CAPITAL STRUCTURE AND THE FINANCIAL PERFORMANCE OF PRIVATE SUGAR MANUFACTURING COMPANIES IN KENYA

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REG D53/KER/PT/26971/2013

A Research Project Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration (Finance Option) of Kenyatta University

June, 2017
DECLARATION

This Research project is my original work and has not been presented for a degree or other award in any university. No part of this research project should be reproduced without authority of the author or/and Kenyatta University.

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This Project has been completed with my approval as University Supervisor.

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DEDICATION

This research project is dedicated to my family for their great support.
ACKNOWLEDGEMENT

My acknowledgement goes directly to the almighty God for without whom I would not have come this far. My most extreme appreciation is likewise reached out to my family and companions for their persistent help and consolation to point higher even from miles away. My genuine gratefulness goes to my lecturers whose help towards the accomplishment of the course can't be overemphasized. I thank my project supervisor Dr. Charles Y. Tibbs for his understanding, direction and useful help all through the examination which was priceless. At long last, I am appreciative to every one of the general population who in their unique ways made this research a success.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATION</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>vii</td>
</tr>
<tr>
<td>OPERATIONAL DEFINITION OF TERMS</td>
<td>viii</td>
</tr>
<tr>
<td>ABBREVIATIONS AND ACRONYMS</td>
<td>ix</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>x</td>
</tr>
<tr>
<td>CHAPTER ONE</td>
<td>1</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>1.0 Introduction</td>
<td></td>
</tr>
<tr>
<td>1.1 Background of the Study</td>
<td>1</td>
</tr>
<tr>
<td>1.1.1 Global Perspective of Capital Structure and Firm Performance</td>
<td>2</td>
</tr>
<tr>
<td>1.1.2 The Sugar Industry in Kenya</td>
<td>2</td>
</tr>
<tr>
<td>1.1.3 Financial performance of sugar companies in Kenya</td>
<td>3</td>
</tr>
<tr>
<td>1.2 Statement of the Problem</td>
<td>4</td>
</tr>
<tr>
<td>1.3 Objectives of the Study</td>
<td>5</td>
</tr>
<tr>
<td>1.3.1 Specific Objectives</td>
<td>5</td>
</tr>
<tr>
<td>1.4 Hypothesis of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.5 Significance of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.6 Scope of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.7 Limitation of the study</td>
<td>6</td>
</tr>
<tr>
<td>CHAPTER TWO</td>
<td>7</td>
</tr>
<tr>
<td>LITERATURE REVIEW</td>
<td>7</td>
</tr>
</tbody>
</table>
# 2.1 Introduction

The introduction section of the chapter provides an overview of the main topic and sets the foundation for the subsequent sections. It typically includes a brief background of the subject, the objectives of the study, and a summary of the expected outcomes. This section helps the reader understand the context and purpose of the research.

## 2.2.1 Capital Structure Irrelevance Theory

The capital structure irrelevance theory suggests that the optimal capital structure of a firm is independent of its tax rate, financial risk, and market conditions. This theory is based on the assumption that all investors have access to the same information and can price risk in an efficient market. The chapter discusses the implications and applications of this theory in the context of the research.

## 2.2.2 Trade-off theory of Capital Structure and Taxes

The trade-off theory of capital structure and taxes states that there is an optimal capital structure that balances the trade-offs between the benefits of debt financing (lower cost of capital) and the costs (adverse selection, moral hazard, and financial distress). This section explores how taxes interact with capital structure decisions in this framework.

## 2.2.3 Pecking Order Theory

Pecking order theory is another key concept that explains how firms choose their capital structure. It is based on the idea that firms have a natural order of preference for raising capital from different sources, starting with internal financing, followed by debt, and finally by equity. This theory is discussed in detail in the chapter, along with its implications for empirical research.

# 2.3 Theoretical Literature on Components of Capital Structure

This section reviews various theoretical frameworks that explore the components of capital structure, such as debt, equity, and preferred stock. It aims to provide a comprehensive understanding of the theoretical underpinnings of capital structure decisions.

# 2.4 Review of past studies

A review of past studies is crucial for identifying gaps in the existing literature and setting the stage for new research. This section synthesizes findings from previous studies on capital structure and related topics, highlighting areas of consensus and controversy.

## 2.4.1 Capital Structure

A detailed review of past studies on capital structure shows how different variables (e.g., firm size, industry, and market conditions) influence optimal capital structure. This section discusses the robustness of these findings and identifies areas for further investigation.

## 2.4.2 Organizational Performance

This section examines the relationship between capital structure and organizational performance, exploring whether and how different capital structures impact firm performance. It discusses empirical evidence and theoretical explanations for these relationships.

## 2.4.3 Components of Capital Structure

The components of capital structure, including debt, equity, and preferred stock, are analyzed in terms of their impact on firm performance. This section reviews empirical studies that have tested the relative importance of these components and identifies areas for future research.

# 2.5 Empirical review

The empirical review section analyzes existing research on capital structure, focusing on studies that have tested various theories and models. It highlights methodological issues, limitations, and potential areas for improvement.

## 2.5.1 Debt-Asset Ratio and Financial Performance

Studies on the debt-asset ratio (D/E) and its impact on financial performance are reviewed. This section discusses the findings, methodological approaches, and the implications for optimal capital structure.

## 2.5.2 Debt Equity Ratio and Financial Performance

This section examines the debt equity ratio (D/E) and its relationship with financial performance. It reviews empirical studies that have explored the optimal debt equity ratio and its effects on firm performance.

## 2.5.3 Long-Term Debt Ratio and Financial Performance

Long-term debt ratios are crucial for understanding the sustainability of firms. This section reviews studies that have analyzed the relationship between long-term debt and financial performance, providing insights into optimal debt levels.

# 2.6 Sugar Firms Factors

The section on sugar firms factors discusses the unique characteristics of sugar firms that may influence capital structure decisions. It identifies key factors such as size and age that are critical in determining the optimal capital structure.

## 2.6.1 Size of the Firm

A discussion on the size of sugar firms and its impact on capital structure. This section reviews empirical studies that have explored the relationship between firm size and capital structure choices.

## 2.6.2 Age of the Firm

The age of firms plays a significant role in capital structure decisions. This section reviews studies that have examined the relationship between firm age and capital structure, highlighting the importance of lifecycle stages.

# 2.7 Summary of Literature and research gap

The summary of literature section consolidates findings from previous studies and identifies gaps in the research that need further exploration. It sets the stage for the new research presented in the chapter.

# 2.8 Conceptual Framework

A conceptual framework is developed to guide the research questions and hypotheses. This section outlines the theoretical constructs and relationships that will be tested in the empirical analysis.

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**CHAPTER THREE**

RESEARCH METHODOLOGY

## 3.1 Research Design

The research design section outlines the methodology and approach used in the study. It describes the techniques and strategies employed to collect and analyze data.

## 3.2 Target Population

This section defines the target population for the research, specifying the characteristics and scope of the study.

## 3.3 Research Instruments and Data Collection Methods

A detailed discussion on the research instruments and data collection methods is provided. This section explains how data were collected and the tools used to measure key variables.

## 3.4 Validity and Reliability of Instruments

The validity and reliability of the research instruments are assessed to ensure the quality and accuracy of the data collected.

## 3.5 Data Analysis and Presentation Techniques

The section on data analysis and presentation techniques describes the statistical methods and tools used to analyze the data and present findings.

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vi
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1 Percentage change in ROE</td>
<td>4</td>
</tr>
<tr>
<td>Table 3.1: Summary of the sugar manufacturing companies in Kenya</td>
<td>17</td>
</tr>
<tr>
<td>Table 3.2 Operationalization and measurement of Variables</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.1 Model Summary DER</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.1.1 Debt Equity Ratio</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.1.2 Coefficient of DER</td>
<td>27</td>
</tr>
<tr>
<td>Table 4.2 Summary of DAR</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.2.1 Debt Asset Ratio</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.2.2 Coefficient of DAR</td>
<td>24</td>
</tr>
<tr>
<td>Table 4.3 Summary of LTDR</td>
<td>24</td>
</tr>
<tr>
<td>Table 4.3.1 Long term debt ratio</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.3.2 Coefficient of LTDR</td>
<td>25</td>
</tr>
<tr>
<td>Table 4.4 Summary of Size of the firms</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.4.1 Size of the firm</td>
<td>26</td>
</tr>
<tr>
<td>Table 4.4.2 Coefficient of size of the firms</td>
<td>27</td>
</tr>
<tr>
<td>Table 4.5 Model summary</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.5.1 Return on Equity and independent variables</td>
<td>28</td>
</tr>
<tr>
<td>Table 4.5.2 Coefficients of ROE and independent variables</td>
<td>29</td>
</tr>
<tr>
<td>Figure</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Fig 2.1</td>
<td>Conceptual Framework</td>
</tr>
</tbody>
</table>
OPERATION DEFINITION OF TERMS

Capital Structure The extent of a variety of long term sources of capital in the financing of an organization.

Long Term Debt Ratio measurement representing the share of organization’s belongings financed with loans or different economic obligations lasting a couple of years

Financial Performance Financial performance is the profitability of the firm in relation to its assets and investments by the shareholders. This is measured by the Return on investment (ROI), Returns on capital employed (ROCE) and Earnings per share (EPS)

Optimum Capital Structure Offers a link between the perfect debt-to-equity extends, decreases the organizations’ value of assets.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS</td>
<td>Capital Structure</td>
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<tr>
<td>DAR</td>
<td>Debt Asset Ratio</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GoK</td>
<td>Government of Kenya</td>
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<tr>
<td>KEBS</td>
<td>Kenya Bureau of Standards</td>
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<td>KSB</td>
<td>Kenya Sugar Board</td>
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<tr>
<td>KSPWU</td>
<td>Kenya Sugar Plantation Workers Union</td>
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<tr>
<td>KSST</td>
<td>Kenya Society of Sugar Technologies</td>
</tr>
<tr>
<td>LTDR</td>
<td>Long Term Debt Ratio</td>
</tr>
<tr>
<td>MM</td>
<td>Modigliani and Miller</td>
</tr>
<tr>
<td>ROCE</td>
<td>Return on Capital Employed</td>
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<tr>
<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>SAT</td>
<td>Sugar Arbitration Tribunal</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>IASB</td>
<td>International Accounting Standard Board</td>
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<tr>
<td>IAS1</td>
<td>International Accounting Standard 1</td>
</tr>
</tbody>
</table>
ABSTRACT

The sugar industry contributes extensively to the economy of Kenya. Despite this, in the recent past, the sector has faced a myriad of problems and challenges which led to a decline in financial performance. Specifically, the study determined the relationship between debt to equity ratio, debt to asset ratio, long-term debt ratio and the financial performance of private sugar manufacturing organizations in Kenya. It also determined the correlation linking capital structure and the financial performance of private sugar sector. The study adopted cross-section survey research design. The study used census of all the six private sugar firms in Kenya that have been in operation since the year 2010. It relied on secondary data which was collected through secondary data collection schedule from published accounts of the participating firms. The study adopted multiple regression models. The researcher adopted content validity index and used supervisors and research experts to measure the validity of the research instruments. Audited published accounts from authentic source were used to increase reliability. The research findings showed that debt equity ratio has significant effect on financial performance with a p value of 0.046, debt asset ratio has no significant effect on financial performance with a p value of 0.459, long term debt equity ratio has a significant effect on financial performance with a p value of 0.042 and moderating factor of firm size has no effect on financial performance with a p value of 0.530. In conclusion capital structure has no effect on financial performance of private manufacturing sugar companies. The study recommends that the debt equity ratio, long term debt ratio be considered, Firms should consider borrowing provided they are able to repay.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Capital structure (CS) alludes to a blend of an array of enduring sources of resources and equity shares including assets and retain earnings of an organization. They uncovered the circumstances or conditions under which CS is significant or inappropriate to the fiscal presentation of the quoted companies. Brigham and Ehrhardt (2004) bear witness to that capital structure reflects how an enterprise funds its strategies that may both be through commitment, esteem capital or the combination of both. As indicated by Myers (2001), there was no standard hypothesis on the debt to equity decision however noticed that there were a few speculations that attempted to clarify the capital structure blend. Myers (2001) referred to the tradeoff hypothesis which expresses that organization look for obligation levels that adjust the tax cuts of extra obligation against the expenses of conceivable money related trouble.

The greater part of the basic leadership forms identified with the CS are main elements while deciding the CS. A few variables, for example, cost, levy collection and fee, interest rates projected to clarify the variety in Financial Leverage across over firms (Titman and Wessels, 1998). These variables proposed that relying upon properties that caused the cost of different wellsprings of capital the organization's select CS and advantages identified with obligation and value financing. Diverse expenses of capital and their advantages specifically influence a definitive objective of the firm. The benefit of financing choices cannot be overemphasized given that a hefty segment of the components that add to company malfunction can be directed to using techniques and wealth associated judgments promoting development and the accomplishment of authoritative targets. The economics sector being source of money related misery. Financing judgments lead to a specified capital structure, moreover, faulty speculation decisions that can impact company distress. The point of all undertaking alternatives is maximization of wealth, and the direct technique for evaluating the character of any financing preference is to think of the impact of such pastime at the agency's execution (Myers, 2001).
The connection linking capital structure and financial performance has gotten impressive acknowledgment in the economic research field. Noteworthy, grouping control of an organization performance or experts in the financial field to applying that control is questions that creators have endeavored to respond in due order regarding quite a while. Previous investigations reveal that capital structure has an association with firm execution which is a basic issue in associations.

1.1.1 Global Perspective of Capital Structure and Firm Performance
Several studies conducted globally focusing on capital structure. For example, that of Hutchinson (1995) contended that fiscal utilize emphatically influenced the affiliation's landing on esteem gave that pay's vitality of the organization's focal points outperforms the medium premium charge commitment in an association. Taub (1975) likewise established fundamentally affirmative connection linking obligation proportion and measures of productivity.

Further studies have been conducted in Asia, the most prominent being Majumdar and Chubbier (1999) in India which demonstrated that leverage negatively affects performance. The specialist utilized board information examination to research the association between add up to obligation and creation and also between various wellsprings of obligation to be specific, bank advances, and exchange credits and firms' execution scaled by gainfulness. The outcomes demonstrated a vital and unfriendly impact for generally nations. The analyst discovered that the kind of obligation, bank advances or exchange credit is not of essential significance, what makes a difference is obligation when all is said and done. The review of literature likewise completely portrayed the different endeavors to show organization debt/equity policy. In any case, the ideal blend of securities that an organization should issue remains unknown.

1.1.2 The Sugar Industry in Kenya
According to Kenyan sugar industry reports (GOK, 2008 & KSB, 2010) the dominant firms in the sugar value chain comprise the sugar manufacturing companies, the molasses processor companies, farmers’ outgrowers firms and the fixed-crusher artisanal jaggeries. The Kenyan sugar industry is preferred as a background study for several reasons. The sugar sub-sector has an enormous
dormant for affecting in general the wealth of Kenya. It is amongst the greatest grantors to the farming Gross Domestic Product (GDP), supporting at least 25% of the Kenyans population, generates over 520,000 metric tons of sugar for domestic consumption (saving the economy in excess of US$ 250 million or Kshs. 20 billion in foreign exchange annually, (GOK, 2008 & KSB, 2010).

Furthermore, the sugar sub-area is as of now experiencing major change occasioned by advancement and deregulation in the working condition. These policy reforms have led to the liberation of sugar costs and promoting, the evacuation of money given by the government on farming and setting the parastatal elements under administration contracts to set them up for privatization. There is an approaching danger emerging from the facilitated commerce course of action which has already been protected our nation against territorial rivalry. Finally, this study focused on private sugar firms in Kenya while excluding publicly owned companies since the management and ownership are different, they operate in the different economic environment and the regulations governing them is different.

1.1.3 Financial performance of sugar companies in Kenya
According to Barringer and Ireland (2006), financial performance is a component of both the decision of a plan of action and how successfully a firm uses its model. Having a correctly verbalized plan of action is basic since: it fills in as a non-stop plausibility research, focused attention on how properly each one of the segments of an enterprise suit collectively and constitutes an operating entirety. According to IASB (2012) amendment, IAS1 is the accounting standard guiding the reporting structure on the measurement of financial performance of an entity furthermore, introduction of monetary articulations. Those tenets set out the general stipulations for cash associated articulations, along with how they should be organized, the base necessities. The same old calls for an in depth association of budgetary statements to include an statement of money related role, a record of profit or loss and different preferred earnings, an assertion of changes in value and an announcement of cash flows(including comparative information) at least annually.
Table 1.1 Percentage change in ROE

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<tr>
<td>West Kenya</td>
<td>28%</td>
<td>12%</td>
<td>8%</td>
<td>17%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Soin</td>
<td>15%</td>
<td>30%</td>
<td>35%</td>
<td>40%</td>
<td>42%</td>
<td>45%</td>
</tr>
<tr>
<td>Kibos</td>
<td>13%</td>
<td>12%</td>
<td>10%</td>
<td>15%</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>Butali</td>
<td>11%</td>
<td>5%</td>
<td>18%</td>
<td>15%</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>Transmara</td>
<td>12%</td>
<td>28%</td>
<td>32%</td>
<td>40%</td>
<td>42%</td>
<td>21%</td>
</tr>
<tr>
<td>Sukari</td>
<td>16%</td>
<td>16%</td>
<td>30%</td>
<td>11%</td>
<td>5%</td>
<td>18%</td>
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</tbody>
</table>

Source: KSB (2015)

The general trend of private sugar companies as shown above West Kenya, Sukari, Butali, Transmara and Kibos are seen to have a fair and good performance as opposed to Soin which has poor execution may be a marker of inefficient enterprise or an incapable arrangement of pastime. Investigating an extended haul execution designs whether or not the association has dependably built up its arrival on price, or if it has lessened it after some time can choose lengthy haul development capability. Now and again, a company with a poor return can be an excellent open entryway, if different parts of its coins related state of affairs showcase the likelihood of longer-time period development. Finally, an example in the direction of the terrible go back is pondered in an association's stock price, as there may be less enthusiasm for offers of an affiliation that cannot make a high-quality payback.

1.2 Statement of the Problem

The measurement of the performance impact of strategies has been reported to be problematic in rising economies; Kenya included (Hoskisson, Edan, Lau & Wright, 2000). Such researchers attribute the situation to original financial reporting that make comparisons
over time and across firms difficult. This problem is by compounded unethical financial reporting practices (Shama & Merrell, 1997). Previous research that focused on the organizational performance of sugar firms in Kenya is limited. All these issues contributed to the need and challenge of studying the performance privately owned sugar companies in Kenya.

After Modigliani and Mill administrator (1958) and (1963), much research occurred in corporate store to choose the effect of an association’s choice of capital structure on execution. The inconvenience dealing with institutions at the same time as arranging their gain is to choose CS affect on execution. Supervisors have various chances to practice their carefulness concerning capital structure selections. Kenya Sugar sector has in the recent past faced several financial challenges, leading to the closure of some factories and failure to pay their creditors. Various studies carried on capital structure, and financial performance includes: Rutto (2011) looked at how change on capital structure affect shared prices for firms listed at the NSE whereas Lokong (2010) looked at the connection linking capital structure and profitability of microfinance establishments in Kenya. Kitony (2007) tried the connection between capital structure and organization costs. The Findings seemed to propose that there is a huge effect of capital structure on organization achievement in the wake of controlling for organization particular attributes, for example, group size and age of the firm. This study, in this manner, explored on capital structure on financial performance focusing private sugar producing firms in Kenya.

1.3 Objectives of the Study
The main objective of the study was to establish the relationship of capital structure on financial performance of the private sugar firms.

1.3.1 Specific Objectives
1. To find out how debt equity ratio relate to the financial performance of private sugar manufacturing companies in Kenya.
2. To examine the relationship between debt asset ratio and the financial performance of private sugar manufacturing companies in Kenya.
3. To investigate the relationship between long-term debt ratio and the financial performance of private sugar manufacturing companies in Kenya.
4. To examine the moderating effect of the firm size and age of the firm on the association between capital structure and the financial performance of private sugar manufacturing companies in Kenya.

1.4 Hypothesis of the Study

The study adopted the following null hypothesis;

- $H_{01}$: There is no significant relationship between debt equity ratio and the financial performance.
- $H_{02}$: There is no significant relationship between debt asset ratio and the financial performance.
- $H_{03}$: There is no significant relationship between long term debt ratio and the financial performance.
- $H_{04}$: Firm size and the age of the firm do not significantly influence the association between capital structure and the financial performance.

1.5 Significance of the Study

The findings of the literature on the connection between capital structure and financial performance are opposing in this way a requirement for additional research. By focusing on sugar manufacturing companies, this investigation added to the current writing by giving confirmation from up to this point, unfocused region. The verdicts of the study shall help the management in the formulation of best capital structure for the sugar sector in Kenya.

1.6 Scope of the Study

This study focused on the capital structure and financial performance of private sugar firms in the production and marketing of sugar and sugar by-products in Kenya. The companies in the industry comprised a total of six (6) private sugar manufacturing firms. The
study focused on sugar firms which were in operation by the year 2010 and are currently in operation. The study investigated the correlation between the capital structure of the private sugar organizations and financial performance.

1.7 Limitation of the study
The shortcoming that was encountered during the study was obtaining data from Registrar of companies and individual companies’ websites due to slow response rate and internet downtime. This aspect was managed by continuous follow up through physical presence, emails and phone calls to the Registrar of companies’ offices and working in the late hours when the internet speed is high and few users operate hence more efficient.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter examined the literature relevant to the study.

2.2 Theoretical Review
This study was based on the following theories below:

2.2.1 Capital Structure Irrelevance Theory
Capital structure places into prospect the path wherein a company funds its operations which may be via dedication, esteem capital or a mixture of each (Brigham, 2004). Capital structure concept as ascribed by Modigliani and miller proposed that it is far unessential how a business enterprise funds its daily activities and that the estimation of a business enterprise is self-sufficient of its capital structure making capital structure beside the point (Modigliani & Miller, 1958). The findings relied upon the doubt that there have been no lender charges, benefit earlier than top class and obligation had been not impacted by way of the use of commitment and that theorists should get at a doubtful charge from corporations charge and in the end there was no information asymmetry. As indicated by using Modigliani and Miller (1958), the requirement for obligation brings down with the character assessment at the intrigue salary. At the off danger that the firm keeps on lacking in making installments to the obligation holders, the company can even be demolished. The hypothesis can be clarified by expenses of monetary pain and organization costs (Modigliani & Miller, 1958).

This theory is a cornerstone of finance that it is substantive and stems from its nature of irrelevance proposition. The plan helps understand when the decisions might have an effect on firms’ financial performance and why. As a result, the whole consequent
improvement of corporate back might be portrayed fundamentally as investigating the outcomes of unwinding the MM suppositions. In conclusion, MM theory states that whether a firm is funded through debt or equity, its value stands equal.

2.2.2 Trade-off theory of Capital Structure and Taxes
Myers (2001) study on capital structure ascribed to Modigliani and Miller noticed that the exchange off hypothesis legitimizes normal obligation proportions. Tradeoff concept forecast that a feeble agency depend totally on financial institution for duty principal. This is, for weak corporations, bank duty instructions, any mixture of marketplace and bank obligation paying little mind to the need structure. This effect invalidates the possibility that little/young associations avoid open commitment since they require right of market entry or encounter unreasonable costs in this way. Inside the tradeoff hypothesis, there is an obligation "pecking-arrange" with bank obligation being linked to the market risk because of the lower inferred liquidation costs. Precisely while the financial institution holds all ex-post bargaining power, the pined for level of dedication examine shields may be talented the use of in reality financial institution commitment (Modigliani & Miller, 1958).

In conclusion, this theory was relevant in that it foretells that firms with more substantial resources and more payable revenue ought to have soaring liability ratio and companies through new intangible assets, whose purpose will fade away in case of bankruptcy, ought to depend more on value financing. Under exchange off hypothesis, the organizations with high development potential outcomes ought to obtain less on the grounds that they will probably lose an incentive in money related misery.

2.2.3 Pecking Order Theory
The pecking order theory as cutting edge by Myers (1984) expressed that organizations lean toward inside wellsprings of back; they modify their objective profit payout proportions to their venture openings despite the fact that profits and payout proportions are acclimated to shifts in the degree of significant venture opportunities. Moreover, Myers (1984) expressed that if external investment is required, companies are destined to problem the most comfy safety to start with, in different phrases, they begin with obligation then
conceivably convertible duty then cost comes if all else fails. Should outside financing be required, obligation would be favored over value. Be that as it may; the theory did not completely clarify the capital structure contrasts between enterprises.

Scherr, Sugrue and Ward (1993) considered the hypothesis as a fitting portrayal of middle organizations' funding rehearse considering duty with the aid of a protracted shot the most important wellspring of financing and that little and medium enterprise chiefs have a tendency to be owners of the business who could decide upon greater frequently than now not to weaken their ownership. Likewise, they agreed that organizations thusly have a tendency to lean toward inward financing to outside financing of any kind and in the event that they should acquire outer subsidizing, they have an inclination of obligation over value.

Cosh and Hughes (1994) of course demonstrated that inside the general pecking request theory, Small and Medium Sized Enterprises' when appeared differently in relation to enormous endeavors would depend on upon extra on holding excess liquid points of interest for meet discontinuities in hypothesis programs, depend on upon extra on without a moment's hesitation commitment including trade credit and overdrafts, depend to a more conspicuous degree on utilize purchase and leasing equipment. The writer also proposed a refinement of the idea because of its nonattendance of statistics to check threat both at the person and collective precept. There is no expansive delineation at the most capable method to quantity those financing mixes to get a perfect capital structure (Santos, 2003).

2.3 Theoretical Literature on Components of Capital Structure
Several measures have been suggested to measure capital structure. This aspect includes; financial leverage (Hutchinson 1995; Taub 1975 and Baker 1973). Another measure is debt ratio (Fama and French 1998; Majumdar and Chhibber 1999; Gleason and Mathur, 2000). The literature additionally totally portrays the different endeavors to demonstrate organization obligation/value arrangement. In any case, what ideal blend of securities should an organization issue stay obscure? On the off chance that existent capital structure hypothetical writing has so far positively spoke to an expansive amount of possible cause of capital structure decision, Gleason and
Mathur (2000), observational research has too wavered in discovering clear and convincing approved logical hugeness of such models. Pandey (2005) identifies several procedures of capital structure. The author further argues that these determining factors of capital structure are naturally fixed and indicate the level of acquiring money for the business at an instant of time. Although the procedures are criticized for their failure to be a sign of the point of economic hazard essential for company’s capacity to pay interest and debt, these measures are considered suitable for a study seeking to measure the capital structure of a company.

2.4 Review of past studies

2.4.1 Capital Structure
Capital structure relates to the dedication and esteem utilized through an affiliation in funding crucial factors. Its decision is at the factor of convergence of numerous exceptional choices within the locale of association subsidize. Those represent benefit approach, develop financing, the difficulty of complete deal securities, financing of mergers, buyouts and so forth. Foundation of test capital structure ask about central examination by Majumdar and Chhibber (1999) who shows that under the restrictive critiques of best cash related markets and not using a arbitrage, no responsibilities or trade expenses and identical exhilaration on dedication and esteem, the estimation of an affiliation is sovereign of the administration's money related alternatives. In the event that these sentiments are casual through the incorporation of organization charges, exchange costs, the uniqueness of loan fee for obligation and value and data asymmetry, the subject of what decides capital structures winds up plainly multifaceted.

Despite the way that a portion of the basic suspicions of the hypothesis can be expected unlikely according to speculators and other monetary operators, the immateriality hypothesis was acknowledged, and ensuing exploration concentrated on loosening up a number of its assumptions to expand a more practical approach. Modigliani and Miller (1958) allowed for a segment of the responses or insufficiencies of their theory and free the supposition that there were no association expense (Majumdar & Chhibber, 1999).
Um (2001), in any case, proposes that if an organization's level of substantial resources is low, the administration for watching cost reasons may pick an abnormal state of obligation to relieve value office costs. An ill-disposed connection amongst obligation and substantial quality is reliable with a value office cost clarification, Um (2001). The author likewise contends that organization size may intermediary for the obligation office costs (observing expense) emerging from clashes amongst directors and financial specialists. Um (2001) underscores that the checking cost is bring down for huge organizations than for little organizations. In this way, more real organizations will be actuated to utilize more obligation than small ones.

Berk, Jonathan, and Zechner, (2009) drives an association's most favorable capital structure and regulatory reward agreement when delegates are hesitant to bearing their human capital peril. The speculation passes on precisely unsurprising perfect commitment levels and proposes a tenacious unconventional qualification being used across finished associations and what's more a positive association among utilize and official pay. Berk, Jonathan, and Zechner, (2009) also on investigations on the influence of capital structure decisions for organizations within G-7 nations and observed organization are comparative over nations.

Additionally study was done from a universal viewpoint; Fan, Joseph, Sheridan, and Garry (2008) observed a more grounded association among earnings and use in international locations with weaker shareholder affirmations. In countries with more suitable valid warranty for budgetary petitioners, institutions tend to hold much less general dedication and extra entire deal commitment as a degree of overall dedication. Additionally, organizations that cross run down tend to make use of greater significance and obligation of a long period. The cross-sectional influences vary across the nations. As experimental capital structure look into has developed quick finished the years, the writing audit does not claim to be comprehensive.

Hardly any research give prove from creating nations. For instance, Booth, Laurence, Aivazian, Kunt and Maksimovic (2001) broke down information from ten creating nations that utilizes information from other developed nations. Of the capital structure thinks about, some have utilized crosscountry examinations in view of information from the specific district. For instance, Deesomsak, Paudyal, and Pescetto, (2004) investigate information from the Asia Pacific district. Regardless of some huge commitments to the
general view of the different complexities of organization capital structure, examine created so far did not bear the cost of yet a sound reason for working, in a definitive manner, the experimental legitimacy of the diverse hypothetical models. Such examinations are treasured in support of an unrivaled appreciation characteristic results and behavioral additives on capital structure alternatives, and thusly bringing to enlarging the illustrative and really appropriate energy of the hypothesis. Positive stuns to benefit prompt an expansion in value and abatements paying off debtors. Since organizations don't change capital structures instantly post-quake tremors because of exchange costs, a negative relationship can be distinguished amongst productivity and leverage (Deesomsak, Paudyal, & Pescetto, 2004).

2.4.2 Organizational Performance
Organizational performance and its improvement have been a dominant theme in management and practice. Walker and Ruekert (1987) assert that proper firms’ performance scope must include efficiency, competence, and flexibility, suggesting the existence of vital linkages connecting strategic control, strategic orientations and organizational performance. Performance measurement impact of strategies has, however, been reported to be problematic in rising economy, Kenya included (Hoskisson, Edan, Lau & Wright, 2000). Such researchers attribute the situation to unconventional financial reporting that make comparisons over time and across firms difficult. This problem is by compounded unethical financial reporting practices (Shama & Merrell, 1997). Previous research that focuses on the organizational performance of sugar firms in Kenya is limited. A firm’s financial performance, is set apart by how more joyful the shareholder is toward the complete of a period, than he was toward the beginning and this can be settled using extents gained from fiscal announcements; generally the advantage report and pay clarification (Berger & de Patti, 2002). Those extents deliver a repercussion of whether or not the company achieves the proprietors' objectives of making them wealthier and can be used to differentiate a company's extents and distinctive corporations or to find examples of execution after some time. Charreaux (1997), observe that an agreeable execution degree should give a record of the considerable number of outcomes of speculations, on the abundance of shareholders.
2.4.3 Components of Capital Structure
The capital structure of a corporation is characterized through special inward and outer factors. The attributes of a one’s organization, which are named small scale additives (inward), likewise exchange the capital structure of undertakings. This investigation displayed how the small scale elements impact the capital structure of an organization concerning the pertinent capital structure hypotheses expressed before.

2.5 Empirical review
This study focused on capital structure measures and financial performances.

2.5.1 Debt-Asset Ratio and Financial Performance
There is only handful of studies measuring capital structure by debt assets ratio. One notable study was that of Ebaid (2009) who did a research to look at the effects of decision of capital structure towards execution of firms in Egypt. Capital structure was calculated by current and fixed obligation to resource proportion, long haul obligation to resource proportion, and aggregate obligation to add up to resources. Different relapse examination was utilized to gauge the connection linking the use level and execution. The investigation showed that capital structure has practically zero effect on a company's execution. These outcomes are contrary with other observational examinations, for example, Ebaid (2009)) and Ghosh, Nag and Sirmans (2000), which uncovered a positive connection between money related use and decision of capital structure. Different examinations demonstrated a negative relationship, for example, whereby bring down value capital proportion is related with more noteworthy firm execution. The repudiating comes about give space for incorporating extra factors in new studies (Ebaid, 2009).

Mwangi, Anyango and Amenya (2014), sought to establish significance of debt-asset ratio on firm performance. The study confirmed fulfillment of the company enhanced by utilizing to a greater extent current liabilities to finance assets. This is likely in light of the fact that present commitments are less exorbitant than non-current obligation.
2.5.2 Debt Equity Ratio and Financial Performance

Hutchinson (1995) in his wise works discussed that budgetary utilize definitely influenced the affiliation's landing on esteem gave that wage's vitality of the wander's advantages outperforms the typical interest cost of firm’s commitment. Dough puncher (1973) additionally distinguished a clear relationship amongst obligation and benefit however for enterprises. In any case, a couple of examinations have shown that commitment adversely influences firm efficiency. Petersen and Rajan (1994), clear up that the use of over the top commitment makes association issues among shareholders and loan specialists and that could end in a negative association among utilize and advantage. In a Polish report, Gleason et al. (2000) likewise found a negative connection amongst obligation and company's productivity.

In another examination, Gleason et al. (2000) utilized board information examination to look at the connection between add up to obligation and execution and in addition between different wellsprings of obligation in particular, bank advances, and exchange credits and firms' execution measured by gainfulness. His outcomes demonstrate a significant and opposite impact for generally nations. He found that the kind of obligation, bank advances or exchange credit is not of essential significance, what is important is obligation as a rule. To realize MM hypothesis in Kenya, Kaumbuthu (2011) utilized relapse examination and found a negative connection between obligation value proportion and ROE.

2.5.3 Long-Term Debt Ratio and Financial Performance

Mwangi (2010) distinguished that a solid positive connection amongst use and profit for value, liquidity, and degree of profitability existed. Mesquita and Lara (2003) revealed that the connection linking rates of return and obligation demonstrates an opposite association for long haul financing and established a connection for short term financing and value. Capital structure was measured by means of current and fixed obligation to resource share, long haul obligation to useful resource proportion, and mixture duty to feature up to resources. Extraordinary relapse examination linked to evaluate the relationship between the use level and execution. These
consequences are incongruent with other experimental examinations, as an instance, Hadlock and James (2002) which exposed a decisive connection between budgetary use and decision of capital structure.

2.6 Sugar Firms Factors

2.6.1 Size of the Firm
The majority of the investigations evaluating the effect the size of firm on benefit have revealed results with an affirmative link between size of the firm and gainfulness. In agreement with this, an affirmative connection linking size of the firm and growth was ascertained by Jonsson (2007). The creators utilized different measures of size (deals and aggregate resources) and cost-viability whereas using the model on an example of fifteen organizations running in South India. In their examination, depended on a straightforward semi-log math determination of the model. The part of the firm size in productivity was inspected by Jonsson (2007) who utilized settled impact dynamic board information demonstrate and performed investigation on a specimen of 7000 US openly held firms. The examination demonstrated that total firm size assumes an amazing part in clarifying benefit. Jonsson (2007) observation displayed that more corporations have higher productivity while contrasted with smaller firms.

The size-benefit association of an association running on budgetary administrations part was tried by Amato (2007). They attempted each direct and cubic form of the relationship. Regardless of the reality that a bad effect of firm size on productivity was appeared with the straight specific in agency measure. Becker, Kaen, Etebari and Baumann (2010) revealed a negative and statistically large affiliation among general belongings, overall revenues and number of workers of the organization and their surpluses.

2.6.2 Age of the Firm
Kipesha (2013) showed that both firm size and age affect Microfinance execution in Tanzania with respect to productivity, supportability, benefit and income creation ability. Ehi-Oshio, Adeyemi and Enofe (2013) conducted a research entitled “Determinants
of Corporate Profitability in Developing Economies”. The outcomes demonstrated a positive relationship subsist connecting firm size and corporate productivity, and budgetary use and corporate benefit. Akbas and Karaduman (2012) mulled over the effect of company length and age on gain on the associations and found that firm size decidedly influences profitability. Dogan (2013) demonstrated a helpful result of both the size and the liquidity on the benefit in like manner it found a negative impact of age and use on the profitability. Coad, Segarra, and Mercedes (2010) inspected the effect of age on company's execution in Spanish assembling firms in the period in the vicinity of 1998 and 2006. They found that organizations enhance with age, and contend that maturing firms are seen to have relentlessly expanding levels of profitability, higher benefits, bigger size, bring down obligation proportions, and higher value proportions. Moreover, more established firms are better ready to change over deals development into resulting development of benefits and profitability.

2.7 Summary of Literature and research gap
The conceptual literature review has point by point a few speculations that clarify the capital structure and money related execution of the organizations and thusly a few hypotheses can be applied to foresee the viable impacts of capital systems on budgetary execution. The precise literature place noted the exceptional pertinent observational studies carried out on capital shape, the effects of the investigations lastly an explanation of the result. This study looked to fill the gap by researching capital structure on monetary execution with particular reference to private sugar producing organizations in Kenya.
2.8 Conceptual Framework
In order to measure the study’s variables effectively, the following conceptual framework and associated hypotheses to the study was used.

**Independent Variables**

<table>
<thead>
<tr>
<th>Capital Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Debt to Equity ratio</td>
</tr>
<tr>
<td>• Debt to Asset ratio</td>
</tr>
<tr>
<td>• Long term debt ratio</td>
</tr>
</tbody>
</table>

**Dependent Variable**

<table>
<thead>
<tr>
<th>Financial Performance of sugar companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Return on Equity (ROE)</td>
</tr>
<tr>
<td>• Earnings Per Share (EPS)</td>
</tr>
<tr>
<td>• Return on Capital Employed</td>
</tr>
</tbody>
</table>

**Sugar Firms Factors**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Firm size</td>
</tr>
<tr>
<td>• Age of the firm</td>
</tr>
</tbody>
</table>

**Moderating Factors**

Fig. 2.1 Source: Researcher (2017) Conceptual framework of capital structure and the performance of the private sugar firms

The conceptual framework showed a relationship between capital structure and financial performance of private sugar firms in which the capital structure is the predictor (independent) variable, and the performance of the private sugar firms is the dependent variable.
The performance of the firm is measured by Return on Equity (ROE), Earnings per Share (EPS) and Return on Capital Employed (ROCE). The main indicators of capital structure are Debt to Equity Ratio, Debt to Asset ratio and Long Term Debt ratio.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

A research design is an overall framework, a preparation, structure, investigation strategy and logical model that is conceived to provide means of obtaining responses to the research hypotheses and questions. The research design suitability relies on study idea and the research objects (Mugenda, 2008). This study adopted cross-section survey research design. Cross-section survey research design was preferred because it enabled the researcher to collect secondary data in different firms for the purpose of determining the existence and extent of a phenomenon as well as established the relationship between variables.

3.2 Target Population

This characteristic is a census study of all the six private sugar firms which were in existence by 2010 and are currently in operation. The census approach was applicable on account of the modest number of the sugar fabricating organizations in Kenya. A complete list of (population frame) of the sugar manufacturing firms is provided in Appendix II and summary of the population each year was shown in Table 3.1

Table 3.1: Summary of the sugar manufacturing companies in Kenya

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of sugar companies</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

3.3 Research Instruments and Data Collection Methods
The study used secondary data which was obtained from the published accounts of the participating firms. The data was sourced from the registrar of companies and the individual sugar firms. Secondary data collection schedule (Appendix I) was used to capture data collected from the firm’s published accounts.

3.4 Validity and Reliability of Instruments
3.4.1 Validity
White (2005) depicts validity as the conformity linking the analyst's decision and the real reality. The study looked at the substance legitimacy file to quantify the legitimacy of the instruments to be utilized. Content validity empowered information being gathered to be dependable in speaking to the particular substance of a specific idea. Supervisors and the research specialists at the School of Post Graduate of Kenyatta University were consulted to assess the relevance and fittingness of the substance, clearness, and ampleness of the optional information gathering plan from an examination point of view. Borg and Gall (1989) calls attention to that legitimacy of an instrument is enhanced through expert judgment.

3.4.2 Reliability
To ensure reliability audited published accounts from an authentic source, the Registrar of Companies in Kenya was used. Scrutiny of audited financial statements was done to ensure consistency of reporting system. Reliability measured the relevance and correctness of the instruments.

3.5 Data Analysis and Presentation Techniques
Data analysis is looking at the unprocessed data gathered amid research examination (Kombo and Tromp, 2006). This point of view includes extricating of fundamental factors and investigation of gathered data to build up truths. Secondary data was utilized; it sorted, coded and gone into Statistical Package for Social Sciences (SPSS form 22) statistics. Data was examined by utilizing panel data
analysis. Quantitative data was analyzed by use of descriptive statistics presented in frequency tables. Multiple regression and Pearson Correlation Coefficient was used to determine direction and extent of the association between capital structure and performance of sugar manufacturing companies. A chi-square test was used to show the significance of the variables.

3.5.1 Specification of the Model

Multiple regression models were used to test the theoretical relationship between capital structure and the performance of sugar firms in Kenya. The following multiple linear regression models was used;

\[ Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_i \]

Where; \( \beta_0 \) = intercept, \( \beta_1 \) = parameter associated with \( X_1 \), \( \beta_2 \) = associated with \( X_2 \), and so on, \( \varepsilon_i \) = the error term, \( Y_i \) = financial performance parameter, \( X_1 \) = debt asset ratio, \( X_2 \) = debt equity ratio, \( X_3 \) = long term debt ratio and \( \beta \) = coefficients of the model

Model summary with size as a moderator variable

\[ Y_i = \beta_0 + \beta_1 X_1 Sz + \beta_2 X_2 Sz + \beta_3 X_3 Sz + \varepsilon_i \]

\( Sz \) = Size of the firm

Model summary with age as a moderator variable

\[ Y_i = \beta_0 + \beta_1 X_1 Ag + \beta_2 X_2 Ag + \beta_3 X_3 Ag + \varepsilon_i \]

\( Ag \) = Age of the firm

Average data was analyzed as per the secondary data schedule.
3.6 Operationalization and measurement of Variables

The operationalized was based on how the variable was used in the study;

Table 3.2 Operationalization and measurement of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Type</th>
<th>Operationalization</th>
<th>Measurement</th>
<th>Hypothesised direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Dependent</td>
<td>ROE</td>
<td>PAT/Value of Equity PAT/Capital employed PAT/No. Of shares</td>
<td>null</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ROCE</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>EPS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital structure</td>
<td>Independent</td>
<td>DER.</td>
<td>Total liabilities/Total equity Total debts/Total assets</td>
<td>null</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DASR</td>
<td>Total debts/Total assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>LDER</td>
<td>Long term debts/Total assets</td>
<td></td>
</tr>
</tbody>
</table>
3.7 Ethical Consideration
Moral contemplations were important to keep up the honesty of the examination and additionally the uprightness of the specialist (Creswell, 2002). Permission was obtained before collecting the data; the targeted respondents were assured that participation was voluntary. Further, the details of the study and its benefits to the management of the industry were explained. The assurance that confidentiality for the information given in the questionnaires was given. The respondents were further assured that only requisite details that will assist in shedding light on the research questions were included.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.0 Introduction
This chapter covered data analysis, findings and discussions of the research. Secondary data were collected from private sugar companies’ 6 companies listed in the Kenya Sugar Board.

4.1 Regression analysis
The research study wanted to find out the impact of capital structure on financial performance of private sugar companies in Kenya. When the data was tested statistically the values were found out to be insignificant. The below model was used to establish the relationship between capital structure and financial performance.

Table 4.1 Model Summary DER

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.724*</td>
<td>.524</td>
<td>.429</td>
<td>2.10655</td>
</tr>
</tbody>
</table>

From table 4.1 the results indicated that 52.4% of the variations between the dependent variable ROE and independent variable DER were accounted for or explained this indicated some significant relationship.
Table 4.1.1 Debt Equity Ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>24.447</td>
<td>1</td>
<td>24.447</td>
<td>5.509</td>
<td>.046</td>
</tr>
<tr>
<td>Residual</td>
<td>22.188</td>
<td>5</td>
<td>4.438</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>46.635</td>
<td>6</td>
<td>4.438</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results from table 4.1.1 showed that $F=5.509$ with a $P$ value less than 0.05 at 0.046 which is significant.
Table 4.1.2 Coefficient of DER

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-1.589</td>
<td>2.102</td>
<td>-.756</td>
<td>.484</td>
</tr>
<tr>
<td>Debt Equity ratio</td>
<td>.595</td>
<td>.253</td>
<td>.724</td>
<td>2.347</td>
</tr>
</tbody>
</table>

Results from table 4.1.2 indicated that DER has a significance on financial performance of private sugar manufacturing companies in Kenya. With a P value less than 0.05 at 0.046, this implied that null hypothesis that debt equity ratio has no significant effect on performance of private sugar manufacturing companies in Kenya is rejected and the alternative hypothesis is accepted. The findings are in accordance with the discoveries by Hutchinson (1995) who fought that cash related utilize decidedly influenced the affiliation's entry on esteem gave that benefit's impact of the organization's advantages outperforms the typical premium cost of commitment to the firm. Hutchinson (1995) additionally discovered fundamentally positive connection between obligation proportion and measures of gainfulness. Pastry specialist (1973) additionally distinguished critical effect amongst obligation and gainfulness yet for businesses.
Table 4.2 Summary of DAR

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.338*</td>
<td>.114</td>
<td>-.063</td>
<td>2.87443</td>
</tr>
</tbody>
</table>

Results from table 4.2 showed that only 11.4% of the variations between DAR and performance are explained this percentage points at a weak relationship.

Table 4.2.1 Debt Asset Ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5.323</td>
<td>1</td>
<td>5.323</td>
<td>.644</td>
<td>.459*</td>
</tr>
<tr>
<td>Residual</td>
<td>41.312</td>
<td>5</td>
<td>8.262</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>46.635</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the table 4.2.1 it indicated that F=0.644 with P value of 0.459 more than 0.05 hence not significant.
Table 4.2.2 Coefficient of DAR

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>4.699</td>
<td>2.407</td>
</tr>
<tr>
<td>debt asset ratio</td>
<td>-2.606</td>
<td>3.247</td>
</tr>
</tbody>
</table>

Results from table 4.2.2 indicated that DAR has got no significant relationship with performance where the P value 0.459 is more than 0.05 this lead to failure of rejection of the null hypothesis that DAR does not significantly affect the performance of private sugar manufacturing companies in Kenya. t-statics=1.953 which is also not significant with P value of more than 0.05. This finding is in help of finding by Ebaid (2009)) and Ghosh, Nag and Sirmans (2000), which uncovered a positive connection between money related use and decision of capital structure. Different examinations demonstrated a negative relationship, for example, whereby bring down value capital proportion is related with more noteworthy firm execution. Capital structure was calculated without a moment's hesitation commitment to asset extent, whole deal commitment to asset extent, and total commitment to indicate assets.
Table 4.3 Summary of LTDR

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.773</td>
<td>.597</td>
<td>.517</td>
<td>1.93855</td>
</tr>
</tbody>
</table>

Findings from Table 4.3 indicated that $R^2$ is 0.597 indicating that only 59.7% of the variations between ROE and LTDR are explained or accounted for.

Table 4.3.1 Long term debt ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>27.845</td>
<td>1</td>
<td>27.845</td>
<td>7.410</td>
<td>.042a</td>
</tr>
<tr>
<td>Residual</td>
<td>18.790</td>
<td>5</td>
<td>3.758</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>46.635</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
From the findings table 4.3.1 indicated that $F=7.410$ with a $P$ value $0.042$ which is less than $0.05$ this shows that $F$ statistic is significant.

Table 4.3.2 Coefficient of LTDR

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-1.050</td>
<td>1.651</td>
<td>-.636</td>
<td>.553</td>
</tr>
<tr>
<td>long term debt ratio</td>
<td>1.450</td>
<td>.533</td>
<td>.773</td>
<td>2.722</td>
</tr>
</tbody>
</table>

Results from table 4.3.2 indicate that LTDR has a significant effect on performance since $P$ value is less than $0.05$ at $0.042$ implying that the null hypothesis that long term debt ratio does not significantly affect the performance of private sugar manufacturing companies in Kenya is rejected and the alternative hypothesis is accepted. These findings are in help of the findings by Walker and Ruekert (1987) assert that proper firms’ performance scope must include efficiency, competence, and flexibility, suggesting the existence of vital linkages connecting strategic control, strategic orientations and organizational performance. Performance measurement impact of strategies has, however, been reported to be problematic in rising economy, Kenya included (Hoskisson, Edan, Lau & Wright, 2000). Such researchers attribute the situation to unconventional financial reporting that make comparisons over time and across firms difficult.
Table 4.4 Summary of Size of the firms

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.929a</td>
<td>.863</td>
<td>.315</td>
<td>2.50518</td>
</tr>
</tbody>
</table>

Findings from table 4.4 showed that when the firm size is introduced into the regression model $R^2=0.863$ implying that 86.3% of the variation linking the independent variables ROE and the dependent variable explained the size of the firm is not significant for moderating capital structure and performance.

Table 4.4.1 Size of the firm

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>39.505</td>
<td>4</td>
<td>9.876</td>
<td>1.574</td>
<td>.530b</td>
</tr>
<tr>
<td>Residual</td>
<td>6.276</td>
<td>1</td>
<td>6.276</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>45.781</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the ANOVAs table 4.4.1 results indicated that $F=1.574$ which is not significant since the P value 0.530 is more than 0.05.
### Table 4.4.2 Coefficient of size of the firms

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>19.842</td>
<td>58.412</td>
<td>.340</td>
<td>.792</td>
</tr>
<tr>
<td>Debt Equity ratio</td>
<td>.529</td>
<td>.415</td>
<td>.649</td>
<td>1.274</td>
</tr>
<tr>
<td>Debt asset ratio</td>
<td>-.196</td>
<td>6.066</td>
<td>-.023</td>
<td>-.032</td>
</tr>
<tr>
<td>Long term debt ratio</td>
<td>1.334</td>
<td>1.648</td>
<td>.657</td>
<td>.810</td>
</tr>
<tr>
<td>Size of the firm</td>
<td>-112.752</td>
<td>303.089</td>
<td>-.279</td>
<td>-.372</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Return on Equity

From the results in table 4.4.2 it showed that the size of the firm is not significant for moderating capital structure and performance since P value 0.792 is more than 0.05 implying that we fail to reject the null hypothesis that firm size does not significantly influence the relationship between capital structure and the performance of private sugar manufacturing companies in Kenya.
Table 4.5 Model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.920(^a)</td>
<td>.847</td>
<td>.693</td>
<td>1.54394</td>
</tr>
</tbody>
</table>

Findings from table 4.5 showed that when all independent variables are combined the R\(^2\)=0.847 indicating that only 84.7% of the variations are accounted for. Meaning that the independent variable which is capital structure has no significant effect on dependent variable that is financial performance.

Table 4.5.1 Return on Equity and independent variables

ANOVA\(^b\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>39.484</td>
<td>3</td>
<td>13.161</td>
<td>5.521</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>7.151</td>
<td>3</td>
<td>2.384</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>46.635</td>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the results in table 4.5.1 it was found out that F=5.521 with a P value of 0.097 which was more than 0.05 implied that variations were not significant.
### Table 4.5.2 Coefficients of ROE and independent variables

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-1.926</td>
<td>.206</td>
<td>-.873</td>
</tr>
<tr>
<td></td>
<td>debt asset ratio</td>
<td>-1.656</td>
<td>1.891</td>
<td>-.215</td>
</tr>
<tr>
<td></td>
<td>long term debt ratio</td>
<td>.918</td>
<td>.499</td>
<td>.489</td>
</tr>
<tr>
<td></td>
<td>Debt Equity ratio</td>
<td>.449</td>
<td>.207</td>
<td>.547</td>
</tr>
</tbody>
</table>

Results from table 4.5.2 indicated that the independent variables debt asset ratio, long term debt ratio and debt equity ratio showed that there was no significant effect on the dependent variable ROE with all the p values was more than 0.05 hence it was concluded that there was statistically no significant difference between capital structures and financial performance.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

The study aimed at establishing the effect of capital structure on financial performance of private sugar firms in Kenya. Specifically, the study was meant examine the association linking debt equity ratio and the financial performance of private sugar manufacturing companies in Kenya. Secondly, it was to determine the association linking debt asset ratio and the financial performance of private sugar manufacturing companies in Kenya. Thirdly, it was to establish how long-term debt ratio relates to the financial performance of private sugar manufacturing companies in Kenya.

From objective one on Debt Equity Ratio and financial performance the study found out that F value equal to 5.509 with a P value less than 0.05 at 0.046, t statistics -0.756 and R square of 0.524 showing that Debt Equity Ratio had a critical impact on financial performance. Secondly, Debt Asset Ratio and financial performance the study found out that F value equal to 0.644 with a P value more than 0.05 at 0.459, t statistics 1.953 and R square of 0.114 showing that Debt Asset Ratio had no critical impact on financial performance. Thirdly, Long Term Debt Ratio and financial performance the study found that F value equal to 7.410 with a P value less than 0.05 at 0.042, t statistics -6.36 and R square of 0.597 showing that Long Term Debt Ratio had a critical impact on financial performance. Finally on Size and financial performance it was found out that F value equal to 1.574 with a P value more than 0.05 at 0.530, t statistics 0.340 and R square of 0.863 showing that directing impact of size had no significant effect on financial performance. Generally when all variables put together were found out that that F value equal to 5.521 with a P value more than 0.05 at 0.097, t statistics -0.873 and R square of 0.847 showing that variables put together had no significant effect on financial performance.
5.2 Conclusion
The study concludes that there exist association linking debt equity ratio and the financial performance of private sugar manufacturing companies in Kenya. Debt Equity Ratio has a significant effect on the performance of private sugar manufacturing companies in Kenya.

The Debt Asset Ratio and financial performance concluded that there is no significant influence and there exist a weak or no relationship between capital structure and financial performance. The study also concluded that long term debt ratio affects the financial performance of the private sugar firms. The study concluded that the intervening outcome of the association linking capital structure and the financial performance of private sugar manufacturing companies in Kenya have no significant effect.

Finally, from the study when all variables put together it can be said that there is no significant impact of capital structure on financial performance of private sugar manufacturing companies in Kenya.

5.3 Recommendations
The study recommends that the debt equity ratio be considered since they affect the financial performance of the private sugar manufacturing firms in Kenya. Firms should consider borrowing so long as the firm is able to pay; too much borrowing is dangerous to the firm since it means firm is being financed by creditors rather than its financial resources. Creditors and buyers prefers low debt ratio due to the fact their interest are included in the occasion of a enterprise decline. A high debt/ Equity ratio results in additional interest expense and therefore incase the interest outweigh its return it may lead to bankruptcy which may leave shareholder with nothing. Firms should consider having an optimal debt to equity ratio in the long run.

The study recommends that debt asset ratio should not be considered since it does not affect financial performance of private sugar manufacturing company; it deals with the amount of total assets that are financed by creditors instead of investors. A higher debt-asset
ratio implies that it is more leverage hence greater financial risk. A company should consider financing its assets with less debt to minimize financial risk. Therefore should set an optimum debt asset ratio that suit the firm in the long run.

Finally, the study recommends that a private sugar manufacturing firm should consider lowering long term debt ratio for a company success that is the loan element should be low as possible as asset should be more this is because long term debt ratio affect the firm this will enhance positive business results.

5.3.1 Recommendation for further studies
Based on this fact among others, it is therefore, recommended that a government owned be done to determine how Capital Structure has an effect on Performance.
Similar studies to this can also be done to assess on other moderating variables such as firm ownership, and competency of management on effect of capital structure on performances.
REFERENCES


Kitony (2007). A trial of connection between capital structure and office costs: prove from the Nairobi Stock Exchange, Unpublished Management Research Project of the University of Nairobi


Lokong (2010) the connection between capital structure and benefit of miniaturized scale finance establishments in Kenya, Unpublished Management Research Project of the University of Nairobi


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Mwangi ,I. C., Anyango, M.O. and Amey, S. (2012) Capital Structure Adjustment, Speed of Adjustment and Optimal Target Leverage among Firms Quoted on the Nairobi Stock Exchange. Global Journal of Humanities and Social Science, 2(9),100 - 114


Rutto (2011) Effect of capital structure change on share costs for firm cited at the NSE, Unpublished Management Research Project of the University of Nairobi


## APPENDICES

### APPENDIX I: SECONDARY DATA COLLECTION SCHEDULE

**Summarized financial records for private sugar manufacturing companies in Kenya for year 2010 to 2015**

<table>
<thead>
<tr>
<th>Sugar Companies</th>
<th>Total Liabilities</th>
<th>Long term debt</th>
<th>Equity</th>
<th>Total Assets</th>
<th>Common stock</th>
<th>Outst. shares</th>
<th>Pref. stock</th>
<th>EBIT</th>
<th>Earnings attri. to s/holders</th>
<th>Size of the firm</th>
<th>Debt to Equity ratio</th>
<th>Debt to Asset ratio</th>
<th>Long term debt ratio</th>
<th>ROE</th>
<th>EPS</th>
<th>ROCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Kenya Sugar Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soin Sugar Company</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kibos Sugar &amp; Allied Industries Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Butali Sugar Mill</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmara Sugar Company</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sukari Industries Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX II

LIST OF SUGAR FIRMS IN KENYA

1. West Kenya Sugar Company
2. Soin Sugar Company
3. Kibos Sugar and Allied Industries Limited
4. Butali Sugar Mill
5. Transmara Sugar Company
6. Sukari Industries Limited

Source: The Kenya Sugar Industry Strategic Plan (2010-2014)
APPENDIX III: MAP OF THE STUDY AREA
KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/KER/PT/26971/2013

DATE: 26th November, 2016

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,


I write to introduce Mr. Nicholas Kipkoech who is a Postgraduate Student of this University. He is registered for M.B.A degree programme in the Department of Accounting & Finance.

Mr. Kipkoech intends to conduct research for a M.B.A Project Proposal entitled, “Capital Structure and The Performance of Private Sugar Manufacturing Companies in Kenya”.

Any assistance given will be highly appreciated.

Yours faithfully,

MRS. LUCY N. MBAABU
FOR: DEAN, GRADUATE SCHOOL
APPENDIX V: RESEARCH AUTHORIZATION

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

9th Floor, Utalii House
Uharu Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref. No. NACOSTI/P/17/51439/16136

Date:
9th March, 2017

Koskei Kipkoech Nicholas
Kenyatta University
P.O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Capital structure and the performance of a private sugar manufacturing companies in Kenya,” I am pleased to inform you that you have been authorized to undertake research in Kericho County for the period ending 9th March, 2018.

You are advised to report to the County Commissioner and the County Director of Education, Kericho County before embarking on the research project.

On completion of the research, you are expected to submit two hard copies and one soft copy in .pdf of the research report/thesis to our office.
CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do so may lead to the cancellation of your permit.

2. Government Officers will not be interviewed without prior appointment.

3. No questionnaire will be used unless it has been approved.

4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.

5. You are required to submit at least two (2) hard copies and one (1) soft copy of your final report.

6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice.
THIS IS TO CERTIFY THAT
MR. KOSKEI KIPKOECH NICHOLAS
of KENYATTA UNIVERSITY, 0-20200
Kericho, has been permitted to conduct
research in Kericho County
on the topic: CAPITAL STRUCTURE AND
THE PERFORMANCE OF A PRIVATE
SUGAR MANUFACTURING COMPANIES IN
KENYA
for the period ending:
9th March, 2018

Applicant's
Signature

Director General
National Commission for Science,
Technology & Innovation

Permit No: NACOSTI/P/17/51439/16136
Date Of Issue: 9th March, 2017
Fee Received: Ksh 1000
MINISTRY OF EDUCATION

STATE DEPARTMENT OF EDUCATION

Email: cdekerichocounty@gmail.com
When Replying Please Quote:

County Education Office
P.O BOX 149
KERICHO

Ref: No. KER/C/ED/GC/2/VOL.II/


TO WHOM IT MAY CONCERN.

RE: RESEARCH AUTHORIZATION - KOSKEI KIPKOECH NICHOLAS.

The above named has been authorized by the National Commission for Science, Technology and Innovation to undertake research on “Capital structure and the performance of private sugar manufacturing companies in Kenya” for the period ending 9th March, 2018.

Kindly accord him the necessary assistance.

OSEWE F.M.
COUNTY DIRECTOR OF EDUCATION
KERICHO.
REF: MISC.19 VOL.II/ (287)

30th June, 2017

All Deputy County Commissioners
KERICHO COUNTY

RE: RESEARCH AUTHORIZATION – KOSKEI KIPKOECH NICHOLAS

Authorization has been granted to Koskei Kipkoech Nicholas by National Commission for Science, Technology and Innovation, as per a letter Ref: No. NACOSTI/P/17/51439/16136 dated 9th March, 2017 to carry out research on “Capital structure and the performance of a private sugar manufacturing companies in Kenya” for a period ending 9th March, 2018.

Kindly accord him the necessary assistance.