THE RELATIONSHIP BETWEEN LEVERAGE AND FINANCIAL PERFORMANCE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE

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DECLARATION

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

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

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The research project report has been submitted with my approval as a university supervisor.

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DEDICATION

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ABSTRACT

Leverage is a keystone mechanism that can be deployed by management to maximize shareholder return and boost financial performance. Where cash is not available for investing in projects that create value for the organization, companies may apply leverage in order to tap into opportunities that generate additional returns for the organization. These kinds of projects should maximize value for shareholders in the long run. In addition, the use of leverage in the capital structure lowers the company’s weighted average cost of capital and provides tax gains for the company.

Leverage comes at a price. When leverage increases, studies indicate that the risk attributable to the company also increases. Leverage can raises the chances of bankruptcy for the organization. Cash-flows are directed towards the servicing of debts regardless of whether the company makes a profit or not.

This study will seek to establish the relationship between leverage and performance of listed companies at the Nairobi Stock Exchange with reference to the period 2003-2007 when the NSE experienced an unprecedented boom. Companies at the market did take up different forms of debt to maximize returns and the researcher will seek to find out the extent of relationship between the debt and the resulting performance.

The main sources of literature will be: books, internet sources, journals, annual financial reports and press reports. A descriptive research design will be adopted in the collection of data. Data will be collected using interviews and secondary sources such as annual financial reports of the targeted companies. Analysis will be done with the use of SPSS and findings presented in the form of pie charts, graphs and tables.
TABLE OF CONTENTS

LIST OF TABLES ..................................................................................................................................... vii

LIST OF ABBREVIATIONS ....................................................................................................................... ix

CHAPTER ONE: INTRODUCTION

1.1 Background information .................................................................................................................. 1
1.2 Statement of the problem ................................................................................................................ 6
1.3 Objectives of the study ................................................................................................................... 8
1.4 Importance of the study .................................................................................................................. 8

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction .................................................................................................................................... 9
2.2 Leverage ....................................................................................................................................... 9
2.3 Determinants of capital structure ................................................................................................. 11
2.4 Theories of capital structure ....................................................................................................... 14
2.5 Empirical studies .......................................................................................................................... 21
2.6 Conclusion ................................................................................................................................... 26

CHAPTER THREE: METHODOLOGY

3.1 Introduction ................................................................................................................................ 27
3.2 Research design ............................................................................................................................ 27
3.3 Target population .......................................................................................................................... 27
3.4 Sampling frame ............................................................................................................................ 27
3.5 Sampling size ............................................................................................................................... 27
3.6 Data collection procedures .......................................................................................................... 28
3.7 Data analysis ............................................................................................................................... 28
CHAPTER FOUR: DATA ANALYSIS RESULT AND FINDING

4.1 Introduction ........................................................................................................... 29
4.2 Descriptive statistics ............................................................................................. 29
4.3 Comparative mean ratings for industry grouping ................................................. 31
4.4 ANOVA a analysis .................................................................................................. 32
4.5 Fixed effect regression model ................................................................................. 33
4.6 Correlation analysis ............................................................................................... 35
4.7 Ordinary least square regression analysis ............................................................. 36
4.8 Summary ............................................................................................................... 38

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary ............................................................................................................... 37
5.2 Conclusions ............................................................................................................ 38
5.3 Recommendation .................................................................................................. 39
5.4 Limitations of the study ......................................................................................... 40
5.5 Suggestion for further research ............................................................................. 40

REFERENCES ................................................................................................................. 44

APPENDIX ..................................................................................................................... 48
LIST TABLES

Table 1 Descriptive Statistics
Table 2 Comparative mean ratings for the various industry grouping
Table 3 Anova table
Table 4 Type III of fixed effects
Table 5 Estimates of fixed effects
Table 6 Correlations
Table 7 Regression analysis
ABBREVIATIONS

CMA- Capital Market Authority
DPS – Dividends per Share
EBIT – Earnings Before Interest & Tax
EPS – Earnings per Share
ICAPK – Institute of Certified Public Accountants of Kenya
NSE – Nairobi Stock Exchange
ROA – Return on Asset
ROE – Return on Equity
SPSS – Statistical Package for the Social Sciences