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EFFECTS OF FINANCIAL STRUCTURE ON PERFORMANCE OF LISTED INVESTMENT FIRMS IN KENYA

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ABSTRACT

The purpose of this study was to determine the effects of financial structure on performance of listed investment firms in Kenya. In this study the independent variables included; shareholders capital and long term debt while dependent variable was firm's performance. This study was underpinned by financial structure relevance theories; these include the Capital Asset Pricing Theory (CAPM) which is useful in estimating the cost of equity for firms and evaluating the performance of managed portfolio. Trade-off theory which asserts that optimal capital structure is based on a trade-off between the tax benefits of debt and the costs of financial distress. The study employed descriptive research design with secondary data from the financial statements of 3 investment firms which was retrieved from the securities exchanges hand books for the period 2006-2016. Data was analysed using trends, descriptive statistics, correlations and multiple regressions with the aid of Statistical Package for Social Sciences (SPSS) version 21. The study finding revealed that long term debt and ordinary share capital had a significant positive relationship with ROA. Long term debt was found to be positively and significantly related to ROE of listed investment firms. The study concluded that the financial structure of the firm is a key component that affects the performance. Therefore, firms must strike a balance between debt financing and equity financing in order to maximize the returns. The study further concluded that long term debt is a proper mode of financial leverage as compared to short term debt since it is less riskier to finance using long term debts and finally there was a strong positive relationship between the study variables as shown by 0.695 ROA and 0.726 ROE implying that increase in financial structure leads to improvement in performance. The study recommended that investment as well as other listed firms should manage their short term debts through improving their working capital management practices. This is because high-growth firms might have more options for future investment than low-growth firms since highly leveraged firms are more likely to pass up profitable investment opportunities, because such an investment will effectively transfer wealth from the firm's owners to its debt holders.

Key Words: *Ordinary Share Capital, Long Term Debt, Finance Financial Performance*

INTRODUCTION

In business world we hear corporate officers, professional investors, and analysts discuss a company's financial structure but many people may not know what a financial structure is or why they should even concern themselves with this term but the concept of financial structure is extremely important. With the emergence of research in the area of finance, studies on firm financial structure have attracted significant attention. Various studies have been conducted to analyse the effect of capital structure decision on firm performance (Khan, 2011). According to Owolabi and Inyang, (2013) some of the funds are permanently held in business, such as share capital and reserves owned fund, some others are held for a long period such as long-term borrowings or debentures, and still some other funds are in the nature of short-term borrowings. The entire composition of these funds however constitutes the overall financing of a firm which is often times referred to as its financial structure.

A set of theories and studies identify financial structure as one of the factors affecting a firm's performance on one hand and on the other hand some theories and studies contradict the view that Capital structure does affect a firm's performance arguing that capital structure is irrelevant to a firm's performance (Stewart, 2011). Financial structure of a firm is basically the way a firm finances its assets through some combination of debt and equity that a firm deems as appropriate to enhance its operations. In support of trade off theory Owalabo and Inyang (2013) stated that firm's optimal debt ratio is determined by a trade-off between the bankruptcy cost and tax advantage of borrowing and it is achieved at the point when the marginal present value of the tax on additional debt is equal to the increase in the present value of financial distress costs.

From Sugar companies listed in Karachi Stock Exchange Pakistan (KSE Pakistan) Younus *et al.* (2014) identified the impact between financial structure and financial performance. Secondary data was utilized from company's financial reports, annual reports and state bank of Pakistan in financial review for the period of six years (2006-2011). The results showed that there was weak positive correlation.

While in Iran Akbarpour (2011) investigated the relationship between financial structure and accounting measurement for evaluating performance (ROA, ROE) for the period 2005-2010 in listed firms of Tehran exchange and the results indicate that there was a significant relationship between financial structure and ROA, but there isn't such a significant relationship between financial structure and ROE. Furthermore, in Macedonia, Europe, Ferati and Ejupi (2012) also measured the capital structure profitability influence. The results indicate that the return rates present a positive correlation with STD and equity, and an inverse correlation with LTD therefore their study fundamentally differentiates the nature of relationship.

Among other factors, the choice of financial structure and mismanagement has led to corporate failure of firms' all over the world particularly in East Africa hence financial structure choice and its impact on financial performance remains a great dilemma to all stakeholders (Muchiri, Muturi & Ngumi, 2016). Esfahani, (2006) acknowledges that methods of determining financial structure should be chosen with particular attention to the main features of securities influenced by both internal and external factors within the firm collaborating with Owalabi and Inyang (2013) who stated that factors like cultural settings, development of capital markets, political risk, monetary policies and fiscal policies are determinants of capital structure.

Motanya (2009) while examining the association between capital structure and financial

performance of tourism state corporations in Kenya used ROA as the dependent variable to measure the financial performance for the period 2011 – 2015. The debt ratio was used to measure capital structure with asset tangibility and asset turnover being the control variables and the results revealed a significant impact of all the factors of liquidity and leverage on financial performance. Musiega, Chitiavi, Alala, Douglas and Rueben (2013) carried out a research with an aim to explore the relationship between capital structure and performance of 30 companies listed on NSE. Total assets were positively correlated to capital structure proxies and concluded that firms should consider using optimal capital structure.

According to Mwangi, Makau and Kosimbei (2014) corporate failure among companies in Kenya has often been associated with the financing behaviour of the firms and momentous efforts to revive the ailing and liquidating companies have focused on financial restructuring. Over the years the investment companies have continued to play a critical role in Kenya's economic growth. Mbugua (2013) argues that investment stocks are projected to continue lag in performance at the NSE with most investors expected to continue going after liquid counters, whose business is not affected by uncontrollable factors like the weather. On the other hand external factors such as the fluctuation of the local currency, economic downturns in export markets, and high costs of inputs affect the profits of investment firms and by extension the dividends they pay out (Menike & Prabath, 2014). The Nairobi stock exchange (NSE) was formed in1954 and is governed by the members that are stock brokerage firms who form the stock exchange, listing and quotations dealings in the securities and the settling of disputes among themselves. Pandey (2009), noted that financial performance measures of institutions which include profitability and liquidity among others provided a valuable tool to stakeholders to evaluate the past company performance and the current position of a firm.

In Kenya there are three investment firms listed in NSE namely; Centum Investment Company formerly known as Industrial Corporation Development Company (ICDC) which was founded in 1954 as a government Parastatal, whose primary objective was to provide a vehicle for Kenyans to invest. It was listed in 1967 and changed its name to Centum in 2008. Market value of shareholder funds grew from Kshs 5.6 billion in March 2009 to Kshs 24.3 billion in March 2014 representing 334% growth in value generated to shareholders (Centum LTD, 2015).

Olympia Capital Holdings is a public liability company incorporated in Kenya. In 2016 operating income increased by 79.2% from 16.57 Million to KES 29.7 Million this was contributed by an interest income of KES 15.1 Million. Finance costs dropped by 32.8% to KES 15.8 Million from KES 23.6 Million in the previous period, which demonstrates a good signal and Profits before tax stood at KES 27.3 Million compared to the previous period's mere KES 1.5 Million. (Olympia LTD, 2016) and Trans Century Ltd. is an Infrastructure Company listed on the Nairobi Securities Exchange with three operating divisions across 14 countries in East, Central and Southern Africa. It was formed from a club of 29 friends worth less than KES 30 million in 1997, to a private equity firm and later listing on the NSE. The Group recorded a 15% increase in revenues in 2015 attributable to strong performance in their Engineering Division which reported a 96% growth in revenue (Trans Century Ltd, 2015).

Statement of the Problem

Long term debt ratio (Solvency ratio) has negative and highly significant impact on the financial performance of the firm (ROA and ROE) it means that if debt to equity ratio increases then performance decreases however short term debt

obligations (liquidity) has high positive effect over ROA of sector (Khidmat & Rehman, 2014).

Firms that want to maximize shareholders wealth should increase their leverage while firms that ensure stakeholders performance should increase their equity. Conclusively, a mix of the firms' leverage and equity at an appropriate ratio is considered a good financial structure for the firms (Yusuf, Onafalujo, Idowu & Soyebo, 2014). Therefore, the choice among ideal proportion of debt and equity can affect the value of the company, as well as financial performance.

Among other factors, the choice of financial structure and mismanagement has led to corporate failure of firms' world over particularly in East Africa (Muchiri; Muturi & Ngumi, 2016) for example in Kenya Uchumi supermarket has been experiencing liquidity problems to an extent of being unable to pay suppliers (STD). It reported loss before income tax of Kshs 3,513B as at 30th June 2015, its financial structure comprised of ordinary equity Kshs 739B and debt Kshs5561B (Uchumi LTD, 2015). Increase in debt financing makes the firm to be highly geared leading to poor financial performance. While Safaricom reported profit before tax of Kshs 55,762B as at 31st March 2016, its financial structure comprised of equity Kshs 116,738B and debt Kshs 42,443B (Safaricom LTD, 2016). This indicates that a firm with a higher growth does not rely heavily on debt but uses its retained earnings for expansion and financing its new investment. However performance of investment firms in Kenya reflect similar characteristics for example Transcentury Ltd reported Net loss before tax of Kshs 2,956B as at 31st March .2015, its financial structure comprised of equity Kshs 3,545B, STD 13,835B and LTD Kshs 4,437 (Transcentury Ltd, 2015). While Centum Ltd reported Net profit before tax of Kshs 8,817B as at 31st Dec 2015, its financial structure comprised of equity Kshs 38,555B and debt Kshs 33,785B (Centum Ltd, 2015).

In Masvingo in Zibambwe Dube (2013) found that financial structure had a positive impact on performance of SMEs while Zeitun and Tian (2007) found that financial structure has a significant and negative impact on firm's performance these are contradicting results contrary to Yusuf *at el*, (2014). Although various studies have been done on the impact and determinants of financial structure on profitability of firms using debt ratio, size of the firm and other factor as independent variables there is relatively little empirical evidence on the impact of all sources of financial structure (ordinary share capital finance and long term debt) on financial performance of investment firms.

Objectives of the Study

The general objective was to determine the effects of Financial Structure on Financial Performance of Investment Firms Listed at the Nairobi Security Exchange. The specific objectives were;

- To determine the effects of ordinary share capital finance on financial performance of investment firms listed at NSE.
- To find out the effects of long term debt finance on financial performance of investment firms listed at NSE.

LITERATURE REVIEW

Theoretical Review

Capital Asset Pricing Theory

According to Jensen (2011) in 1952 Harry Markowitz made a historical contribution to financial mathematics with his classic article Portfolio Selection. In the article, he incorporated the quantification of risk in the portfolio choice problem. He developed a framework where investors who like wealth and dislike risk would hold mean-variance efficient portfolios. Building on his work, Sharpe (1964) and Lintner (1965) almost simultaneously developed a model to price capital assets. The capital asset pricing model (CAPM)

marked the birth of asset pricing theory resulting in a Nobel Prize for Sharpe in 1990. Before their breakthrough, there were no asset pricing models built from first principles about the nature of tastes and investment opportunities and with clear testable predictions about risk and return. Four decades later, the CAPM is still widely used in applications, such as estimating the cost of equity capital for firms and evaluating the performance of managed portfolios (Fama &French, 2003).

In estimating the cost of equity in practice in South Africa Nel (2011) conducted a valuation survey in 2008 among 25 leading financial analysts and corporate financiers and they confirmed that investment practitioners have a preference for the CAPM when calculating the cost of equity. Contrary when testing the validity of CAPM in Kenyan securities market Otieno (2013) did a study focusing on the calculation of betas and excess returns of thirty firms using a four year data of share prices from 2009 to 2012. A significance test at 95% confidence level was also conducted to evaluate the data and regression results available within the testing period. The data analysis revealed inapplicability of CAPM to the NSE, 20- share index, and the results confirmed that the standard CAPM was not verified in the NSE during the period of study. The findings from the investigation appeared inconsistent with the theory's basic hypothesis that higher beta yields higher return and vice versa.

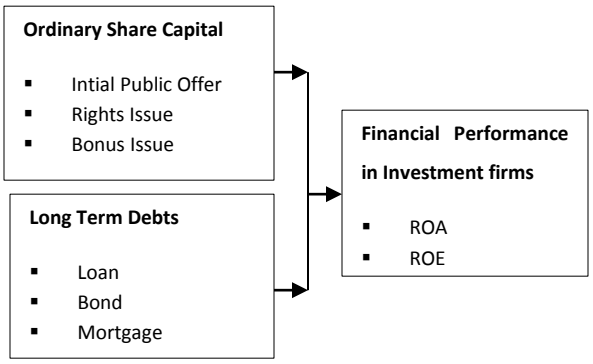
Jensen (2011) did a study seeking to provide the tools needed to empirically investigate and fully capture the model of CAPM and the exposition was to be crowned with updated evidence, to test whether more recent data justifies the model's wide use. The study combined mathematical rigor with economic intuition, in order to arrive at a number of theoretical results and concluded that an efficient portfolio has the maximum expected return of all portfolios return for a given variance.

Trade-Off Theory

According to Kraus and Litzenberger (1973) the static trade-off theory is an optimal capital structure derived from balancing off the benefits and costs of debt and equity financing. An optimal capital structure is reached after accounting for market imperfections such as taxes, bankruptcy costs and agency costs. The theory states that there is a benefit to financing with debt, specifically the tax benefit. Frank and Goyal (2005) stated that a particularly important problem for the standard static trade-off theory is provided by the historical record. In the static trade-off theory it is the desire to limit tax payments that motivates a firm to use debt financing. This is thus the trade-off that all firms, whom are maximizing value, should focus on when choosing the amount of debt and equity needed to finance their operations. Needless to say, there is a maximum point where the marginal benefit of further increases in debt declines as debt increases, whereas the marginal cost increases.

According to Myers (1984) the key implication of the trade-off theory is that leverage exhibits target adjustment so that deviations from the target are gradually eliminated. Margaritis and Psillaki (2010) studied the relationship between capital structure and firm performance found that debt capital structure has a positive relationship with firm performance in consistent with agency theory. Other studies contradict with trade-off theory of capital structure as evidenced in studies done by Rao, Al-Yahyaee and Syed (2007) and Deowita and Hassan (2015) both studies showed that debt level has negative impact on firm profitability referring to ROE and ROA. It means that the high debt level will affect firm profitability because of the high cost of borrowing. Under this theory, there are two factors that determine a firm's leverage decision: taxes and costs of financial distress or bankruptcy costs the costs incurred when the perceived probability that the firm will default on financing is greater than zero (Abor, 2008).

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Ordinary Share Capital and Firms Performance

Share capital is the amount contributed by owners of the business in exchange of shares and it's a long term source of capital. Stock return is the appreciation in the price (capital gain) plus any dividends yield (Gachucha, 2012). In an analysis of bonus share issued and its impact on share price with reference to NSE listed stocks in India Khan and Thoufiqulla (2013) conducted a study on 12 companies during 2012 and 2013 using Event study methodology. The study had shown a Negative trigger in the stock prices of the 9 out of 12 selected companies and witnessed only negative difference during the one day interval before and after the Bonus issue announcement date. In establishing the impact of bonus issue on shares Ayoma (2009) did a study for the event window of 14 days before and 15 days after the event date with a sample of 14 for the period 2009 to 2012. The results of t tests on the average abnormal return and the cumulative average abnormal return indicated that abnormal returns were significantly different from zero which implied that there is an anomaly in the semi-strong form efficiency.

In rights offering issuers give existing shareholders the right to buy new shares at a specified price because they allow current shareholders to avoid dilution, however, rights offerings do not automatically protect existing shareholders from dilution (Massa, Vermaelen, & Xu, 2013). In examining the stock market announcement effect of rights issues Kabir and Roosenboom (2002) observed that a statistically significant stock price decline takes place when companies announce rights issues. Further stock price decline is also observed during the subscription period Massa *et al* (2013) did a study of right offerings around the world, using a sample of 8,238 rights offers announced during 1995–2008 in 69 countries. Although shareholders prefer having the option to trade rights, issuers deliberately restrict tradability in 38% of the offerings.

Long Term Debts and Performance

Muhammad *at el,* (2014) long term debts amount owed for a period of more than one year and that is why interest rate on long term debt or funds is higher than short term debt. Abor, (2007) used Performance as dependent variables and long term and total debt as independent variables by examining the effect of debt policy on the performance of small and medium size enterprises and the results of the study showed that long term and total debt ratio have a negative effect on ROE. The study by Abor (2007) partially agreed with Ebaid (2009) in examining the capital structure and performance of firms with the aim of checking the relationship between debt level and financial performance of companies listed at Egyptian stock exchange. The three accounting based measure of performance (ROA), (ROE) and gross profit margin was used and found that there is negative significant influence of short term debt (STD) and the Total debt (TD) on the financial performance measured by the (ROA) but no significant relationship found between long term debt (LTD) and this measure of financial performance.

Empirical Review

In evaluating the relationship between earning per share (EPS) and bank's profitability in Pakistan Saeed and Tahir (2015) collected from annual financial statements of 13 commercial banks working in Pakistan for the period 2007 to 2013. Pearson Correlation was used to find the relationship and simple regression method employed to evaluate the impact of earning per Share (EPS) on bank's profitability.

Findings revealed that all independent variables have strong relationship between dependent variable hence increase in profitability will lead the demand of that company shares. Muhammad, Ghulam, Naqvi, Nadeem and Khan (2014) did a study on thirteen cement listed companies listed using secondary data for the period of five years which was analyzed using SPSS. The result concluded that Earning per Share (EPS) significantly impact the market value of a share. In establishing effects of Capital Structure on Financial Performance of Firms in Kenya Githire and Muturi (2015) used multiple regressions on data for period 2008 to 2013. The population of interest was the firms listed at the Nairobi Securities Exchange and a census of all firms listed at the Nairobi. Results revealed that equity has a positive and significant effect on performance with a beta value of $\beta 1 = 0.486$ (p-value = 0.000 which is less than $\alpha = 0.05$). The population of interest was the firms listed at the Nairobi Securities Exchange and a census of all firms listed at the Nairobi.

Nirajini and Priya (2013) did a study in Sri Lanka on impact of capital structure on financial performance of listed trading companies during 2006 to 2010 (05 years). The data was extracted from the annual reports of sample companies. Correlation and multiple regression analysis were used for analysis. The results revealed that financial structure was correlated with financial performance (ROA) at significant level of 0.05 and 0.1. Innocent, Uchechukwu and Okechuku (2015) investigated the effect of dividend payout on performance evaluation of quoted cement companies in Nigeria over the past twelve (12) years period from 2003 to 2014. The model specification for the analysis of data is ordinary least squares techniques applied as panel estimation while descriptive research method and simple linear regression for the analyses. The researchers' empirical results indicated that dividend payout ratio (DPR) has positive relationship with all the dependent variables (ROCE, ROA and ROE) used.

In examining the relationship between capital structure and financial performance of China real estate listed companies in Shanghai Stock Exchange from 2010 to 2012 Feng and Guo (2015) applied factor analysis to analyze and found a negative relation which means that increasing debt ratio reduces financial performance. While investigating the relationship between capital structure and profitability of ten listed banks of Sri Lanka for the period from 2002 to 2009 Velnampy and Niresh (2012) found a negative relationship between capital structure and banks' profitability however establishing a positive relationship between ROE and debt to equity (D/E). Companies with high level of debt have poor liquidity position as cash will be utilized to pay interest on debts. The data was analyzed using descriptive statistics and correlation analysis to find out the association between the variables.

Abor (2005) did a study in Ghana during 1998 to 2002 to investigate the relationship between capital structure and profitability of listed firms on the Ghana Stock Exchange (GSE). Regression analysis was used in the estimation of functions relating the return on equity (ROE) with measures of capital structure. The findings revealed that there is a negative relationship between long-term debt to asset ratio and profitability while in evaluating whether in a South African context increase in financial leverage

positively or negatively impacted the value of a firm Rayan (2013) used secondary data sourced from the McGregor BFA database for the period 1998-2007 the sample included 113 Johannesburg Stock Exchange (JSE) listed firmsand regression analysis was carried out for both tests.

RESEARCH METHODOLOGY

The study used quantitative research design because secondary data which was used had financial ratios hence quantitative in nature. Descriptive design helps in finding out and measuring the relationships among variables, further studies have also shown that descriptive research is preferred while conducting research studies as it portrays an accurate profile of persons, events or situation (Robson, 2002). The target population of this study comprised of 3 investment firms listed in the Nairobi Securities Exchange (NSE) hand book as at 31st December 2016. From the 12 sectors; Investment sector was selected for the this study and from this sector all listed firms which are 3 in number that is Centum, Trans century and Olympia firms were used to carry out the research since the research used a census method. In this study sampling frame consisted of 3 investment firms as per NSE listing on 31st December, 2016. In this study census was used which consists of all three investment firms listed at Nairobi security Exchange.

In this study data collection sheets was used to record data from audited financial reports of investment firms listed at NSE since secondary data was used. A multiple regression model was adopted to check the form of relationship between the dependent and the independent variables. Tables and charts were used to present the analysed data for easy understanding. Multiple regression analysis technique was used to determine the effect of independent variables on the dependent variable, it was used to measure the relative effect of each independent variable based on its covariance dependent variable that is useful in forecasting.

RESEARCH FINDINGS AND DISCUSSION

The study targeted 3 investment firms listed in the Nairobi Securities Exchange (NSE) as at 31st December 2016. The data was extracted from the annual financial reports of the three firms in a period spanning eleven years from the year 2006 to 2016. The data was also extracted from the NSE annual handbook report of all the listed firms.

Descriptive Analysis of Financial Structure with Performance

The study conducted a descriptive analysis to establish the mean, standard deviation, maximum value and minimum value for each variable under the study. The descriptive analysis was used to describe the data used as well as give the variations in the study periods over time. Table 1 contains the results for descriptive statistics for study variables.

Table 1: Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Ordinary Share capital	33	455985	8078129	2510967	2846043
Long Term Debt	33	88838	28395835	4473053	7259022
ROA	33	-11.7	13	0.0325	0.05969
ROE	33	-14	20	16.7471	9.98015
Valid N (listwise)	33				

The results presented in the table1 show that ordinary share capital had a mean of 2,510,967 while a minimum and maximum value were 455,985 and 8,078,129 respectively. The findings

further showed that listed investment firms had an average long term debt of 4,473,053. The results further showed that the firm performed poorly during the study period had a minimum ROA of -11.7% and ROE of -14% while the firm had a maximum return ROA of 13% and ROE of 20% respectively. The findings discussed above underpin the importance of having both forms of financing. Considering that debt financing is a necessary factor, which creates differences in the goals of shareholders with managers. However, financing from outside sources is required when all in-house funds are employed. Dube (2013) established that firms which received adequate funding from banks improved their productivity and recommended that financial institutions should offer long-term debt to SMEs to enable them invest in capital equipment so as to increase productivity in future.

Inferential Statistics

To further assess the influence of financial structure on financial performance in investment firms, the study employed a linear regression and correlation analysis.

Table 2: Correlation Analysis

		Ordinary Share capital	Long Term Debt
Ordinary Share capital	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	33	
Long Term Debt	Pearson Correlation	0.26	1
	Sig. (2-tailed)	0.145	
	N	33	33
ROA	Pearson Correlation	0.436	0.484
	Sig. (2-tailed)	0.011	0.004
	N	33	33
ROE	Pearson Correlation	0.465	0.656
	Sig. (2-tailed)	0.006	0.000
	N	33	33

The study results showed that the correlation between ordinary share capital and return on assets of listed investment firms was positive and significant (r = 0.436, sig < .05). The findings implied that an increase in ordinary shares capital among the listed investment firms led to a positive significant improvement in ROA. The correlation results between ordinary shares capital and return on equity of listed investment firms was also positive and significant (r = 0.465, sig < 0.05). The findings implied that an increase in ordinary shares capital among the listed investment firms leads to a positive significant improvement in ROE. The findings of the study are consistent with Githire and Muturi (2015) which revealed that equity has a positive and significant effect on performance. The findings were also consistent with the findings of a study by Nirajini and Priya (2013) which revealed that equity is positively correlated with gross profit margin, net profit margin, Return on Capital Employed, Return on Asset (ROA) and Return on Equity (ROE) at significant level of 0.05 and 0.1.

The correlation results also showed that the correlation between long term debts and return on assets of listed investment firms is positive and significant (r = 0.484, sig < 0.05), the correlation results also indicated that long term debts has a positive and significant association with return on equity of listed investment (r = 0.656, sig < .05). The findings imply that an increase in long term debts

among the listed investment firms leads to a positive and significant increase in ROA and ROE.

The findings were inconsistent with the findings of a study by Shubita and Alsawalha (2012) which found that long term debt (LTD) had a negative effect on profitability of firms however they were consistent with Bitok *et al* (2011) which found that firm leverage is positively associated with ROA.

Regression Analysis of Financial Structure with Performance

A multiple regression analysis was conducted to study the relationship between independent variables and the dependent variable. Regression method is useful for its ability to test the nature of influence of independent variables on a dependent variable. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (ROA and ROE) that is explained by all the two independent variables (ordinary share capital and long-term debt). The significance of the beta coefficients was tested at 5% level of significance. The results for model summary, fitness and coefficients are presented in Table 3.

R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.695 ROA and 0.726 ROE. This implies that there is a strong positive relationship between financial structure and financial performance meaning that increasing capital structure will lead to improvement of financial performance. These findings are consistent with Dube (2013) that financial structure had a positive impact on performance of SMEs. The findings are however not consistent with Zeitun and Tian (2007) which found that capital structure has a significant and negative impact on firm's performance.

The findings also presented the coefficient of determination (R-square). Generally, a higher value of R-Square means that you can better predict one term from another. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (performance of listed investment firms) that is explained by all the independent variables (Financial structure). The findings revealed that 48.4% of the change in ROA of listed investment firms in Kenya is attributed to financial structure at 5% level of significance. This implies that the remaining 51.6% of the ROA is attributed to other factors not investigated in this study. There is hence a need to conduct further research to investigate them. From the findings 52.7% of the change in ROE of listed investment firms in Kenya is attributed to financial structure structure at 5% level of significance. This implies that the remaining 47.3% of the ROE is attributed to other factors not investigated in this study hence a need to conduct further research to investigate them.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	0.695	0.484	0.41	0.045859
ROE	0.726	0.527	0.46	4.583

Predictors: (Constant), Ordinary share capital, Long term debt

Analysis of Variance

The study also conducted an Analysis of Variance to establish the model fitness. The ANOVA results in Table 4 shows that the test for the first model is

given by the F statistic 4.833 is statistically significant (0.001) which is less than 0.05) at 5 percent level of significance. This implies that financial structure significantly predict ROA of listed investment firms in Kenya.

Similarly, ANOVA results in Table 4 also shows that the test for the joint significant in the second model which is given by the F statistic is 6.680 and as observed, it is statistically significant (0.000) which is less than 0.05) at 5 percent level of significance. This implies that financial significantly predict ROE of listed investment firms in Kenya.

Table 4: Analysis of Variance (Model Significance)

Model		Sum of Squares	df	Mean Square	F	Sig.
ROA	Regression	0.058	2	0.029	4.833	0.001
	Residual	0.18	30	0.006		
	Total	0.238	32			
ROE	Regression	230.046	2	115.023	6.680	0
	Residual	516.6	30	17.22		
	Total	746.646	32			

Predictors: (Constant)Ordinary Share capital, Long Term Debt

Regression Model

To establish the effect of the variables on the dependent variable, the study used the model coefficients. A positive model coefficient indicates a positive relationship while a negative model coefficient indicates a negative relationship. A significance value less than 0.05 indicates a significant relationship at 5% level of significance and a significance value greater than 0.05 indicates an insignificant relationship at 5% level of significance. The results for model coefficients are presented in Table 5.

Table 5: Regression Coefficients Results

	Predictor Variable	β	Std. Error	T	Sig.
ROA	(Constant)	0.006	0.014	0.463	0.647
	Ordinary Share capital	0.394	0.143	2.763	0.010
	Long Term Debts	0.293	8.281	2.015	0.054
ROE	(Constant)	11.95	1.349	8.856	0.000
	Ordinary Share capital	0.326	0.136	2.39	0.024
	Long Term Debt	0.563	0.139	4.045	0.000

From the data in the above table the established multiple regression equation;

ROA = 0.006 + 0.394 (OSC) + 0.293 (LTD)

ROE = 11.95 + 0.326 (OSC) + 0.563 (LTD)

The study results revealed that ordinary shares capital and return on assets (ROA) of listed investment firms were positive and significant (β= 0.394, p=0.010). The findings imply that an increase in ordinary shares capital among the listed investment firms leads to a positive and significant improvement in ROA. The study results also showed that ordinary shares capital and return on equity (ROE) of listed investment firms were positive and significant (β=0.326, p=0.024). The findings implied that an increase in ordinary shares capital among the listed investment firms led to a positive and

significant improvement in ROE. The findings of the study were also consistent with Githire and Muturi (2015) which revealed that equity had a positive and significant effect on performance for the firms listed at NSE.

The study findings further revealed that long term debt had a positive but insignificant effect on return on assets (ROA) of listed investment firms (β=0.293, p=0.054) however, the relationship between long term debt and ROE was positive and significant (β= 0.563, p= 0.000). The findings imply that an increase in long term will result in the increase of performance of listed investment firms. The findings were inconsistent with the findings of a study by Bokhari and Khan (2013) that revealed a negative relationship between long term debt and performance of the firm but consistent with Bitok *et al* 2011 that firms leverage is positively associated with performance of the firm.

CONCLUSIONS AND RECOMMEDNATIONS

Summary

The inferential results showed that ordinary shares capital and return on assets (ROA) of listed investment firms had a positive and significant relationship. Similarly, the relationship between ordinary shares capital and return on equity (ROE) of listed investment firms was found to be positive and significant. These findings implied that an increase in ordinary shares capital among the listed investment firms led to a significant improvement in performance of listed investment firms.

The inferential results showed that long term debt had a positive insignificant effect on return on assets (ROA) of listed investment firms however; the relationship between long term debt and ROE was positive and significant. The finding implied that an increase in long term debts would result to an increase of performance of listed investment firms therefore leverage of the firm increases its financial performance.

Conclusion

The study concluded that listed investment firms had had unsteady trends in the use of ordinary share capital financing. The study findings also led to the conclusion that ordinary shares capital and return on assets of listed investment firms were positively and significantly related which implied that an increase in ordinary shares capital among the listed investment firms leads to a positive but not significant improvement in firm performance.

Another conclusion made by the study was that listed investment firms had a slight increase trends in the use of long term debts to finance their businesses. The study further concluded that long term debts leads to a positive significant effect on return on assets of listed investment firms implying that an increase in long term debts among the listed investment firms leads to a positive significant increase in firm performance.

Recommendations

Increase in ordinary share capital and long term debt financing had a positive significant effect on performance of investment firms. The study recommended that there was need for the firms to adopt strategies that would increase as well as utilize the retained profits generated from the operations to acquire more assets and improve their financial performance.

If the long term debts were high, it signified that in future, the firm was likely to experience growth issues and it can make shareholders to withdraw their investment in terms of shares in the company if the managers make decision to continue increasing the total debt and these can lead to financial crisis of the investment as well as other firms listed in NSE. Therefore the study recommends that the firms strategize on reducing the long term debts so as to avoid any financial crises in the future.

Suggested Areas for Further Research

The findings revealed that 48.4% of the change in ROA of listed investment firms in Kenya was attributed to financial structure at 5% level of significance. This implied that the remaining 51.6% of the ROA was attributed to other factors not investigated in this study. There is hence a need to conduct further research to investigate them. From the findings 52.7% of the change in ROE of listed investment firms in Kenya was attributed to financial structure at 5% level of significance. This implied that the remaining 47.3% of the ROE was attributed to other factors not investigated in this study hence a need to conduct further research to investigate them. Future studies can also consider to focus on the effect of financial structure on performance of other firms listed and non-listed so as to establish whether similar results would be established.

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