RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PERFOMANCE OF OF COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare this research project is my original work and has not been submitted for award of a degree or a diploma to any university or educational institution.

Signature_____ Date_____

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D61/64283/2013

This research project has been submitted for examination with my approval to the University as the supervisor.

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DEDICATION

My most sincere dedication goes to my dear parents, Mr. Stephen Muriithi and Mrs. Anastasia Ng'endo for the good care, guidance, moral and financial support; I will forever remain grateful to you. My appreciation also goes to my wife, Linah Kateve and my dear daughter Eliana Ng'endo for their patience, great love and support during the period of research study.

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ABBREVIATIONS AND ACRONYMS

IPO	Initial public Offering
MM	Modigliani and Miller
NSE	Nairobi Securities Exchange
ROA	Return on Asset
ROE	Return on Equity
CMA	Capital Markets Authority
EBIT	Earnings Before Interest and Taxes
SMEs	Small and Medium Enterprises
CBK	Central Bank of Kenya
SPSS	Statistical Package for Social Science
ANOVA	Analysis of variance
IRA	Insurance regulatory Authority

ABSTRACT

Capital structure has for long remained a puzzle among financial managers and finance scholars. In their effort to maximise the value of firm, different firms applies different capital structures decision. A number of reserch papers have shown that high levered firms tends to have an optimal capital structure and therefore good performance, while the Modigliani-Miller theorem proves that it has no effect on the value of firm. The importance has only motivated researchers to investigate the relationship between capital structure and firms financial performance. The objective was to determine if there exist a relationship of between capital structure and financial performance of non listed firms on Nairobi Securities Exchange.

The financial performance was determined by return on asset and capital structure was determined by of debt ratio. Data from the audited financial statements was collected from NSE Handbooks and company website for five years period starting from 2014 to 2018. Out of the total population of 45 non-financial companies quoted at the Nairobi Securities Exchange, secondary data for the 37 firms was gotten representing 82% response. Using the regression analysis method, data were analyzed using the Statistical Package for Social Sciences.

The study concludes that a positive relationship exists between the capital structure of companies and their financial performance of Nairobi Securities Exchange listed non-financial firms. The findings show that the higher the debt ratio, the higher the asset return.

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Capital structure has for long remained a puzzle among financial managers and finance scholars. In their effort to maximise the value of firm, different firms applies different capital structures decision. Capital structure describes how firms raises finances for its operations by use of equity capital or debt capital or an equal hybrid of both equity and debt capital (Myers, 2001). Financing decisions involves a trade-off between debt and equity (capital structure). Without funds to support working capital requirement and fixed assets, business might not exist. The decision about the corporate capital structure is critical in almost every area of investment decision, because it affects efficiency. Proper attention and care require should then be given consideration while making capital structure decision with a view to increase firms performance and maximize shareholders wealth (Mwangi et al, 2014).

In landmark seminar paper by MM (1958;1963) about the irrelevance of capital structure and the advantages of tax shield on debt capital led to the development of other theories on capital structure. Without transaction costs, corporate taxes, insolvency cost, information asymmetry and in perfect market, the firms value is immaterial to the capital structure or its financing decision adopted. Use debt capital decrease the tax paid. MM concluded that optimal capital structure of firm should be totally be made up of debt capital. Several theories have since been put forward to explain a firm's capital, including Market Timing Theory, Pecking Order Theory, Trade-off Theory, and Agency Cost Theory. The decision about where source of capital comes from is important and affects firm’s performance. Therefore, company should choose the right financial mix that maximizes the financial performance (Abor, 2007). Between 2006 and 2011 the Nairobi Securities Exchange (NSE) recorded major Initial public Offering (IPO). Among the companies that issued shares through IPO included Safaricom, Co-operative Bank, KenGen, Britam and Scan group (Korir,2018). In 2016 KCB Group Limited shareholders approved plan to raise Ksh10 billion through a rights issue to boost their capital. However, in the recent past few firms have opted to raise capital through equity. It is becoming a common feature to issue debt financing through Kenya's financial markets. With corporates preferring to use the fixed income securities market segment of the NSE to raise funds for implementation of their various growth plans. Listed companies at NSE capital structure have been increasing their debt ratio in funding operations and carry out development projects through capital market (Anyanzwa, 2015). For example, Centum

investment limited, and East African Breweries limited have established the foundation for debt financing by borrowing from the capital markets. Firms use debt to finance their assets with the goal of increasing the level of income. Nevertheless, debt capital's ability to improve financial performance or increase profits vary depending on the prevailing economic circumstances from one company to another (Maher & Andersson, 1999). The bond market turnover remained significantly higher than equity turn over (Capital Markets Authority,2017). It is evident that listed firms are increasingly using debt capital in their capital structure . There is need to investigate whether use of debt financing has an effect on the performance. Moreover, lack of unified theory, which explains the relationship between firms capital structure and financial performance, motivated this research study.

1.1.1 Capital Structure

Capital structure refers to the way a firm funds its growth and operations through the mix of debt and equity securities. It is a reflection of the corporation's financing strategy and plans. Capital structure is a significant financial variable because it is linked to the capacity of the company to meet the requirements of all its stakeholders such as employees, community, shareholders, among others (Jensen, 1986). Equity finance refers to the finance contributed by the business owners and this is the most risk bearing form of finance. The shareholders are entitled share of the company profit usually referred to as dividend in accordance to the number of shares held. However, it is not compulsory company to make dividend payment to equity shareholders every time. The company can hold some part of the profits for supporting future expansion of its business operations. The shareholders also share business risks and they are last to obtain benefit in case a company is liquidated after settlement of all debt (Brockington, 1990).

Debt finance is created by borrowing from the external financing sources like financial banks or issuing bonds. The financier does not control the operations of the firm but instead, he is paid a fixed annual return as compensation for the use of his funds. On the other hand, the borrower (firm) is legally obligated to repay the principal amount plus the accrued interest regardless of whether the firm makes the profit or not. The inability to meet such financial commitments may result to loss of the collateralized asset, the deterioration in performance of the business or even bankruptcy (Bichsel & Blum, 2005). Debt finance is the senior claimant to the firm's returns and equity finance is the residual claimant. Debt finance has both the advantages and disadvantages in the growth of companies and expansion of the economy. Debt finance results to benefits such as tax shield and the diminution of free cash flow

problems by enhancing managerial behaviour while the expenses of debt financing include agency expenses and bankruptcy cost which results from the conflicts between debt holders and shareholders (Fama & French, 2002).

1.1.2 Firm Financial Performance

Different measurement model have been used to evaluate performance. Firms performance can be measured using profitability, growth, customer satisfaction, employee satisfaction, environmental, corporate governance, market value, and social impact. Financial performance has been defined as a measure of how well a firm uses its available resources in the generation of profits. It provides a guideline that gives a way for future decisions relating to business developments, assets acquisitions and managerial control (Tehrani & Rahnama, 2006). Firm financial performance reflects management achievement in monetary terms over a period of time. It can be utilized in making comparison of like firms in the industry. Ongeri (2014), financial performance is an objective measure of business activities in monetary terms. It demonstrates how better a shareholder value has increased or decreased at the end of an accounting period. This is measured by utilizing financial ratios from companies financial statements or by use of data on market share prices. The goal of the firm is to increase the wealth of the shareholders. Therefore, financial performance measurement helps to measure how wealthier the shareholder has becomes as a result of the investment decisions in a given period (Berger & Patti, 2002).

Financial performance has measured using different absolute and relative indicators such as net income levels, earnings before interest and tax (EBIT), revenues, expenses, return on assets and return on equity. The most frequently used measure of performance in accounting-is return on equity (ROE) and return on assets (ROA) (Reese & Cool, 1978). ROE is a measure of return on the shareholders equity investment. It is derived by dividing Net profit after Taxes by Total Equity capital. It demonstrates company's profitability level in relation to shareholders capital invested. ROA is a measure of well company utilize their assets. It explains the efficiency of the management in utilizing the company assets by showing impact of company's assets in generating revenue. It is derived by the ratio between net profits after tax to company total assets. It is a useful measure applied in comparing competing companies in the same industry (Black et al., 2006). As a result, ROA was be applied in measuring financial performance of listed companies.

1.1.3 Capital Structure and Firm Financial Performance

Capital structure and financial performance is regularly discussed in corporate finance. However, this relationship remains a debatable topic, which has lured many researchers.

Since the landmark study by Modigliani and Miller (MM)1958, where he stated that firm value is independent of the financing choice adopted. Therefore, the real assets but not the financing mode determines firm's value. Indeed, scholarly researchers attempts to analyze capital structure and ascertain whether an optimal capital structure exists or it does not. Optimal capital structure refers to the level to which we have minimum the cost of capital for the company and where financial performance is maximized. According to prior studies, capital structure has an effect on the cost of capital, which ultimately influences financial performance of the firm and share prices (Miller, 1977). The use of debt finance offers an opportunity to the firm to increase the scale of its operations and consequently increase its performance over time. However, debt finance effects performance when the return on the assets is less than the cost of debt (Watkins, 2002).

Jensen & Meckling (1984), leverage influences management investment opportunities. Management is under pressure to invest in projects that maximise shareholders values. This in return this reduces agency cost hence increasing firms financial performance. The relationship between firms capital structure and financial performance has for long time been investigated by different researchers and seen to have an effect on the financial performance of firms. Eldomiaty & Azim (2008) carried out a research on the relationship capital structure on financial performance. The research findings established that there ia a positive relationship between capital structure and firms financial performance. This argument was also supported by Hadlock &James (2002). To the contrary, Fama & French (2008) established that there was negative relationship between capital structure and firm financial performance. The contradicting findings on the relationship of capital structure on the firm financial performance can be attributed to several factors, which include different companies, different countries, different sectors, different periods, different measures of profitability, different debt ratios and different methodologies in establishing the correlation between capital structure and firm performance (Muchugia, 2013).

1.1.4 Firms Listed at The Nairobi Securities Exchange

NSE was established in 1954 to provide a platform for regulating trading of shares. Its main mandate is to regulate the securities market by ensuring exchange of ownership of securities. The products traded are securities which consist of shares/equities and bonds/debt investments. As at December 2018 there were sixty-two companies listed at the NSE (NSE, 2018).

The report from the capital market authority (CMA) indicate significant growth in number corporate bonds issued between 2014 and 2017. However, the bond market has faced significant challenges following the delays in compensating of bond holders of Chase and Imperial Banks, which were put under receivership due to governance and financial challenges (Anyanzwa, 2018). The decision whether to take debt finance or equity financing has remained within the confines of boards of directors but financial analysts have argued in support and considers debt finance as appropriate for increasing firm value provided they are acquired at appropriate market rate and proceeds utilized in a good way (Anyanzwa, 2015). This study sought to find out the whether such debt financing has any effect on the performance of the companies listed at NSE. Listed commercial banks and Insurance firms were excluded from the analysis because they are highly controlled on matters relating to liquidity and minimum capital base by the central bank of Kenya and the Insurance regulatory authority respectively.

1.2 Research Problem

Capital structure decision plays a very important part in the financial performance of a company if well planned and in an effective manner. However, what constitute an optimal capital structure remains undetermined and a contentious issue (Kajola, 2010). From different theoretical and empirical studies, there is no consensus on the effects of capital structure on firms profitability. Jensen & Meckling(1986), support that view and consider debt as disciplining tool that forces managers to invest in projects, which add value to shareholders hence enhancing firm's performance. Modigliani and Miller tax interest shield proposition predicts that there is a positive relationship since companies with corporations with higher income level, are can utilize more debt capital and hence take advantage of tax relief. Myers & Majluf (1984) The information asymmetry proposition argues that there is a negative correlation between capital structure and financial performance since companies would first utilizes retained earnings instead of using costly external finance.

These conflicting theories created the need for further studies, which motivated this research. Numerous companies listed in the NSE have embarked on use of debt finance in their capital structure with view to improve their financial performance. Debt finance presents the firm with opportunity to increase its performance by facilitating acquisition of the productive assets at decreased agency cost (Anyanzwa, 2015). Financial analyst have argued in the support of debt use and considers debt finance as good in enhancing firms performance provided its acquired at the favorable rate and its proceeds utilized in a good way. However,

in the recent past a number listed companies that have used debt capital to finance operations and expansion have pushed their management into a survival dogfight. With huge debts in their capital structure companies such as Kenya Airways, Home Africa, Uchumi Supermarkets, ARM cement, Mumias Sugar Company and Transcentury have reported huge losses and found themselves in serious debt crises owing creditors more than their net worth (Juma, 2016). ARM has been placed under recervership in a move aimed protecting the company from creditors attaching assets.

These developments coupled with the lack of a universal theory has led to the need for further research on relationship of firms capital and its financial performance, which motivated this research study. Moreover, many studies have for long been conducted globally and locally on the capital structure decisions. Abor (2005) did a research study on the impact of firms capital structure on the performance of companies quoted on the Ghana Stock Exchange and he established that both current and non-current liabilities have a significant positive relationship with firm profitability. Saeedi & Mahmoodi (2011) did the research on the effects of capital structure on performance of firms in the Tehran Stock Exchange and concluded that capital structure does not affect the performance of firms. Zeltun & Tian (2007) did a study on the effects of capital structure on the firm financial performance and concluded that there is a negative correlation among capital structure and firm's profitability.

Baum et al. (2007) assessed the impact debt on the profitability. The study used firm size to analyze the behavior of the French firms and concluded that debt capital has no effect on the firm's financial performance regardless of firm sizes.

1.3 Objectives of the Study

To determine the relationship between capital structure on financial performance of companies quoted at the NSE.

1.4 Value of the Study

To enlighten financial managers and shareholders on the relationship of capital structure decision on their firm's value thus help them make informed financing decisions form.

Past studies done on capital structure have mostly been conducted on the developed economies. To contribute information on capital structure of firms in the developing. The government of Kenya will be enlightened in a bid to make policies relating to capital structure. Also to potential Investors who may need to know if capital structure policy of

company affects performance of the firm so that they make informed investment decision of their funds.

The study will enrich scholars and academicians understanding about the effects of financial structure on financial performance.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This section looks at the study-related literature. This includes a literature review that informs the research on the financial performance of the capital structure relationship In order to provide new knowledge, theoretical and experimental studies are also reviewed. This is accompanied by a review of the literature.

2.2 Theories Review

This section deals with theories that further explain the link between the capital structure of firms and financial performance. Such theories include; Pecking Order theory, Trade-Off theory, Organization theory, and Market Timing theory.

2.2.1 Pecking Order Theory

This theory was developed by Myers & Majluf (1984). It stated that there is no predefined optimal capital structure but instead asserts that, firms displays different preference for utilizing internal funds or retained earnings over external capital. It is the one of the most significant theories of company leverage and is contrary to the idea of having distinctive mix of debt and equity, which minimizes the corporation costs of funds. Financing cost tends to increase as the degree of information asymmetric information therefore firm should follow a defined order of priority with respect to financing sources. It suggest firms should first choose to use their internally generated capital from profits called retained earnings. If not sufficient the next options is for the firm to utilize debt capital and finally raises equity capital as the last option. It advocates for retained earnings to be used first in funding long-term projects and when they are exhausted or not available, then debt is issued; and when it is insufficient or not available, equity is issued. The theory argues that, as firms becomes more profitable, the lesser they seeks external funds since they would have enough internal funds to support their investment projects (Myers, 1984).

The explanation of the pecking order stems from the existence of the information asymmetry where managers are assumed to be more aware of company risk, prospects and project value than external investors including capital markets. According to Myers & Majluf (1984), investors places low value on the company stock because of the inability of managers to convey information on the company prospects including the new investment opportunities identified. Managers are at the core of company information to will more likely choose internal finance. If the internal finance are insufficient, managers will choose first use debt

capital since they are undervalued in the capital markets. The asymmetric information effect favours utilization of debt over equity. It also shows management confidence that the newly identified investment option is profitable and the market share price of the company are undervalued (Myers & Majluf, 1984).

2.2.2 Trade Off Theory

The theory was proposed by Myers (1984). The theory holds that, every firm has its optimal capital structure, which can be decided by finding a balance between the costs and benefits of equity. As a result, a firm decides on level debt capital and level equity capital to include in their capital structure by balancing on the costs and benefits of each source. Debt capital results to benefits such as tax shied though high debt levels in the capital structure can result to bankruptcy and agency expenses. Agency expenses results from divergence of interest among the different firm stakeholders and because information asymmetry (Jensen & Meckling, 1976). Thus, including cost of agency into the theory of trade-off signifies that a firm ascertains its most ideal financial structure by balancing the benefit of debt (the tax advantage of debt) against expenses of excessive debt (financial distress) and the resultant equity agency expenses against debt agency costs. The theory further assert that, as firm increases debt in their capital structure, the incremental cost associated with debt increases while the incremental benefits associated with debt decreases until an optimal point is reached. Beyond that point, the incremental costs of debt exceed the incremental benefits resulting to reduced firm value. In view of this, to enhance its performance, the firm should set up an optimal financial structure. Myers (1984) should have high debt rates for companies with more tangible assets, whereas businesses with more intangible assets should use more equity capital because in the event of liquidation they are prone to loss of value. Under this theory, firms should evaluate the various costs and benefits of each debt level and determine an optimal debt structure that balances the incremental costs and incremental benefits (debt tax shields against costs of bankruptcy). This further explains why firms are partly financed by equity and also partly financed by debt in their capital structure.

2.2.3 Market Timing Theory

The theory was developed by Baker & Wurgler (2002). The theory views firms' capital structure as an result of the frequent effects to time equity market, whereby companies issue equity shares to create finance when the market prices are high when compared to their book value or historic market prizes and then buys back these shares when market prizes are low

for firm. The theory suggests that there is no specified optimal capital structure that exist and the various attempts by financial managers to time equity market over the time accumulate into a capital structure outcome. Consequently, changes in share prices affect company capital structures. Therefore, capital structure comes because of the market timing of when to issue debt or equity depending on the performance of the market (Boudry, Kallberg & Liu 2010). The theory further assert that financial managers should consider which source of finance is cheapest at any time through evaluation of the equity costs relative to the cost of other means of raising funds. Firms financing structure depend on different visit made to the market and the prevailing market conditions (Graham & Harvey, 2001).

The theory assert that timing of equity market affects firms financing structure. High leverage firms will seek capital when the market prizes are low while the low leverage firms will seek capital when the market prizes are high. Financial managers should therefore take advantage of the short-term fluctuation in equity cost relative to other forms of capital. It supports the idea that companies should choose equity finance when the relative cost is low and choose debt finance when the relative cost of equity is high. This change in share price affects capital structure and explains why firms at the same moment in time, firms have distinct proportion of debt and equity in their financing structure. Equity should be issued when relative cost is low while debt should be chosen when equity cost is high (Kwast & Rose, 1982). Firms therefore chooses the form of financing which at the moment in time seem to be more valued by the financial markets by paying attention to the market conditions. The financing structure adopted by the firm at any given time can be described as an outcome of the repeated trials to time equity market (Baker & Wurgler, 2002).

2.2.4 Agency Theory

This theory relates to the relationship that exists among the shareholders as the principal and the company agent (company's managers). An agency association comes into existence when one or many persons, referred to as principals, employ one or many other persons, known as agents, to carry out some service and then give them authority to make decision on his behalf. Jensen & Meckling (1976) suggests that, the best capital structure can be attained by minimizing agency costs which emanates from the conflicting managerial interests with those of debt holders and company owners. They argue that managerial ownership in the company ought to be increased to align managerial interests with the interests of the shareholders or employ debt use to limit managers' opportunistic behavior by reducing free cash flows. Jensen (1986) demonstrated the agency problem, which is linked with free-cash flows. He

pointed out that the problem of free cash flow can be in one way or another be managed by increasing managerial stake in the company or by increasing debt use in the corporation capital structure, therefore limiting the sum of "free" cash that is at the disposal of managers. Thus, corporations which mostly seeks debt finances gives managers less discretionary power over how they can use free cash flows than those financed by equity, and as a results, debt finance acts as a control tool, in which the lenders and the company owners becomes the principals in the structure of corporate governance. Debt finance forces corporate managers to be controlled by the public capital. If investors have negative opinion about the competence of management, they will require high payment of interests on the amount lend to the company or they will put on restrictive debt covenants to limit management degree of freedom. Debt finance outstanding restricts management's ability to lower the value of company through incompetence dealings. They argue further that corporations with high debt levels can provide benefits in the vibrant sense that companies with debt levels can respond very quickly to development of adverse performance than firms with minimal debt level. The choice to have high debt levels during regular business operations appears to stimulate the company to take action operationally and financially after an adversity within little period of time, helping to avoid extended periods of losses without a response. Debt capital existence in financial structure can thus assist to protect the value of company going concern (Jensen, 1986).

2.3 Determinants of Financial Performance

The main goal of the firm is to maximize the shareholders wealth. Firms ability to earn profit is a good measure of the performance and distinguishes performing business organization from non-performing entities. Most business activities and corporate strategies are performed and designed to achieve this grand objective. Performance of the organization is affected by many factors which are broadly classified as micro factors and macro factors. Micro factors are firms specific and affects individual firm while macro factors affects all the firms and sectors.

2.3.1 Firms Capital Structure

Capital structure describes how firm's raises the finances to support their operations. It comprises of a mix between shareholders equity capital and debt capital. The decision to choose either source of funds is based on weighing the resultant cost associated with them because they have an implication on performance of a firm. Debt results to tax and

monitoring benefits. However, use of excessive debt exposes a firm to bankruptcy risks and reduces the value of the firm. The appropriate use of the optimal capital structure to finance acquisition of assets is important in maximizing of the return to all stakeholders and enhances the ability of the firm to compete by minimizing the cost of the capital (Su & Vo, 2010).

Capital structure of the firm is an important managerial decision as it influences the shareholders risks and returns (Mwangi et al, 2014). Financial managers should always make an effort to build up an optimal capital structure that would be advantageous to the equity shareholders in specific and also to other stakeholders such as creditors, employees, customers and the society at large. Corporations therefore, have a chance to adjust their cost of capital and their market capitalisation value by varying firm's capital structure (Abor, 2007).

2.3.2 Tangibility of Fixed Assets

Asset tangibility refers to the levels to which the investment of a firm is funded by fixed assets. Asset tangibility is derived by the ratio of the non-current assets to the firm's total assets (Olakunle& Oni, 2014). The non-current assets play a vital role in establishing firm's debt level, turnover and finally firms profitability. Fixed assets of the firm have bigger economic value than intangible asset, which tend to lose value quickly in case of bankruptcy and have minimal informational asymmetries. The tangible assets are usually used as guarantee and collateral for firm's creditors in case a firm requires external financing. Therefore, companies with high amount of tangible assets can easily increase their debt level in the capital structure than a companies with fewer tangible assets. These external finances in turn lead to high turnover and enhance the firm's performance if efficiently utilized (Rajan, & Zingales, 1995).

The tangible assets of the company comprises of all assets owned by the company that have continuing physical existence and are purposely acquired to derive economic benefit for long term. These assets are not meant for sale to the customers. The tangible assets are very important to the firm and enables corporate managers to evaluate the asset position of the firm without using the obsolete values of intangible assets. Lenders demand these assets as collaterals and consider them as explicit promise for debt payment. The theory of agency argues that these collateralized assets acts as monitoring devices for manager's behavior and hinders the transfer of the wealth from the debt holders to the shareholders. Therefore, debt level in the capital structure is expected to have a positive correlation with the assets tangibility (Niu, 2008).

2.3.3 Firm Liquidity Level

Liquidity refers to the extent by which company meets its immediate obligations in full and in a timely way. Liquidity refers to the degrees to which a firm is able to sell its assets without incurring unexpected losses in market value since its price can be determined with certainty. Excessive liquidity lead to building up of idle resources that does not create any profits for the firm while low levels of liquidity on the other hand, lead to damage of company goodwill, reduce credit standings and it can also lead to compulsory liquidation of company's assets. It cannot be doubted that every firm desires to maximize profitability by maintaining appropriate level of liquidity. However, magnifying profits at the expense of liquidity can cause serious trouble to the company, which can lead to financial insolvency as well. As a result, firm should properly manage their liquidity in order to maximize their profitability (Vieira, 2010).

Assets are said to be liquid if such assets can be swiftly be changed into cash. Whether a firm has or is coming up with readily available capital base to facilitate its operation, is a critical performance concern in relation to the firm's liquidity. Liquidity of the firm is measured using liquidity ratios such as cash ratios, current ratios, quick ratios and the changes in the working capital of the firm (Brealey et al, 2001). The capability of the firm to pay its maturing obligations on a timely way is of vital importance and is closely related to firm's performance and existence. The inability of the firm to maintain sufficient liquidity level can make the company insolvent and jeopardize its operations (Gitman, 2003).

2.4 Empirical Review

Abor (2005) did a study investigating the connection between profitability and the capital structure for firms quoted in Ghana Stock Exchange for the period starting 1998-2002. He concluded that short-term debt has a positive relationship with profitability because of low interest rates. He also established that positive relationship exist between total debt and profitability because total debt comprises largely of short-term financing. However, long-term financing was found to have negative relationship with the performance because they are more expensive in the capital market.

Onaolapo & Kajola (2010) researched on the effects of capital structure on the profitability companies listed in Nigeria Stock Exchange. The research was done using a sample of thirty non-financial firms operating between 001-2007. The findings indicated that a negative effect exist between capital structure and firm level of profitability. The study used (ROE and

ROA) of these companies. Rajan & Zingales (1995) examined the capital structure determinant of common corporations in seven big countries in the world such as Japan, America, Germany, Italy, France, Canada and Britain for the period 1987-1991. The research study used a sample of 4557 drawn from the seven countries and the study results indicated that leverage has a negative correlation with the firm profitability. However, the study showed a positive relationship between of leverage and the size of the firm and tangible assets value.

Langat et al. (2014) assessed the effect of debt financing on the profitability the Tea Development Authority processing factories in Kenya. The study used ROE and ROA to measure firm performance. The study found both long-term and total liabilities have a positive effect on firm's performance at 1% and 5% respectively. Short-term liabilities on the other hand was found to have a negative relationship with the firm profitability. The study then concluded that sourcing finances through short-term debts by tea processing factories does not lead to profitability.

Muchugia (2013) examined the effects of debt financing on the firm profitability of commercial banks in Kenya. The study employed a quantitative research design and multiple regression analysis. He used return on equity as the dependent variable while total debt, long term debt, firm size and short term liabilities as independent variables. The research study concluded that short-term financing has a positive relationship with the profitability of the firm. However, study also established that long-term liabilities have a negative on the firm's profitability.

Pouraghajan and Malekian (2012) who did a research study to establish the effects of capital structure on financial performance of firms listed in the Tehran Stock Exchange in Iran. The results indicated that there is a negative correlation between debt finance and profitability of companies.

Magara (2012) did a study on capital structure and its determinants at the Nairobi Securities Exchange. The study sought to find out the major determinants of capital structure. It was established that from the period 2007 to 2011, there was a positive significant relationship between the firm size, tangibility and growth rate and the degree of leverage of the firm. The study did not take into consideration macro- economic factors like inflation and interest rates.

Masiega et al (2013) did a study investigating the effects of capital structure on the financial performance of listed companies at NSE. 30 listed companies at NSE were sampled and data collected for period of five years starting from 2007 to 2011. The study concluded that there

is a significant positive correlation between long-term debt and total company assets. The long-term debt has a positive effect on the financial performance although the nature of the effects was weak and insignificant.

Kaumbuthu (2011) researched on the relationship between capital structure and firms financial performance of industrial and allied sectors listed at the NSE for period starting from 2004-2008. Financial performance was measured using ROE while capital structure was derived by ratio of debt to equity. Regression analysis was used and concluded that a negative correlation exist between capital structure and the financial performance.

Chepkemoi (2013) did a research study on the relationship between capital structure and financial performance of SMEs. The study was comprised of 295 SMEs located at Nakuru town and employed multiple regression approach and descriptive statistics for analysis. The results indicated that capital structure affects profitability negatively. However, it has a positive effect on growth of sales.

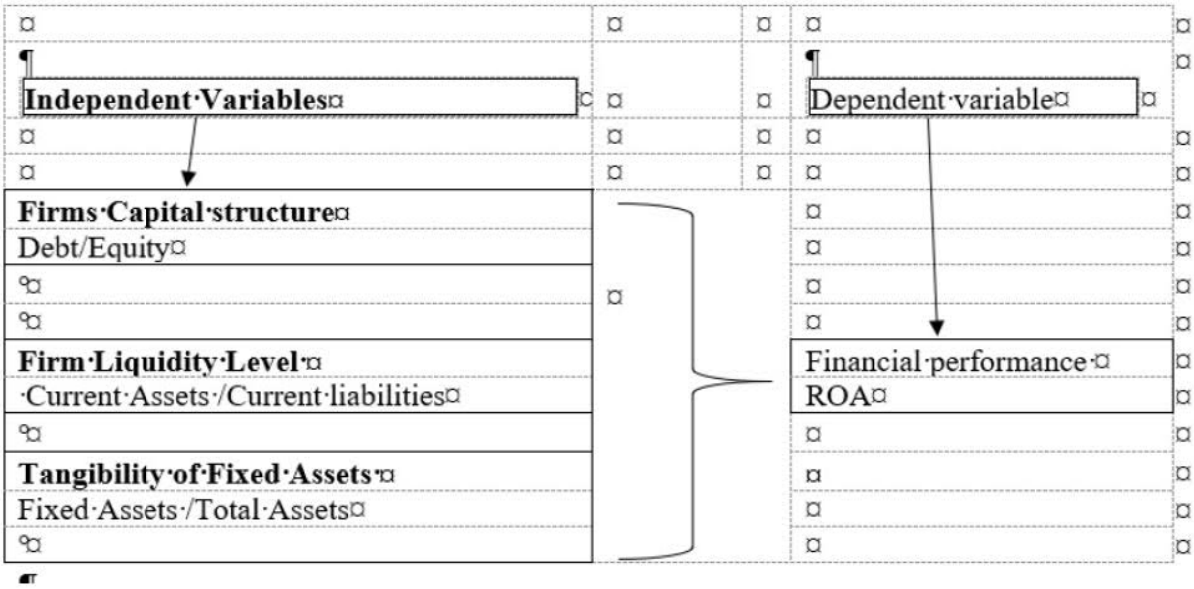
Musah (2018) did a research study on the relationship between capital structure and profitability of commercial banks in Ghana. The research sampled 23 commercial banks for a six-year period from 2010 to 2015. The results of the study indicated that more profitable firms will prefers to use retained earnings to debt and hence there is a negative relationship between leverage and profitability.

Mwangi (2015) did a research study on effect of capital structure on the financial performance of SMEs in Thika sub-county. The research was conducted on forty SMEs which were in operation for a period of five years between 2009 to 2013. The results of the study indicated that there was no significant effect of capital structure on assets turn over and assets tangibility on financial performance on SMEs in Thika sub-county, Kenya

2.5 Conceptual Framework

According to Borg, Gall and Gall (2005), conceptual framework can be defined as a diagrammatical or graphical representation of the relationship between independent and dependent variables in a given study. Firm's financial performance depends on the inter-correlations of the explanatory/independent variables which include asset tangibility, firm liquidity, and capital structure and the dependent variable; financial performance of non-financial firms listed at NSE as shown in Figure 2.1.

Figure 2.1: Conceptual framework



2.6 Summary of Literature Review

The research study seeks to contribute to empirical literature by providing evidence regarding the relationship of capital and financial performance. The literature reviewed four theories which attempted to give explanation of the effects of capital structure on the performance, namely: Theory of Pecking Order, Theory of Trade-off, Theory of Agency cost and theory of Market Timing. The theoretical review outcome indicates contradicting and mixed results, which justifies the need for further studies. Pecking order theory suggests that companies opts to fund the new assets with retained earnings first and raise debt capital only when the former is not enough hence, a negative relationship exists as retained earnings rely on the level of the profitability. MM's tax interest shield proposition predicts a positive relationship since at higher income level, corporation would prefer to use more debt capital in order to shield their profits from taxation. Jensen & Meckling (1986) also support that view and consider debt as disciplining tool that forces managers to invest in projects, which add value to shareholders hence enhancing firm's performance.

Multiple empirical research on the relationship between the firm's capital structure and profitability also show mixed and contradictory results. . Kuria(2013) and Musah (2018), for example, contend that capital structure has a positive relationship to corporate financial performance. Mwangi (2015), Pouraghajan & Malekian (2012), Kaumbuthu (2011) Adekunle (2009), Onaolapo & Kajola (2010) Mwangi (2015), while Chepkemoi (2013), Masiega et al (2013) support a negative correlation between capital structure and financial performance. In both theoretical and various empirical research, the different views justify the need for further

studies that motivated this study. Therefore, this research study is aimed at adding to the existing literature. This is by providing evidence on the capital structure arrangement on NSE's listed firms ' financial performance.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The section deals with the research methodology used in this report. This includes a brief description of the methods and techniques to be used to complete a report. This describes the development of research, demographic sample, method of data collection, data analysis and analytical framework.

3.2 Research Design

This study used methodology for descriptive design. The descriptive design helps the researcher to define the area of research, demonstrate the connection and explain the data collected as well. It helps to examine the differences and similarities within a reference frame and within a specified time frame. The research project's purpose was to define as the dependent variable the associative connection between debt capital as the predictor factor and financial performance. The concise approach to analysis is therefore well adapted for this review.

3.3 Study Population

The study population consisted of fort-five non-financial firms listed on the security exchange in Nairobi. Firms in financial sector were excluded from the analysis since their operations are regulated on the amount of capital and liquidity they should maintain. A census all the members of the population has been considered with exception of financial institution. The NSE register marks the sample frame.

3.4 Data Collection

The research used secondary data collection method, which was compiled from the audited financial statements of listed non-financial firms at the NSE. Data was obtained from the company website and NSE Handbook for the period between 2014 to 2018. The data was extracted from balance sheet, the profit and loss statement and notes to the financial statements. The key variables include short-term debt, fixed assets, total assets, net profit after tax, total debt and current assets.

3.5 Data Analysis

Data analysis is the method of evaluating and interpreting data collected using statistical techniques to find answers to a research question (Shamoo & Resnik, 2003). In preparation for analysis, the collected data was then verified for accuracy. Using descriptive statistics,

SPSS and Microsoft Excel were sorted and edited to analyze secondary quantitative data to show trend measurements such as means, tables, percentages, and standard deviations. To establish the relationship between debt capital and performance, regression analysis and correlation analysis were also used. ANOVA testing and the t-test were also conducted to assess whether a relationship exists between variables of the sample. The findings of the study were presented in the form of tables and graphs that show the pattern of variables over the study period. ROA was used to measure performance while using debt ratios the capital structure was calculated. Debt ratio indicates the debt volume in accordance with the total assets held. The liquidity of the company was calculated using the short-term debt ratio to short-term capital, while the tangibility of assets was assessed by fixed assets owned by total assets. Regression analysis was performed using the following statistical method to assess the position of capital structure on the financial performance of non-financial firms cited in the NSE.

$Y= \beta+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \varepsilon$

Where:

Y = Firms Financial performance was measured by Return on assets

β defines the value of performance without the inclusion of the independent variables

X_1 to X_3 represent the independent variables of the study.

X_1= Debt ratio (Total debt divide by total capital ratio)

X_2 = Liquidity (Current assets divide by current liabilities)

X_3 = Tangibility of assets (Fixed assets divide by total assets)

ε = Stochastic error term

β1 to β3 Displays the model coefficients and defines the amount by which the dependent variable (Y) is changed to change the unit value of the independent variable (X).

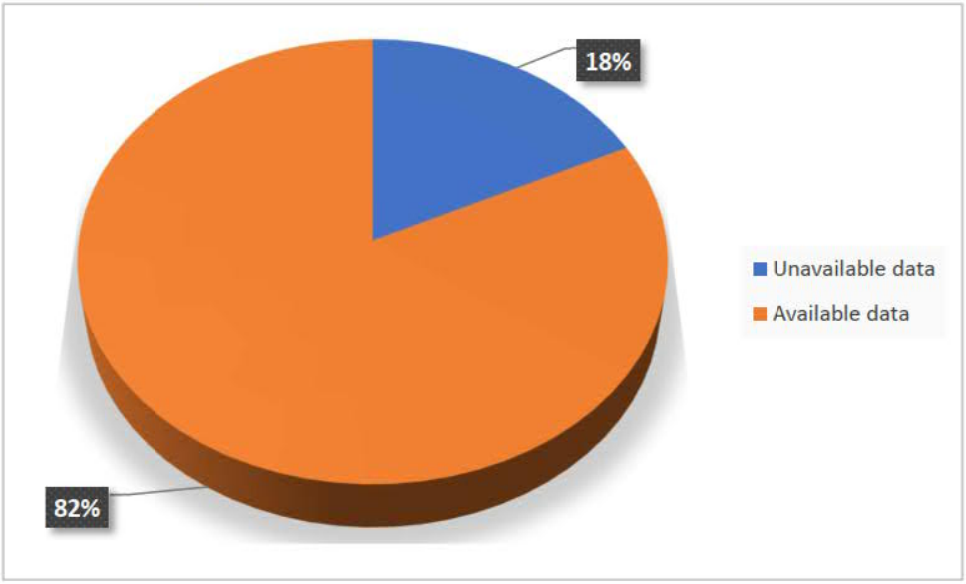
CHAPTER FOUR

DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Introduction

The chapter outlines the analysis of data and the research findings. Data from the audited financial statements was collected from NSE Handbooks and company website for a period of five years starting from 2014 to 2018. Out of the total population of 45 non-financial companies quoted at the Nairobi Securities Exchange, secondary data for the 37 firms was gotten representing 82% response rate which was viewed reasonable for the subsequent statistical analysis. The secondary data was subsequently analysed by aid of regression analysis. The rate of response is demonstrated in Figure 4.1.

Figure 4.1 Response rate



4.2 Descriptive Statistics

The descriptive statistics covers variables mean, the minimum and maximum values of the variables and the standard deviation. Descriptive statistics shown in table below covers all the non-financial firms from 2014 to 2018. From table 4.2, return on assets (ROA) ranges from -0.9623 to 0.3887 with a average of 0.032391 and the standard deviation of 0.1529823, Debt ratio ranges from -162.0700 to 30.8073 with a mean value of -0.663092 and the standard deviation of 14.4277448. Liquidity ranges from 0.0020 to 12.8295 with an mean value of 2.226213 while the standard deviation of 2.3114535, Asset tangibility ranges from 0.0037 to 1.5065 with an mean value of 0.585629 while the standard deviation of 0.2418598.

Table 4.2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard Deviation
Return on assets	185	-.9623	.3887	.032391	.1529823
Asset tangibility	185	.0037	1.5065	.585629	.2418598
Liquidity	185	.0020	12.8295	2.226213	2.3114535
Debt ratio	185	-162.0700	30.8073	-.663092	14.4277448

4.3 Inferential Statistics

Inferential statistics attempts to make conclusions, which goes beyond the current data and in this particular research study, three inferential statistics namely: correlation analysis, the regression analysis and the analysis of variance was employed in facilitating data analysis in order to meet study objectives.

4.3.1 Correlation Analysis

Correlation analysis refers to extent to which research variables are related. Correlation analysis was employed to determine the strength of the relationship which exists among both dependent variables and independent variables whereby debt ratio, liquidity and the asset tangibility were utilized as independent variables while the asset returns was used as the dependent variable. Pearson correlation varies from -1.00 to +1.00 with positive values indicating positive relations while negative values suggest negative relations among study variables as presented in Table 4.2.

Table 4.2 Correlation matrix

		Return on assets	Debt ratio	Liquidity	Asset tangibility
Pearson Correlation	Return on assets	1.000			
	Debt ratio	0.231	1.000		
	Liquidity	0.180	0.071	1.000	
	Asset tangibility	-0.135	-0.093	-0.039	1.000

From Table 4.2 all the research study variables are perfectly correlated with themselves as revealed by the correlation coefficient of positive one (1). Firm financial performance as measured by ROA has a positive correlation with leverage as measured by debt ratio (R=.231). Liquidity correlates positively with financial performance (R=.180), Asset tangibility negative correlates negatively with the financial performance (R=-0.135).

4.3.2 Regression Analysis

The regression analysis among dependent and the independent was carried out whereby debt ratio, liquidity and the asset tangibility were the independent variables whereas return on asset was the dependent variable. Table 4.3 below indicates that the r-squared for the study model was 0.092, this means that as the leverage of listed nonfinancial companies increases their profitability also increases and as the leverage decreases the profitability decreases. However, the independent study variables can be applied in explaining about 9.2% of the total variations in the financial performance of non-financial firms quoted at NSE.

Table 4.3 Regression Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Standard error of the estimate
1	.303[a]	.092	0.077	0.1469759

a. Predictors:- (Constant), Debt ratio, Liquidity, Asset tangibility

b. Dependent Variable: Return on assets

The coefficient of determination was denoted by the adjusted r-squared which provides explanations to the total variations in the dependent variables due to the change in the values of the dependent variables. These results are shown in Table 4.3 shown above shows that, the r-squared value was 0.092, which indicate that only 9.2% of the total variations in the financial performance among firms listed at NSE can be attributed to the changes in the value of the independent variables (Debt ratio, Liquidity and the asset tangibility) captured by the study model and at confidence level of 95%. The R coefficient of the correlation that shows the relationship that exist among the research variables was 0.303 which implies a weak positive correlation exist among the study variables as captured by the study variables. The 69.7% balance can only be explained by other factors that influences financial performance. This shows that leverage is not only the determinant of financial performance but there are other factors that require to be identified through further studies.

4.3.3 Analysis of Variance

Table 4.4 Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.396	3	0.132	6.115	.001[b]
	Residual	3.910	181	0.022		
	Total	4.306	184			

a. Dependent Variable: Return on assets

b. Predictors: (Constant), Asset tangibility, Liquidity, Debt ratio

The research study determined that all the variables were significant at their significance level which was lower than 0.05. The predictor variables were regressed against the financial performance of firms listed at NSE. The findings indicate that the research model had an f-ratio of 6.115, which was statistically significant at 0.01% confidence level. The finding indicates that the study model is significant and can be applied for the purposes of making predictions at 5% level of significance. Debt ratio and liquidity had a positive correlation while the firm asset tangibility had a negative correlation with the firm financial performance.

Table 4.4 show the sum of squares due to regression is 0.396 and the sum of squares due to error (residual) is 3.910. This indicates that the variations that are explained by the independent variables are much less than the variations explained by other factors not captured in the model. The unexplained variations forms the basis of further studies to establish what mainly influences profitability of nonfinancial companies listed in the NSE.

Table 4.5 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.051	0.031		1.656	0.099
Debt ratio	0.002	0.001	0.210	2.940	0.004
Liquidity	0.011	0.005	0.160	2.259	0.025
Asset tangibility	-0.069	0.045	-0.109	-1.536	0.126
a. Dependent Variable: Return on assets					

The findings in the Table 4.5 above show the statistical significant test of the predictor variables in the study model. It shows the estimation of the independent variables, standard error and the t-ratios. According to the regression model shown above, the financial performance of firms quoted at NSE is 0.051 provided all the other independent variables are held constant at zero value. A unit increase in the debt ratio in the firm capital structure will result to a 0.02 increase in the financial performance of the firms quoted at NSE. The results are statistically significant with a P value of 0.004 at 5% level of significant. Similarly a unit change in the firms level of liquidity will lead to 0.011 increases in the financial performance. The results are statistically significant with a P value of 0.025 at 5% level of significant. Finally, when the asset tangibility increases with one unit, the financial performance of the firms quoted at NSE decreases by -0.069. This is statistically insignificant with a P value of 0.126 at 5% level of significance.

The research study model can be summed up as follows:

Table 4.5 shows the β coefficients of the conceptual model of the form; $Y= \beta+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \varepsilon$

$ROA = 0.051+0.02X_1+0.011X_2 - 0.069X_3$

Where:

X_1 represent debt ratio, which was captured by the ratio of total debt to total assets owned by the firm.

X_2 represent the firm's liquidity level, which was captured by the ratio of current assets to the current liabilities.

X_3 represent asset tangibility, which was captured by the ratio of non-current assets to the total asset owned by the firm.

ε is a stochastic error term which denotes the unexplained variations (69.7%) indicating the existence of other variables which can make the model better.

4.4 Interpretations of Findings

The objective of study was to determine the relationship between capital structure composition on the financial performance of firms listed at NSE. The firm's financial performance was measured using return on asset ratio while the capital structure was measured by use of debt ratio. The firm's liquidity level and the asset tangibility were used as the control variables for liquidity and asset tangibility respectively. The chapter conducted inferential statistics to investigate the relationship between capital structure and financial performance. The results from the statistical analysis indicated that, there exist a positive link between leverage (R=0.303) and the financial performance of firms listed at NSE. The findings of the study revealed that the independent variables debt ratio, liquidity and asset tangibility explains and can be applied in making predictions of the financial performance of non-financial firms quoted at NSE. These independent variables namely debt ratio, liquidity and the asset tangibility could only explain about 9.2% of the total variations of the financial performance of non-financial firms quoted at NSE. This shows that there are other factors that require to be identified through further studies.

The debt ratio was found to have positive relationship on the financial performance. Firm's liquidity was found to have a positive relationship with the financial performance while the asset tangibility has a negative effect on the firm value. The level of standard error was 0.1469759, which represent the unexplained percentage of the study model indicating that there exist other factors, which can make the model better for prediction purposes. The significance value of .001 from the ANOVA results of the study shows that the model was significant at 5% significance level with an F-ratio of 6.115. The model ANOVA analysis thus indicates the capability of the independent variables in providing explanations variations in the financial performance. The study further established that capital structure affects financial performances positively and in a statistically insignificant way.

Similar findings was found by Masiega et al (2013) & findings also support this conclusion and argue that capital structure has a positive correlation with the financial performance. The study investigated the effects of capital structure on the financial performance of listed companies at NSE. 30 listed companies at NSE were sampled and data collected for period of five years starting from 2007 to 2011. The study concluded that there is a significant positive

correlation between long-term debt and total company assets. The long-term debt has a positive effect on the financial performance although the nature of the effects was weak and insignificant.

Mwangi (2015). did a research study on effect of capital structure on the financial performance of SMEs in Thika sub-county. The research was conducted on forty SMEs which were in operation for a period of five years between 2009 to 2013. The results of the study indicated that there was no significant effect of capital structure on assets turn over and assets tangibility on financial performance on SMEs in Thika sub-county, Kenya

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section outlines the research description, the interpretation of the results, and the shortcomings that were found during the study. The section makes also policy recommendations, which can be executed to attain high financial performance and also increase firm's worth. Finally, the section shows suggestions for future research studies, which can be helpful to future scholars.

5.2 Summary

The research's goal was to decide whether there was a correlation between the capital structure and the financial performance of the companies quoted at NSE for the 2014-2018 period. The report surveyed the 37 non-financial companies listed in the NSE The response rate was 82 percent which was considered good to encourage statistical analysis and completion of this researchThe independent variable for the study was capital structure and financial performance of the company was the dependent variable while liquidity and tangibility of assets were included in the control variables.

Analysis was done using (SPSS) and Excel from Office. When evaluating the relationship between capital structure and financial performance, descriptive statistics such as mean and standard deviation were used. The results of the descriptive analysis showed that the average debt ratio was 0.663092 and the standard deviation was 14.4277448, the average liquidity ratio was 2.226213 and the standard deviation of 0.2418598

The result of the study showed that the independent variables debt ratio, liquidity and asset tangibility could only explain about 9.2% of the total variations in the financial performance of companies listed at NSE. The debt ratio was significant at 5% with a coefficient of 0.02, which implies that the financial performance of non-financial firms quoted at NSE is positively affected by increase in debt ratio.

The liquidity level of the firm as calculated by the current ratio was statistically significant at a significance level of 5 percent with a coefficient of 0.011, which means that the financial performance of NSE-listed non-financial firms is strongly correlated with the liquidity of the sector. An increase in the liquidity level therefore increases the financial performance of the company and vice versa. The tangibility of assets was derived from the ratio of fixed assets to

the total assets owned by the company was significant at a confidence level of 5 percent with a coefficient of -0.069, implying that financial performance is negatively correlated with the increase in the fixed asset ratio. The analysis of the variance (ANOVA) an F-ratio of 6.115 and a p-value of 0.001. This shows that the study model was significant and can be applied for the purpose of making predictions since the p-value was below 0.05. The results from the statistical analysis therefore showed that the independent variables namely debt ratio, liquidity level and the firm asset tangibility have a significant effects on the firms level of the profitability.

5.3 Conclusion

The study concludes that a positive relationship exists between the capital structure of companies and their financial performance of Nairobi Securities Exchange listed non-financial firms. Nevertheless, only 9.2 percent of the total improvements in the financial performance of the NSE-listed non-financial firms can be directly attributed to changes in the debt level of the capital structure, liquidity and tangibility of assets from the report. The study also concludes that capital structure, liquidity level and tangibility of assets have a positive and statistically significant impact on the financial performance of the non-financial performance. The study concluded that the ANOVA results from the regression method are accurate and has a good fit. The research study concludes that the debt ratio measured capital structure has a positive but insignificant influence on the financial performance of NSE-listed non-financial firms. The positive but weak correlation between the debt ratio and financial performance indicates this. The research study also concludes that the level of liquidity of the firm has a positive influence on the financial performance, indicating that the more liquid a firm fulfills its short-term obligations, the more profitable it becomes. Finally, the study concludes that the tangibility of assets is negatively correlated with the financial performance of NSE-listed companies. Masiega et al (2013) & findings also support this conclusion and argue that a positive correlation between the capital structure and financial performance. The study examined the relationship between NSE listed companies ' capital structure and financial performance. Thirty listed NSE companies were sampled and five-year data collected from 2007 to 2011. The study concluded that long-term debt and total corporate capital have a significant positive association. Although the magnitude of the results is low and negligible, the long-term debt has a positive effect on financial performance. However, the findings contradicted the Kaumbuthu (2011) & Adekunle (2009) research findings.

5.4 Recommendations

Results of this study have important policy implications for the individual business, industry, and macro scale. Because the research study found a positive correlation between the financial leverage and the value of the firms, the research study recommends that financial managers increase the financial leverage they employ in their capital structure in order to increase the value of the firms.The research study further recommend proper regulation of the banking industry by the government in order to lower the cost debt acquisition and improve firm performance since numerous companies depends on debt financing in meeting the financial needs. The high cost of debt financing as depicted by high borrowing interest rates is an impediment to the estimated corporate growth rate and therefore, financial managers should comprehend the effects such capital structure changes on the financial performance of the firms. The low geared companies with low interest rates seem to perform better than their counterpart companies with high debt ratio in the same industry.

Further, due to the positive correlation between the financial performance and the firm's liquidity level, the research study recommend firms to maintain adequate level of liquidity in order to enhance the financial performance and create more wealth to shareholders and other firm's stakeholders.

5.5 Limitations of the Study

The research concentrated on the firms quoted at NSE and thus their findings cannot be used in generalizing for all companies situated in Kenya. The research focused on the companies quoted at NSE and therefore their findings can not be used to generalize for all Kenya-based companies. The aim of this study was to examine the relationship between the capital structure and the financial performance of the Nairobi security exchange listed non-financial firms. The research study findings are therefore limited to non-financial firms listed at NSE and not all listed firms at NSE. In addition the research was done in Kenya, thus the findings may not be applicable in other firms in other parts of the world.

Since the study aimed to ascertain the relationship between the capital structure and financial performance of non-financial firms quoted at NSE. Therefore, the research findings can not be applied to financial firms, although they can be used as a reference point for firms in third world countries such as Kenya based on similar market demand and economic conditions that they are exposed to. .

This research paper relied heavily on secondary source information to determine the influence of the capital structure on the financial performance of Nairobi Security Exchange listed non-financial firms. Due to the availability of the required information, secondary data sources were used. The accuracy of the statistical results therefore depends on the accuracy of the data that was obtained from the financial statements.

5.6 Suggestion for the Future Research

The research study suggest similar research studies to be conducted for an extended period of time incorporating more accounting and financial variables and also considering the macroeconomic conditions prevailing in the country contrary to the present study which considers only three variables. In addition, the research study suggests similar study to be conducted in different sectors but on the same area of the study and with extended years of the study. In addition, future research studies should be carried out to find out the effects of the capital structure decisions on the firm value across countries for example in Africa.

Similar research analyses should also be carried out on a sector-based basis to assess whether the statistical analysis findings are appropriate for different companies from the different sectors. These studies should also identify other factors that determine financial performance and determine their effects on NSE-listed non-financial firms ' financial performance. The research studies should also try to use other measures of the financial performance such as return on equity as an alternative of return on assets.

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APPENDICES

APPENDIX I: COMPANIES LISTED AT NSE

	AGRICULTURAL		**ENERGY & PETROLEUM**
1	Sasini Plc	37	KenGen Co. Plc
2	Kakuzi Plc	38	Kenya Power & Lighting Co Ltd
3	Kapchorua Tea Co. Ltd	39	Total Kenya Ltd
4	The Limuru Tea Co. Plc	40	Umeme Ltd
5	Eaagads Ltd		**INSURANCE**
6	Williamson Tea Kenya Ltd	41	Britam Holdings Plc
	AUTOMOBILES & ACCESSORIES	42	CIC Insurance Group Ltd
7	Car & General (K) Ltd	43	Jubilee Holdings Ltd
	BANKING	44	Kenya Re Insurance Corporation Ltd
8	Barclays Bank of Kenya Ltd	45	Liberty Kenya Holdings Ltd
9	I&M Holdings Plc	46	Sanlam Kenya Plc
10	Equity Group Holdings Plc		**INVESTMENT**
11	H.F. Group Plc	47	Centum Investment Co Plc
12	Diamond Trust Bank Kenya Ltd	48	Home Afrika Ltd
13	The Co-operative Bank of Kenya Ltd	49	Kurwitu Ventures Ltd
14	National Bank of Kenya Ltd	50	Olympia Capital Holdings ltd
15	NIC Group Plc	51	Trans-Century Plc
16	Stanbic Holdings Plc		**INVESTMENT SERVICES**
17	Standard Chartered Bank Kenya Ltd	19	Nairobi Securities Exchange Plc
18	KCB Group Plc		**MANUFACTURING & ALLIED**
		53	B.O.C Kenya Plc
	COMMERCIAL AND SERVICES	54	British American Tobacco Kenya Plc
20	Deacons (East Africa) Plc	55	Carbacid Investments Ltd
21	Eveready East Africa Ltd	56	East African Breweries Ltd
22	Express Kenya Ltd	57	Flame Tree Group Holdings Ltd
23	Kenya Airways Ltd	58	Kenya Orchards Ltd
24	Longhorn Publishers Plc	59	Mumias Sugar Co. Ltd
25	Nairobi Business Ventures Ltd	60	Unga Group Ltd
26	Nation Media Group Ltd		**TELECOMMUNICATION**
27	Sameer Africa Plc	61	Safaricom Plc
28	Standard Group Plc		**REAL ESTATE INVESTMENT TRUST**
29	TPS Eastern Africa Ltd	62	STANLIB FAHARI I-REIT
30	Uchumi Supermarket Plc		**EXCHANGE TRADED FUNDS**
31	WPP Scangroup Plc	63	NEW GOLD ETF
	CONSTRUCTION & ALLIED		
32	ARM Cement Plc		
33	E.A. Portland Cement Co. Ltd		
34	Crown Paints Kenya Plc		
35	E.A. Cables Ltd		
36	Bamburi Cement Ltd		

APPENDIX II: COMPANIES EXCLUDED FROM THE STUDY

	Company	Reason for exclusion
1	All listed commercial 11 banks	Capital structure regulated by CBK
2	All listed 6 insurance companies	Capital structure regulated by IRA
3	Stanlib Fahari I-Reit	Company was listed in 2016, date for 2014 and 2015 was not available.
4	New Gold Etf	Company was listed in 2017, date for 2014,2015 and 2016 was not available.
5	Kurwitu Ventures Ltd Ord	Company had not filed all financial statements with the regulator at the time of study
6	ARM Cement Plc Ord 1.00	Company was suspended as at time of the study.
7	Uchumi Supermarket Plc	Company had not filed all financial statements with the regulator at the time of study
8	Deacons (East Africa) Plc	Company was suspended as at time of the study.
9	Nairobi Business Ventures Ltd Ord. 1.00 GEMS	Company had not filed all financial statements with the regulator at the time of study

APPENDIX III: VARIABLES DATA

Financial year 2014				
	ROA	Asset Tangibility	Assets Liquidity	Debt ratio
Eaagads Ltd	(0.0935)	0.9260	0.8699	0.1053
Kakuzi Plc	0.0400	0.6938	6.6570	0.0594
Kapchorua Tea Co. Ltd	0.0656	0.6764	5.1013	0.0883
The Limuru Tea Co. Plc	0.0122	0.5709	8.0833	0.0717
Sasini Plc	0.0016	0.9166	2.3280	0.0441
Williamson Tea Kenya Ltd	0.0866	0.6807	8.4679	0.0490
Car & General (K) Ltd	0.0341	0.3835	1.1994	1.6515
Eveready East Africa Ltd	(0.1908)	0.1792	1.0727	3.2572
Express Kenya Ltd	(0.0383)	0.8430	0.5926	0.7025
Kenya Airways Ltd	(0.0194)	0.8006	0.4648	4.0340
Longhorn Publishers Plc	0.1266	0.2640	1.7404	0.7327
Nation Media Group Ltd	0.2018	0.3826	2.3651	0.3556
Sameer Africa Plc	(0.0174)	0.2554	2.5238	0.4487
Standard Group Plc	0.0538	0.6365	1.2192	0.6857
TPS Eastern Africa Ltd	0.0064	0.8603	0.8038	0.3529
WPP Scangroup Plc	0.0438	0.1777	2.4602	0.5541
Bamburi Cement Ltd	0.0878	0.6208	2.2968	0.2318
Crown Paints Kenya Plc	0.0051	0.2560	1.1464	1.8559
E.A.Cables Ltd	0.0385	0.5124	1.1679	1.3080
E.A.Portland Cement Co. Ltd	(0.0245)	0.7885	0.9464	0.8431
KenGen Co. Plc	0.0163	0.8896	1.0966	1.9231
Kenya Power & Lighting Co Ltd	0.0361	0.7713	1.0342	2.3318
Total Kenya Ltd	0.0438	0.3169	1.4882	0.9086
Umeme Ltd	0.0582	0.5994	1.0341	2.3428
Home Afrika Ltd	0.0024	0.2019	1.1845	7.8079
Olympia Capital Holdings ltd	0.0686	0.7694	1.1689	0.3576
Trans-Century Plc	(0.1019)	0.5769	1.5950	3.4697
Nairobi Securities Exchange Plc	0.1899	0.5323	6.1325	0.0833
B.O.C Kenya Plc	0.0998	0.4857	2.1390	0.3166
British American Tobacco Kenya	0.2331	0.5085	1.2491	1.0175
Carbacid Investments Ltd	0.1937	0.6129	6.2963	0.0721
East African Breweries Ltd	0.1087	0.6849	0.7213	5.4670
Flame Tree Group Holdings Ltd	0.1519	0.2359	1.5540	1.5858
Kenya Orchards Ltd	(0.5032)	0.4184	1.7738	(3.1851)
Mumias Sugar Co. Ltd	(0.1163)	0.8152	0.4093	1.0458
Unga Group Ltd	0.0666	0.3400	2.2713	0.5557
Safaricom Plc	0.1710	0.7896	0.7402	0.4753

Financial year 2015				
	ROA	Asset Tangibility	Assets Liquidity	Debt ratio
Eaagads Ltd	0.3207	0.9298	0.8926	0.0739
Kakuzi Plc	0.1169	0.6641	4.1442	0.1072
Kapchorua Tea Co. Ltd	(0.0115)	0.6721	5.6818	0.0802
The Limuru Tea Co. Plc	0.0103	0.4787	5.8029	0.1226
Sasini Plc	0.0608	0.8717	4.4016	0.0345
Williamson Tea Kenya Ltd	(0.0266)	0.6787	9.9440	0.0771
Car & General (K) Ltd	0.0141	0.4129	1.0563	1.7624
Eveready East Africa Ltd	0.3887	0.5762	0.9082	0.8748
Express Kenya Ltd	(0.1496)	0.7540	1.1256	1.8553
Kenya Airways Ltd	(0.2205)	0.7353	0.5021	(31.1803)
Longhorn Publishers Plc	0.0915	0.3276	1.5002	0.8122
Nation Media Group Ltd	0.1631	0.4073	2.0298	0.4141
Sameer Africa Plc	(0.0042)	0.2628	2.2050	0.5032
Standard Group Plc	(0.0665)	0.6087	0.9537	1.2342
TPS Eastern Africa Ltd	(0.0304)	0.8530	1.0404	0.4339
WPP Scangroup Plc	0.0221	0.1870	2.7557	0.4480
Bamburi Cement Ltd	0.1397	0.5686	2.3571	0.2590
Crown Paints Kenya Plc	0.0068	0.2744	1.1065	2.3554
E.A.Cables Ltd	0.0220	0.6487	0.9334	1.2692
E.APortland Cement Co. Ltd	0.3103	0.8634	0.8385	1.0722
KenGen Co. Plc	0.1920	0.9376	0.9506	1.1277
Kenya Power &Lighting Co Ltd	0.0883	0.2407	1.6434	2.7275
Total Kenya Ltd	0.0354	0.2358	1.5252	0.8739
Umeme Ltd	0.2653	1.5065	1.0141	1.7621
Home Afrika Ltd	(0.4495)	0.9234	0.0212	(75.3476)
Olympia Capital Holdings ltd	0.0240	0.7144	1.5964	0.2961
Trans-Century Plc	(0.0824)	0.6006	0.6298	11.8467
Nairobi Securities Exchange Plc	0.1593	0.5165	7.0334	0.0743
B.O.C Kenya Plc	0.0640	0.4605	2.0635	0.3540
British American Tobacco Kenya	0.2664	0.4872	1.4512	0.8842
Carbacid Investments Ltd	0.1327	0.6245	4.5106	0.0998
East African Breweries Ltd	0.1408	0.6192	1.0225	3.6995
Flame Tree Group Holdings Ltd	0.1657	0.2058	1.6410	1.2796
Kenya Orchards Ltd	0.3673	0.5667	2.0758	12.0662
Mumias Sugar Co. Ltd	(0.2308)	0.8753	0.1865	2.4217
Unga Group Ltd	0.0706	0.3712	2.3685	0.4973
Safaricom Plc	0.2031	0.7924	0.6245	0.5052

Financial year 2016				
	ROA	Asset Tangibility	Assets Liquidity	Debt ratio
Eaagads Ltd	0.0485	0.8471	5.7284	0.0294
Kakuzi Plc	0.1122	0.5953	4.9176	0.1083
Kapchorua Tea Co. Ltd	0.0502	0.5765	4.2586	0.1389
The Limuru Tea Co. Plc	(0.0771)	0.4889	5.1654	0.1357
Sasini Plc	0.0448	0.7703	5.2782	0.0435
Williamson Tea Kenya Ltd	0.0541	0.6215	5.4849	0.1224
Car & General (K) Ltd	0.0092	0.4161	1.0054	1.7773
Eveready East Africa Ltd	(0.1809)	0.7538	0.4538	1.2072
Express Kenya Ltd	(0.2554)	0.7424	0.8521	11.0242
Kenya Airways Ltd	(0.1908)	0.8092	0.4073	(5.1578)
Longhorn Publishers Plc	0.0540	0.1896	1.6456	0.9703
Nation Media Group Ltd	0.1343	0.4116	1.8210	0.4520
Sameer Africa Plc	(0.1997)	0.3040	1.5805	0.7914
Standard Group Plc	0.0451	0.5456	1.1693	1.0517
TPS Eastern Africa Ltd	(0.0051)	0.8003	1.6347	0.5592
WPP Scangroup Plc	0.0305	0.1760	2.3779	0.5305
Bamburi Cement Ltd	0.1443	0.5344	2.6966	0.2363
Crown Paints Kenya Plc	0.0261	0.2525	1.1635	2.2386
E.A.Cables Ltd	(0.0786)	0.7046	0.6717	1.5459
E.A.Portland Cement Co. Ltd	0.1486	0.9240	0.4262	1.4471
KenGen Co. Plc	0.0176	0.9403	1.2049	0.8356
Kenya Power & Lighting Co Ltd	0.0243	0.8366	0.9442	3.1214
Total Kenya Ltd	0.0617	0.2986	1.6470	0.7964
Umeme Ltd	0.3758	0.0037	0.8710	1.8014
Home Afrika Ltd	(0.2231)	0.9894	0.0020	(18.8445)
Olympia Capital Holdings ltd	(0.0058)	0.7389	2.3857	0.1836
Trans-Century Plc	(0.0454)	0.6974	0.5036	3.7433
Nairobi Securities Exchange Plc	0.0912	0.4988	7.3292	0.0739
B.O.C Kenya Plc	0.0568	0.4561	2.2635	0.3163
British American Tobacco Kenya Plc	0.2622	0.5152	1.4132	0.8612
Carbacid Investments Ltd	0.1228	0.6144	7.0885	0.0627
East African Breweries Ltd	0.1663	0.6509	0.7707	4.5497
Flame Tree Group Holdings Ltd	0.0903	0.2503	1.5305	1.1152
Kenya Orchards Ltd	0.0412	0.4852	2.0214	8.1684
Mumias Sugar Co. Ltd	0.0555	0.9270	0.1807	2.3529
Unga Group Ltd	0.0538	0.3674	2.2986	0.5008
Safaricom Plc	0.2394	0.8262	0.6517	0.3636

Financial year 2017				
	ROA	Asset Tangibility	Assets Liquidity	Debt ratio
Eaagads Ltd	0.1694	0.8401	12.8295	0.0135
Kakuzi Plc	0.1033	0.5811	3.9021	0.1427
Kapchorua Tea Co. Ltd	(0.0255)	0.6115	3.4628	0.1609
The Limuru Tea Co. Plc	(0.0684)	0.4646	3.5568	0.2100
Sasini Plc	0.0262	0.7738	4.2407	0.0622
Williamson Tea Kenya Ltd	(0.0313)	0.6398	3.7617	0.1571
Car & General (K) Ltd	0.0086	0.4950	1.0299	1.5279
Eveready East Africa Ltd	0.3531	0.2521	2.6948	0.3903
Express Kenya Ltd	(0.2507)	0.7310	0.5974	(5.1692)
Kenya Airways Ltd	(0.0633)	0.8170	0.3751	(4.1048)
Longhorn Publishers Plc	0.0638	0.3270	1.3700	0.9654
Nation Media Group Ltd	0.1193	0.4425	2.0223	0.3821
Sameer Africa Plc	0.0009	0.4281	1.5485	0.6137
Standard Group Plc	(0.0473)	0.5797	0.8473	1.3794
TPS Eastern Africa Ltd	0.0097	0.8486	1.0788	0.6845
WPP Scangroup Plc	0.0372	0.2060	2.2816	0.5341
Bamburi Cement Ltd	0.1370	0.7139	1.6608	0.2450
Crown Paints Kenya Plc	0.0380	0.2259	1.1905	2.3407
E.A.Cables Ltd	(0.0963)	0.6623	0.5992	2.3087
E.A.Portland Cement Co. Ltd	(0.0538)	0.9288	0.3146	0.4720
KenGen Co. Plc	0.0225	0.9213	1.4751	0.8093
Kenya Power & Lighting Co Ltd	0.0137	0.8150	0.7776	3.4683
Total Kenya Ltd	0.0720	0.3034	1.7356	0.7123
Umeme Ltd	0.0140	0.0044	0.6027	1.9038
Home Afrika Ltd	(0.0405)	0.1521	0.7432	(7.5366)
Olympia Capital Holdings ltd	0.0240	0.7881	1.6332	0.2121
Trans-Century Plc	(0.2086)	0.6903	0.4049	(162.07)
Nairobi Securities Exchange Plc	0.1038	0.4913	12.0482	0.0442
B.O.C Kenya Plc	0.0177	0.4588	1.9539	0.3832
British American Tobacco Kenya Plc	0.1878	0.5133	1.3180	0.9966
Carbacid Investments Ltd	0.1065	0.6952	6.8023	0.0507
East African Breweries Ltd	0.1155	0.6998	1.0069	3.9943
Flame Tree Group Holdings Ltd	0.0060	0.3208	1.2907	1.2978
Kenya Orchards Ltd	0.0530	0.4210	1.7132	6.0249
Mumias Sugar Co. Ltd	(0.2824)	0.9228	0.1093	30.8073
Unga Group Ltd	(0.0006)	0.3020	1.6579	0.8374
Safaricom Plc	0.2996	0.8444	0.4642	0.5043

Financial year 2018				
	ROA	Asset Tangibility	Assets Liquidity	Debt ratio
Eaagads Ltd	(0.0405)	0.8687	8.7744	0.0166
Kakuzi Plc	0.0816	0.6100	5.9414	0.0835
Kapchorua Tea Co. Ltd	0.0669	0.5594	2.9197	0.2247
The Limuru Tea Co. Plc	0.0199	0.4053	3.5021	0.2359
Sasini Plc	0.0233	0.7959	5.7625	0.0405
Williamson Tea Kenya Ltd	0.0528	0.6152	3.1395	0.1844
Car & General (K) Ltd	0.0222	0.5057	0.9903	1.5718
Eveready East Africa Ltd	(0.1947)	0.4383	2.5325	0.2908
Express Kenya Ltd	(0.2247)	0.7649	0.6187	(2.8059)
Kenya Airways Ltd	(0.0435)	0.7952	0.2160	(54.1173)
Longhorn Publishers Plc	0.0718	0.3131	1.2090	1.3157
Nation Media Group Ltd	0.0944	0.4260	1.9536	0.4177
Sameer Africa Plc	(0.2087)	0.4976	0.9038	1.2865
Standard Group Plc	0.0559	0.5741	0.9120	1.3927
TPS Eastern Africa Ltd	0.0021	0.8798	0.4338	0.7171
WPP Scangroup Plc	0.0357	0.2207	2.0699	0.6989
Bamburi Cement Ltd	0.0276	0.7529	1.3206	0.3417
Crown Paints Kenya Plc	0.0336	0.2889	1.0129	4.3325
E.A.Cables Ltd	(0.0401)	0.8283	0.2577	2.9311
E.A.Portland Cement Co. Ltd	0.2051	0.9478	0.2484	0.4698
KenGen Co. Plc	0.0192	0.9172	1.5044	0.7478
Kenya Power & Lighting Co Ltd	0.0055	0.8378	0.5140	3.5160
Total Kenya Ltd	0.0589	0.3050	1.7713	0.6796
Umeme Ltd	0.0571	0.8630	0.4468	1.5214
Home Afrika Ltd	(0.0769)	0.1511	0.6881	(5.2784)
Olympia Capital Holdings ltd	(0.0025)	0.7613	1.7807	0.2153
Trans-Century Plc	(0.1780)	0.7732	0.2531	(5.8650)
Nairobi Securities Exchange Plc	0.0845	0.4866	9.4962	0.0572
B.O.C Kenya Plc	0.0306	0.4528	1.8836	0.4095
British American Tobacco Kenya Plc	0.2227	0.4975	1.5911	0.7535
Carbacid Investments Ltd	0.0886	0.6840	9.4280	0.0371
East African Breweries Ltd	0.0891	0.7357	0.8349	9.9157
Flame Tree Group Holdings Ltd	0.0885	0.3839	1.1436	1.2622
Kenya Orchards Ltd	0.0776	0.3718	2.1138	3.7254
Mumias Sugar Co. Ltd	(0.9623)	0.9601	0.0290	(1.8380)
Unga Group Ltd	0.0780	0.3359	2.1418	0.6944
Safaricom Plc	0.3302	0.8360	0.6309	0.3513