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Muli, J., & Ibrahim, A.

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[1] Muli, J., & Ibrahim, A.

[1] MBA Candidate (Finance option), Jomo Kenyatta University of Agriculture and Technology, Kenya
[2] Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

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ABSTRACT

This research examined the effect of capital structure on financial performance of firms listed at NSE. To achieve this, the researcher used Debt ratio, Equity ratio and retained earnings as independent variable and Return on Equity as the dependent variable. The research adopted a descriptive research design using census method where the target population comprised of all the firms listed at NSE. The study relied on secondary data obtained from NSE, CMA, CBK, companies published financial statements and other published information. The data collected was for the period from 2016 to 2020. Data analysis and presentation involved computation of ratios, measures of spread and measures of central tendencies which included mean, standard deviation, minimum and maximum. In addition, inferential statistics were utilized with computation of co-efficient of correlation. Regression analysis was used to express the relationship between the independent and dependent variable. The researcher used tables to present the analyzed data for interpretation and explanation. From the analysis results, the study established that debt ratio negatively but significantly affects financial performance of NSE listed firms in Kenya. This was shown by a beta value of -0.186 and sig value of 0.033<0.05. The results bear the implications that increasing the levels of debt ratio with one-unit results to 0.186 unit's reduction in the levels of financial performances of the NSE listed firms. The results also implied that equity ratio have a positive but insignificant effect on financial performance of NSE listed firms. This is shown by a beta value of 0.098 and sig value of 0.285>0.05. The results implied that increasing equity ratio with one-unit results to an increase of 0.098 units on financial performances of the NSE listed firms. Retained earnings on the other hand positively and significantly affects financial performance of NSE listed firms in Kenya. This is shown by a beta value of 0.365 and sig value of 0.001<0.05. The results implied that increasing retained earnings with one-unit results to an increase of 0.365 units on financial performances of the NSE listed firms. The study recommended the management of the NSE listed firms to enhance their levels of retained earnings as well as equity ratios since the practices bears a positive effect on financial performances.

Key Words: *Equity Ratio, Retained Earnings, Return on Equity, Capital Structure*

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INTRODUCTION

Capital structure is the way in which a firm finances its operations which can either, be through debt or equity capital or a combination of both, Brigham, (2004). Capital structure about putting in place the structure, processes and mechanism that may ensure the firm is being directed and managed in a way that enhances long-term equity value through accountability of managers and enhancing organizational performance, (Kajananthan& Nimalthasan 2013). In finance capital structure is the way firms finances its assets through the mixture of equity, debt, and hybrid securities (Saad 2010). It is commonly known that capital structure can be used to maximize a firm's value by minimizing its capital cost and managers must identify the optimal capital structure of their companies. Nguyen and Nguyen (2020) revealed that capital structure has a negative effect on firm performance, while it is stronger in state-owned enterprises and weaker in privately-owned enterprises in Vietnam. According to Brealey and Myers (2003), the choice of capital structure is fundamentally a marketing problem. Managers therefore face a challenge in coming up with optimal mix between debt and equity. Strategies used by manger to improve firm performance is based on utilization of debt and equity proportions in firm capital structure (Gleason et al.2000). Hence, most of firms try to achieve optimal capital structure to minimize Weighted Average Cost of Capital (WACC) and maximize firm performance. A company will have an optimal capital structure when the debt and equity can be combined to reduce the cost of capital and enhance the firms' profitability.

The optimum capital mix helps in generating returns and to survive in a competitive industry. One can expect the growth of a company to be affected and its profitability stunted if the optimum capital is not achieved by the company. Myers (1984) and Myers and Majluf (1984) developed the concept of optimal capital structure based on the notion of asymmetric information. The existence of information asymmetries between the firm and likely finance providers causes the relative costs of finance to vary between the different sources of finance. For example, an internal source of finance where the funds provider is the firm will have more information about the firm than new equity holders; thus, these new equity holders will expect a higher rate of return on their investments. It will cost the firm more to issue new equity shares than using internal funds. The same argument can be provided between internal finance and new debt holders. Thus, it can be concluded that there is a hierarchy of firm preferences with respect to the financing of their investments. This "pecking order" theory suggests that firms initially rely on internally generated funds (e.g., retained earnings) where there is no existence of information asymmetry. Firms then turn to debt if additional funds are required and finally, they issue equity to cover any remaining capital requirements. The order of preferences reflects the relative costs of various financing options (Abor, 2005, p. 440).

Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. A firm can choose to raise funds by issuing stocks, debt, or other accessing it from sources of financing such as: convertible bonds, warrant, forward contract, overdrafts etc. Since capital structure impact wealth maximization as well as the ability of a firm to sustain in a competitive market, making the right capital mix decision is paramount. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Most companies will rely on the statement of financial position, income statement and cashflow statement to interpret their financial performance. A balance sheet will show assets, liabilities, and shareholders' equity at the end of Company's financial year although some companies prepare their financial reports semi-annualy or quarterly basis. A balance sheet provides a basis for computing rates of return and evaluating

its capital structure. On other hand income statement summarizes a company's revenues and expenses, quarterly and annually, for the fiscal year.

Cash flow statement is a combination of both the income statement and the balance sheet. it provides a reconciliation between net income and cash flow. It gives details on the amount company spent on stock repurchases, dividends, and capital expenditures as well as source and uses of cash flow from operations, investing, and financing. The Nairobi Securities Exchange (NSE) is a leading African Exchange founded in 1954. NSE plays a vital role in the growth of Kenyan's economy by encouraging savings and investment, as well as helping local and international companies access cost-effective capital. It consists of 63 companies classified under the following sectors Exchange Traded Funds, Real Estate Investment Trust, Telecommunication, Manufacturing & Allied, Investment services, Investment, Insurance, Energy & Petroleum, Construction & Allied, Commercial and Services, Banking, Automobiles & Accessories and Agricultural. This study seeks to establish how the capital structure relates to performance of all the firms listed in NSE covering all sectors.

Statement of the Problem

Several research has been conducted on capital structure and how it relates to various aspects of the organization. For examples Chiang (2002) undertake a study and the findings of the study put forth that profitability and capital structure are interrelated; the study sample included 35 companies listed in Hong Kong Stock Exchange. Further research by Pandey (2004), Chakraborty (2010), Haldlock and James (2002) to determine the relationship between capital structure and profitability came up with the findings which were differing in nature as some studies confirmed a positive relationship while other studies confirmed positive relationship between the variables.

The signalling theory states that where information is availed, then debt should have a positive significant impact on company's performance. The agency theory, on the other hand states that debt can have two different effects on profitability, both negative and positive. The positive effect occurs where there is an agency cost between principle and agent. Whereas the negative correlation is born due to the existence of agency costs between creditors and stockholders. As of taxation theory, the influence of taxation is dynamic in nature, hence according to this principle, it is not easy to establish a correlation between debt and performance; as it is dependent on tax deductibility of interest, revenue, tax, and non-liabilities tax cushion (Kebewar, 2012).

According to Buser (1981), the capital structure decision of a bank is like that of a non-financial firm. The critical question facing organizations which require additional funds is whether to secure debt or raise through equity putting in mind the need for grown and expansion. In Tanzania, Gaston & Mbogo (2020) examined effects of capital structure on business profitability among processing firms in Tanzania by identifying and analyzing the relationship between long-term debt to equity ratio and firms' measures of profitability and concluded that the capital structure has weak and insignificant effect on the business profitability. In Kenya, Yegon, Cheruiyot, Sang, & Cheruiyot, 2014) found that short term debt had a positive relationship towards profitability. Despite the various research on capital structure, there is need to research on how the performance of firms listed in the Nairobi Stock are influenced by capital structure. In view of the above findings this study therefore investigated the effect of capital structure on financial performance of firms listed at the Nairobi securitiesexchange.

Objectives of the Study

The general objective of the study was capital structure on financial performance of firms listed at the Nairobi securities exchange. The study was guided by the following specific objectives:

- To investigate the effect of debt ratio on financial performance of firms listed at the Nairobi securities exchange.

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- To determine the effect of equity ratio on financial performance of firms listed at the Nairobi securities exchange.
- To find out how retained earnings affect financial performance of firms listed at the Nairobi securities exchange.

The research tested the following hypotheses;

- **H_{01}:** There is no positive significant relationship between debt ratio and financial performance of firms listed at the Nairobi Securities Exchange.
- **H_{02}:** There is no positive significant relationship between equity ratio and financial performance of firms listed at the Nairobi Securities Exchange.
- **H_{03}:** There is no positive significant relationship between retained earnings and financial performance of firms listed at the Nairobi Securities Exchange.

LITERATURE REVIEW

Theoretical Framework

Modigliani Miller Irrelevance Theory

Capital structure theory was initiated by seminal study of Modigliani & Miller (1958). The theory is based on certain assumptions include no taxes, homogenous expectations, perfect capital markets, and no transaction costs. Modigliani and Miller advocate capital structure irrelevancy theory, which suggests that the valuation of a firm is irrelevant to the capital structure of a company. The Modigliani and Miller Approach indicates that the value of a firm that has a mix of debt and equity is the same as the value of an unleveraged firm (a firm that is wholly financed by equity) if the operating profits and prospects are same.

The theory is based in a perfect market with two propositions one with tax and the other without tax. This theory which called "capital structure irrelevance" states that the relationship between capital structure and cost of capital is irrelevant, that mean the increases in debt does not effect on cost of capital. In a result, the investor's expectations of future benefits are totally affected on firm value and cost of capital. Latterly, Modigliani and Miller introduced new evidence that cost of capital effect on capital structure, and thus effect on firm value with taking taxes as assumption into consideration, which refer that borrowing give tax advantage, because the interest will deduct from the tax which result what is known as tax shields, which in turn reduce the cost of debt and then maximize the firm performance.

Trade-Off Theory

One of the main assumptions in the Modigliani and Miller (1958) is that there are no taxes. The trade-off theory is a development of the MM theorem but taking in consideration the effects of taxes and bankruptcy costs. This theory is considered as the first step for the development of many other theories which have studied how firms choose their capital structure. Modigliani and Miller's (1958) theory can be used to describe how firms use taxation to manipulate profitability and to choose an optimum debt level. Debt level on the other side increases the risk of bankruptcy or as we call it the bankruptcy costs because as the debt-to- equity ratio increases the debt holders will require higher interest rates but also the shareholders will demand higher profits for their investments. (Brealey and Myers, 2003).

According to the trade-off theory, the manager should choose the debt ratio that maximizes firm value (Brealey and Myers, 2003). So according to the trade-off theory, companies' capital structure decisions point towards a target debt ratio, where debt tax shields are maximized, and bankruptcy costs associated with the debt are minimized. According to Myers (2001) debt offers firm a tax shield. The advantage is because the interest of debt is deductible before paying taxes Modigliani and Miller (1963). "This means, among other things, that the tax advantages of debt financing are somewhat greater than we originally suggested" (Modigliani and Miller, 1963). So firms increase the level of debt in order to gain the maximum tax

benefit but at the other side they increase the risk of a possible bankruptcy. According to the static trade-off hypothesis, a firm's performance affects its target debt ratio, which in turn is reflected in the firm's choice of securities issued and its observed debt ratios (Hovakimian, 2016).

Pecking Order Theory

The Pecking Order Model developed by Myers in 1984. According to this model firms prefer internal funding over external funding. In case firms require external funding, they would prefer debt over equity and equity is generated as last resort. So, the firms do not have predetermined or optimum debt to equity ratio due to information asymmetry. The firms adopt conservative approach when it comes to dividends and use debt financing to maximize the value of firm. When it comes to pecking order theory it has been supported by many academics such as Asquith and Mullins (1986) and Eckbo (1986) had shown evidence of adverse selection relating to equity issues. While research by Frank and Maksimovic (1990) provided similar evidence on experimental bases regarding firm's financing requirements.

One of the most renowned empirical tests on Myers and Majluf's (1986) pecking order theory is Shyam-Sunders and Myers (1999) paper. They studied 157 large US firms which had continuous data available from 1971 to 1989. Shyam-Sunder and Myers (1999) tested both the static trade-off theory and the pecking order theory. First, they build a model in which a unit of financing deficit should result in an even change in firm debt. Thus, the slope coefficient in pecking order theory should be one. Financing deficit derives from firm cash flows being inadequate to finance annual dividends, investments, and changes in working capital. Shyam- Sunder and Myers (1999) find the slope coefficient to vary between 0.69 and 0.85 with coefficient of determination varying between 0.68 and 0.86 They show that firms' financing deficit is mostly financed with debt which they interpret as supportive evidence for pecking order theory. Many researchers conducted on developing countries support pecking order theory. One such research was done in 2004 on Brazilian economy supported the above- mentioned notion. It was concluded that the main reason was the difficulty in issuing equity. Abu Jalal (2007) conducted his research on 17000 non-financial firms across 41 different countries and found that adverse selection costs and information asymmetry were main cause of debt issue. But at same time these two elements did not play vital role in developed countries as compared to developing countries.

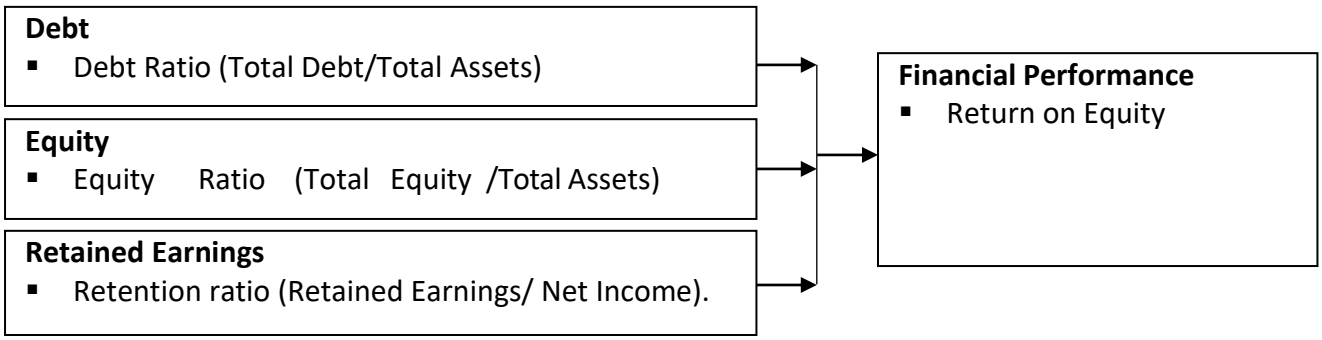
Agency Theory

The agency theory is based on the notion that managers will not always act in the best interest of the shareholders. Jensen and Meckling (1976) further elaborate on this concept by identifying two main conflicts between parties to a company, firstly, between the managers and shareholders, and secondly, between the shareholders and the creditors. In the first instance, managers are tempted to pursue the profits of the firms they manage to their own personal gain at the expense of the shareholders. In the latter instance, debt provides shareholders with the incentive to invest sub-optimally. Harris and Raviv (1991) argue that if an investment yield returns higher than the face value of the debt, the benefits accrue to the shareholders.

Conversely, if the investment fails, the shareholders enjoy limited liability by exercising their right to walk away. This leaves the debt holders with a firm whose market value is less than the face value of the outstanding debt. Another potential agency cost of debt is pointed out by Myers (1977). He notes that when firms are on the verge of bankruptcy, there is no incentive for shareholders to invest more equity capital, even if positive Net Present Value (NPV) projects are available. This is because the value derived from the projects will accrue mainly to the debt holders. The implication is that high debt levels may result in the rejection of value increasing projects.

Stulz (1990) argues that debt payments may affect shareholders both positively and negatively. On the positive note, debt payments force managers to pay out interest thereby reducing the potential overinvestment problem. On the negative side, excessive debt may lead to high interest repayments, which may lead to the rejection of profitable projects, thus leading to the underinvestment problem. Capital structure is therefore determined by a trade-off between the benefits and costs of debt. Considerable work has been done to test the validity of the agency cost hypothesis. For example, Kim and Sorensen (1986) detected the presence of agency costs in CompStat listed firms in the form of a strong relationship between insider ownership and leverage. Vilasuso and Minkler (2001) employ a dynamic model of capital structure on a set of 28 publicly held firms and demonstrate that agency costs are associated with shifts in leverage.

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Empirical Review

Bain (1951) who studied the relationship between profitability and structural variables, such as concentration, growth, economics of scales, and advertising. Bain found that concentration had a positive impact on profitability. Mann (1966) supported Bain's findings when he indicated that there was a positive relationship between concentration and profitability. Additionally, other researchers such as Collins and Perston (1968), Weiss (1974), Porter (1979), Marvel (1980), and Bradburd and Caves (1982) have showed that industry concentration had a positive effect on profitability (Elmendorf, p.62). In the stock market, Ghosh, Nag, and Sirnmans (2000) confirmed that ROA is widely used by market analysts as a measure of financial performance, as it measures the efficiency of assets in producing income.

In another field, Mishra et al. (2009) indicated that returns on assets (ROA), a measure of financial performance commonly utilized in the farm management literature, is the ratio of net farm income plus interest payment to total assets. Because many researchers adopted and used return on assets to measure the firm's financial performance, the current study also uses ROA as the dependent variable for analysis. Gill, et al., (2011) seeks to extend Abor's (2005) findings regarding the effect of capital structure on profitability by examining the effect of capital structure on profitability of the American service and manufacturing firms. The Empirical results of the study show a positive relationship between short-term debt to total assets and profitability and between total debt to total assets and profitability in the service industry.

Sogorb and López (2003) used a sample of 6482 Spanish SMEs during the five-year period 1994–1998.Using panel data methodology, they found evidence that SMEs attempt to achieve a target or

optimum leverage (like that suggested by the trade-off model) which is explained as a function of some specific characteristics of the firm, and they found less support for the view that SMEs adjust their leverage level according to their financing requirements (pecking order model). Also according to their study, the coefficient of the effective tax rate is positive and statistically significant, so if SMEs have to pay more taxes they should increase the use of debt to reduce tax bills, but there are other costs like depreciation which are considered non-debt tax shields that reduces the importance of the fiscal advantage of debt.

METHODOLOGY

Descriptive research design was preferred because it is quantitative in nature, and cross- sectional thus allowing sections belonging to the same group to be studied. The target population for the study was 64 firms listed at the NSE. Census approach was used. Data was collected mainly from secondary sources where a record survey sheet was used to collect the data. Secondary data was collected from published annual financial reports of NSE, CMA, various web sites, annual financial reports of the listed firms and other documents which the researcher found useful to the study.

FINDINGS AND DISCUSSION

Descriptive Statistics

The analysis of the study was conducted through SPSS and the period of focus was between 2016 and 2020. According to the results outlined in Table 1, financial performance of the listed firms assessed through return on equity ranged between -0.27951 to 0.439721 with associated mean of 0.037921 and standard deviation of 0.08139. The range of debt was from 0.13364 to 7.024674 with a mean of 1.65466 and standard deviation of 1.33313. Equity ratio ranged from -0.01868 to 1.2359 with associated mean of 0.219755 and standard deviation of 0.387965. Retained earnings recorded a minimum of 0.108797 and a maximum of 2.97486 with a mean of 0.102468 and standard deviation of 0.387965. The results show that debt ratio bears the highest impact on financial performance of the NSE registered firms.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	64	-0.27951	0.439721	0.037921	0.08139
Debt Ratio	64	0.13364	7.024674	1.65466	1.33313
Equity Ratio	64	-0.01868	1.2359	0.219755	0.387965
Retained Earnings	64	0.108797	2.97486	0.102468	0.423795

Diagnostic Tests Results

Prior data analysis, the study conducted diagnostic tests on the variable to ensure that the assumptions of the linear regression model are adhered to. Before the use of ordinary least square model, the data needs to be examined to ascertain whether it satisfies the assumptions of the model. The study thus conducted diagnostic test to ensure that the assumptions of ordinary least square were satisfied before conducting a multiple linear regression analysis. The tests included in the study comprised of multicollinearity test, normality test and autocorrelation.

Multicollinearity Test

Multicollinearity is perceived as excessive correlation between the independent variables. Where there is a high correlation amongst the predictor variables, the beta coefficients and the standard errors enlarges making it impossible or difficult in assessing the relative importance of the predictor variables. In assessing the multicollinearity, the study applied a correlation matrix. Variance Inflation Factor values and tolerance of the variables were applied with a threshold of 0.2 for tolerance value and less than 10 for VIF values as indicators of no multicollinearity.

Table 2: Multi-collinearity Test Results

Collinearity Statistics		
Variable	Tolerance	VIF
Debt Ratio	0.318	1.369
Equity Ratio	0.343	1.571
Retained Earnings	0.851	2.901

Normality Test

The study adopted Kolmogorov-Smirnov (K-S) Test in testing the normality of the dependent variable. In running the normality test, the null hypothesis is that the secondary data is not normally distributed. This is supposed to be rejected whenever the p-values exceeds 0.05. According to the results in Table 3, both Shapiro-Wilk and Kolmogorov-Smirnova tests had p-values greater than 0.05. This implied that the secondary data used in the study was normally distributed thus the null hypothesis was rejected.

Table 3: Kolmogorov-Smirnov Test of Normality

Kolmogorov-Sminorv				Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
ROE	.176	64	.365*	.726	64	.627

*. This is a lower bound of the true significance.

Autocorrelation

Autocorrelation assesses similarity between of a specific time series and a lagged valued of that series in a successive time interval. The study applied Durbin-Watson test to assess autocorrelation. The test depicts that a test statistic value of ranging from 0 to 4 where a value of 2 shows no autocorrelation, a statistic below 2 depicts existence of a positive autocorrelation while a statistic above 2 depicts existence of a negative autocorrelation.

Table 4: Autocorrelation Test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.586[a]	0.343	0.294	0.645448	1.995

Predictors: (Constant), Debt ratio, Equity Ratio and Retained Earnings
Dependent Variable: ROE

Multiple Regression Analysis

The study conducted a multiple regression analysis to assess the relationship between the independent variables (debt ratio, equity ratio and retained earnings) with the dependent variable (Financial performance). The model summary results outlined in Table 5. revealed existence of a moderate relationship between the combined independent variables and the dependent variables as shown by R-value of 0.509. The coefficient of determination represented by the value of R-square shows that the combined independent variables account for 25.9% of variations of financial performances of NSE listed firms. The other percentage is accounted by other financial structure indicators not included in the study.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.509[a]	0.259	0.208	1.042598	.509[a]

a. Predictors: (Constant), Debt ratio, Equity Ratio and Retained Earnings

b. Dependent Variable: Financial performance

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The study employed Analysis of Variance (ANOVA) to test the statistical significance of the model linking independent variables with the dependent variables. The study assessed the level of significance by comparing the F-calculated value from the ANOVA results with the F- critical value from the F-statistics table at 0.05% using (3,63). From the F-statistics table, the F-critical value was 2.76 which was less than the F-calculated value of 6.998 implying that the model was statistically significant thus a good fit for the study.

Table 6. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.975	3	3.992	6.998	0.012[b]
	Residual	34.223	60	0.570		
	Total	46.198	63			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Debt ratio, Equity Ratio and Retained Earnings

The regression coefficient results outlined in Table 7 shows that debt ratio negatively but significantly affects financial performance of NSE listed firms in Kenya. This is shown by a beta value of -0.186 and sig value of 0.033<0.05. The results bear the implications that increasing the levels of debt ratio with one-unit results to 0.186 unit's reduction in the levels of financial performances of the NSE listed firms. The results also implied that equity ratio have a positive but insignificant effect on financial performance of NSE listed firms. This is shown by a beta value of 0.098 and sig value of 0.285>0.05. The results imply that increasing equity ratio with one-unit results to an increase of 0.098 units on financial performances of the NSE listed firms. Retained earnings on the other hand positively and significantly affects financial performance of NSE listed firms in Kenya. This is shown by a beta value of 0.365 and sig value of 0.001<0.05. The results imply that increasing retained earnings with one-unit results to an increase of 0.365 units on financial performances of the NSE listed firms.

Table 7: Regression Coefficients

Unstandardized Coefficients			Standardized Coefficients		
Predictors	B	Std. Error	Beta	t	Sig.
(Constant)	0.296	0.165		1.7939	0.009
Debt Ratio	-0.186	0.12	-0.223	-1.550	0.033
Equity Ratio	0.098	0.104	0.057	0.9423	0.285
Retained Earnings	0.365	0.111	0.316	3.2883	0.001

The optimal regression model of the study thus becomes:

ROE=0.296 + 0.365(Retained Earnings) + 0.098(Equity Ratio) - 0.186 (Debt Ratio)

The model results show that holding other factors constant, financial performance of NSE registered firms stands at 0.296. Amongst the independent variables, Retained Earnings accounts for the highest effect on financial performance followed by Equity Ratio while Debt Ratio bears a negative effect on financial performance. All the predictor variable was statistically significant except debt ration which had p-value greater than 0.05.

CONCLUSIONS AND RECOMMENDATIONS

The findings of the study lead to conclusions that there exists a moderately high relationship between capital structure and financial performance of NSE listed firms and that 34.3% of variations in financial

performance can be attributed to changes in the levels of debt ratio, retained earnings and equity ratio. Additionally, the researcher concluded that financial performance of NSE listed firms in Kenya is significantly affected by retained earnings, equity ratio insignificantly affected by equity ratio and negatively affected by debt ratio. From the ANOVA results, the study concluded that the model linking financial performance with financial structure was statistically significant and thus a good fit for the study.

The study further concluded that retained earnings bears a positive and significant effect on financial performance of NSE listed firms which implies that the firms with high levels of retained earnings attains high financial performances. The higher the levels of retained earnings within a firm, the higher the performance probability the firm possesses. The study also concluded that equity ratio positively but insignificantly affects the financial performances of the NSE listed firms implying that firms whose equity levels high achieves financial performances though to insignificant levels. On debt ratio, the study concluded that debt ratio bears a negative but significant effect on financial performances of the NSE listed firms implying that firms with high levels of equity ratio performances poorly in financial performance aspects.

The study established a negative effect of debt ratio on financial performance of firms listed in NSE and thus recommends that the management of the firms when setting their levels of debts should strike a balance between savings and bankruptcy costs associated with borrowing. The more the High debt levels is associated with high debt ratio which leads to a reduction in the levels of financial performances of the NSE listed firms. The management is therefore recommended to maintain levels of debts that do no bear negative impacts on financial performance to attain maximization of the wealth of the shareholders. Additionally, the management ought to consider alleviation of debt ratio in the firm's structures through increased capital mobilization from profits and owners' capital contributions.

The study established that equity ratio bears a positive but insignificant effect on financial performances of the NSE listed firms. The study thus recommends that the management of the NSE listed firms to strike a balance between equity and debt financing. Excessive utilization of debt financing contributes to reduced profits thus poor financial performances of the firms. Additionally, debt financing heightens the creditors' liabilities thus lowering profit levels. Excessive equity financing bears the implications that there will be high dividends payouts thus reducing the levels of retained earnings that would otherwise be ploughed back into the business and contribute to additional revenues to the firm.

The study established that retained earnings positively and significantly affects financial performance of NSE listed firms. The study thus recommends the management of the firms to ensure there is sufficient retained earnings which firm can reinvest in future. Being in possession of sufficient retained earnings, the management of the firms may formulate income generating project perceived as a potential source of income that may boost the firms' financial performances.

Suggestions for Further Research

The focus of the current study was to establish how capital structure affects financial performances of NSE listed firms. The study thus suggests another study on other firms not listed in NSE for comparative analysis of the results. Additionally, the financial structure aspects comprising of debt ratio, equity ratio and retained earnings accounted for 25.9% in variations of financial performances of the NSE listed firms. The study thus recommends another research focusing on different indicators of financial structure and accounting for the remaining 74.1%.

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