

**EFFECT OF CAPITAL STRUCTURE ON FINANCIAL
PERFORMANCE OF COMMERCIAL AND SERVICES FIRMS
LISTED ON NAIROBI SECURITIES EXCHANGE**

BY

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D61/25840/2019

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF DEGREE IN
MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY
OF NAIROBI.**

NOVEMBER 2021

DECLARATION


This research project is my original work and has not been presented for a degree in any other university or for any other award.

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This research project has been submitted for examination with my approval as university supervisor.

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ACKNOWLEDGEMENT

Much thanks to God the Almighty for granting me life, sufficient grace, and getting the opportunity to undertake this study.

Am deeply indebted to my supervisor; Dr. Winnie Nyamute and moderator Dr. Kennedy Okiro for their dedicated and effort to supervise, guide, appraise and instruct me consistently on various aspects relating to the study

I owe much thanks to my parents, siblings, family, employer, colleagues, friends, and all those who supported me throughout this period of study for their prayers, support, and sacrifice during the time of writing this project, without whose encouragement and constant support this study would never have seen the light of the day. May you all receive God's blessings!

DEDICATION

I wish to commit this work to my parents, siblings, and family for their patience, prayers, inspiration, encouragements, and continuous support towards the successful completion of this course.

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ABBREVIATIONS AND ACRONYMS

CMA: Capital Market Authority

KQ: Kenya Airways

LTD: Long Term Debt

LTR: Long-term Debt Ratio

MM: Modigliani and Miller

NSE: Nairobi Securities Exchange

ROA: Return on Asset

ROE: Return on Equity

ROI: Return on Investment

STD: Short Term Debt

STL: Short Term Liability

STR: Short-term Debt Ratio

TD: Total Debt

TDR: Total Debt Ratio

ABSTRACT

Capital structure is imperative in defining the soundness of an establishment's balance sheet and should be evaluated before making an investment decision. The study aimed to see how capital structure affects the financial efficiency of commercial and service firms listed on the Nairobi Securities Exchange for a five-year period from 2015 to 2019. Since the study encompassed all 11 commercial and services firms listed in NSE with limited target population, census was used rather than sampling. The study employed a descriptive research approach. To calculate the ROA on the variables, secondary data was taken from financial and annual statements of commercial and service enterprises. SPSS Statistics version 28.0 was used to evaluate the information acquired from various sources. The goal of the study was to see how capitalization affected the performance of Kenyan commercial and service companies listed on the Nairobi Securities Exchange. Commercial and service organizations had a ROA of -.534 from the results when all other parameters were held constant. According to the findings, capital structure had a substantial impact on the financial performance of Kenyan commercial and service firms. The study concluded that capital structure affects financial performance of firms and study recommended that firms should use debt optimally to finance their capital in a bid to improve their financial performance whose goal is to reduce their cost of capital while increasing their profits.

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

The finance sector has contemporarily met challenges with managing capital structure which is a core requirement in determining their performance. Finance managers consider capital structure decisions analytical, key and most significant as it influences the shareholder's risk and return. Due to competition and quest for survival brought about by globalization and increased use of internet and networking, the said finance managers have come up with measures to progress on financial performance of their organizations. This has raised the concern on capital structure on organizations and how it results into financial performance. According to Maccarthy, (2019) finance managers utilize the Total Debt Ratio (TDR), Long-term Debt Ratio (LTR), and Short-term Debt Ratio (STR) to measure capital structure. This research employed three variables: a dependent variable denoted by the business's profitability, besides firm financial performance evaluated by Return on Assets (ROA), independent factors denoted by capital structure: Total Debt Ratio (TDR), Long-term Debt Ratio (LTR), and Short-term Debt Ratio (STR) and control factors denoted by firm size and liquidity management MacCarthy (2019).

In support are three theories to steer it up namely, Modigliani & Miller, pecking order, plus Trade-off. The Trade-off stands for firms' choice of leverage amid paybacks besides expenses of obligation and trade-off outlays plus paybacks of obtaining but investment firms' assets in place of a basis of a firms' ideal debt ratio Graham & Harvey (2001). Trade-off is also a précised equilibrium of distinct gains and costs relating to debt for ideal capital structure identified as an ideal firm capital structure (Myers, 1984).

For Pecking order theory Managers favor internal financing in comparison to financing externally besides selecting slightest risky possibility ahead of the much riskier ones in case external financing is essential and how risk securities are classified and perceived debt and common stock on both ends (Chadha & Sharma, 2015). Modigliani & Miler (MM) theory (1958, 1963) characterizes a company's worth as being independent of its capital structure, and its real assets that decide a company's worth, not the security mix it has issued. Perfect capital markets, investor expectations that are all the same, a tax-free system, and no financial intermediaries are all unreasonable assumptions and assertions.

Firms use debt to finance their capital in a bid to improve on their financial performance and characterizes a company's worth as being independent of its capital structure, and that a company's value is decided by its actual assets, as opposed to the security combination it has issued. Perfect capital markets, investor expectations that are all the same, a tax-free system, and no financial intermediaries are all unreasonable assumptions and assertions. According to Margaritis & Psillaki (2010), trade-off theory suggests a positive connection between corporate performance and leverage, while the pecking-order theory predicts a negative association, so for listed companies in NSE which acquire a debt burden in their capital structure to raise funds intended for day-to-day operations. Whatever constitutes the optimum capital structure is puzzle which is not yet answered and debatable in corporate finance Cheronoh (2017). Capital structure is optimal when the firm market value maximized, depicting use of equity and debt while financing the firm operations thus signaling an equilibrium on the risks and returns in firm's operations. The goal of optimal structure is to reduce a company's cost of capital while increasing its profits (Zietun & Tain, 2007). Rossi et al. (2015) used LTD, TDR, and STR to represent capital structure and

profitability (ROA) to measure financial performance in their research on the capital structure of agro-food enterprises. For a study by, the dependent variables were ROA and ROE, while the total TDR, total LTR, total STR were measures of capital structure (Sakr & Bedeir, 2019). Their research focused on Egyptian enterprises' performance and capital structure. ROA indicated a large negative impact, whereas ROE indicated a considerable positive benefit. Internationally, as well as in developing nations and locally in Kenya, research on capital structure and company efficiency have been undertaken, but no study has yet identified the ideal capital structure blend, necessitating the necessity for this study. Managers of commercial and service organizations must make informed decisions about whether to invest in debt or equity, and the prevailing research has a goal to establish the impact of capital structure on the financial performance of NSE-listed commercial and service companies.

1.1.1 Capital Structure

The capital structure of a company's balance sheet is critical in establishing its soundness and should be evaluated before making an investment decision. According to Pandey (2005), capital structure refers to a company's capital mix, which includes both debt and equity. It is defined by Taylor and Venhorn (1996) as the total of long-term securities (equity and debt).

Capital structure is very vital to firms as a connection with corporate value. Sheikh & Wang (2011) expressed it as share of the obligation funding of a company also company leverage ratio. Asad et.al. (2011) capital structure theory clarifies that the financial strategy in establishing the corporation's wealth composition blend of liability and equity targeted on optimizing firm value. (Jensen & Meckling, 1976) term it as sources of financing, debt

proportions either leverage or gearing with equity the corporation adopts to fund its assets, activities, as well as later expansion. Strategic decisions involve capital structure since they affect firm's performance, as a blend of capital from debt as well as equity required towards funding its' processes. Firms are due to fail with inappropriate and poor implementation of capital structure decisions in turn increasing their operational cost. Unrestrained usage of debt capital to finance firms' operations has caused many businesses to collapse. When applied appropriately, it maximizes shareholder's value, suitable capital blend from any of the capital from debt, equity, or mixture of both.

1.1.2 Financial Performance

The firm's performances are replication of proper utilization and exploitation of organization's resources for stakeholders' advantage (Ogebe, Ogebe & Alewi, 2013). Firms have their financial goal which is profitability. Financial goal of a firm is established through financial performance which measures its policies, monetary operations, level of performance of a business, and the general financial wellbeing with time (Stanwick, 2002). Performance is defined as the completion of a work as measured against predetermined established values of exactness, comprehensiveness, cost, and speed. It's also an entity's aims, and objectives as met effectively and efficiently while still earning enough profit. The outcome of the activities a firm undertakes is financial performance. The key financial measures of performances of an organization include ROA, ROE, and ROI (Pandey, 2010).

Corporate performance, measured by variable involving productivity, profitability, growth, and customers satisfaction. The key performance indicator to be used in this study will be ROA as performance measure to conclude about an entity's profitability and financial performance, gauging how rewarding an organization is comparative to its entire assets and

depicts the management efficiency at employing its asset to produce revenues. When ROA stands high it means that more has been from small investment and consequently small ROA is an indicator of low profit generated irrespective of the higher resources invested (Pandey, 2010). Financial performance is the underlying objective for existence of most organizations. It entails maximization of the wealth of shareholders. Most information on financial performance of an organization is extracted from its financial statements through analysis mostly by use of ratios. Financial statements keep management informed about the establishment's available resources, their financing, and what it accomplishes with them. They also look at management's performance and divide it into

1.1.3 Capital Structure and Financial Performance

Capital structure and financial performance of firms have for many years been a subject of contention also a subject of debate by many organizations which intensely goes global. How the capital structure and the extent to which it impacts on firm value is a major argument, hence impact on the firm performance. Modigliani-Miller (1958) claimed that because there is no optimal capital structure, capital structure decisions are of no value to the enterprise. The capital structure has no bearing on the value of a company or its future performance (Modigliani and Miller ,1958).

Their model is still inconclusive, and many scholars have made contributions to counter their argument. According to Ebaid (2009), capital structure has a negative link with company performance. For Abor (2005) capital structure and firm profitability are positively associated.

Through capital structure firms can expand their market share, finance processes, and grow in a bid to expand value added on profits. It depicts a situation where equity and debt are included when funding the firm operations to yield optimum returns to maximize stakeholders returns. The Management appraises its performance using profitability, also the firm's ability to earn optimum returns on assets. Investment decisions which aid in future survival of firms is a result of efficient allocation and effective planning. Owing to the studies it is clear the existence of capital structure affects its financial performance.

1.1.4 Commercial and Services Firms at NSE

The Nairobi Securities Exchange formed in 1954 is a public market for trading securities of public listed firms in Kenya. It was formed as an association of stockbrokers to deal in sale and buy of shares and for development of security market and regulation of trading activities. In Africa NSE is fourth in position in terms of the volume of shares exchanged and classified as number five regarding market capital structure expressed GDP as a percentage (Musyoki & Iraya, 2013). Capital Market Authority (CMA) is tasked to regulate and closely monitor all NSE activities and operations. The CMA has a responsibility of ensuring good corporate governance practices among listed companies and development of efficient market (NSE, 2016). We have 64 firms listed and segmented into 11 units based on their industry and nature of operations and 11 firms under commercial and services division. Since 1964, NSE 20-share has always been used by the Nairobi stock exchange in measuring the performance of 20 blue-chip companies. However, in 2008, Nairobi stock exchange changed its performance measure to NSE all share index (NASI) which measures the general market performance incorporating all traded shares of each day (NSE, 2016).

Listed companies on the NSE are gradually increasing debt financing in their capital structures to raise more funds for commercial operations. According to CMA statistics, companies registered on the NSE raised ksh 988 million through rights issues between 2004 and 2014. (Anyanzwa, 2015). Although the board of directors selects whether to use debt or equity financing, financial analysts believe that debt financing is more appropriate for enhancing firm value when acquired and used properly (Anyanzwa, 2015). Commercial and Services firms listed on NSE embrace capital structure in quest of maximising shareholder value thus wealth which is the core corporate objective. Notwithstanding of this fact most of these firms still register financial losses over the last decade. This study sought to find out whether such debt financing has any effect on the performance of the companies listed at NSE and whether capital structure has influenced financial performance of these firms.

1.2 Research Problem

Capital structure and financial performance have for time immemorial been taken as a major subject of discussion by firms across the globe. Many studies and research have been conducted to ascertain the extent to which firms' capital structure impacts on their value and performance. For the investment decisions made at NSE, investors assess the stocks and securities perceived to optimize their returns. They normally consider either equity or debt or a blend of both and balance sheet strength. Some investors at NSE contrary to this overlook firms' capital structure facets then ends up deviating from their desired returns.

Commercial and services firms listed on NSE have financial problems which are attributed to their capital structure. For instance, companies like Uchumi Supermarket as well as KQ experienced severest economic agony in the commercial and services sector at the NSE. In

a continuation, it was further determined that poor management, extreme obligations, strong rivalry, and hostile agreements brings about the decline of the economic execution of corporations. KQ registered net loss amounting to 7.5 billion shillings in profits as announced by the company in its 2018 financial year performance, which was slightly higher than the loss of sh. 6.3 billion in nine months December 2017. Some firms under commercial and services were trading under-par at the exchange, including KQ, Uchumi, Sameer Africa, and Express Kenya. These firms were trading below fair value at the NSE which would be a hit on investor confidence in the stock forming sentiment.

Several researchers have managed to determine a link between capital structure and financial performance. Ebaid (2009) in his study to measure financial performance of listed Egyptian firms using ROA, ROE, also GM determined that capital structure indicates weak-to-not any influence upon financial performance. Zeitun & Tian (2007) conducted a study which had an adverse link proceeding capital structure and business's financial performance and unreasonable borrowing lead to bankruptcy cost due to high debt levels. In another study Abor (2005) did a report to show the association amid capital structure and productivity of listed Ghana firms through 5 years. It was concluded that both STL besides LTD obligations have a substantial positive relationship with firm profitability. He suggested that debt is depended on mostly by profitable firms as their major financing preference. Baum et al. (2007) assessed the impact debt and productivity of American industrial corporations. Firm size was used to analyze the behavior of the French firms and resolved that debt capital is insignificant to the firm's financial performance regardless of firm sizes. Locally, research carried out by Chepkemoi (2013) to investigate capital structure of SMEs and financial performance. Results were that capital structure adversely

linked to corporation profitability although constructively associated to sales expansion. Mwangi (2010) researched on investment form and success of firms. Pearson correlation showed a strong connection between leverage as well as ROE, liquidity, and ROI. Regression showed that relationship exists between leverage and ROE, ROA, liquidity, and ROI. Nevertheless, there was no association as regressed and resolved on a sturdy constructive bond between leverage and ROE & ROI. The Kenyan studies on the topic have produced mixed and conflicting results, which justifies need for further studies.

This study has mostly been conducted in the United States and Europe whose markets are functioning and mature. There has been few research on how financial leverage influences a firm 's performance and investor profit maximization in emerging stock markets such as the NSE. None of the above studies however related the topic of study. This results into a contextual gap that sought to be filled by the current study by assessing the influence that come about on NSE-listed business and service firms' capital structure and financial performance.

1.3 Research Objective

To see how capital structuring affects the commercial and service-related companies listed in NSE.

1.4 Value of the study

For need and industry requirement in terms of growth and prosperity which in turn helps improve the country's economy at large, it is undoubtedly clear that this paper has influence. Results of this paper as a literature is important in helping the government in planning for the economy. Firms and their managers in their operations, to adapt capital the

recommendations in their operations in quest of improvement in financial performance. Shareholders, regulatory bodies, future scholars, and academicians regard capital structure being the central aspect to their operations and be reviewed as part of the reading resources. Firms in the modern era work in an environment which is highly saturated, multifaceted, and competitive hence this paper conclusions stands important when choosing the capital structure to attain the optimum financial performance. The paper will bring forth holistic, vast, and valued information to corporate finance arena. Through the research firms will identify the issues that hinders or inspire achievement of optimal capital structure and financing decisions towards the same. The findings will also provide information to management, shareholders, with skills and knowledge needed to run their institutions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This covered several theories of asset composition determinants on output finance trading and services taking place in Kenya as indicated. Theoretically, the framework, concepts and empirical studies were also reviewed. Unlike other chapters, it focused on the literature on other scholars and researchers on the same study area.

2.2 Literature Review Theory

The theories that inform the study were evaluated in this segment. Decisions of capital structure were examined basing their influence upon the value of the firm. The theories put forward were the concepts of tradeoffs, Modigliani and Miller and pecking orders.

2.2.1 The Concept of Modigliani and Miller (MM)

The concept of financial business had begun with Miller and Modigliani in 1958 with inaptness in asset composition preposition, being the first to theorize capital structure. By using economic theory Miller and Modigliani established preposition regarding these hypotheses: trading assets are real, no bargain, liquidation cost and levies and with asymmetrical data and alterations in an organization's asset composition without long term impacts on the organization's cost in trading hence informing the argument of independency of its asset composition. Previously, before the Miller and Modigliani concept, comprehensive view that dispensed the application of economic advantage and improves organization's worth. Afterwards, Modigliani and Miller (1958) challenged it by argument of a perfect market that considers no debt-equity as to the worthiness of the organization and advantages of debt compensation to minimize on the firm's capital. The

concept of MM of 1963 has been efficient with operations and demonstrated the market value in an imperfect arrangement in which return expenses are taxable, company worth will improve with a greater economic leverage. Taxation models recommends that organization with interests should work with debts because of the tax control for profitable company. Nevertheless, improving on debt outcome informs the high levels of occurrence in liquidation. Consequently, the normal asset composition indicates purchasing grade that equates to economic value and financial advantage on debts. Sabin and Miras, (2015) indicated relevancy and further explained that the firm maximizes its value by the increased debt level in their capital structure. This theory was supported by Nirajini and Priya (2013) showing that debt and performance are positively related. (Sabin & Miras, 2015) further criticized the concept by Miller and Modigliani in 1958 and 1963 to be impractical since this assumption is impractical. Capital market has some flaws hence imperfect in the actual sense same to transaction and bankruptcy costs, hence inapplicable M&M's theory (Foo, et al., 2015). Brigham and Ehrhardt (2016) had disputed the concept by MM asserting that the design is accurate conceptually; however, in application it is incorrect because in applying debt will to high economic values. However, the theoretical relationship presents a case with companies with high debt ratio favorability in which might also result to financial agony concerning the high levels of borrowed interest in tax protection.

Interest charges are tax deductible according to MM, which reinforces the implementation of debt in the asset composition and will decrease the financial values and that cost of the company is enhanced. Increase in debt in the financial arrangement may attain the company's service hence its financial productivity. Kenyan market is not perfect, and the assumption relates to a perfect market economy exhibit no control on company's structure.

The theory was very critical and relevant to the topic of study since this study sought to determine whether a firm could raise purchases by equitable restorations with debt in the asset composition and profit generation from levies and regarding the company's production.

2.2.2 The Concept of Trade-off

The trade-off concept offers a platform of equating the advantages and values of impartial companies in realizing the maximum asset cost. It developed from MM relevant theory (Myers, 1984) as a reflection of financial distress plus agency costs. It hypothesized that ideal capital structure come through matching the tax shield gains offered thru leverage and the cost of accounting agony and business and as well the value of service of purchase in trade off in relation to each other. Therefore, a company may conclude on the purchases and equitable accounting to include into the accounting systems to settle on values and source compensation. The asset charges bring forth tax shield benefits through optimal charges concentration in the asset composition resulting to liquidation bureau payments, because of information asymmetry brought about by divergence of interest among the different firm stockholders (Jensen & Meckling, 1976).

According to this concept very lucrative company debt compensation ability to high generated taxes that allows for an improved debt for equitable ratio in comparison to moderate company benefits. Graham & Harvey (2001) trade-off theory predicts firm's the choice it will make on leverage and benefits and the debt costs and trade-off of costs and benefits when they borrow while holding the assets of the firm in place to determine its ideal debt ratio. Ideal capital structure should exploit the performance and or minimize the cost of capital, considering the merits and demerits accrued by the firm by integrating

charges and equitable asset in company accounting functioning. Company should consider best asset composition to consider best capital structure that boosts the firm's value and reduces costs (Sheikh & Wang, 2011). Firms to fix their ideal leverage proportion by evaluating the merits of levy protection alongside the demerit of accounting agony in price. Trade-off is hence a balance of different benefits and costs relating to debt for optimal capital structure, stated to be ideal. The concept requires companies to assess the various advantages and values for every debt and establish maximum debt arrangement that equates to increase in prices and advantages in reference to tax protection and liquidation values. The above justifies the reason for companies to be partially accountable for equitable and partial financing by charges in the asset composition (Myers, 1984). This theory was very significant and critical to this study since it revealed the advantages and disadvantages of using excess debt were evident in this theory and significant. It recognized the taxation benefits to debt at a consideration to warnings of liquidation involving around which essentially was allowed with reference to Myers because of minimum debt utilization.

2.2.3 The Concept of Pecking Order

Around 1961, Donaldson suggested a model, which later advanced (Myers and Majluf, 1984). Essentially, this concept relates to inner capitalization to outside capitalization. It postulates that corporations initially use internal financing resources then proceeds to external financing. The idea is advocating for certain preference to get money for their companies. Because of roughness experienced with information challenges, companies would consider inner sources prior to outside accounting and in a way demonstrate these challenges with a purpose to offering solutions in case the company adopts specifically the inner pedigrees of monetary values to account for assets in avoidance of balance.

Corporations apply for the monetary designs that lowers the considered values. The issuance of another equity would be extravagant since the data is rough and would need and extra money to maintain the balance (Siro, 2013). Settling of a debt is needful for-profit maximization in the company. Different research on companies' asset composition management had some findings that mainly companies utilized the pecking order structure because of the expensive nature of equity asset to debt asset. Likewise, they embraced the different asset sources that needed minimum management and particulars (Dahlstrom and Persson, 2010). The concept of pecking order from studies of Abor (2005) and French (2002) finalized the asset composition and company's operations as not linking. Accordingly, the assessment of this pecking order concept happened in 1971 to 1998 by Frank and Goyal (2003). Additionally, it was revealed that Pecking order concept was different with inner course financing as not enough to protect the mean capital expenses while the external accounts were intensively applied and debt neither included the balancing of accounts.

2.3 Financial Performance Indicators of Commercial and Services Firms

When capital structure is applied by commercial and services firms it will impact directly on their value, performance. Before making any investment decisions made at NSE, investors improve on assessment of capital and collaterals in perception for maximum interests. Pandey (2005) showed that asset composition is defined as firm's capital variety, consisting of charges and balances combination. Firms have their financial goal which is profitability (return on assets). According to Nasimi (2016) production of a company is sensational regarding the asset composition a company would consider, which, asset composition displays importance it affects interests.

Determinants refer to key reasons behind commercial and services firms listed on NSE and how they bring about the firms' performance. The study used STR, LTR, TDR, area of company, and liquidity management and how they influenced financial performance which needed to adopt the following capital structure techniques for their proper, efficient, effective, and optimum performance.

2.3.1 Short-term Debt Ratio (STR)

Some studies asserted that companies with no surety with taxation would opt for the application of short-term debt while their tax rate increasing, Scholes and Wolfson (1988, p. 170). Consequently, the short-term debt will have a minimum value and simplicity mode to expand on the debt grades for a short while. The company's optimal points would stay away from the prospective value of relieving the exceptional debt along the way. Short-term borrowing includes certain conditions of consolidation that apprehends completely on the liquidity debt requirement to pay for deals. Significantly, short-term debt offers good conditions for a company's requirement for finance because the debt will need to be paid immediately by either cash or asset utility. Organizations have the tendency to utilize a lot of short-term funding while it remains adequately cheap. In place of equity and long-term debts, STR can be adopted.

The short-term debt ratio accounts annually and incorporates banking overdraft alongside commercial lenders that helps in resolution of short-term commitment by the company. Essentially, short-term ratio is the quotient of total current liability divide by the total assets. STD matures in a year's time or less and payable within a year. The payment must be done within 90 - 120 days. Peavler (2014) said that term loan that matures within a year are needful in meeting immediate financing with no long-term obligation. Interest charged is

low, which is also charged subject to breach of credit allowance period by the lenders. Ebaid (2009) in the study to find out the association of different grades of debt and account production of corporations in Egypt registered a decreasing influence of debt on ROA in a short term. When companies have higher STD amount, higher cash levels are held in turn lessens the risks associated with non-renewal STD on SMEs in corporate cash holders in Spain (Teruel and Solane, 2008). Weinraub & Visscher (1998) concluded that total and STD is concerned with the company's improvement towards production. Companies with not fixed assets as subsidiary have trouble to find long-term capitalization. Certain findings additionally deduced that STD capitalization and company's development as of financial performance exhibit a positive relationship (Garcia-Teruel & Martinez-Solano, 2007). Makanga (2015) reported that long-term debt has an inversely correlation to asset interest.

2.3.2 Long-term Debt Ratio (LTR)

Since Miller (1963), many studies have tried to establish the area in which taxation impacts on the corporate rankings debt reviews and position levies would bring in establishing mature debts. Recent trends in corporate leverage have been examined paying relations to the structure of the debt utility. LTR denotes debt capital paid for long term and establishes the advantage of company improved ratio. In obtaining long-term ratio, it is the quotient of long-term debt divided by total number assets. Long-term debt is completed after a duration greater than a year. Long-term debt concentrates on the timeline for paybacks and return for receiving payment. Investment is for long-term debts for advantages of returns to be paid and the concern of duration to mature with cash at risk. Accountability and estimations of LTD relies on the market dynamic rates and with LTD release with steady or tiding return rate. Firms consider financing through LTD since it has long duration for repayment

of principal plus return. LTD and ROA have no significant relationship as concluded by Ebaid (2009). Financing with long-term debt aid in lowering a company's total cost of capital as lenders do not share stock appreciation or profits. It also a financial challenge to the struggling firms and may lead them to insolvency. Well-established corporate institutions mostly finance their debts using long-period debts courtesy of their asset base and collateral which must be met. It is a measure of lengthy-period leverage and the level of lengthy-period obligation of a company compared to the company's entire asset worth. Mahmooda and Zakariaa (2015) established the connection between productivity and investment of the estate as well as structure sector corporations' firms. Results showed unequal commercial link regarding debt and profit while their enterprise was incredibly correlated. A study by Pelham (2000) showed that lending for long terms and accounting productivity of the small scale and medium size manufacturing firms are positively associated. The practice of long-term accounting financing provides firms with long-term operations and good management for financial challenges. Especially when interest rates rise with time. The findings of the study by Makanga (2015) demonstrated that STD had drawback correlation to asset interest. The research suggested that companies would utilize a lot of long-term debt because there is minimum challenge on financial productivity when the value of debt is not more than the needed requirement interest rate of the company.

2.3.3 Total Debt Ratio (TDR)

It combines STD and LTD employed by the firms. The ratio denotes the extent to which a company to accounting of its assets can utilize debt. When TDR is high, leverage rises. When the ratio is high so is the extent of attachment and on the challenges of investing in a company. The extent of company's leverage is evaluated by TDR which represents the

relation of total obligation to sum of all assets. To get TDR, a quotient is obtained by dividing the total debts by total asset. Accordingly, the study by Makanga (2015) on the consequence of accounting debt on financial productivity of various firms in the list of NSE deduced that there existed a shaky challenge correlated between the asset interest and total debt, which equals to -0.337. In the research, the conclusion of the financial productivity of the not accounting companies in the list of Nairobi Securities Exchange have significant challenges of debt accounting. A study by Wambua (2019) suggested that control of non-accounting companies should maintain maximum debts to make sure that nothing remains an affected by other operations of the company.

2.3.4 Firm size

Big firms in comparison to smaller firms generate more revenue since their product portfolio is steadier and more differentiated, diversified, less volatile cash flows than smaller firms hence enjoy economy of scale with more capacity and resources. There are at least two types of items in large firms, which produces a lot of income than small companies. A bigger proportion of large firms is not likely to be bankrupt as explained by (Titman & Wessel, 1988). The size of the company plays vital part in establishing company's asset composition sale logs divided over total assets. Large firms fascinate minimum return rates more than smaller ones and simple market approach. Zeitun and Tian (2007) said that company levels have beneficial effects on productivity since bigger companies have small values of liquidity. Liquidity costs rises when the company level reduces and which means, liquidity costs have challenging effects on the company's productivity.

2.3.5 Liquidity Management

This is capacity of an organization to fulfill its obligations. When a corporation is liquid, it has sufficient level of current assets assisting in meeting obligations in a timely manner. Firms should nonetheless set up a limit of liquidity as too much liquidity implies that funds are tied up in stock which introduces the concept of opportunity cost. The tied-up stock because of too much liquidity would otherwise be used to generate revenue and value for the firm (Brigham, Ehrhardt, Nason & Gessaroli, 2016). Firms need to evaluate on bankruptcy action to raise their productivity.

2.4 Literature Review Logic

Many empirical research is being managed to endeavor by explaining a rationale behind the firm's capital structure. Since it determines their productivity, firms have considered capital structure decisions to be of great value and a backbone to their operations. The following determinants and attributes of capital structure for this study will be limited to profitability, liquidity, and size as they relate to the main theories in capital structure. Accordingly, there exists several observable research globally and locally for connectivity between asset composition and productivity in financing of firms in NSE.

Indeed, the focus study in Malaysia Salim and Yadav (2012) evaluated the asset composition and influence on company production. Their report focused on 237 firms from Malaysia applying ROA, ROE, EPS, Q quotient on performance scale besides TD, as well as STD to measure capital structure. Capital structure and firm performance were negatively associated, as per the study and a positive association amid the ROE and STD suggesting that increasing STD when interest rate is low leads to productivity growth while increase LTD results in a cut in productivity. The study in the findings relates productivity

with no impact on the associated attachment and non-profitable companies that offer balance to release the many leverages because of the combined losses and anchorages that companies consider in the asset composition.

Research in Sri Lanka recorded an improved relationship on asset composition and company productivity offered along 2006 through 20210 on asset composition and financial productivity of acting firms in the country of Sri Lanka (Nirajini and Priya, 2013).

Annual reports of sampled companies extracted information was put to correlate several numbers of regressive analytics. A correlation of the DAR, debt equity ratio and LTD supported Modigliani & Miller (1963) relevant theory, which stated that charges offer big tax protection impact and enables the decrease of capital value. In this case, the increment of charges and balance ratio enables the reduction of asset value and supported the management to achieve ROA effectively. The argument presented an improvement in the firm's debt case for the ability to lower the tax expenditure and increase on the company's productivity.

With a focus on firms in London, Nasimi (2016) analyzed the capital structure on viability of 30 London firm's year starting 2005 to 2014. Interest reported a positive considerable impression on ROA, ROE and return on capital invested therefore an ideal degree of capital structure shall be hired to accomplish their objective and productivity. From the study, the author advised managers to include the impact of debt on company's productivity starting from debt positions in an asset composition. In addition, bankers fondly impose the debt contracts considering their impact on company's productivity. To achieve the set level of

efficiency and success in firm's production performance, debt and equity should be optimally incorporated in the capital structure.

In Turkey, Istanbul, a challenge resulted on asset composition and company production holding no relation between the debt-to-equity ratio and ROA from Toraman, Kihc, and Reis (2013) who analysed the association concerning 28 Istanbul manufacturing firms as of 2005 to 2011. Multiple linear regression was used. STL to TA, LTL to TA, and TDR quantified the capital structure, while ROA denoted firm performance. The findings corroborated Modigliani and Miller's hypothesis that business value and capital structure are unrelated. When a company's debt grows, its value should grow as well. Myers (1984) suggested that the negative impact of bankruptcy expenses on debt discourages businesses from taking on more debt.

Locally, Chepkemoi (2013) examined the impact of asset composition of about 295 SMEs in Nakuru town was sampled for the study on financial performance. Correlating and multiple regressions were used and uncovered that capital structure and firm profitability negatively linked although sales increase positively related. The findings revealed that when capital structure is increased, firm profitability decreases, while liquidity and growth in sales increases. Hence, SMEs ownership require advancing the financial from stakeholders by offering perceptions, resources, and liability and sales renewal, accounting information.

Association of production of firms and asset composition as deliberated by Musiega et al (2013) on 30 corporations at the NSE. Secondary figures for 2007-2011 was collected where total assets of a firm and LTD considerably correlated along with a positive

correlation of LTD and ROE though minor and weak. Corporations have implemented the pecking order hypothesis, which converts long debts into a much more costly and so making borrowing less. Most businesses opted to fund their operations with short-term debts, implying that they had less debt in their capital structure and so paid less interest. As a result, the firm's risks are not increased, as debt has a negative impact on performance. Companies must maximize asset composition, or the right debt-equity balance, to satisfy their obligations when they are due to prevent liquidity issues and increase productivity.

Investment structure by Siro (2013) on organizations listed at NSE to investigate the association of asset composition and accounting productivity around 2012. The listed firms were 61 duly registered with market asset authority in Kenya. An inference made showed that leverage and ROE, liquidity, ROI had an existing strong positive link. Accounting productivity of the listed companies in Kenya is indirectly proportional to asset composition. It has also noted that rise of moving ratio that impacts on reducing of ROE, implying that a company's equity should outnumber its debt. According to Myers and Majluf (1984), the information asymmetry problem can be handled if enterprises finance their investments entirely with internal funds. As a result of the information asymmetries, issuing additional stock is typically expensive. As a result, if external accounting is required, debt is preferred over stock (Siro, 2013).

Kaumbuthu (2011) investigated the accounting production of allied and manufacturing sectors in the NSE starting from 2004-2008 and capital structure. Financial performance was measured using ROE while debt-to-equity ratio measured capital structure. An inference made was based on regression analysis showing that financial performance correlates to capital structure negatively. The research relates to one segment of the listed

firms in NSE and regarding keenness about a particular decision making hence the impacts of the research may not be included to the other departments. The findings challenged Jensen and Meckling's (1976) agency paradigm.

With many concepts and analysis describing the firms' capital structure, the issue remains unresolved. The contention remains explaining the optimal capital structure, which many theories have attempted to explain. It is believed ideal capital structure exist when we maximize the cost of the firm then minimize the cost of capital.

2.5 Conceptual framework

This section discussed how variables were interrelated.

Fig. 2.5 Conceptual Model

The conceptual model of the study is shown in Figure 2.1.

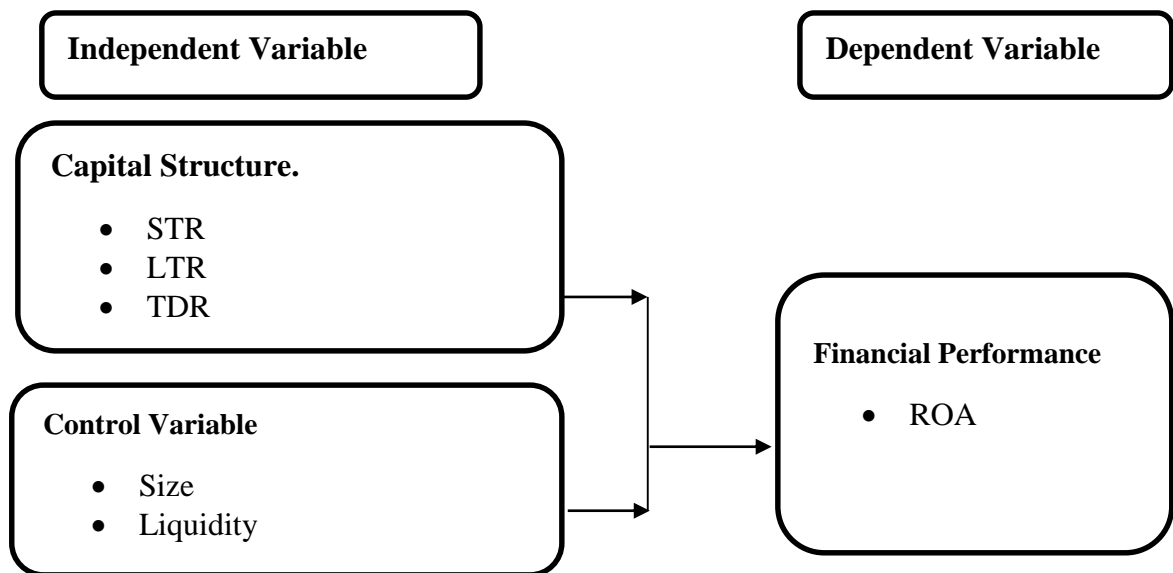


Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review and Knowledge Gaps

Cheronoh (2017) attempted to establish a direct link between capital structure and financial performance in construction, manufacturing, and allied sectors, and found that actual liquidity and return on assets ratio were associated. The research had a gap that the author failed to explain. The study mentioned that liquidity distresses financial performance of a firm while capital structure and size were not related to financial performance.

Mwangi (2016) correlated profitability and capital structure in construction and related industries, concluding that capital structure and profitability are negatively correlated, although firm size is positively correlated. The current study fails to address debt management, which is a fundamental principle and a predictor of profitability in capital structure measurement. Firms should also employ alternative sources of funding, such as equity and preferred shares, and maintain control over LTD at acceptable levels, according to the report.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this chapter those steps taken to arrive at the objectives of the study were outlined. It unveiled the population, methods used to sample elements from the population, methods that was used in getting data from filed and how the collected data was analysed. Each of these sections was aligned with the study objectives.

3.2 Research design

It guides the researcher on the methods to use in collection of data as well as the analysis. The research used a descriptive survey research design to look at Kenyan commercial and service enterprises. According to Adams, J, T, Reside, and White (2007), a survey gathers information from affiliates of a population aiming to define the position of that group in relation to one or more factors. Cooper and Schindler (2008) explain that a descriptive study usually helps in determining and giving the report of the matter at hand. A descriptive design was ideal for the study as it helped in achieving the aim.

3.3 Population

Population for this study included 11 firms in the commercial and services category that have been listed on the NSE for at least 5 years (2015-2019). Because the study encompasses all 11 Commercial and Services firms in Kenya and the target population was limited, the study employed census rather than sampling. The NSE registration marked the population frame. Because data was more readily available and reliable for NSE-listed firms than for non-listed companies, this analysis was limited to them.

3.4 Data Collection

Over a five-year period, secondary data used in the study was got from annual statements and financial statements of commercial and service enterprises in the NSE (2015-2019). The financial data gathered was utilized to calculate the required ROA and other metrics. The chosen period was the most recent, and data from Commercial and Services firms' financial statements for this period was readily available. STR, LTR, TA, TD, and current assets were among the important variables studied and obtained using the formulae provided and discussed in chapter 2.

3.5 Data Analysis

This is purposely to generate profound information after collection of raw facts and figures. It starts by doing necessary clean ups to reduce redundant data. Data analysis helps in drawing meaningful inferences and conclusions with recommendations. The collected data was coded into SPSS 28.0 in readiness for analysis. The findings were analyzed using means, standard deviations and regression and correlation analysis. Tables were easy to understand hence aided in data presentation. Quantitative data was analyzed, measured using SPSS software and measured using multiple linear regression.

3.5.1 Analytical Model

The research utilized several regression models and took the following form.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$$

Where Y= The dependent variable (financial performance i.e., ROA)

X1 = Short-term Debt Ratio (STR)

X2 = Long-term Debt Ratio (LTR)

X3 = Total Debt Ratio (TDR)

X4 = Liquidity Management level

X5 =Size of the firm (natural logarithm of assets)

β_0 = Constant; β_1 , β_2 , β_3 , β_4 and β_5 are Coefficients and ϵ = Error Term

3.5.2 Diagnostic Tests

The study used normality, autocorrelation, heteroskedasticity, and multicollinearity tests to ensure that the data set did not contradict regression assumptions. There was no autocorrelation in the data as detected by Durbin Watson since -2 or +2 showed regular distribution. Heteroskedasticity was tested using scatter plots.

3.5.3 Test of Significance

The coefficient of determination R^2 examined the changes in financial performance of commercial and service firms were explained in their ROE and ROA. In the ANOVA Table, the F test employed established the entire relevance of the model. This was accomplished by comparing the F critical value reported in the F Table with the F critical value calculated in the ANOVA Table. The T-test employed determined the single worth of the study's predictor variables. The p values were interpreted at a 5% significant level. The variables were significant since their P values were less than 0.05.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter focuses on the outcomes, their replies, results of the correlation analysis, descriptive statistics, regression analysis, and diagnostic tests in relation to the study's goal. All the statistical output in this chapter was generated using SPSS 28.

4.2 Descriptive statistics

Table 4.1 displays descriptive statistical study in relation to standard deviation, mean, minimum, and maximum values for the variables used. On average, the ROA between the year 2015 and 2019 of all the 11 commercial and services firms was -.0959 with a SD of .2372. The maximum value of ROA was .28 with a minimum value recorded at -.89. Short-term debt ratio averaged .4144 with maximum value of 1.55 indicating that debt financing was not adopted by some firms and minimum of .11 indicating that some firms were highly levered. Long-term debt ratio averagely stood at .2726 and 1.05 at maximum and .00 minimum. Total debt ratio across the 11 commercial and services firms registered an average of .6871 with 1.78 at maximum and .26 minimum. The mean liquidity ratio among the 11 commercial and services firms studied was 1.4386, with highest and minimum values of 3.18 and .08, respectively, while the average size was 9.5544, with upper and lower limit values of 7.01 and 11.29. Finally, the array between -2 to +2 for skewness and -7 to +7 for kurtosis showed their normalcy except for short-term debt ratio which registered kurtosis of +8.282 indicating that the variables were normally distributed except for short-term debt hereafter assume that normality was not violated.

Table 4.1: Descriptive Statistics

		Statistics					
		ROA (Ratio)	STR (Ratio)	LTR (Ratio)	TDR (Ratio)	Liquidity (Ratio)	Size (Ln)
N	Valid	52	52	52	52	52	52
Mean		-.0959	.4144	.2726	.6871	1.4386	9.5544
Std. Deviation		.23720	.26082	.29831	.38385	.84426	.92111
Skewness		-1.539	2.554	1.227	1.131	.312	-.367
Kurtosis		2.207	8.282	.457	.404	-.866	.366
Minimum		-.89	.11	.00	.26	.08	7.01
Maximum		.28	1.55	1.05	1.78	3.18	11.29

Source: Output from SPSS 28

4.3 Correlation Coefficient

The goal of the study was to see if there was a link between capital structure and profitability in Kenyan commercial and service companies. Table 4.2 shows that, apart from liquidity and firm size, all independent factors have a negative relationship with performance of finances. The table illustrates that ROA and STR have a high negative association ($r=-.564$). The LTR also has a weak negative association ($r=-.441$) with the performance of Kenyan commercial and service enterprises. In Kenya, total debt ratio shows a substantial negative association ($r=-.724$) with financial performance of commercial and service enterprises. The coefficient of correlation has revealed a strong and positive relationship between service and commercial companies' financial performance and liquidity. Furthermore, the findings show that the relationship between the size of commercial and service firms and their financial performance is both positive and modest ($r=.237$).

Table 4.2: Correlation coefficients

		Correlations					
		ROA	STR	LTR	TDR	Liquidity	Size
ROA	Pearson Correlation	1	-.564**	-.441**	-.724**	.450**	.237
	Sig. (2-tailed)		<.001	.001	<.001	<.001	.090
	N	52	52	52	52	52	52
STR	Pearson Correlation	-.564**	1	-.061	.630**	-.535**	.095
	Sig. (2-tailed)	<.001		.667	<.001	<.001	.504
	N	52	52	52	52	52	52
LTR	Pearson Correlation	-.441**	-.061	1	.737**	-.311*	-.207
	Sig. (2-tailed)	.001	.667		<.001	.025	.141
	N	52	52	52	52	52	52
TDR	Pearson Correlation	-.724**	.630**	.737**	1	-.605**	-.096
	Sig. (2-tailed)	<.001	<.001	<.001		<.001	.500
	N	52	52	52	52	52	52
Liquidity	Pearson Correlation	.450**	-.535**	-.311*	-.605**	1	-.391**
	Sig. (2-tailed)	<.001	<.001	.025	<.001		.004
	N	52	52	52	52	52	52
Size	Pearson Correlation	.237	.095	-.207	-.096	-.391**	1
	Sig. (2-tailed)	.090	.504	.141	.500	.004	
	N	52	52	52	52	52	52

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

* . Correlation is significant at the 0.05 level (2-tailed).

4.4 Regression Analyses

The survey used regression analysis to determine the relationship between capital structure and financial performance of commercial and service enterprises listed on the New York Stock Exchange. While the ROA measured performance, the STR, LTR, and TDR measured capital structure. The regression analysis was of the form: “ $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$ ”

Where Y represents the dependent variable (financial performance, i.e., ROA), X1 represents the short-term debt ratio (STR), X2 represents the long-term debt ratio (LTR), X3 represents the total debt ratio (TDR), X4 represents liquidity management level, and X5 represents the firm's size (natural logarithm of assets).

4.4.1 Model Summary

To determine the depth to which the dependent variable is explicated by independent variables, determination coefficients (R²) were used. The analysis came up with an R² of .602. This shows that the whole variation in business performance of commercial and service enterprises is related to a change in financial leverage chosen by Kenyan trade and business firms of 60.2 percent. The Durbin Watson test was also used to see if autocorrelation would damage the model. Because the DW value of 1.538 was larger than 1.5 but less than 2.5, no autocorrelation between the model residuals can be ruled out.

Table 4.3: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.776 ^a	.602	.559	.15755	1.538

a. Predictors: (Constant), Size, STR, LTR, Liquidity, TDR

b. Dependent Variable: ROA

4.4.2 Analysis of Variance

The importance of the relationship between capital structure and performance was determined using ANOVA analyses. Given an f-significance of .001, which is smaller than a p value of 0.05, the regression model is significant. This refers to the fact that a prediction based on the regression coefficient is subject to a 0.1 percent mistake (99.9 percent confidence level). The regression equation is thought to be substantial and that which yields consistent results of the relationship between performance in finance and capital structure of the companies under investigation.

Table 4.4: Analysis of variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.728	5	.346	13.920	<.001 ^b
	Residual	1.142	46	.025		
	Total	2.869	51			

a. Dependent Variable: ROA

b. Predictors: (Constant), Size, STR, LTR, Liquidity, TDR

4.4.3 Regression coefficients

From the regression analysis, the following model was estimated:

$$\text{Profitability (ROA)} = -.534 + .068*\text{size} - 4.912*\text{STR} - 4.748*\text{LTR} + 4.448*\text{TDR} + .044*\text{Liquidity}$$

When all other factors remain constant, the results show that trade and business enterprises have a ROA of -.534 on average. The financial success of commercial and service firms is influenced by their size, which has a negative but considerable impact. The findings also show that a 10% growth in the number of business and commercial enterprises resulted in the in a 6.8% increase in their financial performance. In Kenya, STR has a negative yet significant impact on the profitability and service enterprises' financial performance. An increase of 10% STR will produce to -4.912 increase in Kenyan commercial and services firms' financial performance. LTR has a negative and significant effect on Kenyan commercial and services firms' financial performance. Nonetheless, at a 95% threshold of importance, the effect is substantial. Capital structure on TDR has a significant and positive effect on the financial performance of commercial and services firms in Kenya. At a 95% level of confidence, a 10% rise in TDR will result in a 4.448 increase in Kenyan commercial and services firms' profitability. Liquidity management majorly and favorably impacted on the success of Kenyan commercial and service organizations. At a 95% confidence level, the effect is statistically significant. This shows that improving liquidity management by 10% will enhance financial profitability of Kenyan commercial and service enterprises by 4.4 percent.

Table 4.5: Regression coefficients

Model	Coefficients ^a						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	-5.34	.350		-1.526	.134	-1.239	.170
STR	-4.912	5.373	-5.401	-.914	.365	-15.727	5.903
LTR	-4.748	5.400	-5.971	-.879	.384	-15.618	6.122
TDR	4.448	5.388	7.197	.825	.413	-6.398	15.293
Liquidity	.044	.040	.158	1.098	.278	-.037	.126
Size	.068	.030	.264	2.300	.026	.008	.127

a. Dependent Variable: ROA

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings of the study, conclusions, and the recommendations in accordance with empirical results from chapter four.

5.2 Summary

The study reached 11 commercial and services firms between the periods 2015 to 2019. Data was presented using inferential and descriptive statistics. Descriptive statistics captured standard deviation and mean while inferential statistics was based on regression analysis. All the analysis was conducted at 95% confidence level. In summary, the average ROA for the commercial and services firms was found to be $-.0959$ with a standard deviation of $.2372$. The maximum value of ROA was $.28$ with a minimum value recorded at $-.89$. Short-term debt ratio averaged $.4144$ with maximum value of 1.55 suggesting no use of debt financing by some firms and minimum of $.11$ indicating that some firms were highly levered. Long-term debt ratio averagely stood at $.2726$ with maximum value of 1.05 and minimum of $.00$. Total debt ratio across the 11 commercial and services firms registered an average of $.6871$ with maximum value of 1.78 and minimum of $.26$. Liquidity across the 11 commercial and services firms considered recorded a mean ratio of 1.4386 and maximum and minimum values of 3.18 and $.08$ respectively while the mean size was 9.5544 with maximum and minimum values of 7.01 and 11.29 .

Regression result revealed that 10 percent increase in the size of the commercial and services firms will lead to 6.8 percent rise in the economic performance of corporate and

services companies in Kenya. STR has a statistically significant negative effect on the profitability of commercial and services enterprises in Kenya. An increase of 10% STR will produce to -4.912 increase in Kenyan commercial and services firms' financial performance. LTR has a negative and significant effect on Kenyan commercial and services firms' financial performance. Consequently, at a 95% threshold of significance, the effect is substantial. TDR's capital structure has a considerable and favorable impact on the financial performance of Kenyan commercial and service enterprises. At 95 percent level of confidence, 10 percent rise in TDR automatically opens the door to a 4.448 increase in the profitability of Kenyan commercial and services firms. Liquidity management has a major and favorable impact on the success of Kenyan trade and service organizations. At a 95% level of confidence, the effect is statistically significant. This shows that improving liquidity management by 10% will improve the financial profitability of Kenyan trade and business enterprises by 4.4 percent.

5.3 Conclusion

The main objective of this research work was to examine the impact of capital structure on financial results of commercial and services companies in Kenya. According to the findings, there is a considerable link between capital structure and performance in terms of financials as assessed by ROA. It is evident that, short-term, total debt ratios and long-term debt had a negative but statistically significant relationship with firm's financial performance, an indication that an increase in leverage causes a decline in financial performance. According to the findings of this study, debt has a negative effect on performance in financial perspective of commercial and services firms listed at NSE. That is, an organization with more debt relative to equity is likely to have a lower performance

compared to a firm with less debt. The research also suggests that organizations with sufficient liquidity (more current assets than current debts) will do well. The research further reveals that the size of the organization size and liquidity had a positively and significantly affected the financial performance of firms. Size of firms therefore causes an improvement in the performance in terms of financials of listed commercial and services firms in NSE.

5.4 Recommendations

Use of optimal capital structure should be considered by firms, in an appropriate debt-equity mix to make them profitable and avoid bankruptcy hence meet their debts when due.

Political stability determines the firm's performance irrespective of size and financial basis hence political circle should focus stabilizing the country to achieve enhanced financial performance.

The government should control inflation and exchange ratio to guard against losses since they greatly affect performance of listed firms. Firms and investors at NSE should be provided with incentives and goodwill, essential to hasten performance.

5.5 Limitations of the Study

Since the data retrieved from the annual statements is secondary, this might have affected the output, producing statistical figures with crucial variable measurements which the research had no control over. This includes doctoring of some financial statements to meet the management requirements hence not giving the right position of some commercial and services firms. Capital structure may not be same in all the firms due to internal and external factors of the individual firms.

5.6 Suggestions for further Study

A study on capital structure as adopted by firms should be undertaken to enable them impact on firm value and therefore, performance. This include targeting a specific company, or it's segment also stretching the periods longer to compare the findings.

A study on management's view concerning capital structure, application and it's impacts on firm operations should be conducted to help take a clear picture of what should be done by the management and shareholders in ensuring that they optimally use capital structure.

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APPENDICES

APPENDIX I: POPULATION DATA SUMMARY

Year	Firm	ROA	STR	LTR	TDR	Liquidity	SIZE (NATURAL LOG OF TOTAL ASSETS)
2015	Express Ltd	-0.14	0.22	0.510	0.73	1.126	8.645321965
2016	Express Ltd	-0.26	0.30	0.637	0.94	0.852	8.579298542
2017	Express Ltd	-0.25	0.45	0.736	1.19	0.597	8.556221555
2018	Express Ltd	-0.22	0.38	1.046	1.43	0.619	8.506426243
2019	Express Ltd	-0.05	0.11	0.830	0.94	1.497	8.673699941
2015	Sameer Africa PLC	-0.004	0.33	0.001	0.34	2.205	9.574173114
2016	Sameer Africa PLC	-0.20	0.44	0.002	0.44	1.580	9.517310331
2017	Sameer Africa PLC	0.004	0.37	0.012	0.38	1.549	9.472737147
2018	Sameer Africa PLC	-0.205	0.56	0.008	0.56	0.904	9.412934736
2019	Sameer Africa PLC	-0.694	0.65	0.301	0.95	0.866	9.184931787
2015	Kenya Airways Ltd	-0.14	0.45	0.584	1.03	0.502	11.26022169
2016	Kenya Airways Ltd	-0.17	0.46	0.761	1.23	0.404	11.1997963
2017	Kenya Airways Ltd	-0.07	0.49	0.819	1.31	0.375	11.16478099
2018	Kenya Airways Ltd	-0.06	0.95	0.070	1.02	0.216	11.13555878
2019	Kenya Airways Ltd	-0.07	0.35	0.745	1.09	0.378	11.2915309
2015	Nation Media Group	0.180	0.28	0.012	0.29	2.095	10.10369086
2016	Nation Media Group	0.140	0.28	0.001	0.29	2.073	10.08543686
2017	Nation Media Group	0.120	0.28	0.003	0.28	2.022	10.05385794
2018	Nation Media Group	0.100	0.29	0.003	0.30	1.954	10.04914046
2019	Nation Media Group	0.071	0.30	0.060	0.36	1.934	10.08266691
2015	Standard Group Ltd	-0.075	0.43	0.178	0.61	0.955	9.587990529
2016	Standard Group Ltd	0.050	0.39	0.140	0.53	1.169	9.64393911
2017	Standard Group Ltd	-0.050	0.50	0.086	0.58	0.847	9.64929951
2018	Standard Group Ltd	0.056	0.47	0.115	0.58	0.912	9.669886855
2019	Standard Group Ltd	-0.12	0.55	0.108	0.66	0.597	9.62282989
2015	TPS EA Ltd	-0.02	0.14	0.246	0.39	1.040	10.19909116
2016	TPS EA Ltd	0.008	0.12	0.316	0.44	1.640	10.23001735
2017	TPS EA Ltd	0.007	0.14	0.336	0.48	1.079	10.24271091
2018	TPS EA Ltd	0.010	0.28	0.204	0.48	0.434	10.24546635
2019	TPS EA Ltd	0.010	0.16	0.328	0.49	0.665	10.25494567
2015	Scangroup Ltd	0.038	0.30	0.015	0.31	2.756	10.09581348
2016	Scangroup Ltd	0.034	0.35	0.0003	0.35	2.378	10.12989597
2017	Scangroup Ltd	0.035	0.35	0.0004	0.35	2.282	10.13858409
2018	Scangroup Ltd	0.042	0.38	0.035	0.41	2.070	10.15912178
2019	Scangroup Ltd	0.038	0.42	0.020	0.44	1.200	10.10731761
2015	Uchumi Supermarket Ltd	-0.53	0.81	0.077	0.88	0.343	9.807060969
2016	Uchumi Supermarket Ltd	-0.57	1.29	0.133	1.42	0.259	9.699162441
2017	Uchumi Supermarket Ltd	-0.39	1.55	0.229	1.78	0.083	9.636215098
2018	Uchumi Supermarket Ltd						
2019	Uchumi Supermarket Ltd						
2015	Longhorn Publishers Ltd	0.104	0.37	0.077	0.45	1.809	8.838420879
2016	Longhorn Publishers Ltd	0.056	0.23	0.262	0.49	3.183	9.271131291
2017	Longhorn Publishers Ltd	0.072	0.31	0.185	0.49	2.195	9.269217243
2018	Longhorn Publishers Ltd	0.076	0.32	0.243	0.57	2.114	9.381571527
2019	Longhorn Publishers Ltd	0.079	0.36	0.165	0.53	1.728	9.370000961

2015	Deacons (East Africa) Plc	0.046	0.23	0.157	0.39	2.902	9.395513702
2016	Deacons (East Africa) Plc	-0.121	0.36	0.124	0.49	1.644	9.358254736
2017	Deacons (East Africa) Plc	-0.593	0.66	0.202	0.86	0.800	9.152116428
2018	Deacons (East Africa) Plc	0.275	0.24	0.025	0.26	3.112	7.005137596
2019	Deacons (East Africa) Plc						
2015	Nairobi Business Ventures Ltd	0.025	0.37	0.222	0.59	1.984	8.048286545
2016	Nairobi Business Ventures Ltd	0.028	0.25	0.428	0.68	2.735	8.191490038
2017	Nairobi Business Ventures Ltd	-0.23	0.24	0.451	0.69	2.990	8.157497989
2018	Nairobi Business Ventures Ltd	-0.890	0.50	0.871	1.37	1.647	7.934375089
2019	Nairobi Business Ventures Ltd	-0.57	0.54	1.054	1.59	1.508	7.785168098