AN ANALYSIS OF THE EFFECT OF CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE.

A SURVEY OF ALL FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE.

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Abstract

Every company requires funds to meet its financial obligations. In Kenya, the most common sources of funds that are available to companies are shareholders' equity and debt. An optimal combination of debt and equity increases a company's earnings consequently leading to better performance.

Shareholders invest in shares with the hope of receiving income in form of dividends, capital gains or bonus issues while lenders expect their money to be repaid in time and conveniently. Many companies listed at the Nairobi Stock Exchange (NSE) however, often face the challenge of reaching the optimal capital structure. The objective of the research was to find out the role of capital structure on the performance of all listed companies, whether high level of debt or equity in the capital structure contributes to positive or negative performance. This thesis also contain data analysis, presentation and interprentationsummary of findings, conclusions and recommendations

The findings from the study can help interested investors and owners in predicting the likely implications of capital structure decisions on companies in regard to performance. The study can also close the gap in the existing body of knowledge since not much has been done in this area. The study covered companies listed at the exchange. The results also reflect the current position. Secondary and primary data from 57 companies have been used.

Financial statements for a period of 3 years 2009-2012 have been used for analysis of secondary data. Narrative interpretation and description have been used to present both qualitative and qualitative results.