

**INFLUENCE OF CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE
OF NON-LISTED BUILDING AND CONSTRUCTION FIRMS IN KENYA**

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DECLARATION

This research project proposal is my original work and it has not been presented to any university for any award.



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TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
LIST OF FIGURES.....	vi
LIST OF TABLES	vii
ABSTRACT.....	viii
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction	1
1.2 Background of the study.....	1
1.2.1 Capital Structure and Financial Performance	3
1.2.2 Building and Construction firms in Kenya	5
1.2.3 National Construction in Kenya	6
1.3 Research Problem.....	6
1.4 Objectives of the Study	9
1.5 Value of the study.....	9
CHAPTER TWO: LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Theoretical Literature Review	11
2.2.1 Agency Cost Theory	11
2.2.2 Trade off Theory.....	12
2.2.3 Pecking Order Theory.....	13
2.2.4 Market Timing Theory.....	15
2.3 Determinants of Capital Structure.....	16
2.3.1 Capital Structure of the Firm	16
2.3.2 Fixed Assets Tangibility	17
2.3.3 Liquidity Levels of the Firm.....	17
2.4 Empirical Literature Review	17
2.5 Recap of Literature Review.....	20
2.6 Conceptual Framework	21
CHAPTER THREE: RESEARCH METHODOLOGY.....	22
3.1 Introduction	22
3.2 Research Design	22

3.3	Target Population	22
3.4	Sampling Design	23
3.5	Data Collection Methods	23
3.6	Data Analysis.....	23
CHAPTER FOUR: DATA ANALYSIS AND RESEARCH FINDINGS.....		25
4.1	Introduction.....	25
4.2	Descriptive Statistics.....	26
4.3	Correlation	27
4.4	Liquidity ratio and Firm Performance (ROE).....	28
4.5	Asset Tangibility and Firms Performance (ROE).....	31
4.7	Debt Ratio and Firm Performance.....	33
4.7	Debt Ratio, Liquidity, Asset Tangibility and Firm Performance (ROE).....	35
4.4	Interpretation of the Findings	37
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....		39
5.1	Introduction.....	39
5.2	Summary	39
5.3	Conclusions.....	41
5.4	Recommendations.....	41
5.5	Limitations of the Study	42
5.6	Suggestion for the Future Research	43
REFERENCES.....		44
APPENDIX		49
	Appendix I. Target Population.....	49
	Appendix II. Research Data Capture Form	50
	Appendix III. Research License.....	51

LIST OF FIGURES

Figure 1. Conceptual Model.....	21
Figure 2. Response rate	25

LIST OF TABLES

Table 1. Descriptive Statistics	26
Table 2. Pearson Correlations for the Variables	28
Table 3. Model Summary: Liquidity ratio and Firm Performance	28
Table 4. Coefficients: Liquidity Ratios	29
Table 5. ANOVA ^b	29
Table 6. Liquidity and ROE	30
Table 7. Model Summary, Asset Tangibility	31
Table 8. Coefficients: Asset Tangibility and ROE.....	32
Table 9. Anova	32
Table 10. Model Summary, Debt Ratio and Firm Performance	33
Table 11: Anova.....	34
Table 12. Coefficients: Debt and ROE	34
Table 13. Model Summary: Debt Ratio, Liquidity, Asset Tangibility and Firm Performance.....	35
Table 14. ANOVA – ROE, Debt, Liquidity, Ass Tang	36
Table 15. Coefficient: ROE, Debt, Liquidity, Ass Tang.....	36

ABSTRACT

Capital structure does form a spectrum by which institutions and business entities finance their financial obligations, thus; the need of making a good choice of equity mix. The biggest nightmare is in combining and employing the right fuse of equity in order to realize optimal performance worth of finance. The image of Kenya's building and construction industry in the study period of 2014/2016 was at a mark of 3.2/3.5 in third order, a representation of a down ward trajectory when put into comparison with what was exhibited in the years 2005/2006. Within that period, 5.8 and 6.0 percentages were realized within the industry. Such a kind of poor performance across the building and construction industry in Kenya, in accordance to the existing literature, pointed at the composition of capital structure in funding operations among the said firms within the industry. This informed the study to examine the effect of capital structure on financial performance of non-listed building and construction in Kenya. This research exercise intended to make an examination on the influence of Liquidity ratios, Tangibility of assets, and Debt ratios on profitability of non-listed building and construction firms in Kenya. The study thus created use of ROA and ROE as measures for financial performance. The period of the study was between 2014 -2016. The study utilized M&M theory, Trade off theory, Pecking Order theory, and Market Timing theory. The research design used was descriptive survey design. Data was collected from the firms' consolidated financial statement documentations at the National Construction Authority and the Kenya Association of Manufactures. The target population had all the 10 Tier 1 building and construction non-listed firms registered and regulated by the National Construction Authority within the three-year period of study of 2014 to 2016. The sample size was the same as the target population. The data collected were secondary. Data was analyzed using mean, correlation regression model, and Annova (F-test). Analyzed data was interpreted and presented using tables and figures. Data analysis was done using SPSS software version 2.1 for efficient data representation. The results generated out of this activity deduced that capital structure does have a typical influence that is inverse on the financial position of

non-listed building and construction firms in Kenya. The results did indicate that financial performance apparently declines when the debt ratio is increased in the capital structure of the respective firm. Thus, giving enough reason to warrant injection of capital as opposed to borrowed capital. Financing through debt proved to be cost implicating as it attracts such costs as interest rates that exceeds the benefits expected of debt financing. This study will assist management and financial experts in examining the company's growth characteristics, liquidity and asset utilization, business risk, and financial performance to anticipate its future worth. This research exercise recommends that business entities should work on minimizing financial leverage within their capital structure for purposes of enhancing and stirring financial performance thus creating a huge value to their respective shareholders.

CHAPTER ONE: INTRODUCTION

1.1 Introduction

This respective chapter puts in provision an introduction on the topic of choice which is capital structure which is based on the topical background. The background will thus be followed by problem statement discussion which includes the overall purpose and also the general research objectives, as well as the value of the research exercise.

1.2 Background of the study

Optimal capital structure is always a distress to firm managers as it can negatively impact their firms' performance if no due diligence is done before settling on a workable structure. Every single time a firm needs funds to take care of their operations and other capital expenditures, trade-off debt and equity (capital structure) financial decisions have to be considered? The capital structure defines methods through which companies resort to raising funds for the sole purpose of financing its operations more so by employing usage of either debt, equity, or proportionate fuse among the two (Myers, 2014). Business operations and activities have to be financed, hence with inadequate or without funds would render firms paralyzed. In every single decision in investment worth of fixed assets, the decision on how to fund them is paramount as it has a direct link to a firm's profitability. As to what should constitute a firm's capital structure, the two ideal theories, pecking order and Modigliani Miller theories offer conflicting opinions despite exhibiting a number of similarities. It is thus imperative that due diligence is done in arriving at a sound decision over capital structure to be employed as a road map to shaping up a company's performance so as to realize better returns on shareholders' investments (Mwangi et al, 2014).

Capital structure is thus measured by analyzing and comparing debt and equity ratios. Total liabilities are divided with total equity. Savvy firms however do incorporate both debt and equity as part of their corporate strategies (Dawar, 2014)

Capital structure theories related to a firms' profitability remain to be critical since Modigliani

Miller (1958) intimated that without the corporate's tax, bankruptcy cost, asymmetry in information, market efficiency, and transaction costs, firms value will ultimately be immaterial towards financing decisions (Jermias, 2008). Payments on tax can be decreased by debt capital, thus a company's optimal capital structure should constitute debt. To date, a number of theories have sprung to illustrate institutions' capital financing. It is thus prudent to note where respective financing capital comes from, as it affects the firm's competitiveness with other peer firms within the industry. Therefore, it is the prerogative of a company to work out and arrive at the right and appropriate financial capital fuse that will enhance the financial performance (Abor, 2007).

The debt finance issuance in the securities exchange market in the Kenyan republic is rising to be a common practice. Non-listed building and construction firms do accumulate massive debts as a platform of raising new finance aimed at funding operations through the securities exchange market (Anyanzwa, 2015). Several organizations employ debt use to leverage on capital for purposes of improving on profits. Nevertheless, the ability of debt to finance an improvement on a company's health fluctuates from one company to another pegged on the economic situation at a time (Maher & Andersson, 2013). In definition, Capital structure refers to finance sources employed by a firm. These sources include: equity, debt, and hybrid finance which constitute a direct relation and denotes an impact to financial health of an entity including the shareholders' returns. Interestingly, non-listed companies increasingly also utilize debt on their structure thus the need to examine the effects of debt on the financial position, this was a motivation for this entire study. Consequently, the inadequacy of unified theories in relation to presenting chains of effects of capital structure towards financial performance further persuaded the need for this research activity.

1.2.1 Capital Structure and Financial Performance

The subsequent fuse of the equity with debt finance defines what has always been the description of capital structure. It is entirely taken to be the most prudent financial decision ever, as it defines the standing of the firm in relation to taking care of all the needs of the interested parties of a firm, including all its stakeholders (Jensen, 2015). Equity way of financing attaches to all resources contributed by the firms' ownership, it's normally considered to be the riskiest type of finance. Shareholders pose claim on firm's profits on firm's shares, which are normally referred to as dividends; share capital numbers depend on share numbers owned. Firms are not compelled to be making regular dividends payment after every trading period since they can also retain some earnings for reasons ranging from business expansion, future programs, to other prior needs deemed appropriate by the firm. Shareholders normally receive returns as the last ones owing to the fact that they share risk by the business especially when firms are declared insolvent (Brockington, 2016).

Consequently, debt composition is done by way of sourcing funds through external fronts such as commercial financial institutions and through the issuance of bonds. The financier in this case does not have control over the firm's operations, instead, an annual return worth of compensation is paid to him for the utility of the funds. In that context, the borrower is obligated to make repayment of the principal amount including the accrued interests even if the firm will incur losses or make profits. Failure to meet such and other related obligations may result into losses of collateralized assets, collapsing of the business entity or just being declared bankrupt (Bichsel & Blum, 2015). Debt compounds merits and also demerits on a firm's growth including its economic survival.

Debt utilization may accrue merits firm that may put in inclusion shields on tax and minimization of free flows of cash issues, through heightening of managers' behavioral conduct, while minimizing expenditure routines on debt that incorporates bankruptcy costs as well as other

expenses accrued on agency which are as a consequence of an inter conflict between debt and shares holders (Fama & French, 2010). It is highly recommended that managers should be prudent in creating balance between such costs and the debt proceeds, and in making decisions over debt capital for enhancement of performance (Krause & Litzenberger, 2010). Debt ratios are therefore the terminals through which capital structure is measured. The debt ratios help in putting into comparison total debts verses total assets belonging to the firm. Low ratios thereby show that the respective firm has lower dependence on debt while the inverse higher percent exhibits high dependence on debt finance.

Financial performance is this is literary a firm's utilization of available resources for revenue generation. It defines prudence for future decisions in regard to business expansion modes, acquisition of assets, and management control (Tehrani & Rahnama, 2016). It is thus a reflection and exhibition of the managerial achievement in terms of figures, within an identified period of time, and the results can be compared with other players within the industry. With regard to Onger (2014), financial performance is the only way out through which business activities can be evaluated in distinct money form. It thus depicts the favorable form a shareholder might be at the extreme end or within a specified trading or accounting period than he used to be at the start. This can be brought out clearly by the use of financial ratios extracted from statements of finance or market share prices consumption. A firm's main objective is in the maximization of the shareholder's wealth hence the measuring in description of performance, is how richer and better a shareholder might currently be as a consequence of prudent decisions on investment within a specified span of time (Barger & Pati, 2013).

Many different relative and absolute indicators are the main units of measuring financial performance, such indicators constitute: expenses, EBTI, revenues, income levels and returns on asset, and also equity. It should however be noted that common indicators used to put in measure performance are possibly ROA and ROE (Reese & Cool, 2016). Return on the shareholders'

capital is depicted by ROE and it is computed by simply dividing the NPAT by the TEC. This exhibits a firm's levels of profitability as compared to the total investment worth of the shareholders' capital input. Consequently, ROA shows the returns registered on all assets, a measure mostly used by companies as general indexes over financial health performance. This normally is done through division of NIAT by TA (Khrawish, 2014). In that regard, ROA is used to measure the performance of non-listed building and construction firms.

1.2.2 Building and Construction firms in Kenya

Kenya as a country is known to have an established and progressive construction industry in the region. The industry constitutes firms mostly dealing with and or are involved in the erection of both commercial and residential structures, engineering scrappers, as well as trade affiliation services. The construction industry yields major contribution to the GDP of the country. It is not only a major player, but also acts as major stimuli in economic growth. In accordance to the KNBS, construction and real estate sectors have turned to be the most viable Kenya's economic growth drivers in the past five years. The sector did contribute 7 percent of the country's GDP in the year 2015, enough reason to establish the sector as being one of the country's well-developed industries.

The sector has aimed at doing maintenance of the existing structures, and also integrate not only efficient but also safer transport system, as well as benchmarking infrastructural facilities and services. It seeks to set globally accepted standards in performance meant for customers' satisfaction, as well as to attract the private sector to participate in providing infrastructural facilities and services which are often complemented by interventions from the government. As established by the Economic Survey 2016 manuscript disseminated by the KNBS, the economy experienced a boom within the sector in 2015, a boom that did register a 13.06 percentage rise in value addition. The sector's employment worth within the said period also had a growth record of 11.4 worth of percentage standing at 148.00 thousand in 2015 being a gain from 132.90

thousand as depicted the previous year, 2014. There was also an increase in roads expenditure by 79.2 per cent within the said period. Considerately, the Government's expenditure index also went up from 263.4 in the year 2014 to approximately 386.7 in the succeeding year of 2015, attributed to support of projects within the year. An expansion of the sector was recorded at 9.2 in percentage in the year 2016 compared to a slightly higher growth rate of 13.9 in percentage registered the previous year 2015. The slight slow rate in growing was attributed to relatively reduced levels of activities within the sector and more so as the construction of the SGR was nearing its completion.

1.2.3 National Construction in Kenya

Building and construction firms' do not operate in vacuum, just like other professional bodies, the industry is controlled and regulated by the NCA for purposes of standardization within the said industry. The NCA is a body established and commissioned by a parliament Act, an institution mandated and mounted with the obligation of streamlining, regulating and building capacity within the entire building and construction industry. The said responsibilities are done to ensure that there is registration of projects, provision of accreditation to the workers and supervisors within the sector, and contractor registration processes. NCA keeps records of individual firms' as a final reference in case of any dispute.

1.3 Research Problem

The Capital structure not only exhibits a significant role, but also gives real facts on financial positions of firms, so long as the results are correctly analyzed and utilized to the latter. Nevertheless, it is still a paradox, and remains a puzzle as to what necessarily do constitute what is referred as an optimal capital structure. Such a puzzle remains unanswered and still sends jitters within the circles of finance (Kajola, 2010). The stature of capital structure related effects in regard to its profit levels has never been agreed upon based on the prevailing theories and a

number of empirical studies. Modigliani Miller (1984) makes propositions of negative correlations that even if they may occupy certain positions within the market, they will still make reliance on retained earnings for purposes of making expansions as a substitute of the ever-expensive external deployment of finance. Concurrently, the theory's tax and interest shield opinion presume some positivity in relationship, meaning that in terms of high incomes, firms will employ more debt type of finance utility in their respective capital format as a reason in shielding profit proceeds from taxation. Jensen & Meckling (2010) too supports the same perspective by considering debt finance as a disciplinary tool that compels firms' managers to make investments in projects which enhance value to the capital input of shareholders, thus positively impacting on the financial performance. It is such regard and the conflict created by the prevailing theories that necessitated further studies, which did motivate this research.

The government's initiative to get itself in conducting mega and major construction as part of its development agenda, a number of non-listed companies, both building and also construction, have had that ambition of attaining better levels of performance by employing maximum use of debt. There has been an argument on financial leverage as being the avenue through which business-oriented entities stir their profitability levels but only if acquired on better rates and put in proper use. Debt furthers productive assets acquisition, which for instance, if efficiently and effectively put into use, the performance of the entity is heightened (Anyanzwa, 2015). Notably, most of the non-listed companies that accumulate debt for purposes of meeting the vision on improvement of their financial health have ended up not improving either, but consequently plunging in voids of major losses resulting into their winding up, a good example being the Athi River mining company, a cement manufacturing company (Juma,2016). Poor levels of performance of such non-listed entities despite utilizing huge debt levels calls for the need a study to establish whether debt use does affect performance.

Empirically, a number of studies have furnished varying results and outcomes. Abor (2010) aspired to understand the co-relation of capital forms with profitable performance among listed corporates in the republic of Ghana. Results depicted positivity in correlation on total debt use over firm's financial position. Kajirwa (2016) did study on debt impact on Kenya's banks' performance levels, listed at the NSE. The exercise did rely on secondary type of data while it adopted a qualitative data analysis. Results demonstrated and noted an inverse negative effect on debt use on the profit levels of banks thus he therefore came up with recommendations that due diligence should be done before resolving to employ debt finance utility.

Apparently, Gleason (2011) made a study on performance and leverage by making clear use of data between 2008- 2009 on the EU entities over 14 EU constituent countries, to ascertain performance by use of ROA. The outcome made an indication that total debt significantly impacts on the firm's performance as weighed out by ROA. Abor (2010) did an investigation on the impact of capital financing in relation to the listed firms' profitability in Ghana. The outcome indicated and noted a huge significance on both the parameters. Kaumbuthu (2010), did examine effects of capital structure in relation to financial performance (FP) of manufacturing business entities listed at NSE and outcomes depicted a negative debt to equity ratio. Raza (2013), conducted an exercise of studying leverage on firm's financial performance with the target population being building firms that apparently listed in Karachi's Securities Market in the people's republic of Pakistan, period of exercise being 2004 – 2009. Results showed and confirmed that leverage negatively impacted on firms' FP. These respective findings exhibited an empirical vacuum on what necessarily embodies optimal capital structure and the resultant effects on FP.

Explanatory reviews of existing studies in the context of Kenya regarding the stated topic generates a myriad of mixed outcomes, justifying the importance of doing further studies on the same.

It is in that respect that this research study was inspired and thus aspires to contribute on already

existing works of knowledge by responding to the query: what is the effect of capital structure in relation to the financial performance of non-listed building and construction in Kenya?

1.4 Objectives of the Study

To determine influence of capital structure on financial performance of non-listed building and construction firms in Kenya.

1.5 Value of the study

Resultant outcome of the very exercise will in fact be helpful especially for purposes administration purposes, such that managers of non-listed building and construction can use prudence in arriving at decisions over the kind of capital structure to be employed as such decisions are not only important, but also could have long term effects on a firm's performance. Capital related decisions when not thought and carefully arrived at, could consequently bring devastating results to a firm. Increase in capital structure leads in spontaneous reduction of financial performance. The outcome findings are also important to firms' management in terms of funds utility maximization and strategizing on any emerging trends in the world of business. Further, these exercise findings provide new knowledge to managers in the corporate world, helping them to come up with independent decisions selecting the best capital structure mix which can bring about some optimal financial position of non-listed building and construction companies.

Shareholders' interests were put into consideration. It is evident that shareholders are always in need of information related to profitability in order to come up with decisions in regard to where and when they can invest. The outcome of this study was projected to be beneficial to the academia as well, as it will add invaluable knowledge as the study did explore various effectual elements over capital structure on financial performance of non- listed building and construction

entities in Kenya. Scholars will therefore have an opportunity to compare the results of this work with other studies done by other scholars and researchers in order to check consistency. A copy was handed to the University for Purposes of serving as empirical evidence in line with studies in future.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Under this chapter, an elaborate review of related literature both Theoretical and Empirical literature were made, as well as the conceptual and theoretical frameworks of the study, the Research Gap was also highlighted.

2.2 Theoretical Literature Review

2.2.1 Agency Cost Theory

The theory on agency cost illustrates the inter link between the owners' funds in a company and the respective firm agents or the management team. Agency exists in a situation where one or two parties, mostly termed as the principals, source the services of other parties that are referred to as agents, charged with the responsibility of rendering a number of services and later given extends of authority to act on the principal's behalf. Jensen & Meckling (2002), implied that a good capital structure can exist where there is minimized agency costings that accrue following conflicts among managerial interests and over those of the debt or funds holders including the company owners. The theory goes further to explain that company ownership has to be prudently instituted in a manner that all the varying interests among all the stake holders can be harmonized to avoid conflicts that may result, including employing the use of debt capital to reduce free cash flows as a mechanism of curbing the opportunism of company managers.

Jensen (2015) further intimates that the agency syndrome is purely linked to free cash flows. Such instance of free cash flows, in accordance to him, can be reduced if not eliminated by making an increment in managers' stake in the company or by spontaneously making an increment in debt utilization as a composition of an entity's capital structure. This reduces the levels of free cash flows that may or is always within the reach of managers.

2.2.2 Trade off Theory

A myriad of presumptions was put forth by this theory. It elaborates the evidence of company benefits on leverage with normal structure of capital utilized until realizing optimal capital structure. The respective classical version can be traced back to the theorist Graham & Litzenberger (2012) that gave and did establish that there is normally an inter link between dead-weight costs of bankruptcy and the debt's returns on tax salvage. The theory further proposes that tax obligations are minimized on debt remnants thus increasing the tax shields. In instances where firms employ debt as a major segment of its capital structure, the firm is exposed to a number of financial risks as funds holders will be pouring and committing more resources to the firm, they will expect and place demands for higher premiums as dividends on the slated securities. The theory goes on to articulate that trading off costs and returns through utilization of borrowed funds can lead to attaining optimal capital structure.

Nevertheless, the theory fails to give profound explanations on why borrowed funds traditional way of utilization leverages and is consistent in many nations but do differ in terms taxation structures (Graham, 2013). Trade off on a company's bankruptcy cost is what dictates the debt ratio though through realization of tax demerits of debt, this being achieved owing to the present marginal value of tax edged on extra funds borrowed equaling raised values of present financial distress (Rama & Anyang, 2014). Interestingly, trade-off theory researches derive mixed outcomes conclusions. A number of researchers and members of the academia reason and give confirmed illustrations that, individual companies that note higher rates in terms of profitability, they do less of borrowing; a posed fact in partial disagreement with this theory that propagates that well-to-do firms need to borrow more funds as a liability mitigation mechanism over tax.

2.2.3 Pecking Order Theory

This respective significant theory was conceived principally by Myers and Majluf in 1984. It stipulates that, organizations and the corporate world do always lean towards utilizing internal resources in or before thinking of borrowing or employing funds from external sources. For instances, at the point when companies are at the brink of employing borrowed funds to operationalize its business activities, firms will always prefer long term type of debts in comparison to short term funds like the issuance of securities. Short term borrowed funds are always considered to be an extreme option of choice. Due to asymmetry of information, firms are never in possession of a combination of debt to stock. Mostly, there is normally a consistent adoption measures which are radical in moments of payments of dividends by maximizing utility of borrowed funds in order to advance a firm's stature.

Further, the theory illustrates that companies will always make considerations on preferred capital structure order in matters of funding its operations (Cooper & Holmberg, 2015). Cumulatively, in an instance of deficiency of relevant information on funds creators, firms tend to prefer ploughing back returns on investment as an option over any other capital finance and also prefer short term type of loans in comparison to long term loans. The pair of theorists further claimed that, in a situation where firms go contrary to issuance and floating of securities at the securities exchange markets by making full use of retained earnings for business operation expansion, situations of information asymmetry can be addressed and further absolved. This gives enough evidence as to why the primary issuance of share capital sinks to the expensive exercise owing to the fact that asymmetry of information on in-house and external dimensions do increase. It is highly recommended that companies with huge ranges of asymmetry of information to consider debt capital as opposed to the issuance of securities which are deeply underpriced.

Furthermore, (Bhaduri, 2012) in his paper clearly attested that when firms require to source capital from external quarters, there is a preference of resorting to the issuance of securities in the primary market as it is normally considered to be secure. Hence, having a sequence of preference of long-term capital followed by convertible debt which at times comes as an option of an extreme choice. The theorist had the feeling that, whichever the preference or order of the capital structure pattern, the most critical element of coming up with such remains a question to be addressed depending on the availability of the source. For instance, in the case of availability of an internal source when it comes to formulation of capital structure policy, internal earnings become the most preferred, but whenever external source of funds mobilization is required, debt capital becomes the most preferred as compared to the issuing and floatation of financial instruments in the securities exchange market. Pandey (2010) did agree with the prepositions of this theory that individual corporate managers' resort to making use of internal resources generated by the firm and only thought of the floatation of shares in the securities exchange market as a last option in the order and hierarchy of the capital structure components.

Coincidentally, the theory is lined up which criticism based on its definition of both the specific and general prepositions. Adedji (2013) made prepositions that, the theories' prepositions that external funds are considered the best motivators of companies in resource mobilization is misconstrued as it fails to put into consideration other factors of thought that plays significant roles when it comes to capital structure decision making, that includes; relationship among the lenders and borrowers, levels of interest which at times might be punitive, and the part played by the authority regulating bodies. Cull & Xu (2014) did confirm that utilization of the respective firm's retained earnings remains a determining factor basing on the ability of the firm to mobilize funds from the outside sources.

2.2.4 Market Timing Theory

Bakerr & Wurglerr (2012) conceptualized and did develop the theory by affirming that entities time their securities issuance in a way that they only concentrate on issuance of their securities in the primary market speculatively with projections of better prices in the long run, but they strategically set to re-purchase and absorb them in the instance of a recession or downfall in prices. Price volatility of stock always have adverse effects on firms' capital structure.

This very theory brings out a certain preposition, whereby economic agents are purely rational. It is opined that, companies anticipate to float their securities directly in the market owing to an accumulated positive symmetry of information, hence completely eliminate tandem conflicts that always arise amongst the stockholders and the entire management. A deficiency in information symmetry in the business world is the consequence of the rise of the prices of stock. Apparently, sometimes businesses create and do initiate their own timing criterion. In case of irrational behavior, then a mispricing of a firm's stock will consequently arise. Therefore, managers only float and present a firm's securities only when they do anticipate lower costs that may come along and concurrently buy them back in moments when they hit a high mark.

On the other hand, the other version of this theory ascertains that it is not a must to have an inefficient market, managers are neither bound to make speculative predictions on low or higher prices of stock, conflicting with the element that managers are always in a sound position and are bound to make a market timing before release and absorption of stock. Graham and Harvey (2014), went ahead and revealed that managers made an admission over their trial in making a market timing debut in securities floatation, and for those who dared make the attempt of having to issue ordinary shares, affirmed that the most important point that must be considered is the aspect of over and under valuation. Their examination study was agreeing to this theory of market timing in the essence that, managers have to be anticipatory in nature though there are

instances that they cannot, especially in situations of an elastic and dynamic market.

There was also a confirmation made by Bakerr and Wurglerr (2014) that, a business entity's capital composition can be adversely affected by securities' market timing. The duo revealed that in the event of market timing on weighted average of borrowed capital, a firm's needs over the preceding years are weighted and placed in its book values. The duo still went ahead to affirm that a company's changes in leverage are purely correlated with steps put in place on market timing.

2.3 Determinants of Capital Structure.

The major objective towards the formation of business entities is for realization of profits. In that respect, profit is the reference element on performance through which businesses which are performing can be differentiated from the non-performing ones. The said performance is affected and impacted on by various factors which can in turn be macro or micro. Micro factors comprise of the business internal dimensions while macro factors include the external compelling factors without the precepts of the business.

2.3.1 Capital Structure of the Firm

It refers to the way organizations fund their entire business operations. It is however the fuse or the intermix over equity and debt. Arriving at usage of other sources of funds' is a result of costs weighting since they impact in different ways on the firm. Tax and monitoring benefits are results of debt use and if over employed, debt can have diverse consequences on the healthiness of the firm and can render bankruptcy. Optimal capital structure use is healthy and can have great returns on funds holders thus strive to minimize capital costs (SU & Vo, 2014).

2.3.2 Fixed Assets Tangibility

These are simply the ratios denoted by fixed assets over total assets of a firm. Debt level, profitability, and turnover are mostly based on and determined by the firm's fixed assets. An entity's fixed assets are in fact the ones which are normally used as collateral while seeking debt or a credit facility. It is in that respect that companies with massive tangible assets will however be presumed to be having higher debt levels in their respective capital plan composition compared to those with fewer assets. This is normally a very pertinent management function since such decisions affect the way the funds holders return and all other risks associated with it (Mwangi *et al*, 2014). As such, higher turnovers will be a consequence thus having an impact on performance if and when efficiently put into proper use (Rajan & Zingles, 2012).

2.3.3 Liquidity Levels of the Firm

This simply refers to the instance through which firms can meet their immediate needs. For instance, when liquidity is in its highest, it will result into a firm having resources which are idle and of no importance to a respective firm. Consequently, inversely, when a firm has low liquidity, a company's goodwill will be hampered, resulting in the reduction of its credit worth which may lead to it being liquidated. With no contradiction, companies will always strive to keep proper portions of liquidity levels. Nevertheless, profits magnification at the expense of company's liquidity levels can put it in very insecure quarters causing insolvency. Therefore, liquidity management aspect must be fully looked at as a gain towards optimal profitability (Vieira, 2013).

2.4 Empirical Literature Review

A study done by Al- Tal (2014) examined the inter link between firms' profitability and capital structure on quoted firms in the Republic of Ghana's stock Exchange market the period stipulated being 1998 to 2002. He opined and noted that, debt in short term category positively

relates to a firm's profitability owing to the interest levels which are normally lower as compared to long term debts. He further attested positivity on the same over total debt and the respective firms' profitability as total debt was mainly composed of short-term debt financing. Nevertheless, within the same study, he did notice a relatively adverse negativity of long-term debt towards profitability owing to it being more expensive to service.

Adekunle (2014) did also conduct an exercise examining effects financial capital structure has on an entity's profitability with target population being non-financial firms probably listed on Nigeria's Securities market and having traded between the year 2001 and 2007. Secondary data from the respective firms' profiles were utilized and debt ratios were used as independent type of variables while ROE and ROA were used as dependent indicators. The ordinary least square approach of estimation was used and results indicated that the debt ratios do have negative significant impact in relation to the performance of firms.

Dufer, A. (2010) conducted a research exercise to examine effects of capital structure on firms' profitability levels. He highlighted entities listed at the market of Nigeria's securities Exchange with time scope being the period in between 2001 and 2007. The said researcher targeted a total of thirty companies that traded within the said period of time with the work using ratios of debt as independent variable while ROE and ROA were used as dependent indicators. Secondary type of data was used. The results indicated negativity and adverse effect regarding profitability levels on said sampled firms.

Aliu, N. (2015) also carried out a research assignment to try and examine determinants of capital finance in corporations within the same industry of manufacturing in the countries of America, France, Britain, Japan and Italy. A population of 4557 manufacturing type of firms were sampled from the said countries with secondary data being utilized. Information deduced from the study indicated that, leverage is negatively correlated and impacts negatively on firms in terms of

profitability. However, on the other hand, depending on the size of the company, leverage impacts positively on firms including the value of tangible assets.

In Langat et al. (2014), an assessment on debt financing over profitability among companies registered as tea manufacturers in Kenya concluded that, short term debt sourcing by the said firms does not necessarily have any positive relation to their profitability levels. The researcher used ratios of debt as independent indicators then ROE including ROA were used as dependent indicators. However, long term type of debt including the total debt were also found positively related with financial performance at 1 percent and 5% respectively.

In Pouraghajan and Malekian (2012), a paper that they compiled while conducting an examination in regard to how capital structure does affect the respective profitability levels or entire financial performance, they did establish negative correlation over debt financing and firms' profitability. The study targeted firms listed in Iran's securities exchange market with a total of 100 construction companies sampled.

Muchugia (2013) in his paper was in a quest of making an establishment of the effects of debt finance on financial standing of Kenya's commercial banks. He used firm size, short-term liabilities, and total term debts as independent indicators; ROE was in turn used as a dependent variable. A total number of 46 banks were sampled. The study arrived at a conclusion that, short term finance positively affects firm's profit levels but on the other hand, results indicated negative correlation of long-term debt on firm's profit levels.

Masiega *et al* (2013) conducted field research to examine capital structure effects on profit stature of allied and manufacturing companies quoted on Kenya's Nairobi Securities Exchange market. A total number of 30 firms that had been trading for a period of at least five years within the period 2007-2011 were sampled with secondary data being used. The results exhibited a positive trend of debt finance in correlation with the respective firms' total assets, while the same

indicated and impacted positively on performance though the effects were both weak and in fact insignificant.

2.5 Recap of Literature Review

This research exercise aspired to make contributions to the existing literature by evidently demonstrating effects of capital structure on financial position of entities not quoted at the Nairobi Securities Exchange. The literature in this context reviewed theories that attempt to give explanations regarding significant effects and related impacts of capital structure on financial performance. Reviewed literature included: Market Timing Theory, Pecking Order, Trade-off theory and Agency Cost Theory, and The Trade-off Theory.

Theoretical review results are contradictory as they display some inconsistencies, a justification of the importance of conducting further research exercises on the same. In accordance to the pecking order theory highlighted herein, it was established that companies resort to having preference on utilization of retained earnings by recouping them back to finance business activities, and only think of employing external forms of borrowing only and when the former is insufficient. Thus, displaying a negative correlation on financial performance since retained earnings only depends and remains pegged on profitability levels. Based on Modigliani Miller interest/tax covers assumptions, there is positivity in relationship to performance in regard to levels of income since business-oriented entities have the zeal of debt component of their capital structure as a tax shielding mechanism towards their profits. Jensen & Meckling (2002) is in compact support of the view that debt finance is a disciplinary tool that compels managers to fully make investment in projects that are of much importance and adds value to funds for the owners thus heightening and improving the firms' financial performance.

Quite a number of empirically studies performed to ascertain effects of capital structure on firms' financial performance displayed or exhibited mixed results that are in deep contradiction. For

example, Onaolapo & Kajola (2012), Masiega et al (2013), and Pouraghajan & Malekian (2012), do agree on debt capital structure having negative effects on a company's performance while on the inverse, Chepkemoi (2013) and Kuria (2013) make an argument implying capital structure denotes positive impact on firm's financial performance. This varying disparities and contradictions in the theories' empirical studies give a justification on the importance of conducting further studies- a motivation that brought about this study. This research exercise aspired to make contributions the pre-existing literature simply by evidently demonstrating the capital structure related effects on financial position of entities Not-Listed at the NSE.

2.6 Conceptual Framework

This respective section does show and exhibit inter relation among dependent and so are the independent indicators used in this very study exercise. It exhibits manner in which capital structure does interact with the other various variables in giving determination over firms' financial performance.

INDEPENDENT VARIABLE

DEPENDEND VARIABLES

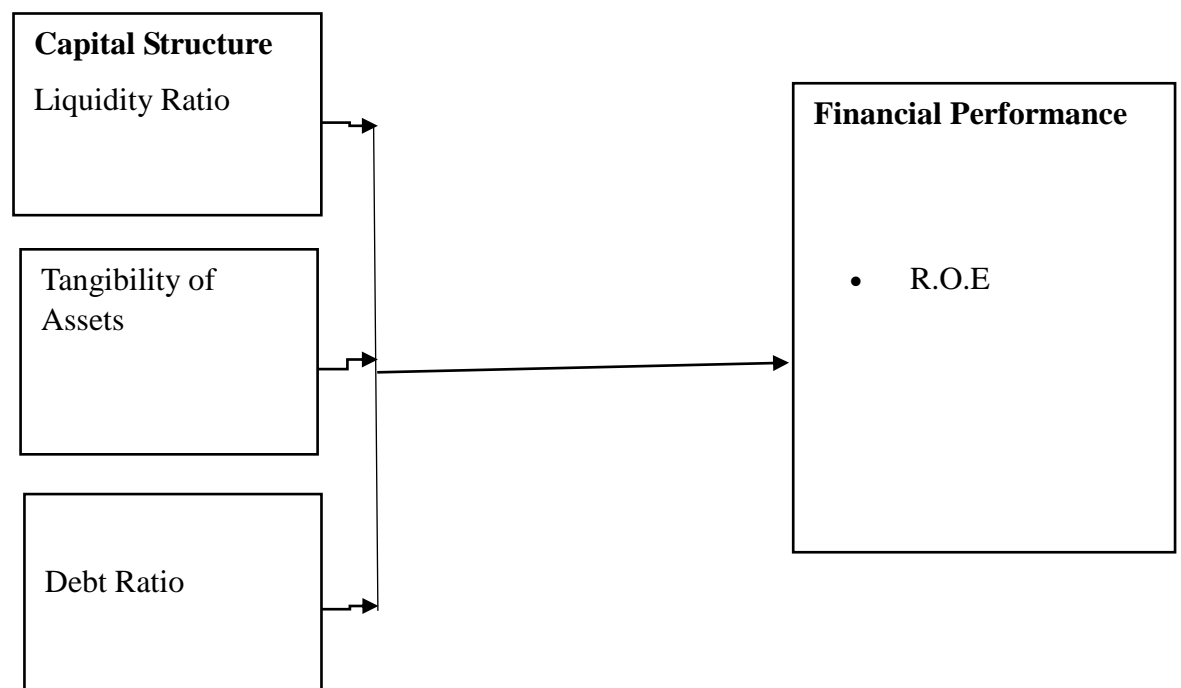


Figure 1. Conceptual Model

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter incorporates proposed research methodologies made use of in this research by identifying projected design of research, proposed targeted population, the sampling design, the respective data collection methodology, including the proposed analysis techniques of data that were utilized within this research study.

3.2 Research Design

The selected design of research was descriptive with a significant set of quantitative analysis (Abubakar, 2015). This type of research design was selected owing to its enabling nature of giving descriptions on a given research area, making an establishment on a relationship, and giving explanations on collected data in order to pay attention to and prosecute both the differences and prevalent similarities on the subject references over a stipulated time scope. The main focus was to establish the relationship between capital structure and financial performance of the firms.

Thus, descriptive kind of design of research was the most suitable appropriate design for this research activity.

3.3 Target Population

This refers to total individual grouping within which a respective inference is applied according to Raza, M. (2008). In accordance to Construction Kenya, there are 10 tier one construction companies in Kenya. The intended population of this work included all the 10 Tier 1 building and construction non-listed firms registered and regulated by the National Construction Authority within the three-year study period of 2014 to 2018.

3.4 Sampling Design

All 10 tier 1 firms were included, therefore arose no need for sampling.

3.5 Data Collection Methods

Data is the most important element in an exercise and activities related to research as it inscribes all of the concealed meaning of the needed information. Study employed the use of predominantly data which is secondary. Data thus was collected through yearly reports which included statements of financial position including all other corresponding relevant reports published within study period of 2014- 2018. Such relevant financial information was thus collected from stored sampled companies' finance statements from the information desk upon submission of an introductory letter from the school. A letter of introduction handed to the researcher by the school was in turn presented to respective non-listed building and construction firms' managers for purposes of gaining both consent and access to published statements of financial position for the sole purpose of due analysis.

3.6 Data Analysis

Collected data were however analyzed by clear use of mean, correlation (Pearson's), and the regression model. Analyzed data were interpreted and presented using figures and tables. A correlation technique was used to illustrate the level of relationship among the identified variables. Correlational technique is important in research as it aids knowing the level and nature in relationship over the list of variables used in the study. Correlation results are also easier to interpret, cost friendly, and is commonly used in modern day to day decision making among business entities.

For the purposes of testing this respective research activity hypotheses, adoption of descriptive type of data analysis; Pearson's means of correlation, multiple regression analysis was also made

use of in order to test the relation between liquidity, asset tangibility and ratios of debt on firm performance. The significance of regression co-efficient was established by looking at t-values

CHAPTER FOUR: DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Introduction

This section does present results and findings of the research and the resultant analysis of its data. This research made use of secondary data with the source being the firms' profile review, which included statements of financial position and all other corresponding relevant reports published within the period of the proposed study of 2014- 2018. Of all the firms within the target population, that is the 10 tier one firms registered as building and construction, there was a 100% response rate, an outcome which was thus regarded significantly fit for statistical analysis. By the help of regression analysis, the secondary data was analyzed. The figure below presents the stated response rate.

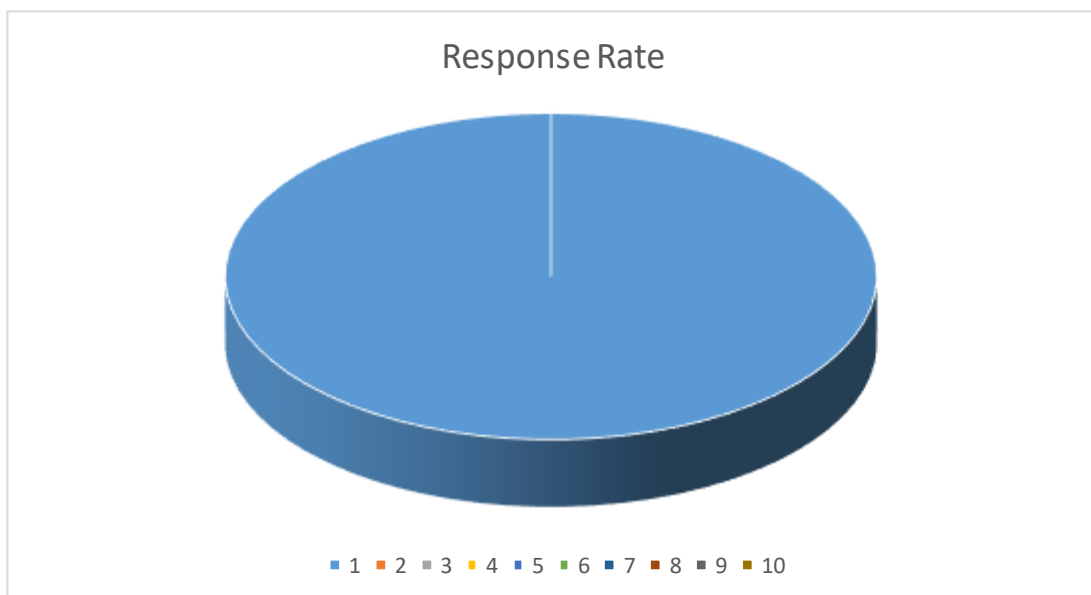


Figure 2. Response rate

4.2 Descriptive Statistics

The descriptive statistics in this section laid down maximum, minimum, mean, and the standard deviations used in describing data. It summarized the sampled information. It simplifies the information for ease of understanding of the used data, by displaying the standard deviation, mean, maximum and minimum of the sampled set of data.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	50	0.17	6.57	1.6514	2.59461
AssTang	50	0.27	1.21	.5281	.63725
Debt	50	-2.25	3.40	.3576	1.35169
ROE	50	-1.06	1.27	.0506	.52532
Valid N (listwise)	50				

Source: Research Findings, (2023)

As demonstrated, the liquidity mean of the observations is 1.6514, and a standard deviation of 2.59461. This level of liquidity means that most of the firms have the ability of meeting their financial obligations thus avoiding instances of financial distress, but a high standard deviation suggests that the firms included in this study does not follow a uniform liquidity management policy. Asset tangibility and utilization is normally used to test ratios of tangible assets to total assets. The mean of assets tangibility based on the observations is 0.5281, the standard deviation is 0.63725, suggesting uniformity in the industry. This ratio suggests these companies can use their fixed asset to secure the amounts they borrow.

The debt ratio, an indicator of average amount of debt in companies over the period of the study is 0.3576 or 35.76%; given that some firm's debt ratio is 340% (*see maximum debt ratio in the table above*), this is a significant debt amount on capital structure worth studying. Standard

deviation of debt of 1.35169 is greater than one, suggesting that the debt ratio varies across companies.

The mean ROE is indicated as 0.0506 or 5.06%, not surprising is that some firms reported negative return on equity. Standard deviation worth liquidity ratio is at a high of 2.59461, suggesting variation in profitability among the firms studied.

4.3 Correlation

Pearson method of correlation is normally used to make an examination and put into test relation and direction among variables. Exhibited in Table two below, liquidity correlation ratio over asset tangibility results to -0.1330, an indicator of no interaction among the used variable indicators. Consistently, the inter-correlation over Liquidity ratio and Debt Ratio is denoted by -0.2490, an indication of significance in derived association between variables used. Notably, as the liquidity increases, debt ratio on the other hand falls, with speculated reasons that in instances where a firm's liquidity increase, it will definitely be able to cater for more of its financial obligations such as loans, hence a reduction on its debt ratio. A common factor over liquidity and also firm's performance is -0.360, of which is in turn statistically significant.

Likewise, correlation on asset tangibility alongside firm's performance is 0.250, an indication of some sort of significant relation. Moreover, the link on firm performance over D.R is -0.0270, indicating that this link is statistically insignificant. Moreover, the interrelation on Debt Ratio over Asset tangibility is 0.4390, an indication of positive relation and statistically significant association. Meaning, any increase on asset tangibility, D.R would automatically heighten. Mostly, such is usually attributed to the instance that in a situation a firm makes an effective use of its assets, there is normally an expanded operation, thus resorting to bringing on board additional loans, leading to an increase the debt-to-assets ratios.

Table 2. Pearson Correlations for the Variables

Pearson Correlations for the Variables				
	Liquidity	Asset Tangibility	Debt ratio	Firm performance
Liquidity	1			
Asset Tangibility	-0.1330	1		
Debt ratio	-0.249**	0.439**	1	
Firm performance (ROE)	-0.036*	0.025*	-0.0270	1

****.** Correlation is significant at 0.01 level (2-tailed).

Source: Research Findings, (2023)

4.4 Liquidity ratio and Firm Performance (ROE)

In this section liquidity is used to predict financial performance, as a measure of return on equity. Presented and explained below are model summary, analysis of variance and the coefficient of predictor variable. Dependent indicator is ROE while independent one is liquidity. The idea is to establish whether asset tangibility on its own strength explain variation in return on equity.

Table 3. Model Summary: Liquidity ratio and Firm Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.157 ^a	.025	.004	.52414

a. Predictors: (Constant), Liquidity

In summary, it shows the strength of relationship between the model and the dependent indicator. The R-square, a statistic that show the variance in independent indicator (ROE) having been explained by variations in liquidity (independent indicator) is a low 0.025 or 2.5%. Suggesting asset tangibility cannot, in any way be used to make predictions on ROE because debt explains only 2.5% of variation in ROE.

Table 4. Coefficients: Liquidity Ratios

Coefficients: Liquidity					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	-.002	.088		-.23	.982
Liquidity Ratio	-0.032	.029	.157	1.105	.275
R square					.025

a. Dependent Variable: Firm performance (ROE)

Source: Research Findings, (2023)

Table 5. ANOVA^b

Model	Sum Squares	of Df	Mean Square	F	Sig.
1 Regression	.335	1	.335	1.220	.275 ^a
Residual	13.187	48	.275		
Total	13.522	49			

a. Predictors: (Constant), Liquidity

b. Dependent Variable: ROE

ANOVA does check the model fitness, that is, tests the acceptability of the model. There were 50 observations. The Regression row does display vibrational information having been accounted for by the respective model, at 0.335. The Residual, that is, the unaccounted variation for on this model, is 13.187, much higher than the regression (0.335), suggesting that liquidity does not predict ROE. The significance value of the regression, which is 0.275, is more than α -level of 0.05, a clear indication that the model's explanation is only by chance.

Table 6. Liquidity and ROE

Liquidity and ROE					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	-.002	.088		-.23	.982
Liquidity Ratio	-0.032	.029	.157	1.105	.275
R square					.025

a. Dependent Variable: Firm performance (ROE)

Source: Research Findings, (2023)

The results from table above (6) shows liquidity ratio has an adverse negative effect on a respective performance of the firm. The above outcome is totally not consistent with results put forward with (Grill & Marthur, 2011; Yasmeen et al., 2019; Ariff & Bastool, 2022). The proof for such shown outcome is indeed corporate kind of liquidity which does increase a firm's profit levels. For instance, it can be achieved if entities aspire and strive to maintain manageable ideal liquidity levels (e.g., holding any such assets liquidities like cash and other cash related due equivalents). Apparently, greater liquidity may have devastating effects.

Further, as exhibited on table six (6) Liquidity ratio explains 3.2 % of general changes that ever happened on debt ratios and explained why such changes do occur. If liquidity increase by a 1 % margin, the firm performance will automatically decrease by 0.36%. This could be attributed to negativity in correlation over liquidity and the respective firm performance. Consequently, in the event liquidity of firm increases, then the respective firm's ability to honor its debt obligations will increase and hence it's D.R will decrease. Such results have led to research operatives in accepting the results of the first hypothesis on regression analysis which exhibit significant negative effect on an entity's performance.

4.5 Asset Tangibility and Firms Performance (ROE)

The results on table seven (7) on Asset Tangibility show significant effect on a firm's performance at a set significance level of less than 0.05.

In this section asset tangibility is used to predict financial performance, measure as return on equity. Presented and explained below are model summary, analysis of variance, and the coefficient of predictor variable. Dependent indicator is ROE, while independent one is asset tangibility. Such an idea is aimed to establish whether asset tangibility on its own strength explain variation in return on equity.

Table 7. Model Summary, Asset Tangibility

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.033 ^a	.001	-.020	.53047

a. Predictors: (Constant), Ass Tang

The above summary, exhibits relationship strength between model and the dependent indicator. The R-square, a statistic that show the variation in independent variable (ROE) explained by variations in debt level (independent variable) is at a low of 0.001 or 1%. Suggesting asset tangibility may not be used in instances of predicting return on equity (ROE) because debt explains only 1% of variation in ROE.

Table 8. Coefficients: Asset Tangibility and ROE

Ass Tang and ROE					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.050	.075		.663	.510
Asset Tangibility	-.027	.119	-.033	-.230	.819
R square					.001

a. Dependent Variable: Firm performance (ROE)

Source: Research Findings, (2023)

Table 9. Anova

Model		Sum Squares	of Df	Mean Square	F	Sig.
1	Regression	.015	1	.015	.053	.819 ^a
	Residual	13.507	48	.281		
	Total	13.522	49			

a. Predictors: (Constant), AssTang

b. Dependent Variable: ROE

ANOVA does check the model's fitness, that is, tests the acceptability of the model. There were 50 observations. The Regression row does display the respective models accounted for information, in this respect, 0.015. Residual that is, the model's none accounted for variation, is 13.507, much higher than the regression (0.15), suggesting that asset tangibility does not predict ROE. The significance value of the regression, which is 0.819, is more than α -level of 0.05, a clear indication that explained variations by the model is simply by chance.

Preceding results of this research evidently shows that asset tangibility explain for the 6.4% subsequent changes over firm's performance. Total assets turnover is 0.17, a clear suggestion

that returns on assets make improvement by the said margin of 0.17 in percentage. Significantly, this can give an explanation that in instances where assets' tangibility is rightly managed, it does have an effect on a firm's success. Hence, that denotes some form of improvement on the performance of the business entity. In accordance to displayed results, hypothesis (II) is thus accepted, that asset tangibility has statistical significance; positive in effect on firm performance.

4.7 Debt Ratio and Firm Performance.

In this section, debt ratio is used to predict financial performance, measure as return on equity. Presented and explained below are model summary, analysis of variance, and the coefficient of predictor variable. Dependent indicator is ROE while the independent one is debt ratio. This idea is to establish whether debt on its own strength explain variation in return on equity. Table 4.8 puts in provision the findings of the model summary on the findings.

Table 10. Model Summary, Debt Ratio and Firm Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.110 ^a	.012	-.008	.52754

a. Predictors: (Constant), Debt

The above summary exhibits strength of relationship between model and the dependent indicator. The R-square, a statistic that show the variation in independent variable (ROE) explained by variations in debt level (independent variable) is at a low of 0.012 or 1.2%. Suggesting debt ratio cannot be used to predict return on assets because debt explains only 1.2% of variation in ROE.

Table 11: AnovaANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.164	1	.164	.588	.447 ^a
	Residual	13.359	48	.278		
	Total	13.522	49			

a. Predictors: (Constant), Debt

b. Dependent Variable: ROE

ANOVA checks model fitness, that is, puts to tests the model's acceptability levels from a perspective which is statistical. There were 50 observations. The Regression row does display accounted for vibrational information of the model, in this specific scenario is at 0.164. Residual, that is, the model's unaccounted for variations, is 13.359, much higher than the regression (0.164), suggesting that debt does not predict ROE. The F statistic's significance value, which is .447, is in excess of 0.05, a clear indication that the models explained variations is simply due to chance.

Table 12. Coefficients: Debt and ROE

Coefficients

Debt and ROE					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.066	.077		.853	.398
Debt	-.043	.056	-.110	-.767	.447
R square				.012	

a. Dependent Variable: Firm performance (ROE)

Source: Research Findings, (2023)

The table above, (12) depicts insignificant worth of effect of debt ratio in relation to firm performance in building and construction sector. The relationship depicts lower significance level denoted by 0.853 which is higher in margin than 0.05. In accordance to these findings, the third hypothesis is thus rejected.

4.7 Debt Ratio, Liquidity, Asset Tangibility and Firm Performance (ROE)

In this section, debt ratio, asset tangibility, and liquidity are used to predict financial performance, measure as return on equity. Presented and explained below are model summary, analysis of variance and the coefficient of predictor variable. Dependent indicator is ROE while independent one is debt ratio. This idea is to establish whether debt joined to liquidity and asset tangibility would explain variation in return on equity.

Table 13. Model Summary: Debt Ratio, Liquidity, Asset Tangibility and Firm Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.184 ^a	.034	-.029	.53293

a. Predictors: (Constant), Debt, Liquidity, Ass Tang

R^2 value does indicate predictors does explain 18.4% worth of respective variance over ROE, far much better than using only debt to predict ROE. Adjusted R^2 thus is -2.9%, an indication that it accounts for the accumulation figure of the model's predictors. The two figure values give an indication of the model's unfitness towards the data.

Table 14. ANOVA – ROE, Debt, Liquidity, Ass Tang

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.457	3	.152	.537	.660 ^a
	Residual	13.065	46	.284		
	Total	13.522	49			

a. Predictors: (Constant), Debt, Liquidity, AssTang

b. Dependent Variable: ROE

The p-value representing regression model in ANOVA table (0.660) depict insignificance in the model's estimation by the regression procedure at α -level of 0.05. This is a clear indication that all coefficient is thus not different from zero.

Table 15. Coefficient: ROE, Debt, Liquidity, Ass Tang

Coefficients

Debt, Liquidity, Ass Tang and ROE					
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.013	.094		.143	.887
Liquidity	.030	.030	.148	1.011	.315
Ass Tang	-.016	.121	-.020	-.133	.895
Debt	-.035	.057	-.090	-.610	.545
R square					.034

a. Dependent Variable: Firm performance (ROE)

Source: Research Findings, (2023)

4.4 Interpretation of the Findings

Results analyzed in the preceding sections within this chapter aimed at establishing relationships between liquidity ratios, debt ratios, asset tangibility, with the financial performance of a firm (ROE). For instance, when the coefficient for the constant is pegged at 0.066, then that will automatically tell the value of ROE even in instances when there is no form of debt in structure of capital. When coefficient of debt is -.043, gives a clear indication and suggests that more use of debt does lower ROE in the real sense. However, the coefficient of debt (-.043), has a significant value of .447 which is greater than a-level of 0.05, and is statically insignificant, that is, debt cannot be used to predict firm performance. The data shows us that debt has zero effect on ROE when putting into consideration the inter relationship of debt ratio and firm's performance. Presumably this might be due to the excessive liquidity that a company might have at a particular time as a result of higher levels of asset utilization. Thus, the company would not be in dire need whatsoever to borrow, as it is in a position to finance all its operations using the resources at its disposal.

For a firm's optimal capital structure to be realized, then correct portions of equity, debt, and liquidity, together with proper utilization of available assets can result in lower levels of WCC over respective firms.

As exhibited with the results, the coefficient of asset tangibility is -.027, suggesting that more of asset tangibility lower ROE, but this is not statistically significant. The coefficient of asset tangibility (-.027), has a (p-value) of significance, with a value of 0.89, which is greater than α -level of 0.05, which means it is statically insignificant. Therefore, asset tangibility cannot be used to predict firm performance. This mean that, the data used in this study tells us that asset tangibility has zero effect on ROE. A firm's tangible assets that offer high guarantee, they are such offered and placed as primary source of collateral in instances of corporate borrowing. This is a clear indication that, business entities with higher tangible assets are not likely to minimize

levels of external forms of financing. The outcomes give an indication that asset tangibility cannot in a way be used to make prediction on return on equity (ROE). This means that there exists a negative significant interrelationship between liquidity ratio and firm's performance. This reflects and indicates that if Liquidity increases, the firm's performance deteriorates, but again this is not statistically significant. This is when liquidity exceeds accepted safer cautions by becoming idle and unutilized within the firm thus unfortunately not generating any return. Concurrently, the second hypothesis is also rejected due to its significance and positive association to a firm's asset tangibility and performance.

Additionally, it denotes a positive correlation. For instance, it depicts that in the event an asset tangibility increases, there is a direct increase in the respective company's operations hence resulting into more revenues and returns thereby enhancing its (the company's) financial performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter summaries outcomes presented in preceding chapters. Also, it covers the conclusive deductions of the study findings as well as the deficiencies and gaps identified in the entire research path. Further, this chapter highlights a number of policy recommendations that, when properly put into consideration and executed well, could lead to higher levels of financial performance and consequently an improved firm's worth. In this chapter also are suggestions this research study puts forth for purposes of future succeeding research works, intended to help future scholars.

5.2 Summary

This research work was made to ascertain effects on capital structure over the financial performance of non-listed building and construction entity firms within designated period 2014-2018. The independent variable of this research work was capital structure (debt ratio) and so dependent indicator was financial performance of a firm (ROE). The controlling variable indicators included asset tangibility and liquidity.

Descriptive statistics derived by mean, standard deviation, and regression were used to analyze the effects of capital structure on financial performance. The findings and outcomes on descriptive analysis did indicate that mean debt ratio was .3576 with a standard deviational of 1.35169, av. Liquidity was 1.6514 and standard deviational of 2.59461 and the assets, tangibility was at -.0281 with a standard deviation of .63725.

This Research work concluded that there exists strong evidence of no association between liquidity of firms with their performance. For instance, when a company has cash in excess, it will not lead to lower levels of profitability since it may be utilized in wrong investments and

other portfolios. The second hypothesis indicated positive correlation between asset tangibility and firms' performance, a fact that was also not accepted. This suggests that whenever assets tangibility is high, a firms' operations appeared to expand thus enhancing performance. The finding is that debt on its own does not predict return on equity (ROE) and that even when controlling variables, and asset tangibility and liquidity are included, there is no improvement in debt predicting ROE.

Previously, other academic researchers, for instance Barhti et al. (2019), did discover favorable correlation over liquidity ratios and firm's performance at the end of his research work. On the contrary, Dimiyati *et al* (2021) together with Mustafa *et al* (2019) made a discovery of negative relation of liquidity and firms' performance. Incidentally, Chauhan and Juliana (2020) observed that asset tangibility correlates positively in relation to performance of firms. On the other hand, Sarnngah (2019) and Junaid & Alli (2020) did discover that asset tangibility correlates negatively when compared to performance of the firm. Additionally, Forte & Tavares (2018) noticed some level of inter-relationship of debt ratio and performance. In as much as Le & Phan (2017) found negative relationship of a firm's leverage, when put into measure by debt ratio, over performance of a company. this research found the inverse. Further, most researchers like Bahti et al. (2020), discovered a level of favorable relation between liquidity and company's worth of financial performance after performing a literature study. However, Dimiyati et al. (2020) and Mustafa et al. (2018) noted a negative correlation between liquidity and business entity performance. Whereas Chauhan and Juliana (2019), in their research discovered a positive correlation between asset usages and performance of the company, Junaid and Ali (2020) and Sarpingah (2020) revealed that asset usages do and does negatively correlate with performance of the company. Finally, while Forte & Tavares (2019) discovered some level of favorable correlation between debt ratio and company's worth of financial performance, Le & phan (2020) opined a negative relationship.

5.3 Conclusions

This research exercise examined the due influence of capital structure on financial performance of non-listed building and construction firms in Kenya using debt and liquidity ratios, including asset tangibility as predictors of capital structure. Data used was secondary, while the sample size that was used was of all the 10 Tier one non-listed building and construction companies.. The conclusion is that use of debt capital is not beneficial to the shareholders because it does not enhance ROE. This agrees with some studies but disagrees with others suggesting that the impact of debt capital on firm remains debatable.

5.4 Recommendations

Findings in this respective research work are compelling and have a great significance on individual firm entities and expanded industry including the macro levels. This research having observed and found negative correlation between financial leverage and value, it is the recommendation of this study that managers of business entities should use prudence in reducing finance leverage employed in their capital structure as a mechanism of increasing value of the firm.

This research also recommends that there is need for the regulation of the banking sector for the purposes of capping interest rates which are very volatile and impact negatively on businesses, in terms of the high cost of employing debt both in short and in the long term, since most firms rely so much on debt in meeting their financial obligations. Higher costs that come along with financing of debt is conveyed by the higher and ever fluctuating interest rates thus becoming a great impediment towards corporate growth. Therefore, financial managers must be up to the task, be proactive, and to comprehend effects of capital structural fluctuations on financial performance of their firms. Lower cadre firms with respective lower interest rates seem to be performing better as compared to bigger geared firms that comprise of higher debt ratio within

the industry.

Further, having observed some level of correlation between firms' financial performance and their liquidity levels, the research recommend that firms should use prudence in assuring correct levels of liquidity for purposes of wealth creation to its shareholding as well as improving their financial performance.

5.5 Limitations of the Study

This research exercise focused only on the 10 Tier 1 non-listed firms registered and regulated by the National Construction Authority. Therefore, the research outcomes will not be used generally for all firms domiciled in the republic of Kenya. The main aim of the study was to examine the inter twining of capital structure and the financial performance of building and construction companies. Hence, the outcome results of this research activity are solely limited to building and construction firms which are non-listed. Concurrently, the study exercise was carried out within the geographical boundaries of Kenya, meaning the results may not be applied to other jurisdictions.

The study was affected by levels of deficiency of information in terms of asset use dimensions with the correlation on the D.R and over enterprises' performance. Additionally, this particular research was confined to a 3-year study duration between 2014 and 2016, observed as constraining since a prolonged period of time could have exhibited a myriad of outcomes. Further, the research only focuses on fewer indicators and metrics for variables like ROE for assessment of firm's performance. In summary, this work laid more emphasis mostly and exclusively on categorized major construction companies and ignored smaller medium-sized construction companies in Kenya.

5.6 Suggestion for the Future Research

This respective research proposes more and more similar and related works to be performed not just for a prolonged time, but also to make use of and or incorporate more financial and accounting variables as opposed to the only three variables concentrated on in this present study. In addition to this, the present study is proposing for scholars to take up similar studies but target different sectors and within an extended study period. The researcher also proposes to future researchers to conduct similar studies but with the target population being cross border firms within a specific regional block like the East African community, the ECOWAS, or Preferential Trade Area. Consequently, there is need for future bound works to be conducted on different forms and sizes of firms such as the SMEs and other related smaller organizations for purposes of testing effects of the dependent variables by independent indicators more accurately.

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APPENDIX


Appendix I. Target Population

Name of Company	Head Office
Epc Builders	Nairobi
Put Sarajevo	Nairobi
Seyani Brothers	Nairobi
Intex Construction	Nairobi
Landmark Holdings	Nairobi
Associated Construction	Nairobi
Cementers	Nairobi
Haver Bishan Singh & Sons	Kisumu
Laxmanbhai Construction	Nairobi
Parbatsiyani Construction	Nairobi

Appendix II. Research Data Capture Form


Company	Year	Financial Performance <i>ROA & ROE</i>	Capital Structure <i>Debt Ratio</i>	Liquidity <i>Current Liability to Current Assets</i>	Tangibility of Assets <i>Fixed Assets to Total Assets</i>

Appendix III. Research License



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