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

BY

MWAURA JAMES MORRIS KARIUKI

A RESEARCH PROPOSAL PRESENTED IN PARTIAL FULFILLMENT OF THE AWARD FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

YEAR 2017

DECLARATION

I declare that this research project is my original work and has not been presented for a degree in any other university.

Signature………………………………………….. Date……………………………..

Mwaura James Morris Kariuki D61/79374/2015

Signature …………………………………. Date……………………………..

Supervisor: Prof.Josiah Aduda

Department of Finance and Accounting

School of Business, University of Nairobi

ACKNOWLEDGEMENTS

First and foremost I would like to thank the Almighty God. Without him I would not have come this far. I mostly owe this achievement to him.

My sincere thanks and lots of appreciation to my parents for their financial and moral continuous support. Thank you for believing in me always, encouraging and instilling in me the value for education.

My appreciation to my Supervisor Professor Josiah Aduda and moderator Dr Mirie Mwangi, thank you for your availability and guidance.

My appreciation to the Nairobi Stock Brokers Staff who took their time to provide the required data, thank you for cooperation and time.

DEDICATION

To my beloved parents Onesmus Mwaura and Jane Wairimu who have always been my role models. To my best friends Jennifer, Miriam and Edwin whose support has been valuable throughout the course. To my sister Doreen Njeri, my brother Anthony Derrick and my nephew Mark Raymond I love you all God bless you.

ABSTRACT

It has been noted that whether to employ equity or debt sources of financing is an important consideration for a firm that requires investing. There are many theories put in place to support an equilibrium debt-equity structure in a notion to achieve the best performances, for example the Modigliani-Miller theorem reflects that managers make independent decisions regarding the choice of sourcing.Its relevant to state that this research has further motivated other researchers to conduct more research about the correlation existing between capital structure and firms financial performance. It is therefore important to state that, the significant role of this study is to find out the impact of capital structure on financial performance of companies quoted at the Nairobi securities exchange in Kenya. The period that the study was conducted was 2015, and imperative to note that, during this period there is a lot of political unrest in Kenya, that leads to uncertainty in the companies under the NSE, market. Debt ratio was used as indicator determining the Return on Equity. In this regard it prepared a very impressive researchable moments, since there is a lot of civil unrest that is affecting the smooth flow of businesses. There are about 65 companies listed at the NSE market, hence form the population of study. The Secondary data applied in this study was obtained from the handbook of these firm s as well as their publications. The data collected was analysis by the use of Regression Analysis Model as well as the Statistical Package for Social Sciences Software. The findings indicate that when the dept ratio is high, the return on equity also goes down. This therefore means , there is need for the injection of capital to boost these businesses rather than borrowing, since the benefit of the companies are less than the cost of production, hence impossible to fund or services a loan.

TABLE OF CONTENTS

YEAR 2017 i
DECLARATION ii
DEDICATION...iv
TABLE OF CONTENTS vi
LIST OF ABBREVIATIONS...viii
CHAPTER ONE 1
INTRODUCTION: 1
1.1 Background of the Study 1
1.1.1 Capital Structure Capital Structure...2
1.1.2 Financial Performance Financial Performance 3
1.1.3 Capital Structure and Financial Performance 4
1.1.4 Nairobi Stock ExchangeNairobi Securities Exchange 5
1.2 Research Problem...6
1.3 Objectives of the Study...8
1.4 Value of the Study...8
CHAPTER TWO: 9
LITERATURE REVIEW:..9
2.1 Introduction...9
2.2. Review of Theories 9
2.2.1 Capital Structure Theory..9
2.2.2 Trade-off theory 9
2.2.3 Pecking Order Theory 10
2.2.4 Static Tradeoff Models 10
2.2.5 Agency Cost Theories 11
2.3 Determinants of Financial Performance 11
2.3.1 Return on total Assets: ……………………………………………………...............11
2.3.2 Growth rate: 14
2.3.3 Liquidity 15
2.4Empirical Studies 11

2.5 Conceptual Framework 14
2.6 Summary: 15
CHAPTER THREE 17
RESEARCH METHODOLOGY 17
3.1 Introduction 17
3.2 Research Design 17
3.3 Target Population 17
3.4 Data Collection methods 17
3.5 Data Analysis 17
3.6 Measurement of Variables 18
3.6.1 Debt ratio 18
3.6.2 Firms Performance 18
CHAPTER FOUR 19
DATA ANALYSIS, FINDINGS AND DISCUSSIONS 19
4.1 Introduction 19
4.2 Regression analysis 19
4.3 Introduction 23
4.4 Summary 23
CHAPTER FIVE 26
SUMMARY,CONCLUSIONS AND RECOMMENDATIONS 26
5.1 Summary 26
5.3 Recommendations to Policy and Practice 27
5.3.1 Use equity rather than borrowing 27
5.3.2 Considered the leverage risk or leverage chance of the asset to be financed 28
5.3.3 Encouraged companies to list 28
5.4 Limitations of the study 28
5.5 Suggestions for Further Studies 29
REFERENCES 30
Appendix I: Population of the Study 33
Appendix II: Data used for Study Analysis 34

LIST OF ABBREVIATIONS

EPS	-	Earnings per Share
NSE	-	Nairobi Securities Trade
ROA	-	Return on Assets
ROE	-	Return on Equity
SPSS	-	Statistical Package for Social Science
ANOVA	-	Analysis of Variance
CMA	-	Capital Market Authority

CHAPTER ONE

INTRODUCTION:

1.1 background of the Study

Capital structure standouts out as a topic in the financial ground, additionally in the area of resource allocation. Saad, (2010) pointed out the significance of a firm financing assets through a combination of debt and equity. In a firms financing policy, the capital structure theory comes through as a fundamental reference theory. Of the most complicated and standout issues in corporate finance, the existence of optimal capital structure is most crucial, (Jonathan 2007).

Literature in corporate finance still declares that the capital structure choice assumes a basic part in defining the performance of firms. The research will examine relationship that exists between capital structure and also monetary performance in NSE Listed organizations. As explained by Modigliani Miller (1963), when capital markets are perfect, decisions regarding the capital structure don't influence the equity of organizations. Corporate and personal taxes also cease to exist and the organizations financing investments and choices are independent. Be that as it may, the relaxing of at least one or more of the MM suppositions, as many authors have demonstrated, may cause a deviation of the firm’s equity with changes in the debt- equity mix.

Corporate Finance generally alludes to how much financial targets have been met and is essential in the management of financial risks. The process entails measuring in monetary terms the results of a firm’s policies and operations. A firm’s largely financial wellbeing is measured within a timeframe and the results applied for comparative purposes with firms in similar industry, or to look at ventures or divisions in aggregation(Justin,2004).Financial experts frequently survey the firm’s efficiency, profitability, liquidity, working capital, settled resources, finance stream and social performances,(Rajan,2011).

The relationship between performance and equity cannot be underplayed simply for the fact that they are directly related. The performance of a firm will definitely affect its equity. In the study of economics, the connection amongst leverage and performance searches for the order to check the position of the firm (Jensens, 1986).Two traditional experimental investigations of Harris and Raviv (1991), and Titman and Wessel(1988), prompt distinctive observational outcomes even in essential certainties about capital structure. In this way an exact confirmation of the connection amongst leverage and firms performance is not conclusive..

Analyzing the connection between the organizations debt and equity gives helpful perception to investors for two reasons. First, investors would have the capacity to target optimal debt to equity ratios, which may enhance managers' discipline, while at the same time not overburdening a firm with minor premium payments. Secondly, firms that are over leveraged would easily be pointed out by debt holders which will in turn enable them to efficiently apportion their assets (Shuller&Mitz, 2012).

In the event that an organizations capital structure would influence an organizations performance, at that point it is on the whole correct to expect that the organizations capital structure would influence the organizations' position financially and its probability to default. From the lenders perspective, it is conceivable that the debt to equity ratios helps in understanding banks risk management systems and how banks decide the probability of default related with firms that are stressed financially (Margaret,2013). Thus, the issue in regards to the capital structure and firms performance is fundamental for academicians as well as experts.

1.1.1 Capital Structure

Capital structure refers to the organizations financial system that entails level of leverage, equity and the firm's value so as to improve its position. It is present as crucial as it outlines how an organization finances its activities using different sources of funds to ensure development and growth of firms, Myers (2001). A theory that is all-inclusive of debt to-equity blend does not exist yet there has been no motivation to expect one. Modigliani-Miller (1988), theory is the broadly acknowledged capital configuration theory since it is the original theory of capital configuration which was utilized in numerous studies.

As long as the conjecture of the perfect capital markets is undisturbed, the pronouncement of capital configuration turns into a fundamental equity defining constituent. With this fact came the improvement of alternate theories of capital structure choice and their empirical analysis. In spite of the fact that it is presently broadly appraised that the decision amongst debt and equity relies upon the organizations particular attributes, the experimental proof is complicated and hard to interpret (Ernest and Young, 1997). A capital structure that is reliable stands as a basic choice for all kinds of firms. Financing choices stands out amongst the most critical areas of financial management to expand the wealth of the investors. The choice is vital not just as a result of the need to grow and increase returns to different firms, yet additionally the decisions managers make on improving firm's welfare and its entire environment.

Determining the optimal structure is a headache for financial managers due to the fact that it needs to issue different securities in an innumerable blend to run over specific mixes that can augment its general equity and debt which implies ideal capital structure (William,2013). On the off chance that autonomous of capital structure of the organizations esteem is impeccable market, at that point absence of flawlessness that exist in actuality may reason for its importance. In practice, the firms administrators who can recognize an ideal capital structure and how it can be measured are remunerated by limiting an organizations cost of fund there by maximizing the organizations income (Henry, 1999).

1.1.2 Financial Performance

Financial performance is based on the firm's capability to make use of resources as well as assets in order to generate revenue. This term also is used to refer to financial prosperity of an organization over a given time span, and is also used to compare firms in the same industry (Macharia,2011).Financial position of a firm in more extensive sense alludes to the degree in which monetary targets are realized and is a basic part of management of financial risk. Douglas (2015) pointed that it is the way toward analyzing the outcomes of a company's strategies and activities in monetary terms. It is utilized to quantify the general financial position of over a given timeframe and can in any case look at comparable firms operating in the same business environment.

Berger P.(2002),asserted that the perspective of the shareholder, financial performance of a firm, is gauged by the level of satisfaction of investors and their willingness to continue investing in the organization. This is resolved by analyzing ratios got from statements of financial information like the profit and loss statement as well as income statement, or utilizing information on securities

These ratios indicate whether or not the firm is accomplishing the aims and objectives of investors which is increasing their wealth, and is used in the comparison of ratios between different firms or maybe discover patterns of monetary performance after a period of time. As cited by Charreaux(1997), satisfactory measure of performance can provide an account of unlimited results from different investors. The most motivation behind investors availing resources for business purposes is when businesses growth rate is achieved in a coherent manner in such a way that other factors like interest rates, inflation and the law of demand and supply positively affect the firms (Severna, 2002)

1.1.3 Capital Structure and Financial Performance

In his research, Hutchinson (1995) argued about financial leverage positively affecting company's acquisition of equity provided that gains realized from the assets owned by the firm outperformed minimum debt related costs incurred by the firm. Rodmen and Llewellyn (1975) likewise unraveled hindering links amongst debt ratio and equity of profitability. They observed positive relationship between debt and productivity but for ventures of a similar business. In like manner, their investigation of leveraged buyouts set up still another basic connection amongst gains and total obligations to be a percentage of the sum of acquired resources. In any case, some researches indicate debt to have shortfall on the financial gains of an organization. For instance Fama and French (1998) aggregately bargained adoption unnecessary debt is a source of agency issues among investors and lenders and that could bring about shortfalls among leverage and profitability.

In a polish research, Hamas (2003) similarly had a shortfall amongst debt and company's financial gain where he analyzed a link among capital structure and performance by likening Australian and Hong Kong firms with other firms developed countries. An analysis he conducted to research existing links between overall debt of an organization and its performance, also links among various debt sources in particular advance, exchange credits and performance measured by productivity. He discovered that these sources of debt was not of much worth, but debt only. Maunder and Gleason et al (2000) critically observed in their Indian research that when it came to performance leverage had expedited a negative impact. They also supported the negative effect of leverage on the firm's profitability.

Mesquite and Lara (2003), conducted research and discovered connection between gains and obligation demonstrating a shortfall for long term funding and later found an advantage for short term funding and value. In a research done by Abraham Collins (2007), focusing on the policies surrounding debt in regards to performance of intermediate Sized Enterprises that created the impact of short lasting debt to be imperative and depressingly connected with unpleasant profit margin for firms both in Nigeria and South Africa, depicting that the increment of debts taken for short term periods would bring about a drop in gains realized by the organizations.

1.1.4 Nairobi Stock Exchange

Established in 1954 as an intentional and non-benefit association run by stock brokers, The NSE has grown to become a stand out among other securities trades in the continent and is currently among the most active securities trades. Their head offices are situated at Tosica five story building situated at Westland in Nairobi .As a capital market establishment, the Nairobi Securities Trade assumes an essential part in economic development as a process. It expands domestic reserve funds therefore expounding the reallocation of monetary assets from non-dynamic to dynamic operators (Joyce R.,2013).

Investments made for the long term have a tendency to be liquid in nature, as the trade of securities between investors is made possible. The Nairobi Securities Trade has additionally empowered organizations to connect and engage with locals as well as foreigners thus involving them to participate in equity, along these lines giving Kenyans and others opportunities to buy and own shares. Organizations likewise raise extra capital basic for the extension as well as advancement. Phylliss (2011), concurred that to raise finances, a firm that intends to issue distributes a plan, which gives every applicable specifics about the operations and future prospects and expresses the cost of the issue. Rosa(2008), Nairobi Securities Exchange additionally improves the inflow of global capital. Organizations can likewise raise additional funds fundamental for extension and improvement.

Nairobi Securities Exchange is a helpful tool for privatization programs where most of the acknowledged organizations announce stock disseminations of 25 for every cent or more consider them as stock parts which, accordingly, have no impact on retained earnings. Stock distribution of under 25 for each penny are considered as stock profits that diminish the retained earnings account (Muhoho & Peter M.,2014)

1.2 Research Problem

The capital structure adopted by a firm alludes blend of money related obligations that face the firm. For a while it has been an issue that is vital viewed from the point of strategic management stance because of its connection to company's capacity to fulfill requests from different partners (Roy & Minfang,2000). The two issues of liability that are most noteworthy include Debt and equity, whereby holders of debt as well as equity representing the types of financial stakeholders. Both of these matters present different degrees of risk, advantages and most importantly control. Level of control is lowered by debt holders when they are able to acquire a constant rate of return as well being ensured through legally binding commitments for their investment. On the other hand, also referred to residual claimants, holders of equity bear the vast majority risk while having more control over choices.

Significantly, capital structure stands as vital indicator in technically all businesses (Derek Ritzer, 2012). The choice is imperative not just as a result of the need to augment returns to different constituencies of the organization, yet in addition because of the effect such an option has on an organization's framework to handle the business environment. Following research done by Modigliani & Miller, (1958 & 1963), a lot research has been done in company finance to guarantee the effect of an association's decision of capital configuration on recital. The difficulties confronting firms through rebuilding their investment is to decide its consequence on recital, as the presentation of the trade is essential to financial status of the firm and consequently, its survival. Another theory that emphatically adds to performance of a firm is the embodiment of financial management to the growth of investors' equity. According to Erhard and Brigham (2003), the equity of an industry in light of the going apprehension wish is the present equity of all the standard outlook wealth streams to the generated resources. Market Capitalization theory by (Barbosa & Louri,2005) affirmed that one of the significant foundations of deciding financial performance of firms is the utilization of monetary ratios, for example, Return on Investments(ROI),Residual Income(RI),Dividend Yield, Earnings Per Share(EPS),development in sales among others.

Notwithstanding, there are different investigations that don't bolster the performance of firms and demonstrates that debt negatively affects firms benefit which contradict to the prior concentration of capital structure choices. Administrators have different chances to be discreet concerning capital structure choices. Dmitri, (2008) the capital structure in itself is not utilized for maximizing firm equity however to protect the director's interests particularly in associations where significant choices are directed by managers and offers of the organization firmly tied.

Wahome (2011), claims that shares are not firmly tied, proprietors of capital are by and large unrestrained in numbers and a regular investor reins a moment level of shares of the company. This presents ascend to the trend for such an investor to take less worry in the scrutiny of directors who by themselves seek after welfare not the same as proprietors of equity. Magara (2012), on capital configuration and its predicaments at the Nairobi Securities Trade, looked to discover the real determinants of capital structure where he concentrated on debt, equity and growth rate of the firm. He recognized that from the period 2007 to 2011, there was a constructive connection flanked by the organizations extent, substantial quality and development velocity and the level of the debt of the organization. Consideration was not taken on the wholesome economic factors like continuous increase in prices, interest rates, ownership and fluctuations like other researchers had earlier done. This therefore made the basis of this research confer with Magara's view and differ with other scholars. .

1.3 Objectives of the Research

The key reason behind the study is to assess the effect of Capital Configuration on economic recital in Nairobi Stock Exchange on listed firms.

1.4 Value of the Study

Previous researches done on this topic were focused on nations that have developed economies and emphasis put on connection between development and value of the firm. A discovery made from these studies was to provide data on capital structure for businesses in the developing nations as well as conduct of the said structures in connection with investors' goal of growing their wealth. The data was later to provide financial firms, specialists and business visionaries with the essential tools to design the financing of their organizations for instance administrative associations like Capital Market Authorities.

It likewise gives a premise to additionally examine capital structure theories, concentrating on developing nations. For this case investors and strategists fill in as guides for better investment choices. No adequate research has been conducted that touches on effect of capital structure to monetary performance on firms scheduled and trading in the NSE. The examination likewise tries to narrow the gap whereby capital structure and monetary performance will be examined concentrating on NSE listed firms.

It centers at deciding how administrators of the organizations listed on NSE bring the diverse funding sources for their organizations, considering the uncommon attributes demonstrated by these economies and also decide, regardless of an existence of a connection between the capital structure and the gains of investors' financing, and also the connection between the macroeconomic components of the cost of funding as well as inflation rate in relation to capital structure and performance. In summary, speculators can settle on rational choices by investigating and harnessing financial resources where return on loans are contrasted with returns on assets.

CHAPTER TWO:

LITERATURE REVIEW:

2.1 Foreword

The episode unfolds an assessment of existing presentations on the role capital structure performed in shaping financial performance presented by various scholars, researchers and authors. It describes the views and findings as defined by various scholars. The latter part of this chapter elaborates how these concepts integrate for the benefit of organizations.

2.2. Review of Theories

2.2.1 Capital Structure Theory

The theory portrays the means and ways that firms fund their activities. As explained by Brigham(2004), this is mainly in form debt or equity or a mix of both .They reasoned there was no difference of how organizations funded activities and the proxy of their independence in making decisions, David(1979).This examination relied upon the assumption that there were existed no business expenses, gross profit and tax were not interrupted by the utilization of debt and that financial specialists borrowed at a very different index from partnerships and lastly there were no tallying figures.

Though there was no putting off of the reliance over a precise kind of financing above others, it exaggerated the irrelevance of the firm's standards ratio to funding avenues given a market that is perfect (Fischer, Heinkel, and Zechner, 1989). Various theories have been progressed from that point to clarify various security mix which mostly include pecking order theory as well as trade off theory that frequently form the focus of discussion.

2.2.2 Trade-off theory

In a study done by Myers (2001), observations regarding trade- off theory indicated that the theory endorsed debt rations that were moderate by motivating firms to use finance ventures which mainly relied on equity or debt. Forecasts from the theory showed that firms that portrayed weaknesses often looked upon banks to borrow debt capital thus in such firms bank debt rules despite the needed capital mix. This outcome is a short fall that evades the firms to enter into open markets that are competitive and instead they encounter prohibitive costs.

Murinde et al (2002), expressed that tax policy importantly affects the choices that firms make regarding capital structure. It therefore means that corporate tax enables deduction of interested related to debt when firms register benefits that are taxable. The result is due to advantages regarding tax applied to debt encourage firms to seek financing through liability since interest installments related with debt are deductible while installments related to equity, are not permissible deductions. This depicts the impact of pretty much liability in a firm may either decrease or raise firm value depending upon the appearance of one's business. It has therefore been presumed that trade off theory could not represent any connection flanked by elevated productivity and stumpy liability proportion.

2.2.3 Pecking order Theory

Myers (1984) developed the conjecture to express organization tendency to incline toward sources of funds that were internal to the organization by first paying out dividends to investors while looking for investment openings that will increase the value of the firm using payout ratios. What's more, in the event that external fund was needed, it was probable that firms would issue first the most secure security which is to say, firms begin with debt first then conceivably convertible debt, in the final resort comes equity. In nutshell, Myers' contention was that the adherence to steps to funding sources by organizations is with the end goal that they lean toward inner financing when accessible. On the off chance that outside funding should be needed, the one to be highly favored would be debt as compared to equity.

2.2.4 Static Tradeoff Models

When all is said and done, static tradeoff models anticipate that organizations keep up an objective debt equity ratio that expands the value of organizations through limiting expenses existing in present market conditions. Most of the earliest models (Krauset al, 1999) measure corporate tax advantages in regard to debt against possible cost disadvantages in regard to liquidation. Refinements developed later likewise consolidate individual taxes and non-obligation tax shields (Miller D. &Masulis, 2012) where cost hindrances override the profitability and debt ratio.

2.2.5 Agency Cost Theories

It shares huge numbers of the highlights of the tax or liquidation cost models. For instance in Jensen and Meckling [2008], amplification of the firm value is realized when sum of organization expenses in regards debt as well as equity are limited. Managers often issue both equity as well as debt so as to limit total sum organization costs. They also consent to prohibitive contracts composed into bond indentures (Smith and Warner,1992).Hence firms extraordinary ideal capital structures include an adjust of debt and equity despite the fact that neither corporate nor personal expenses are assumed to exist.

2.3 Determinants of Financial Performance

2.3.1 Return on total Assets: This can be expressed as a ratio combination of Net Income and Average Total Assets in a given firm as follows: Net Income/Average Total Assets.

2.3.2 Growth rate: Refers to the proportion of a definite variable within a given time period over certain appropriate examples such as compounded annualized growth rate, growth of company resources, earnings and dividends.

2.3.3 Liquidity: Extent to which an advantage or security can be swiftly bought or sold in the market without upsetting the asset prices. Accounting liquidity refers to the simplicity with which a person or corporation can meet their economic obligations with the liquid assets accessible to them.

2.4Empirical Studies

The tradeoff theory recommends that organizations can decide their ideal capital structure by harmonizing the advantages and debt costs when seeking funding from different sources. As presented by Myers (2001) firms often set targets in regards to debt to value ratio then consistently do adjustments towards objective by adjusting the tradeoff between tax savings and costs associated to liquidation. The motivation presented by the tradeoff theory mainly is the clarification of the strategy that a firm employs in order to fund ventures. This may be through equity or through debt. It became inferred when the theory failed to give an explanation as to the correlation among high levels of productivity and lower debt ratios.

The nature capital mix is liable in building the cost of debt and further.

more the chance of default, bankruptcy and in the long run liquidation of a firm. In spite of the fact that most investigations accept that bankruptcy costs of firms are true, on the other hand it is usually expected that such kind of expenses are irrelevant as the advantages of tax saving exceed the liquidation costs (Mwaniki, 2010).Mill Operator, (1997)was discovered that association's performance and high debt level are positively related, where most firms that borrow have a tendency to perform well by utilization of debt a hypothesis that is bolstered by various researches including Gosh et al,(2000).Though, the stagnant trade off theory is pertinent to just a one time phase tradeoff amid tax saving alongside the deadweight cost of insolvency. Practically, organizations work for a stretch of time period, along these lines these theories turn out to be more applicable to this present reality in clarifying the connection in regard to company's performance and leverage(Gleason and Mathura, 2000).

The fundamental purpose that these theories present is the fact that organizations look out for debt ratios that is ideal and incase of deviations arising due inconsistent trades results to being balanced on time as well as trade costs. Brennan and Schwartz Goldstein et al., (2001). This recommendation is in support of the view that organizations tend to keep up increased debts so as to qualify for tax exclusion benefit. Njuguna &Muema(2013), additionally contended that since there are costs incurred in readjustment of debt ratios, firms prefer to set time so that they can rebalance instead of letting the firm’s capital structure to deviate from the ideal and will as well rebalance at just at upper as well as lower limits.(Fischer et al.,1989).

Empirically, there appears to be conformities on findings of pecking order theory unlike the tradeoff theory in recent researches covering connections on capital structure and company's performance. Practically speaking there is observation on productive firms that they tend to lower debt while keep up use near the lower maintain leverage at lower levels, while poor performing businesses are observed to have levels of debts that are higher.
The perspective got is that profitability may likewise signify development and performance part of firms. Consequently the dynamic tradeoff theory as opposed to the tradeoff theories

proposes that firms' performance and leverage might be contrarily thought about, which implies that trade off theory possibly is unclear on the connection between revenue and debt to finance (Frank and Goyal, 2007). Probably this implies that productive firms are probably going to utilize retained earnings while at the same time utilize debt less with respect to firms that are less profitable. It suggests company's performance and debt are relied upon to be contrarily related. On a research done by Magara (2012) concentrating on capital structure and the different elements it entails at the NSE. It looked to discover the real causes of capital structure.

For this situation conclusions were made that the period 2007 to 2011, a positive huge connection existed between organizations size, substantial quality and development rate as well as level of leverage of the firm. There was no consideration of financial components like inflation and loan costs, by the study.

Mwangi (2010) also carried out a research basing on the wealth configuration on organizations established at Nairobi Stock Exchange market. Likewise he did put up with explore the connection flanked by capital configuration in addition to money related performance. The research distinguished there was a solid positive connection amongst leverage and gain on equity, liquidity, as well as rate of profitability. This hypothesis is additionally upheld by various researches, towards them the merits of liability financing are not so much as its pessimistic points of view, so firms will reliably want to finance ventures by interior sources Krishna and Moyer, (1977).

Rajah et al (1995), additionally affirmed a relationship that portrayed negative characteristics when it comes to profitability and leverage for the United States, Japan and Canada though there were no huge connections found for Germany, Britain, France and Italy. Erasmus M. (2008), noted financial performance measures to give a profitable basis for partners to assess past performance on financial activities as well as present position of a firm.

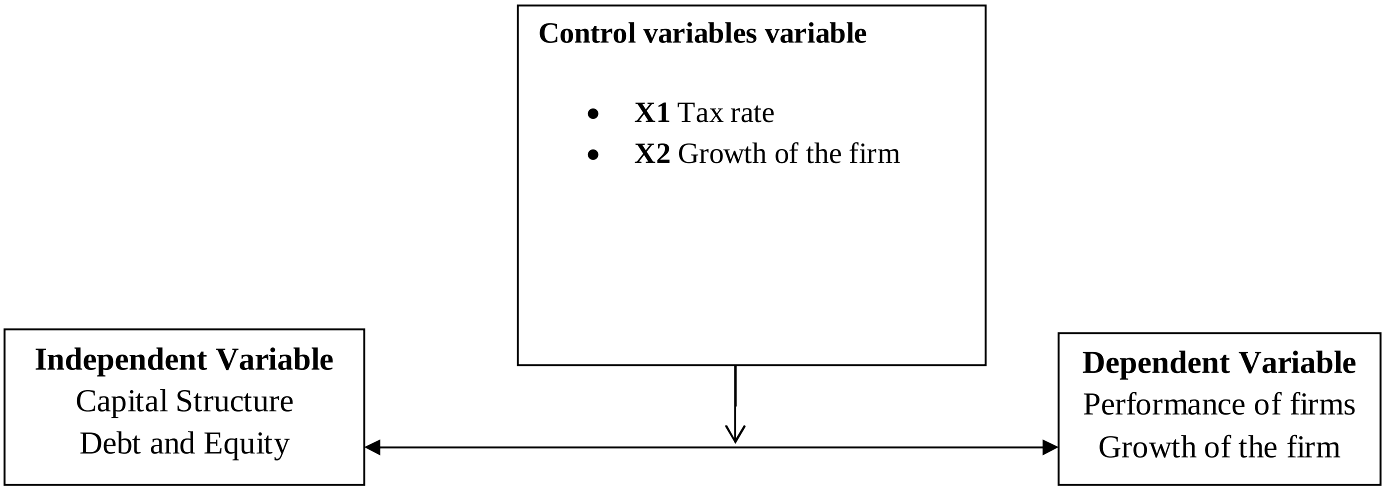
The cost of funds increased significantly in Kenyan debt market over the last few years. This was as consequence of inflation that activated monetary policy board to increase the loan costs in the banking industry that spilled to the borrowers. The cost of funds along these lines influenced company's financial performance, led to increase of costs of land properties (Jonathan, 2015). Pandey (2005), likewise agreed with Myers' contention in his research by noting management constantly sought to make use of inner funds, and immediately result to issuing of shares if all else fails. He proceeded to take account of that within an industry, the pecking order theory could make clear the pessimistic inverse connection amongst productivity and debt ratio, the theory however was not able to completely clarify the contrasts of capital structure that existed in different industries. Scherer et al, (1993).

Holmes et al (2002), regarded the pecking order hypothesis as a proper portrayal of average business funding practices since debt is the largest source of funding and that growing businesses' managers have a likelihood to be starters of their business. Similarly they consented that businesses tend to concentrate on internal sources of capital than reliance on external sources.

Cush &Hughes (1994), noticed that the order of inclination mirrored the relative costs of different financing alternatives. Firms would lean toward internal sources of fund when contrasted with costly or expensive outer finance and that organizations that are profitable and in thus produce profit are relied upon to utilize less debt as compared to those that underperform. In this regard, start up businesses would heavily rely on retaining excess liquid assets to meet unforeseen events, depend more on short term sources of debt as well as rely heavily on hire purchase and leasing equipment. In connection to start up business funding.

2.5 Conceptual Framework

The performance of firms is to a larger extent influenced by the variation of capital structure although there are other factors that determine firms' performance. Some are internally based and others are external. For example level of leverage, level of equity, market value of the organization, and market value of organization equity.



2.6 Summary:

In contrast with the tradeoff theory the pecking order theory contends that pecking order behavior is received when a firm prefers staying away from costs identified with adverse selection and agency cost issues. As such firms in any case like to pick internal sources of retained income; if at all it needs to choose external funds it favors debt to equity. .It likewise clarifies the issuance equity suggest including outside speculators in the proprietorship structure, in this way while a firm issues new offers financial specialists could trust the firm is overrated and the managers may exploit this data as he probably is well placed about the association's hazard intensity than the investors.

The finding is of noteworthy for financial specialists and policy marker which will fill in as a roadmap for better investment choice. No adequate research has been conducted covering the impact of capital configuration on financial recital touching organizations scheduled in NSE. The research looks to contribute literature that will help narrow the existing gap through exploring capital configuration and its effects on financial recital where firms listed in NSE will be the basis of the study. The aim of this research includes finding out how mangers of the said organizations consolidate different funding sources for these firms since there are uncommon attributes of the economy.

It additionally decides if there exist a connection flanked by the capital configuration and the profits on investors' investment for the organizations, and also the connection amid the wholesome economic components of inflation rate and the loan cost with capital configuration and routine. Investigation of how the return on acquired funds contrast and the return on assets financed will likewise be completed to decide, regardless of whether the return on assets justified the obtaining. This study is additionally upheld by various different investigations, who clarified the advantages of debt financing are not as much as its negative perspectives, so firms will dependably want to finance ventures by internal sources.

They likewise found an imperative and negative effect of capital structure on performance. A research testing the proposition that capital configuration is one of the principle predicaments of corporation performance clarifies that the levy advantage of debt financing that lead the firms to get to too much borrowing. In doing as such firms regularly disregard the insolvency expenses originating from dilapidated proceeds to intemperate debt. Therefore, when organizations that concentrate on profit maximization separate from a proper capital makeup their liquidation or financing costs exceed the tax benefits related with the tradeoff between debt and equity.

It has likewise been discovered that capital structure has a huge and negative effect on association's performance and under estimation of bankruptcy expenses may lead firms to have a loan of exorbitantly and convey towering debt in their capital structure On the other hand, others find mixed outcomes with respect to the effect of capital structure on company's performance.

CHAPTER THREE

RESEARCH METHOD

3.1 Introduction

The episode consists of the mode and the propose of the study. It entails the basis of data, methods of data collection and a summary of the data analysis conceded out.

3.2 Research Design

The research will be conducted by means of an explanatory research plan. Secondary quantitative data will be employed. The information will be sourced from Nairobi Securities Exchange handbooks and financial records books that have been published, for the organizations programmed in the Nairobi Securities Exchange. For this reason there were no other prior examinations to make reference to and we shall require acquiring insights and familiarity for later examinations.

3.3 Target Population

The population for this investigation will constitute 36 out 65 manufacturing companies that are scheduled in the Nairobi Securities exchange within the period dated December 2011 to 2016. There were other companies that were excluded for the study because they did not meet the required capital base to be listed under Nairobi Stock Exchange.

3.4 Data Collection methods

This study will involve Secondary methods for information gathering. Information will be gathered by survey of records, yearly reports of the organizations, the Nairobi Securities Trade, Handbooks and distributed books of records, for example, financial statement and reports.

3.5 Data Analysis

Data analysis will be quantitative and descriptive in nature. Furthermore Quantitative techniques which are experimental will be approved, implied and checkered in case of any mistakes and exclusions. Afterward the information spirit be analyzed using statistical Package for Social Science (SPSS) edition 16. The purpose will be met by computing the regression examination of the factors. The β coefficients will be computed to gauge the level of debt ratio. ANOVA will be utilized to gauge the impact of debt ratio on return on equity.

3.6 Measurement of Variables

The Regression Model be used to measure variables. It relates the capital structure as well as financial performance of organizations listed in the NSE. This will be expressed as:

Y= Financial Performance

Where;

$Y=\alpha + \beta 1X1 + \beta 2X2$

Where α is Constant, $\beta 1X1$= Capital Structure, $\beta 2X2$= Growth rate,

3.6.1 Debt ratio

The importance of liability will be landed at by means of the financial ratio equation, where the cumulative liabilities (both stretched tenure and diminutive tenure) were articulated as a percentage of aggregate financial support.

3.6.2 Firms Recital

The performance of an organization will be well thought-out as the come again on impartiality. The advantage or return to the investor shall be presented as the proportion of the overall profit after levy to the investors' assets. The overall gain after levy will be inwards at subsequent to levying every single required cost of the trade together with interest and tax. The investor's finance shall incorporate carve up capital, retained benefits and additional reserves. This proportion will be expressed as the go again in shillings for each shilling of the investor's financial support.

CHAPTER FOUR
DATA ANALYSIS, DATA FINDINGS AND DISCUSSIONS

4.1 Introduction

This episode focuses on data scrutiny, discussions and conclusions of the study study. Resultant or derived information was composed from Nairobi Securities Exchange Handbooks and published and financial records books of the 65 companies scheduled in the Nairobi Securities Exchange. Out of all 65 companies scheduled in the Nairobi Securities Exchange, I was able to get in print financial records books of 33 companies representing a response rate of 50.76 % which was ranked to be fair for the subsequent analysis.

4.2 Regression Model analysis

The investigate study sought to ascertain the effect of capital configuration on routine of the companies scheduled at the Nairobi securities exchange. To obtain performance of these firms, Return on equity (ROE) was calculated for 50.76 percent of the firms whose economic statement were scrutinized by the pollster. Otherwise, resources configuration of the firms listed in the Nairobi Securities Exchange was arrived at by computing the debt ratio of these firms.

The research conclusion indicated that there existed a weak positive Coefficient of Determination ($R= 0.332$) amid the variables. The study also exposed that 11.0% of capital configuration of the firms scheduled at the Nairobi Stock exchange can be attributed by the autonomous variables. From this research, it is manifest that at the 90% confidence interval level, the variables produce statistically considerable values (elevated t values, $p < 0.1$.) therefore the variables were collective which means, they could be relied on to clarify capital configuration of the firms scheduled at the Nairobi securities exchange market. However, when tested individually only debt ratio produced statistically significant values while firm size produced statistically insignificant values. The model below was used to ascertain the association flanked by capital structure and financial recital.

$ROE = \alpha+ \beta1 (I) +\beta2 (FS) + \varepsilon$

The conclusion of the study is presented on the ANOVA table and discussed as below. They are as illustrated in the tables
4.2.0, 4.2.1 and 4.2.2 below.

Table 4.2.0 Analysis Of Variance Table:

ANOVA[a]

Model		The Sum of Squares	df	Mean Square	F	Significance value
1	Regression sum	.094	2	.047	1.535	.302[b]
	Residual sum	.153	5	.031		
	Total	.247	7			

Positive effect was reported for total assets (β= .005). However, negative effect was reported for debt ratio (β=-.312). The outcome of the regression equation below showed that for a 1-point rise in the autonomous variables, capital structure was predicted to rise by 16.369, prearranged that all the other factors were held constant. Significance value in the ANOVA table helped us to establish if the situation means under study were comparatively the equal or if they were significantly diverse from one another. The study found out that the significance value was 0.0302. This figure was less than 0.05 hence the conclusion is that there was statistically significance difference between the condition means.

Table 4.2.1

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Significance	95 % Confidence Interval for B		Co linearity Statistics	
		B	Standard Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	Constant	-1.034	1.304		-.793	.464	-4.386	2.318		
	Capital Structure	.564	.359	.948	1.570	.177	-.359	1.488	.340	2.944
	Growth Rate	.045	.055	.497	.823	.448	-.096	.187	.340	2.944
d										

Dependent Variable: Financial Performance

At 95% confidence level, the capital structure and growth rate had a significant level that is P values of 0.177 and 0.448 respectively which were more than 0.05 significant level hence they were insignificant in nature.

The linear Equation explaining the diagram is, Y=-1.034+0.564X1+0.045X2. This implies that when changes in capital structure by 1 unit, the percentage change of financial performance is 56.4% and in growth rate, when changes in growth rate by 1 unit, the percentage of financial performance is 4.5%.

Table 4.2.2

Model Summary

Model	Coefficient of Determination ®	R Square	Adjusted R Square	Standard Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Significance F Change
1	.617[a]	.380	.133	.1748090	.380	1.535	2	5	.302

a. Predictors: (Constant), Growth Rate, Capital Structure

The predictors of capital structure and growth rate at a 95%confidence level combined as R squared had a significant level of 0.302 which is above (>) threshold of 0.05 level hence the model is insignificant in nature. This meant that the growth rate and capital structure were insignificant in explaining the levels of financial performance.

The adjusted R Square was 0.133 which was three times less than the R Square change. The difference was as a result of different significant levels and confident level variances.

Table 4.2.3 Pearson Correlation Analysis:

	Performance	Capital Structure	Growth Rate
Performance	1.00	0.06	0.07
Capital Structure	0.03	1.00	0.04
Growth rate	0.02	0.46	1.00

A .Dependent Variable: Financial Performance.

The study used Pearson's Correlation Analysis to estimate the extent of association between autonomous and dependent variables. The study adopted a correlation coefficient (r) and P-value scrutiny where a correlation was considered important when the probability value (P-value is less than or equal 0.05).Its predictor variable moved together in explaining its association dependent variable base on Significant confidence level of 95%. In table 4.2.3 financial performance had an insignificant P value of 0.06 in relation to capital Structure hence a negative correlation. In addition financial performance had an insignificant confidence level of 0.07 in relation to growth rate hence a negative correlation.

Capital Structure had a significant P value of 0.03 which is less than 0.05 in relation to financial performance and hence had a positive correlation. Growth rate had a significant P value of 0.46 in relation to Capital Structure Which is less than 0.05 hence a positive correlation.

4.3 Introduction

This section aim at linking and using the outcome obtained from the research to resolve real life capital configuration and financial recital misalignments as described afore in the predicament statement. This chapter will also elucidate the policy recommendations that policy makers can implement in order to better align institutions wealth raising initiatives among the firms presentation. Indeed, policy and organization decision makers can play a bigger role in ensuring that influence risk considerations forms part of the criterion that firms use when arriving at financing decisions as they know that it will ultimately impact on the firm's presentation.

4.4 Summary

The main objective of this research was to establish the impact of Capital Configuration on recital of the firms scheduled at the Nairobi securities exchange. To attain the purpose the researcher did sample firms listed under the Nairobi securities exchange that depicted the characteristics for the study.

Derived data was also applied in this study. Data was composed by the evaluation of documents, yearly reports of the sampled companies published books of accounts. The research conclusion indicated that there existed a weak optimistic relationship ($R= 0.332$) flanked by the variables. The study also discovered that 11.0% of capital configuration of the firms scheduled at the Nairobi securities exchange can be explained by the autonomous variables.

This study is clear that at 90% confidence interval level, the variables fabricate statistically considerable ideals (elevated t-values, $p < 0.1$.) hence when the variables are mutual hence, they can be relied on to elucidate capital configuration of the firms scheduled at Nairobi securities exchange.

The capital organization of the companies was calculated by debt and equity variables. Debt was considered to be the long term divided by the shareholders equity and long term debt. Other variables that were considered were financial performance which was calculated by Return on Assets (ROA) and Growth rate which looked at at how firms performed overtime. In summary, Analysis of variance, Coefficients table, Model Summary and Pearson Correlation Analysis were used to explain the correlation between the predictors and variables whether they were positively and negatively relating and their level of confidence.

4.5 Interpretation

The conclusions from the study discovered that debt proportion had an inverse correlation on return equity. Debt ratio(Beta= -0.359) indicate that with a one percent rise in return on equity has led to a 0.359 percent drop off in debt ratio as illustrated in the table of coefficient. It was evident that a 95% confidence interval level, the liability percentage variable fashioned statistically significant values (high t values, P was less than 0.05). From the Statistically significant values (high t values, P which was less than 0.05). From the statistically theory, if $P > 0.1$, then the model was said not to be significant. This was accomplished that a relationship could not be established amongst other models. From the coefficient tables, findings indicate that P value for liability percentage was 0.034 which was found to be less than 0.05. The model was therefore noteworthy at 95% confidence level thus funding can be acknowledged.

4.6 Comparison with other findings

The result was inconsistent with other findings Zeitun and Tian(2007) who also established that Capital configuration had a significant and pessimistic force on firms recital. The result was also found to be in agreement with Mwangi(2010) study on capital configuration on organizations scheduled on the Nairobi Stock Exchange on the relationship flanked by Capital Structure and financial routine where strong inverse relationship was found to be between influence and return on asset, liquidity and return on savings. Roden & Lewellen (1975) likewise unraveled hindering links amongst debt ratio and equity of similar business. Fama & French (1998) aggregated, bargained adoption of unnecessary debt as a source of agency issues among investors and lenders and that brought a negative impact among leverage and profitability. From the study conclusion it would be secure to arrive at the conclusion that debt ratio had an inverse affiliation with return on equity. Capital structure theory as ascribed to Modigliani and Miller who concluded that it does not matter how a firm finance its' operations and that the value of a firm is self-governing of its' capital configuration making capital structure extraneous.

The winding up is supported by the outcome of the regression analysis that the superior the debt ratio, the lesser amount of the return on equity therefore showed us the necessitate to raise more resources addition rather than borrowing as claimed by Jensen and Meckling (1976) to them the profit of debt financing are a lesser amount than it's unenthusiastic economic aspects.

CHAPTER FIVE

SUMMARY,CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The key objective of this research was to establish the effects of Capital configuration on Performance of firms scheduled at the Nairobi Stock Exchange. To accomplish the objective the researcher sampled firms scheduled under the Nairobi Stock Exchange that demonstrate the distinctiveness of the study.

Derived or Secondary data was also applied in this research. Data was gathered by the evaluation of documents, yearly reports of the sampled companies and published books of accounts. The study conclusion indicated that there was a scrawny optimistic relationship (R=0.332) between the variables. The study also exposed that 11% of Capital configuration of the firms scheduled at the Nairobi Stock Exchange can be attributed by the autonomous variables.

Certainly, policy and firm decision makers can play a bigger role in ensuring that the leverage risk considerations forms a portion of the criterion that firms use when arriving at financing decisions as they know that it will eventually impact to the firms performance.

It also aimed at linking and applying the outcome got from the study to solve authentic life capital configuration and economic presentation misalignments as indicated before in the predicament statement.

5.2 Conclusions

From this research, it is clear that at 90% confidence interval level, the variables bring into being statistically important values (high t-values <0.1) therefore, when the variables were mutual, they could not be relied on to clarify the capital configuration of the firms scheduled in the NSE. In addition it is important to conclude that, there is an inverse correlation between the debt ratio and the return on assets. Capital relationship theory as accredited by Modigliani and Miller suggested that it doesn’t matter the ways companies finances their functions as well as that the value of the firm was self-regulating of its capital structure making capital configuration extraneous.

The wrapping up is supported by the results of the regression analysis that the superior the debt ratio, the lesser the amount of the revisit on equity therefore showed the call for to increase more capital injection rather than borrowing as supported by Jensen and Meckling (1976) to them the benefits of liability financing are less than its negative aspects, so firms will always have a preference to finance investments by interior sources of finance like impartiality

5.3 Recommendations to Policy and Practice

It was considered to be very important when finance directors and managing directors in attempts to finance the firm's assets to be aware of the effect of capital configuration on their financial performance as well the asking price of funds. It was manifest from the study and scrutiny arising thereof. This study established that capital analysis and asset configuration analysis was a very significant scrutiny used to boost up firm's competitive benefit and consequently productivity. In addition the capital market analyst as well speculation analyst should recommend the investors as well firms on the most favorable capital configuration based on capital configuration analysis.

Borrowing introduced a exposure to the company and on the return to shareholders in terms of dropping the amount of profit obtainable to them, as well as revealing their assets to disbanding in the event of failing to repay the debt in the fixed time. When a business's proceeds are likely to oscillate significantly the use of increased liability magnifies the risk. Adequate emphasis must be placed on enabling such companies to employ more shareholders' funding than debt and decrease the risk that is intrinsic in the improved use of debt. Based on the outcome of the study the subsequent recommendations below were arrived at.

5.3.1 Use equity rather than borrowing

Borrowing does not constantly improve the performance of a firm, but instead lead to the reference that firms ought to use shareholders' funds as much as possible before they embark on borrowing, to guarantee that they decrease the risks associated with borrowing, they include interest on the liability above the return on the assets they are financing. Firms must consequently be optimistic to obtaining equity by listing on the relations. This can be achieved by educating and sensitizing of business owners of the benefits of inventory, as well as yielding of special financial measures to encourage them to register.

5.3.2 Consider the leverage risk or leverage chance of the asset to be financed

When a company finishes the funding of its shareholders, hence make a choice of financing its operations on loans there is need then for an outstanding consideration to be taken to make certain that the assets financed by the on loan funds bring in a superior return than the interest the firm is necessary to pay on the liability. Failure to do so, there is a possibility for the firm to wear away the treasury in its attempt to service the loan, since there will be no enough money cover the debt. It is therefore prudent for companies to make a clear choice of the source of funding to shun declining into the leverage risk lock in.

5.3.3 Encouraged companies to do listing

The rise in debt has been found to reduce regular borrowing. In Kenya, a big percentage of businesses are mainly small and medium enterprises but few of these are scheduled on the Nairobi Stock Exchange.

5.4 Limitations of the study

The researcher experienced relatively a number of challenges associated with the research and most particularly during the procedure of data collection. There was a lot of bureaucracy moving from one office to the other to make engagements and consolidate data.

Due to insufficient resources, the researcher conducted this research in constraints of finances. There were a lot of costs incurred in the internet, transport, printing and photocopy. There were other program costs of running research which was involved such as SPSS.

In addition, analysts at the Nairobi Securities Exchange market had to be pressed hard to disclose data. This was done through a lot of follow ups on the specific timelines given by the analysts. Some wanted to be paid in order to give data while others had in mind that the information they were requested to disclose was confidential and were biased in providing us with the information.

The time frame of the study was inadequate while holding a full time job as well as part time studies. This was met during the collection of data to recognize the study success. However the investigator tried to carry out the study within the time frame as particularly to ensure proper findings and correct conclusions.

5.5 Suggestions for Further Studies

From this study, the subsequent instructions for future research in finance were recommended as follows:-

This study focused on all the 65 listed companies in the Nairobi Securities Exchange. Therefore, generalization could not effectively be absolute to each listed company as they have varying industry risk and asset structure. Based on this fact amid others, it is therefore, recommended that a constricted based study covering a detailed section or company be done to find out the impact of Capital configuration on Performance over time and increase the risks to the business owners.

The Capital Market Authorities and Nairobi Stock Exchange should raise teaching of the business community on the merits of inventory over borrowing. In Kenya a large proportion of businesses are small and medium enterprises but very few of these are scheduled on the NSE.

Similar studies can also be simulated in the near future to examine if the impact of Capital configuration on Performance of the firms listed at the Nairobi Securities Exchange has converted while the Nairobi Securities Exchange carry on with its operations. Also the consequence of capital structure on business policy is however an extra area of interest that can be the area of supplementary research as well as an extra rigorous study along that area can come in practical.

Companies must use extra equity instead of the benefits of doubt while conducting their plans in financing their firms' activities, as much as the value of the money used in the operation can be accounted for and improved by using the debt capital. Since it can cause the firm more than they have budgeted, there is need for the firm to be more vigilant so as to avoid being victims of the same in terms gain and business value. This is especially due to the fact that large companies are prone to bring down their company's performance due to extra influence obtained. Companies can as well employ infamous investment sources rather than costly predetermined interest deportment debts.

REFERENCES

Abraham Collins, (2007) Capital structure and ownership structure,a review of a literature Journal on World Finance and Economics, UK Weekly magazine/

Barbosa N. &Louri H, (2005) Corporate Finance. A comparison of foreign and domestic Owned firms in Greece and Portugal.Vol 27(73-102).

Brennan,S.(2001) Emperical Analysis of how capital structure influences return on equity on Firms listed in the stock exchange, Policy research institute, Ministry of Finance, Japan, Public Policy Review, 9(21):14-35.

Derek, R.(2012)."Do Capital Structure affects the performance of firms? Cross-country Evidence from the Amadeus Datasef

Dimitris, G. (2008). The Securities market ,Profit and Investment," Quarterly Journal of Economics," 111(2)120-165.

Earnest and Young,(2012),Game of Strategies in Finance on Capital Structure and Financial performance of firms in Kenya Vol 3(19-64)

EbaidI.E, (2009) the relationship of Capital Structure Choice on Firms performance: Empirical Evidence from Egypt, The journal of Risk Finance, Vol 5(477-487).l

Erasmus Maina (2008) African Journal of Economics, Finance and Administration Science

Erhadt, MandBrigham, E (2003)", Corporate Finance-A focused Approach".1st Edition Vol 2(21-42).

Fama, E and French, KR,(2002).Testing trade-off and pecking order predictions about Dividends and debt, Review of financial studies, Vol 15,133-139

Frank. (2007).The effect of capital employed on the firm's performance .American Economic journal: Macroeconomics, 2(5)56-79.

Lokong H. (2010). *The Relationship between Capital Structure and profitability of micro Finance institutions in Kenya*, Unpublished management research Project of the University of Nairobi.

Long, M. and Maltiz, L. (1985) The Investment Financing Nexus: some empirical evidence, *Midland corporate Finance Journal* 3:53-59

Lutomia, K (2002). *Financial Securities and Development of capital markets,* unpublished Research project University of Nairobi.

Maunda, H. (2000). The effect of capital structure on the performance of firms in the Indian Business environment, India Publicly Listed companies

Myers.(2003). How firms' behavior affect capital Structure, an empirical: Management Finance40 (6)147-188.

Modigliani and Miller, (1958), Capital Structure theory in their investopedia finance wall Streetjournal, in the US, Vol 12(10-117).

Mwangi, I. C., and Anyang'o, M. O. (2012). Capital Structure Adjustments, Speed of adjustments and optimal Target Leverage among firms Quoted on the NSE, *International Journal of Humanities and Social Sciences*, 2(9), 100-114

Myers S, M. (1984). Corporate Financing and Investment Decisions when firms have Information that Investors do Have, *Journal of Financial Economic*, 13(2), 187-221

Myers, S. (1977). Determinants of Corporate Borrowing, *Journal of Financial Economics,* 5, 146- 175

Pandey.(2005).The relationship between capital structure and performance of firms listed In the Nairobi Stock Exchange, Corporate Governance: The International journal of business in society, 9(3)222-270.

Ruto, (2011) Tuesday Nation Newspaper Edition pages 12.

Rajan, (2011), Asian Journal of Finance and Economics on Capital Structure and Finance Vol51 (87-130)

Schuller and Mitz, (2012) European journal of Economics magazine, The German Weekly newspaper of Industrial OrganizationVol 7 (25-26).

Thatcher, D.(1988) .The paradigm of financial state based on the capitalistic technique of Production. *The Review of Financial Statistics 124-180*

Njagi, A. (2013). *Relationship between capital structure and financial performance*. An un Published masters project from the University of Nairobi

Appendix I: Population of the Study

1. Kakuzi
2. BAT
3. EABL
4. Eveready
5. Carbacid
6. Mumias Sugar
7. Unga Group Limited

Appendix II: Data used for Study Analysis

Financial Performance	Capital Structure	Growth Rate
0.0794	0.3759	22.0163
0.3982	0.3337	23.1712
0.1430	0.0154	24.9271
-0.1212	0.2322	20.8936
0.1632	0.0859	21.7321
-0.0879	0.1346	23.9562
0.0658	0.0365	22.5232
0.3673	0.9833	18.1816