of interest charges. In this way, the estimation of association can be refined by expanding duty piece in the capital structure (Bance,

2014). Capital structure superfluity demonstrate gives an essential and consider system for this examination.

The inquiries of Modigliani and Miller speculation are; impeccable and frictionless markets, no trade costs, no default shot, no evaluation collecting, the two firms and budgetary masters can gain at a for all intents and purposes indistinguishable credit cost; there is homogeneous need, homogeneous peril and proportionate access to all of basic data (Gale, 2013). As appeared by this hypothesis, the rate of advantage for regard develops straightly with the dedication degree suggesting that the higher the responsibility regard degree the higher the conventional advantage for regard.

With a specific genuine goal to pick a meander, a firm ought to expect a rate of return at any rate similar to cost of capital paying little regard to where the back would start from (Mahrt, 2013). From this time forward the minor cost of capital ought to be indistinguishable to the ordinary expense of capital. The holding on cost of capital is out and out finished called the "deterrent rate" (the rate required for capital meander). In plot the hypothesis imparts that the estimation of a firm is invariant concerning its use approach in a without arbitrage show off when there is no corporate pay charge and no area 11 cost: paying little regard to whether firm is financed through duty or regard, its view continues as beforehand (Wald, 2014).

### **2.2.2 Pecking Order Theory**

Pecking ask for speculation of capital structure by Myers (1984) states that, affiliations have a favored noteworthy framework for financing decisions. As showed up by this hypothesis, firms will get instead of issuing regard when pay isn't pleasing to empower capital undertakings. The most raised inclination is to use inside financing before swinging to an outside resources (Fruhan, 2013). This speculation battles that inside

resources see no floatation costs and require no additional introduction of budgetary information that may affect a possible loss of high ground in the business (Kakani, 2013). If a firm ought to use outside resources, the tendency is to take after an explicit enthusiasm of financing sources: commitment, convertible securities, proffered stock, and obvious stock (Malitz, 2013).

This request reflects the motivations of the store related authority to hold control of the firm, decrease the organization costs of essential worth, and keep up a major detachment from negative market response to an approval of another respect issue (Kester, 2013). The degree of obligation will mirror the affiliations' joined necessity for external assets. The theory has two key request with respect to cash related heads (Petra, 2013). The first of these as appeared by Petra is the probability that an association's executives is more versed with the affiliation's present good position and future change openings than outside budgetary geniuses. There is a certified need to keep such data prohibitive. The utilization of inside assets shields experts from making open exposures about the union's theory openings and potential perfect conditions to be seen from setting assets into them (Gupta, 2014).

The second supposition is that central will act to the best perfect position of the organization's present examiners (Prashant, 2015). The heads may even swear off a positive-NPV twist in the event that it would require the issue of new respect, since this would give a gigantic bit of the endeavor's an inspiration to new inspectors to the check of the old, (Fischer, Heinkel and Zecher, 2013). Anyway, the hypothesis has a couple of hindrances since it doesn't illuminate the impact of commitments/charges, money related wretchedness, security issuance costs, office costs, or the technique of wind openings available to the relationship upon the association's true blue capital structure (Zecher, 2013). As showed up by Zecher it removes the issues that can rise when an

association's genuine gathers so much money related slack that they end up safe to uncover rules.

### **2.3 Determinants of Capital Structure**

The term capital structure construes the blend of various sorts of securities (whole course of action duty, crucial stock, favored stock) issued by a firm to back its inspirations of intrigue (Rao, 2013). An association is said to be unlevered as long as it has no obligation, while a firm with obligation in its capital structure is said to be used. As demonstrated by Yahyae (2014), there exist two imperative utilize terms: operational utilize and budgetary utilize. While operational utilize is related to an association's settled working costs, budgetary utilize is related to settled commitment costs (Syed, 2014).

#### **2.3.1 Debt Capital**

Debt is a blend of present moment and long haul getting of a firm (Titman, 2015). Meier (2013) sets that short term borrowing is intended to provide for a company's transient commitments while long haul acquiring is aimed for financing long haul ventures. Enthusiasm on long haul obtaining is typically caught in the credit understanding between the agent and the borrower. This ascension will stipulate in addition to other things, the reimbursement timetable of the obtained reserves. As indicated by the pecking request hypothesis, the alternative to consider obligation financing is the last choice after inner financing and value choices have been depleted (Ayaydin et al., 2014).

Under the pecking request hypothesis, Ozkan (2015) fight that flawless capital structure does not hold. This is an immediate aftereffect of the way that the solidified pecking request financing result extra minutes is the thing that constitutes a dedication degree.



Graham (2013); and Mauer (2015) in their relative research on 104 Canadian firms and 74 Colombian firms built up that little Colombian firms did not take after the pecking request hypothesis but rather wide affiliations did. In Canada, all affiliations take after the pecking request. In any case, the relationship is significantly higher in more diminutive firms diverged from considerable firms (Graham, 2013). According to Daniel (2015), this can be elucidated by the nearness of information asymmetry between little firms in a made country diverged from a making country.

Mauer (2015) asserts that capital market in Colombia is not as developed as in Canada. Along these lines, small and medium size firms in developing nations cannot get to the capital markets while the invert is valid on account of developed nations. Furthermore, Denis, and Naveen (2015) examination n on the Brazilian economy, speaking to the creating scene bolstered the previously mentioned see because of the challenges related with issuing of value back. So also, Magara (2014) built up that debt issue is principally caused by deviated data and unfriendly choice expenses.

Be that as it may, Mathews (2014) places that these two components assumed a fundamental part in developed nations for example the US, in the course of recent decades contrasted with the developing nations. Capital structure trade off hypothesis accentuates that organizations' blend of debt and equity should adjust the advantages and expenses of debts (Dagon, 2013). As per Dagon, the Capital structure trade off hypothesis characterizes an ideal capital structure of a firm as the mix of subsidizing that likens peripheral advantages and minimal expenses of obligation.

So also, McLaughlin et al., (2016) affirmed that firm size impacts capital structure. What's more, huge firms recorded in securities trade markets are seen as more steady by agents henceforth equipped for pulling in more obligation back (Titard, 2014). As indicated by Titard, these organizations appreciate economies of scale in the market

and are adaptable through financial cycles. Obligation additionally offers business endeavors an assessment shield, subsequently firms are propelled to acquire more to receive most extreme duty rewards which mean higher benefits (Metcalf, 2013). In any case, Thoft (2014) posits that unusual debt levels may drive a firm into bankruptcy. Subsequently, administrators ought to be quick to address chance components, for example, high obligation value proportion which construes that an organization's bankruptcy chance is high (Rachinsky, 2014).

Rachinsky posits that when insolvency is dodged, the firm will acknowledge better budgetary execution over the long term. While overhauling debt, money that would some way or another be abused by administration on individual spending binge is placed in great utilization of reimbursing long term advances. Hence, conceivable investor director strife is moderated (Inyang, 2013). Debt financing for this situation is favorable position to the firm. Much the same as living things, associations experience different phases of development in particular; presentation, development, maturity and decrease (Owolabi, 2013).

William (2014) contends that at each stage, associations display remarkable qualities. Likewise, Noreen (2013) attested that obligation usage by firms is emphatically corresponded with the age of the firm. Be that as it may, relatively few examinations have been directed to have this hypothesis tried observationally (Stewart, 2015). A run of the mill firm has low or high development potential. Subsequently, such a firm will require satisfactory financing ideally obligation financing since it is less expensive contrasted with value financing (Morris, 2013).

### **2.3.2 Equity Capital**

As indicated by Javed (2013) equity capital represents the investors' enthusiasm on the company's benefits after liabilities are deducted. In monetary proclamations, value can appear as basic stock (share capital), favored stock, capital excess, held income and stores (John, 2015). As indicated by John, when a firm is beginning up, more value than obligation is required however as it develops, its capacity to get obligation increments. Tong and Ning (2014) place that distinctive firms have diverse examples of development. There are those with low development openings, some with high development openings though others have no development potential by any means (Wessels, 2013).

Murekefu (2014) set up that gainful business undertakings have a high value and lower obligation in their capital structures. On the other hand, firms that have encountered increment in share cost after some time can draw in more value than obligation financing (Sunder, 2015). Plus, Sunder, states that they may consider repurchasing obligation. As indicated by the pecking order hypothesis (Williams, 2015) sets that most firms like to be financed through inward sources represented equity. Debt which is an outer source of financing positions second to equity in situations where equity is not adequate (Myers, 2013).

As per Myers, held income are a piece of equity. Also, as indicated by Brealey (2013) in an exploration on the pecking order hypothesis application in firms in the developed nations of the USA, United Kingdom and Germany somewhere in the range of 1980 and 2004, discovered little help for the hypothesis. This was because of data asymmetry between stock merchants and financial specialists. As indicated by Tianand (2014) the merchants find out about the market than the financial specialists consequently exploited and profited to the detriment of the investors through insider exchanging.

Additionally, an examination done by Pandey (2015) found that somewhere in the range of 1990s, financing of firms in Japan took after the pecking order conduct.

Furthermore, Lemmon and Zender (2014) in an investigation on capital structure tests and debt limit, agency and bankruptcy costs advocates for utilization of a greater amount of value than debt along these lines repudiating the trade-off hypothesis that promoters utilization of more debt as a wellspring of finance in the wake of assessing the money saving advantage examination of debt. The investigation of agency hypothesis as cutting edge by Atiyet (2013), posits that an association's administration affect investors equity in the long haul. Consequently, administration might be enticed to seek after individual interests to the detriment boosting investors' riches (Jibrán, 2016). Oguna (2014) noticed a contention between common investors and debt holders of a firm.

As per Oguna (2014), at whatever point these two gatherings go into restricting contract, such contract ought to have a statement that permits change of obligation into value. On the off chance that a firm makes benefits and procures a required rate of restore that is higher than the cost of obligation, at that point normal investors' advantage. Then again, if the monetary execution or the required rate of return is lower than its cost of obligation, at that point the misfortune is borne by the obligation holders (Rutherford, 2014). Another factor that directs the blend of obligation and value in a firm is its development. Value financing is a preferred source of fund by firms with anticipated that development as restricted would obligation back (Wald, 2014).

### **2.3.3 Debt Equity Ratio**

The Debt Equity Ratio (D/E) is a money related extent showing the relative degree of investors' value and obligation used to fund an association's benefits (Zingales, 2015).

The two sections are much of the time taken from the organization's financial record or verbalization of budgetary position (Ngugi, 2014). As shown by Nielsen (2015), high debt/equity extent overall infers that an association has been mighty in financing its advancement with obligation. Forceful utilizing rehearses are every now and again associated with unusual measures of hazard. This may result in flimsy benefit in view of the additional interest cost (Munene, 2015).

Patti (2014) attests that if a huge extent of commitment is utilized to help broadened endeavors (high obligation to value), the affiliation could create more pay than it would have without this outside financing. In addition, Rao (2013) avowed that if this by one means or another figured out how to construct wage by a more conspicuous whole than the obligation cost (premium), by then the speculators advantage as more benefit are being spread among a comparative number of financial specialists. Regardless, Omondi (2013) posits that if the cost of obligation financing ends up surpassing the benefits that the association makes on the obligation through wander and business works out, accomplices' offer characteristics may persevere through a shot.

In this manner, Syed (2014) contend that if the cost of obligation ends up being unnecessarily for the association to manage, it can even incite insolvency, which could leave financial specialists with nothing since banks are paid first in the midst of liquidation methods. Likewise similarly as with most extents, while using the obligation/value proportion, it is basic to consider the business in which the association works (Waweru, 2014). Since different endeavors rely upon different proportions of financing to work, and use that capital in different ways (Palepu, 2014).

Njenga (2014) posits that for the most part high D/E extent may be fundamental in one industry while a decently low D/E may be ordinary in another. According to Wurgler (2013), capital-concentrated organizations, for instance, vehicle manufacturing tend to

have a commitment/esteem extent more than 2, while associations like PC producers generally are not particularly capital genuine may regularly have an obligation/value extent of under 0.5. Everything considered, D/E extents should simply be used to take a gander at associations that work inside a comparative industry.

Similarly, while reviewing D/E extents, the "Total Liabilities" fragment of the condition may routinely be settled in a combination of courses by different associations, some of which are not by any stretch of the imagination the aggregate of most of the association's liabilities (Yahyaee, 2014). On occasion, associations will simply solidify commitments, for instance, advances and commitment securities, into the liabilities portion of the condition, while disposing of various sorts of liabilities, for instance, ridiculous wage (Patti, 2014). In various cases, associations may register D/E in a significantly more specific way, including simply whole deal commitments and excepting at this very moment commitments and diverse liabilities (Syed, 2014). Syed fights that long haul obligation here isn't really a term with a reliable significance, be that as it may (Ruan, 2015) declared that it might incorporate all long haul obligations, yet it might likewise prohibit long haul obligations nearing development, which are then classified as "here and now" obligations. In light of these separations, one should attempt to decide how the proportion was computed and ought to make certain to consider different proportions and execution measurements also while thinking about utilizing an organization's obligation/value proportion for venture choices (Simon, 2014).

## **2.4 Empirical Review**

Kebewar (2013) utilizing information from an example of 2240 of French non-recorded organizations of administration area amid 2008-2013 completed an investigation on the impact of debt on firm benefit. The investigation built up that debt has no impact on

productivity either directly, or in a non-straight manner. The examination is predictable with that of Baum et al. (2014) on American modern organizations. What's more, keeping in mind the end goal to enhance the exactness of the estimation by lessening heterogeneousness between various sizes of organizations, the investigation broke down the conduct of the French firms as per their size. The investigation inferred that there was no effect of debt on productivity, paying little respect to the extent of the organization.

Palepu (2014) contemplated an example of 93 huge value financed firms by analyzing changes that happen around value offering in firm hazard, use, and profit levels. The investigation set up no proof of genuine income changes or changes in experts' figures. Be that as it may, the investigation found a critical increment in both resource and equity betas resulting to the offer. The investigation reasoned that the data passed on by equity contributions relates to changes in risk, as opposed to changes in profit levels.

Malekian (2014) coordinated an examination whose objective was to set up the impact of capital structure on budgetary execution of affiliations recorded in the Tehran Stock Exchange in Iran. The examination attempted a case of 400 firms as 12 mechanical social affairs in the midst of the years 2010 to 2014. Return on Assets extent (ROA) and Return on Equity extent (ROE) were used to evaluate cash related execution of associations. The examination suggest that there is an enormous negative association between commitment extent and cash related execution of the associations. The examination in like manner shows that by satisfying past duties extent, organization can extend the association's productivity and in like manner the proportion of the association's budgetary execution measures.

Dube (2013) did an examination on the effect of responsibility financing on efficiency of little and medium scale undertakings in Zimbabwe, and construed that gainfulness

in a firm was emphatically related to the level of commitment financing and changes in theory. The examination in like manner assumed that utilization on hypothesis was a basic determinant of effectiveness in SMEs errands. The level of commitment financing must be immediate to avoid generous premium portions which can shield firms from contributing using internal wellsprings of reserve. Al-Tally (2014) uncovered that there was a connection between capital structure and budgetary execution in Saudi Arabian firms while directing an examination on the impact of money related use on firm monetary execution in Saudi Arabia's open recorded organizations. On a normal, the mean budgetary execution of 57 firms tended to increment as for a diminishing in use level. Lower use levels were observed to be connected with higher gross overall revenues, NPM, ROA and ROE.

Maina (2014) directed an examination on capital structure and cash related execution of firms recorded at the NSE. Using regression with SPSS, the examination derived that commitment and esteem are genuine determinants of budgetary execution of firms recorded at the NSE. There was confirmation of a negative and huge relationship between capital structure and budgetary presentations. The examination induced that the more commitment the associations used as a wellspring of back the more they experienced low execution. The examination furthermore gathered that associations recorded at NSE used more without a moment's hesitation commitments than whole deal.

Maniagi (2013) in an investigation of the connection between an organizations capital structure and monetary execution among an example of 30 organizations recorded on NSE whose information for 5yrs period 2008-2013: inferred that organizations recorded on NSE have received pecking request hypothesis because of immature obligation advertise and the prohibitive contracts related with long haul obligation, this



makes long haul obligations costly subsequently influencing firms to obtain less. Maniagi found that most firms want to back their exercises by utilizing here and now obligation. From the investigation the aggregate resources was decidedly associated to capital structure intermediaries which was critical. The investigation infer that long haul obligations was used by substantial firms that had huge resources which could be utilized to go about as guarantee for anchoring the advances.

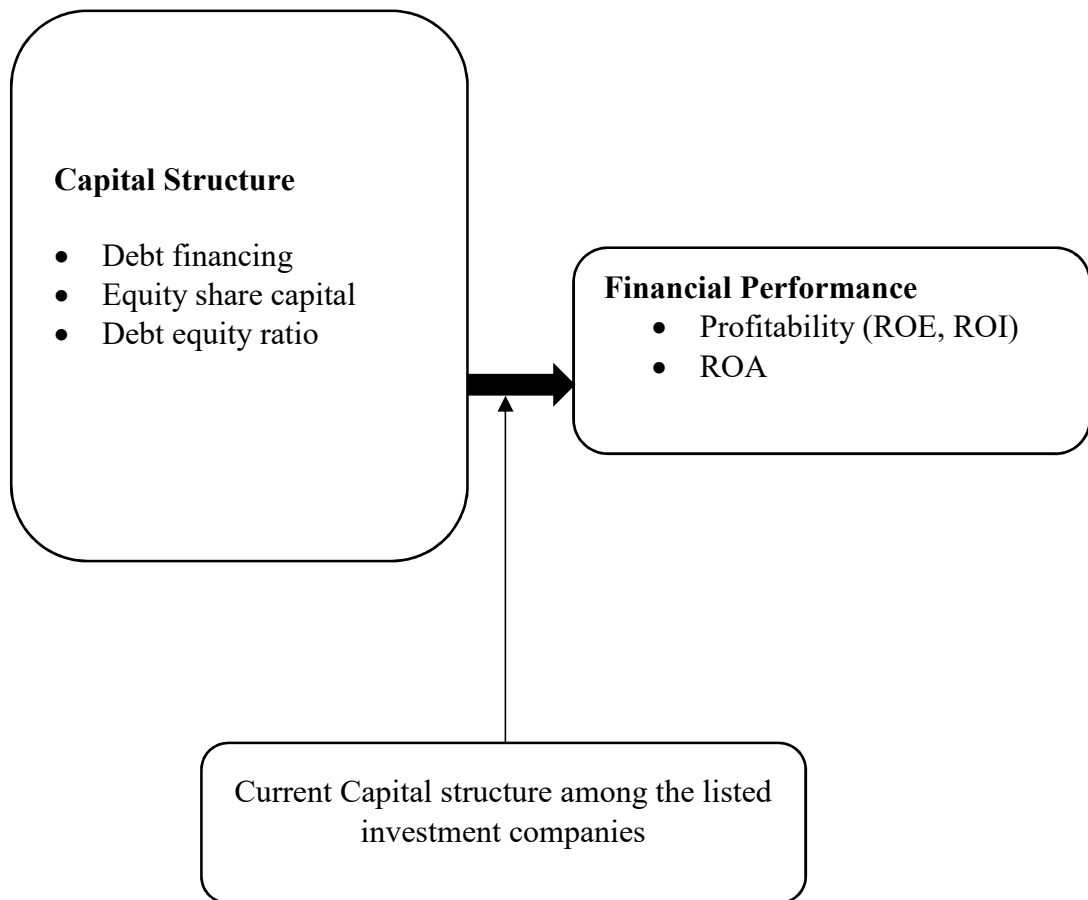
Nzomo (2014) considered the impact of declaration of optional value contributions on stock costs of firms recorded at the NSE. The investigation directed an occasion consider with an example in view of 10 organizations that had made value contributions in the period 2011-2014. The consequences of the examination demonstrated that irregular returns were irrelevant and consequently the declaration did not stun the market essentially.

## **2.5 Conceptual Framework**

The applied system of this investigation depended on capital structure and money related execution among listed investment organizations in Kenya. The autonomous and ward factors were separated into different parameters intended to answer the examination inquiries as demonstrated as follows:

## Independent variables

## Dependent variable



**Figure 2.1:** Conceptual framework.

**Source:** author, (2018)

## 2.6 Summary of the Knowledge Gap

Fama (2015) found that debt financing does not decidedly influence the budgetary execution in light of the way that there is no tax reduction of commitment on account of association issues in the wake of controlling for procuring, speculation, innovative work, and profit. Because of absence of basic concurrence on what constitutes an ideal debt structure as confirmed in some exact examinations, it is critical to additionally investigate the impacts of debt structure on the company's monetary execution.

Furthermore, the writing looked into featured blended outcomes to the extent budgetary execution of value offering firms is concerned (Palepu 2014 and Njoroge 2013). A few investigations demonstrated no adjustment in income for seasoned issuers while others exhibited either a positive or negative change in budgetary execution (Dube, 2013); Al-Tally & Nzomo, 2014). The outcomes acquired from the investigations above can't be summed up for developing securities exchanges, for example, the NSE because of contrasts in approaches, structures and the way that, rights offer have turned into the most favored and prevalent technique for raising value capital for extensions and development of firms recorded at the NSE. The money related execution of prepared value offering firms at the NSE has gotten little consideration with existing investigations concentrating on all organizations recorded at NSE. Such discoveries are excessively broad, making it impossible to control speculators in picking the stocks to incorporate into a value portfolio.

The separated theories foresee unquestionable relations between the corporate ideal position and its capital structure. The pecking request hypothesis made by Myers (1984) prescribes that the financing offers of firms, for instance, held preferred standpoint, duty, and after that regard, are basic for the corporate capital structure. There have other than been limit in exposures concerning this examination, for example Malekian (2014) considered firms recorded on Tehran Stock Exchange and found that affiliations' execution which is contemplated by EPS and ROA are conflictingly related to capital structure.

The present examination thusly tried to fill the opening by limiting whether there is a relationship between capital structure and cash related execution of wind affiliations recorded at the Nairobi securities Exchange.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Section three was dealt with in different zones exhibiting the system used to do the examination with an objective to address the specific focuses of the examination. These fragments are; inquire about structure, target populace, examining, information accumulation instruments, and information investigation.

#### **3.2 Research Design**

The examination used phenomenological approach. Phenomenology is the examination of enthusiastic experience (Moustakas, 1994). It is a way to deal with oversee managerial point that has its foundations in the philosophical work of Edmund Husserl. The motivation driving the phenomenological approach was to light up the points of interest, to see affirmations through how they are seen by the on-screen characters in a condition (Strauss, 2015). Phenomenological methodology was especially historic at passing on to the fore the encounters and viewpoint of people from their own particular points of view, and subsequently at testing partner or overseeing suspicions (Moustakas, 1994).

In this examination, this proselyted into get-together aide data from scattered cash related reports for the period between, 2011-2017. The methodology (Phenomenological) was proposed to find the relationship between capital structure and budgetary execution of speculation affiliations' recorded at the NSE.

### **3.3 Population of Study**

The objective populace of the examination was the five (5) investment organizations recorded at NSE which are; Centum Investment, Olympia Capital Holdings, Trans Century Ltd, Home Afrika and Kurwitu Ventures (NSE, 2017). The motivation driving this target people was tended to by the manner in which that most examinations on capital structure and cash related execution in Kenya have focused on gathering and the financial sectors to the dismissal of speculation associations. Moreover, the target masses was unsurprising with the general objective of the examination which endeavored to investigate the association between capital structure and money related execution of venture associations recorded at the Nairobi securities exchange.

### **3.4 Sampling Design**

Attributable to the modest number of investment organizations recorded at NSE, the investigation applied a census method to select all the five investment organizations: Centum Investment, Olympia Capital Holdings, Trans Century Ltd, Home Afrika and Kurwitu Ventures.

### **3.5 Data Collection**

The investigation utilized auxiliary information. The creator utilized longitudinal information which was accumulated from distributed reviewed budgetary reports of the 5 venture organizations recorded at NSE for a time of seven years: - from 2011 to 2017. To guarantee legitimacy of the information, the specialist guaranteed that auxiliary information sources were respectable and the data was not over 10 years of age.

### **3.6 Data Analysis**

Information was broken down and abridged utilizing quantitative methodologies particularly; descriptive statistics and regression analysis. Correlation investigation was

utilized to decide the connection between capital structure and the monetary execution of investment organizations recorded at the NSE. Regression model was utilized as illustrated below:

$$Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3 + e$$

Where: -

Y- Financial performance measured by ROE.

$\alpha$ - Constant

X<sub>1</sub>- refers to financial leverage and was measured by debt asset ratio.

X<sub>2</sub>- refers to Equity and was measured by dividend per share to earnings per share.

X<sub>3</sub>- is development opportunity and was estimated by value income proportion gotten from the division of market cost per offer to profit per share.

B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub>- are relapse coefficients of the particular autonomous factors

e- Error term which catches the unexplained varieties in the model.

Regression investigation was relied upon to yield connection coefficient of assurance and examination of change. Correlation coefficient (r) was utilized to quantify the level of connection between capital structure and money related execution of speculation organizations cited at the NSE. The coefficient of determination (r<sup>2</sup>) gauged the level of varieties in money related execution that was clarified by the relapse of budgetary execution on capital structure. Examination of fluctuation was directed at a 5% centrality level or 95% certainty level.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

#### 4.1 Introduction

This part shows the investigation of the auxiliary information gathered from the budgetary yearly reports of the examined endeavor associations recorded at NSE; NSE handbooks; and distributed books of records throughout the years 2011 to 2017. The part gives rundowns of information discoveries together with their conceivable translations introduced by utilization of mean, rates, frequencies, fluctuations, standard deviation and tables.

#### 4.2 Descriptive Statistics

This section aimed to obtain the summaries of the variables as well as to compare the numeric variables side-by-side. This technique helped to extract maximum common variance from all variables and to put them into a common score as shown in table 4.1 below.

**Table 4.1: Descriptive Statistics for the Full Sample over the Period 2011-2017**

Variable	Abbreviation	N	Mean	Median	St. Dev.	Min.	Max.	Skew.	Kurt.
<i>Dependent variable</i>									
ROE	<i>FP</i>	35	0.471	0.458	0.152	0.167	0.750	0.103	2.176
<i>Independent variable</i>									
Debt Financing	<i>DF</i>	35	0.065	0.002	0.091	0.000	0.332	2.312	7.040
Equity Share Capital	<i>ESC</i>	35	0.372	0.161	0.398	0.001	1.010	0.835	1.799
Debt Equity Ratio	<i>DER</i>	35	0.045	0.002	0.091	0.000	0.332	2.312	7.040

Table 4.1 above show a mean (median) Financial Performance (FP) score of 47.1% (45.8%) which is relatively normally distributed as shown by the Skewness and Kurtosis coefficients of 0.103 and 2.176. According to the findings, the minimum ROE is 16.7% while the maximum ROE is 75.0% implying that the listed investment companies in the sample are performing well financially albeit the huge range in FP.

The findings also show a mean (median) Debt Financing for the sampled investment companies was 6.5% (2%) which could mean that investment companies in the sample utilize relatively low debt financing.

The mean (median) Equity Share Capital for the sampled investment companies was 37.2% (16.1%). This implies that the sampled investment companies are largely funded by stakeholders and other liabilities which account for 62.8%.

The examination discoveries are in concurrence with the findings of Palepu (2014) who set up that if a firm has credit issues, value financing might be the main decision for assets to back development.

Further findings shows a mean (median) Debt Equity Ratio for the sampled investment companies was 4.5% (2%) which could mean that the overall extent of investors' value and obligation used to fund the examined venture organizations was relatively low.



**Table 4.2: Spearman’s Correlation Coefficients**

		<i>Debt Financing</i>	<i>Equity Share Capital</i>	<i>Debt Equity Ratio</i>	<i>ROE</i>
<i>Debt Financing</i>	Correlation Coefficient	1.000	0.870**	0.274	-0.318
	Sig. (2-tailed)	.	0.000	0.151	0.093
	N	29	29	29	29
<i>Equity Share Capital</i>	Correlation Coefficient	.870**	1.000	0.354	-0.208
	Sig. (2-tailed)	.000	.	0.060	0.279
	N	29	29	29	29
<i>Debt Equity Ratio</i>	Correlation Coefficient	0.274	0.354	1.000	0.227
	Sig. (2-tailed)	0.151	0.060	.	0.237
	N	29	29	29	29
<i>ROE</i>	Correlation Coefficient	-0.318	-0.208	0.227	1.000
	Sig. (2-tailed)	0.093	0.279	0.237	.
	N	29	29	29	29

\*\* . Correlation is significant at the 5% level

Table 4.2 presents the Spearman’s correlation coefficients. Spearman’s coefficients are appropriate for the data because it contains both continuous and binary variables. The results show that ROE is significant and positively correlated with *Equity Share Capital* at the 5% level of significance. This finding provides prima-facie evidence of a positive association between ROE (*Financial Performance*) and *Equity Share Capital* which is also the highest correlation coefficient.

### 4.3 Regression

Regression was used to determine which among the three Capital Structure: debt financing; equity share capita; and debt-equity ratio are significantly related to the dependent variable (ROE -financial performance of investment companies listed at the Nairobi securities exchange). In interpreting the regression results; when a coefficient is equal to zero means no effect/ null hypothesis. A positive predictive value implies

likeliness to have a consequence on ROE of investment companies while negative predictive value implies not likely to have a consequence on ROE of investment companies. Below is the output for the SPSS.

**Table 4.2: Regression Results for the Full Sample**

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
Intercept	0.182***	0.013	14.104	0.000
<i>Debt Financing</i>	-0.001*	0.001	-1.859	0.079
<i>Equity Share Capital</i>	0.148**	0.058	2.545	0.020
<i>Debt Equity Ratio</i>	0.609*	0.316	1.929	0.069
Firm-year controls	Yes***			
R-squared	0.830			
Adjusted R-squared	0.740			
S.E. of regression	0.077			
F-statistic	9.273***			
Prob. (F-statistic)	0.000			
Durbin-Watson stat	2.472			
Observations	35			

\*\*\*, \*\* and \* denote significance at the 1%, 5% and 10% levels, respectively

Table 4.2 reports the regression results on relationship between capital structure and ROE - financial performance for the full sample of investment companies over the period 2011-2017.

The regression model utilized is panel two-stage least squares. The two-stage least squares approach adopted controls for potential endogeneity which may exist between ROE and the independent variables in the study.

According to the results, the coefficient on the *Debt Financing* (DF) is negative at the 10% level of significance (coefficient = 0.182, t-value = 14.104, p = 0.00). This implies the negative association between ROE and *Debt Financing* is slightly significant. As a

result, the finding of a negative association between *ROE* and *Debt Financing* is not conclusive.

Next, the results reveal a positive and significant association between *ROE* and *Equity Share Capital* at the 5% level of significance (coefficient = 0.148, t-value = 2.545, p = 0.020).

This finding is consistent with the results reported in a study by Maxwell (2014) where it was reported that listed investment firms exhibit relatively higher Financial Performance.

Next, the results in table 4.2 reveal a positive and significant association between *ROE* and *Debt Equity Ratio* at the 10% level of significance (coefficient = 0.603, t-value = 1.881). This implies that Investment companies that have obtained more Debt Financing attain higher ROE.

Finally, the model specification tests reveal that the models utilized had goodness of fit as indicated by the adjusted R-squared of 74%. This means that 74% of the variation in ROE could be clarified by the factors incorporated into the model, with 26% of the variation accounting for the omitted variables. The firm-year was included to cater for the heterogeneity across the 5 firms as well as the variability in Financial Performance over the period 2011-2017. The analysis of variance for the overall model produced an F-statistic of 9.273 which was significant at the 1% level. This means that the model utilized and the results thereof could be relied upon. Finally, the Durbin Watson statistic for the model was 2.472 and this implied that there was minimal autocorrelation among the residuals.

#### 4.4 Summary of Findings in Relation to Literature Review

From the findings the ROE was relatively normally distributed across all the three variables. It was also reported that the listed investment companies in the sample are performing well financially albeit the huge range in FP. The findings also showed that investment companies in the sample utilize relatively low debt financing. Further results showed that the sampled investment companies are largely funded by stakeholders and other liabilities which account for 62.8%. In addition, the examination discoveries are in concurrence with the findings of Palepu (2014) who set up that if a firm has credit problems, equity financing may be the only choice for funds to finance growth.

Further it was also reported that the relative proportion of shareholders' equity and debt used to finance the sampled investment companies was relatively low. The spearman's results showed that financial performance is significant and positively correlated with *Equity Share Capital* at the 5% level of significance. This finding provides prima-facie evidence of a positive association between *ROE* and *Equity Share Capital* which is also the highest correlation coefficient.

Regression results showed a negative association between ROE and Debt Financing which is slightly significant and as a result, the finding of a negative association between ROE and Debt Financing is not conclusive.

Results also reveal a positive and significant association between ROE and Equity Share Capital at the 5% dimension of importance which is reliable with the results reported in a study by Maxwell (2014) where it was reported that listed investment firms exhibit relatively higher Financial Performance.

Further, the study has reported a positive and significant association between ROE and Debt Equity Ratio at the 10% level of significance which could imply that Investment companies that have obtained more Debt Financing achieve higher ROE.

Finally, the study has revealed that the variation in ROE could be clarified by the factors incorporated into the model, with 26% of the variety accounting for the omitted variables.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This area demonstrates the summary of the examination, end drawn from the exposures included and proposal made there-to. The end and recommendations drawn relied upon keeping an eye out for the inspiration driving this examination which was to take a gander at the connection between capital structure and budgetary execution of undertaking affiliations recorded at the Nairobi securities exchange.

#### **5.2 Summary of the Findings**

From the exposures on the Adjusted R squared, the examination uncovered that there was assortment of budgetary execution of hypothesis firms recorded in the NSE because of assortments in the dedication regard degree, duty financing, and regard share capital. The examination uncovered that dedication regard degree and regard share capital were the basic considerations impacting the money related execution of hypothesis firms recorded in the NSE. From the divulgences on the relationship examination, the examination uncovered that there was a solid relationship between capital structure and budgetary execution. The examination furthermore revealed that the separated data is ideal for making an end due to commitment esteem extent, commitment financing, and esteem share capital on cash related execution of endeavour firms recorded at the NSE.

The examination uncovered that obligation value proportion, obligation financing, and value share capital were altogether impacting the budgetary execution of venture firms recorded at the NSE. Discoveries demonstrated that the coefficients of obligation value

proportion was certain a sign that a unit change under water value proportion would prompt an expansion in money related execution of the venture organizations recorded in the NSE. There was a solid connection between budgetary execution of venture organizations recorded in the NSE and the three factors (obligation value proportion, obligation financing, and value share capital). The coefficients on obligation financing and value share capital was negative a sign that there existed a negative connection between obligation financing, value share capital and monetary execution of speculation organizations recorded in the NSE. An expansion in the obligation financing and value share capital would thusly prompt a reduction in the monetary execution of speculation organizations recorded in the NSE.

### **5.3 Conclusion**

The discoveries of the investigation have built up that obligation value proportion, obligation financing, and value share capital impact money related execution of venture firms recorded at the NSE. In light of the discoveries, it tends to be presumed that capital structure influence money related execution of firms recorded at NSE. The investigation reasons that obligation value proportion of venture firms recorded in the NSE is decidedly identified with monetary execution of firms recorded at NSE, this is ascribed to the way that the obligation value proportion educates an organization the measure of hazard related with the manner in which their capital structure is set up and run. The proportion features the measure of obligation an organization is utilizing to maintain their business, and the money related execution that is accessible to an organization. Likewise, the examination infers that Debt financing influences money related execution of the organizations recorded in the NSE. The higher the Debt financing, the less the arrival on value and also diminished investors riches which demonstrates a need to build more capital infusion instead of acquiring. It very well

may be reasoned that the aggregate credits in these organizations could prompt high intrigue cost consequently bringing down the gainfulness of the firm. The examination infers that the organizations ought to in this way finance speculations from internal sources with the end goal to improve their money related execution. This is likewise upheld by Maniagi et.al, (2013) who says that the advantages of obligation financing are not as much as its negative angles.

#### **5.4 Recommendations**

It is basic for the administration of the Investment firms when trying to support the association's resources to comprehend the effect of capital structure on their association's monetary execution and also the expense of assets. There is requirement for the venture firms recorded in the NSE to have a solid capital structure which gives them quality to withstand money related emergencies and offers investors a superior wellbeing net in the midst of miseries. Furthermore the capital market experts also speculation examiners ought to prompt the venture firms on the ideal capital structure dependent on capital structure investigation. The examination prescribes that there is requirement for the venture firms to build their obligation value proportion as it was uncovered that obligation value proportion emphatically impacts on the money related execution of the organizations. The examination additionally prescribes that there is requirement for the organizations to receive procedures that would build their obligation financing and use the benefits created from obligation financing to obtain more resources and enhance their money related execution.

#### **5.5 Limitations of the Study**

Right off the bat, the yearly money related reports for a few organizations were not accessible or had not been submitted to Capital Markets Authority as required by the



organizations Act and the directors of the organizations were hesitant to unveil the monetary data required for the examination. This influenced the dialogs of the present investigation and additionally postponing the fruition of the information gathering. Every bit of the information gathered from auxiliary sources and any blunder in the first information couldn't be evaded anyway all information was from dependable source as it were. The investigation depended on a multi-year considering the period from the year 2011 to 2016 and since a portion of the organizations like TransCentury listed in 2011, a more extended length of the examination will have caught times of different financial significances, for example, blasts and subsidence. This may have most likely given a more drawn out time concentrate consequently given a more extensive measurement to the issue.

#### **5.6 Suggestions for Further Research**

This examination concentrated on the association between capital structure and budgetary execution of theory associations recorded at the Nairobi securities exchange. The investigation concentrated on three factors of capital structure (obligation value proportion, obligation financing, and value share capital) and thusly it is prescribed that an examination ought to be embraced concentrating on different components like long haul obligation, total obligation and size of firms recorded in the NSE. The investigation was restricted to Investment firms recorded in the Nairobi Securities Exchange; additionally study ought to be attempted on different firms in different areas of the economy, for example, mechanical, keeping money, fabricating and different divisions. An examination ought to likewise be embraced on the impact of capital structure on alternate organizations which have not yet been recorded in the NSE.

## REFERENCES

- Abor, L. (2015). The effect of capital structure on profitability: empirical analysis of listed firms in Ghana. *Journal of Risk Finance*, 6 (5), 438-45.
- Al-Tally, M. (2014). Determinants of Capital Structure across selected Manufacturing sectors of Pakistan. *International Journal of Humanities and Social Science*, 1(12), 254-262.
- Baker, O. and Wurgler, P. (2013). The determinants of the capital structure of listed Australian companies: the financial manager's perspective. *Australian Journal of Management*, 16(2), 103- 128.
- Bance, W. (2014). Capital structure choice in a nascent market: Evidence from listed firms in China. *Journal of Financial Management*, 37(2), 341-364.
- Beath, K. (2014). Determinants of capital structure: Evidence from international joint ventures in Ghana. *International Journal of Social Economics*, 31(1/2), 56-66.
- Berger, S. (2014). The influence of managerial factors on the capital structure of small and medium-sized enterprises in emerging economies: Evidence from China. *Journal of Chinese Entrepreneurship*, 4(3), 180-205.
- Brigham, O. (2013). Access to capital, capital structure, and the funding of the firm. *The Journal of Finance*, 64(1), 263-308.
- Buigut, M. & Kipkorir, P. (2014). How and when do firms adjust their capital structures toward targets? *Journal of Finance*, 56(1), 87- 130.
- Byström, A. (2015). Determinants of capital structure of Chinese-listed companies. *Journal of Business Research*, 57, 1341- 135.
- Daniel, Q. Denis, D. & Naveen, F. (2015). Capital structure around the world: The roles of firm and country-specific determinants. *Journal of Banking & Finance*, 32(9), 1954-1969.
- Dube, U. (2013). An international comparison of capital structure and debt maturity choices. *Journal of Financial and Quantitative Analysis*, 47(01), 23-56.
- Fama, V. (2013). On the Determinants of SME Cash Holdings: Evidence from Spain. *Journal of Business Finance & Accounting*, 35 (1-2), 127-149.
- Fruhan, L. (2013). Structuring the IPO: Empirical evidence on the portions of primary and secondary shares. *Journal of Corporate Finance*, 12(2), 296-320.
- Gachoka, V. (2015). Theory of the firm: managerial behaviour, agency costs and the ownership structure. *Journal of Financial Economics*, 3, 305 – 360.

- Gale, X. (2013). Sources of capital structure: Evidence from transition countries. *Eesti Pank. Journal of Finance*, 39(3), 857– 78.
- Gianneti, U. (2014). Do firms rebalance their capital structures? *The journal of finance*, 60(6), 2575-2619.
- Graham, T. and Harvey, R. (2013). How big are the tax benefits of debt? *The Journal of Finance*, 55(5), 1901-1942.
- Hamilton, M (2015). Optimal capital structure in agency relationships. *RAND Journal of Economics* 26, 343-361.
- Harris, W. (2015). Determinants of Capital Structure Empirical Evidence from Financial Services Listed Firms in China. *International Journal of Economics and Finance*, 4, 191.
- Hillier, O. (2013). Economic Factors Influencing Corporate Capital Structure in Three Asian Countries: Evidence from Japan, Malaysia and Pakistan. *Industrial Journal of Management & Social Sciences*, 3(1):9-17.
- Houston, P. (2015). The choice between equity and debt: an empirical study. *Journal of Finance*, 37(1), 121-44.
- Inyang, C. (2013). Corporate Financing and Investment Decisions When Firms Have Information the Investors Do Not Have. *Journal of Financial Economics*, 13(2), 187–221.
- Iraki, D. (2013). Perceived Relationship between Corporate Capital Structure and Firm Value in the Kenyan Listed Companies. *Research Journal of Finance and Accounting*, 4(19), 157-164.
- Jarrel, K. (2014). The portability of capital structure theory: Do traditional models fit in an emerging economy. *Journal of Finance & Accountancy*, 5. 187–221.
- Javed, B. (2013). What do we know about capital structure? Some evidence from international data. *The journal of Finance*, 50(5), 1421-1460.
- John, M. and Williams, L. (2015). Debt and Taxes. *Journal of Finance*, 32(2), 261-275.
- Johnson, P. (2014). The determinants of capital structure: evidence on UK property companies. *Journal of Property Investment & Finance*, 17(5).
- Kakani, H. (2013). Determinants of Capital Structure and Adjustment to Long Run Target: Evidence from UK Company Panel Data. *Journal of Business Finance and Accounting*, 21(2), 175–98.
- Kariithe, C. (2013). Determinant factors of leverage: an empirical analysis of Spanish corporations. *Journal of Risk Finance*, 6(1), 60-68.

- Kaumbuthu, K. (2013). The determinants of capital structure choice. *Journal of Finance*, 43 (1), 1-19.
- Kebewar, L. (2013). An empirical study on the determinants of the capital structure of Thai firms. *Pacific-Basin Finance Journal*, 7, 371-403.
- Kennerley, A. (2013). Time Series Analysis on Factors Influencing Saving Rate in Malaysia. Icfai University. *Journal of Financial Economics*, 6(4), 50-56.
- Kim, B. (2013). Determinants of Capital Structure in Nigeria, *International Journal of Innovation and Applied Studies*, 3(4), 999-1005.
- Klammer, G. (2015). Capital Structure and Firm Performance. *Journal of Banking and Finance*, 9(5), 1065-102.
- Macharia, D. (2016). On the Existence of an Optimal Capital Structure: Theory and Evidence. *Journal of Finance*, 39 (7), 857-878.
- Mackie, F. (2013). Optimal Financial Policy and Firm Valuation, *Journal of Finance* 39, pp.593-607.
- Madhyam, O. (2014). Efficient Financing Under Information Asymmetry. *Journal of Finance* 42, 1225-1243.
- Magara, P. (2014). Determinants of capital Structure: Empirical Evidence from Pakistan. *Journal of Finance and Accounting*, 5(2), 57-96.
- Mahrt, D. (2013). Optimal Financial Policy and Firm Valuation, *Journal of Finance* 39, pg.593-607.
- Maina, E. (2014). Do Taxes Affect Corporate Financing Decisions? *The Journal of Finance* .45(5), 1471-1493.
- Malekian, K. (2014). Corporate Governance, Dividend Policy and Performance. *International Journal of Innovative Research and Development*, 25(6), 896-906.
- Maniagi, L. (2013). Corporate Governance, Dividend Policy and Performance. *International Journal of Innovative Research and Development*, 25(6), 896-906.
- Masulis, W. (2014). How capital structure Influences diversification performance: A transaction cost perspective. *Strategic Management Journal*. 4(9), 171-193.
- Mauer, P. (2015). Capital Structure and Financial Performance: Evidence from Selected business companies in Colombo stock Exchange Sri Lanka, *Journal of Arts, Science and Commerce*. 7(5), 11-14.
- Meckling, K. (2014). *Determinants of the Capital Structure of Ghanaian Firms*. AERC Research Paper 176 African Economic Research Consortium, Nairobi.

- Messbacher, A. (2014). *Corporate Income Taxes and The Cost of Capital: A Correction*. American Economic Review.
- Michael, K. (2014). *The Effect of Capital Structure on Share Price on listed Firms In Kenya*. A Case of Energy Listed Firms.
- Modigliani, O. and Miller, M. (1963). The theory of capital structure. *The Journal of Finance*, 46(1).
- Morris, A. (2013). The determinants of capital structure choice. *Journal of Finance*, 36(12), 563-581.
- Moustakas, M. (1994). *Research methods; quantitative and qualitative approaches*. Africa Center for Technology (ACTS), Nairobi Kenya.
- Munene, P. (2015). Relationship between capital structure and agency cost for companies listed at the Nairobi Securities Exchange.
- Murekefu, J. (2014). "Capital structure and its determinants in the UK: A decompositional analysis. *Applied Financial Economics*, 12, 159-170.
- Myers, S. (2014). *The determinants of capital structure: Evidence from Vietnam*. International Finance Review, 8, 307-326.
- Ngugi, K. (2014). *Development of the Nairobi Stock Exchange: A Historical Perspective*, KIPPRA Discussion Paper No. 27.
- Nielsen, Z. (2015). *The Impact of Institutional Factors on Capital Structure: Evidence from Chinese Private Listed Firms*.
- Nissim, A. (2014). *Financial Management Theory and Practice*. (10th edn). New York: The Dryden Press.
- Njenga, P. (2014). *Capital structure decisions: Which factors are reliably important?* Financial Management, 38(1), 1-37.
- Njiru, F. (2013). The capital structure of Swiss companies: an empirical analysis using dynamic panel data. *European Financial Management*, 11(1), 51-69.
- Noreen, A. (2013). *Determinants of the target capital structure and adjustment speed: evidence from Asian capital markets*. In European Financial Management Symposium. Beijing.
- Nzomo, J. (2014). Corporate performance and the chief executive officer's compensation in the service industry. *Open Bus J*, 1, 53-7.
- Nzuki, S. (2015). Capital structure: perspectives for managers. *Management Decision*, 35(7), 552-561.

- Oguna, L. (2014). Determinants of corporate borrowing. *Journal of Financial Economics* 5, 147–76.
- Okoth, W. (2014). Capital structure and its determinants at the Nairobi Securities Exchange. MSc thesis: University of Nairobi, Kenya.
- Omondi, O. (2013). Agency costs of free cash flow, corporate finance and takeovers. *American Economic Review*, 76, 323-339.
- Owolabi, P. and Inyang, F. (2013). The Capital Structure Puzzle. *Journal of Finance*, 39(3), 575–92.
- Ozkan, K. (2015). Evaluating Value Based Financial Performance Measures, *Journal of Finance* 6, (3), 93-117.
- Palepu, A. (2014). *The Cost of Capital, Corporation Finance and the Theory of Investment*. The American Economic Review, 48(3), 261-297.
- Pandey, T. (2015). *Capital structure in small and medium-sized enterprises: the case of Vietnam*. ASEAN Economic bulletin, 23(2), 192-211.
- Patrick, E. (2014). *The capital structure in stable and extremely unstable political and economic environments*. In Second Singapore International Conference on Finance.
- Patti, P. (2014). *A Rational Justification of the Pecking Order Hypothesis to the Choice of Sources of Financing*. Management Research News, 25(12).
- Penman, F. (2015). *Research Methods for Business: A Skill Building Approach* (5th edn). New Jersey: John Wiley and Sons.
- Peterkort, O. (2014). *The determinants of capital structure of stock exchange-listed non-financial firms in Pakistan*. The Pakistan Development Review, 43(4), pp-605.
- Rajan, P. (2014). *Coercion, copy-coats, and colleagues: staffing the board of the IPO Company*. Corporate ownership and control, 7, 108-119.
- Rao, S. (2013). Time Series Analysis on Factors Influencing Saving Rate in Malaysia. *Icfai University Journal of Financial Economics*, 6(4), 50-56.
- Ruan, W. (2015). *Corporate Debt Capacity: A Study of Corporate Debt Policy and the Determination of Corporate Debt Capacity*, Division of Research, Graduate School of Business Administration, Harvard University, Boston. Economics, 113(2), 387-432.
- Rueben, K. (2016). Determinants of corporate borrowing. *Journal of Financial Economics* 5, 147–76. 43. Myers, S.C. (1984). The Capital Structure Puzzle. *Journal of Finance*, 39(3), 575–92.

- Rutherford, W. (2014). Determinants of corporate borrowing. *Journal of Financial Economics* 5, 147–76.
- Ruto, O. and Rueben, P. (2016). Debt policy and performance of SMEs, *Journal of Risk Finance*, 8(4), 364-37.
- Siro, F. (2012). The capital structure in stable and extremely unstable political and economic environments. In Second Singapore International Conference on Finance.
- Stewart, W. (2013). *Research methods; quantitative and qualitative approaches*. Africa Center for Technology (ACTS), Nairobi Kenya.
- Syed, J. (2014). Corporate Financing and Investment Decisions When Firms Have Information the Investors Do Not Have. *Journal of Financial Economics*, 13(2), 187–221.
- Thorsell, A. & Cornelius, F. (2013). The theory of capital structure. *The Journal of Finance*, 46(1).
- Tianand, H. (2014). Corporate Governance, Dividend Policy and Performance. *International Journal of Innovative Research and Development*, 25(6), 896-906.
- Titman, D. (2014). Determinants of Financial Performance of Commercial Banks in Kenya, *International Journal of Economics and Financial Issues*, 32(23), 4561-4589.
- Wald, O. (2014). Testing trade-off and pecking order predictions about dividends and debt. *Review of financial studies*, 15(1), 1-33.
- Wambua, P. (2014). Relationship between capital structure and return on equity for Industrial and allied sectors in the Nairobi Securities Exchange.
- Waweru, A. (2014). The Influence of the Tax Rate on the Capital Structure of Quoted Companies at the NSE, Unpublished MBA Thesis, UON.
- Wessels, W. (2013). *Capital Structure and emerging Markets: Empirical Evidence from an Emerging Market in South Asia*.
- William, P. (2014). Corporate Income Taxes and The Cost of Capital: A Correction. *American Economic Review*.
- Winaina, Y. (2015). Relationship between capital structure and return on equity for Industrial and allied sectors in the Nairobi Securities Exchange.

#### **Appendix A: List of Investment Companies in the Sample**

SN	Company	Year	Total Assets (US\$)
1	Centum Investment	2017	5,900,732.320
		2016	5,418,389.845
		2015	3,760,566.252
		2014	2,900,732.320
		2013	1,300,712.310
		2012	1,418,389.845
		2011	1,760,566.252
2	Olympia Capital Holdings	2017	4,600,232.720
		2016	2,098,389.125
		2015	4,111,532.222
		2014	185,977.520
		2013	275,400.476
		2012	175,400.476
		2011	153,050.951
3	Trans Century Ltd	2017	2,600,292.720
		2016	1,068,359.125
		2015	1,900,532.222
		2014	90,127.520
		2013	75,234.476
		2012	79,411.476
		2011	53,077.951
4	Home Afrika	2017	57,689.544
		2016	42,338.612
		2015	32,192.631
		2014	25,689.544
		2013	20,689.544
		2012	22,338.612
		2011	22,192.631
5	Kurwitu Ventures	2017	19,233.544
		2016	18,411.612
		2015	17,112.631
		2014	17,623.544
		2013	17,111.544
		2012	16,378.612
		2011	15,100.631

*Source: Central Banks of Kenya (2017)*

### **Appendix B: Capital Structure Index Utilised**



	<b>VARIABLE</b>	<b>N</b>	<b>DESCRIPTION OF VARIABLE</b>
A	Debt Financial	1	Short-Term Bonds/Notes
		2	Long-term Bonds
		3	General Obligation Bonds
		4	Municipal Mini-bonds
		5	Limited-tax Bonds
		6	Private Purpose Bonds
		7	Leases, Certificates of Participation (COPs) and Certificates of Interest
		8	Tax Increment Financing (TIF)
		9	State Bond Banks and Revolving Funds
		10	
B	Equity Share Capital	11	Authorized share capital
		12	Issued share capital
		13	Subscribed share capital
		14	Paid up capital
		15	Rights shares
		16	Bonus shares
		17	Sweat equity share
C	Debt-Equity Ratio	18	Shareholder equity
		19	Current liabilities
		20	Total liabilities
		21	Corporate bonds
		22	Stock buyback programs
		23	Current asset
		24	Liquidity
		25	Bond coupon
		26	Working capital
D	Financial Performance	27	Operating Cash Flow
		28	Customer Satisfaction
		29	Accounts Payable Turnover
		30	Accounts Receivable Turnover
		31	Inventory Turnover
		32	Quick Ratio