CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE

MBURA ONYANCHA COLLINS

D53/OL/CTY/26736/2015

RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION, FINANCE, OF KENYATTA UNIVERSITY

NOVEMBER,2019

Declaration

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

Signature:…… Date:……..

Mbura Onyancha Collins

Department of Accounting and Finance

This research project has been submitted for examination with my approval of the university supervisor.

Signature:……. Date:…….

Mr. Gerald Kalenywa Atheru

Department of Accounting and Finance

School of Business Kenyatta University

Dedication

I dedicate this project to my family for the financial and spiritual support they gave me while undertaking the project.

Acknowledgment

My special gratitude goes to God Almighty for giving me the strength and wisdom to pursue this course. I would like to extend my gratitude to my supervisor for his guidance throughout the development of this project. I wish to acknowledge Kenyatta University for providing a platform of the exciting and instructive study period and I feel privileged to have had the opportunity to carry out this study as a demonstration of knowledge gained during the period studying for my master's degree

May God Bless you all.

Table of Contents

List of tables

List of figures

Operational definition of terms

Capital Structure:	This refers to how a firm finances its overall operation and growth by using different sources of funds.
Debt structure:	Refers to capital that a business raises by taking a loan that is repaid at some future date.
Financial Performance:	It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.
Organizational performance:	Comprises of actual output or results of an organization as measured against its intended objective.
Share capital:	Refers to funds raised by issuing shares in return for cash or other consideration.
Retained earnings:	This refers to the accumulated net income of the corporation at a particular time, such as at the end of the reporting period.

Abbreviations and acronyms

CAMELS: Capital adequacy, asset quality management, earning, equity, liquidity, and sensitivity analysis

KNFC: Kenya National Federation of Cooperation

NSE: Nairobi Stock Exchange

ROA: Return on Assets

ROE: Return on Equity

Abstract

The optimal capital structure levels and capital structure decisions that impact on the how a firm performs have been a great dilemma for many. Capital structure decisions have an impact on the growth and profitability of a firm as these decisions enable firms maximize their shareholder's wealth. This study sought out to determine the influence of capital structure on the financial performance of insurance firms listed in the NSE. The study was guided by the following variables that entail, debts, Equity, and Preference shares. The study was guided by the following research objectives that entail: to determine how debts impact the performance of firms in the NSE, to establish how equity impacts the performance of firms listed in the NSE, and to find out how preference shares affect the performance of firms listed in the NSE. This research objective formed part of the research hypotheses. The scope of the study entailed insurance firms that have been listed in the Nairobi Stock exchange. The study will be of great significance to the creditors, investors, researchers and the capital markets authority in regards to regulating the market. The study was guided by the following theories that entail: the pecking order theory, the tradeoff theory, and Modigliani and miller theory. The researcher employed a descriptive research design to describe the independent variable. The data collection that was used in this study was secondary data. The data was obtained from the NSE library. The findings show debt capital has a notable impact on the financial performance of insurance companies. Equity of the firm was found to have a significant effect on a relationship with financial performance. The study findings also indicated that there was a unit increase in financial performance by an insignificant factor of .8%. The findings revealed that capital structure affects the financial performance of insurance firms at the NSE. In view of this, it is recommended that if the insurance firms are capable of funding their operations through equity should do so and reduce undertaking borrowings as this will boost their overall performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Capital Structure refers to the firm's financial framework which consists of the debt and equity used to finance the firm. It's the way a firm finances their assets through the combination of equity, debt, or hybrid securities (Saad, 2015). In short, capital structure is a mixture of company's debts (long term and short term), common equity and preferred equity. Capital structure is essential on how a firm finances its overall operations and growth by using different sources of funds (San & Heng, 2011).

In finance, capital structure refers to the way in which an organization is financed, a combination of long term capital (ordinary shares and reserves, preference shares, debentures, bank loans, convertible loan stock and so on) and short term liabilities such as bank overdraft and trade creditors. A firm's capital structure is then the composition of its liabilities (Saad, 2015). A company which has no debt, its capital structure is only equity and different companies have different capital structures (Pouraghajan *et al.*, 2012).

In reality, the capital structure of a firm is difficult to determine. Financial managers have difficulties to exactly determine the optimal capital structure. A firm has to issue various securities in a countless mixture to come up with particular combinations that can maximize its overall value which means optimal capital structure (San & Heng, 2011). According to Malik (2011), profitability is of critical importance to firms as it assures growth in shareholders investments and drives business survival. Highly profitable business engagements has the effect of expanding shareholders' return on investment.

According to Pandey (2009), profitability entails the ability of a business to derive positive benefits from shareholders input into the business. Profitability analysis in an enterprise of principal importance as it helps understand how the financing structure could be impacting on ability to grow and survive. Profit is essentially the financial advantage achieved when business revenues surpass the expenses incurred in business undertakings (Boodhoo, 2017). Gross profits are the accounting measure of true economic profitability. The farther down the income statement one goes, the more polluted profitability measures become, and the less related they are to true economic profitability (Ball, Gerakos,

Linnainmaa & Nikolaev, (2015). For example, a firm that has both lower production costs and higher sales than its competitors is unambiguously more profitable. Even so, it can easily have lower earnings than its competitors. The Return on Assets ratio (ROA), also called return on investment, is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and using them to generate profit.

It measures the amount of profit earned relative to the firm's level of investment in total assets. The return on assets ratio is related to the asset management category of financial ratios. The calculation for the return on assets ratio is: Net Income/Total Assets. In MIX definition the return on asset ratio is: (Net Operating Income – Taxes) / Average Assets. The higher the percentage, the better, as a high percentage means that the company is succeeding in using its assets to generate sales (Pandey, 2006). Return on Equity (ROE) is a measure of the profitability of a business in relation to the equity, also known as net

assets or assets minus liabilities. ROE is a measure of how well a company uses investments to generate earnings growth.

According to a report by Cytton Investments (2017), insurance companies have over the past half a decade been regular candidates of acute operational inefficiencies which have continued to dilute their profitability. Companies listed at the NSE namely, Liberty Holdings, Kenya Re, Co-operative Insurance Company, Britam Holdings, Sanlam and Jubilee holdings have not been exempted in regard to poor profitability and performance (Cytton Investments, 2017).

1.1.2 Financial Performance

Financial performance in view relating to shareholders refers to the measure in what an organization is doing in terms of making the best use of the shareholders' wealth. Shareholders are the owners of the firm. This therefore necessitates many organizations to invest or focus on how to create more worth in order to satisfy the owners of that particular organization (Åhblom, 2017).

Financial performance of a firm greatly contributes to potential investors decisions. It helps them make informed decisions on where or which organization to invest their wealth in. Moreover, financial achievement may also mean attainment of a corporation's financial productivity in a given duration that includes assembling and distribution of finance measured by capital sufficiency, liquidity, solvency, efficiency, leverage and profitability (Fatihudin, Jusni, & Mochklas, 2017).

1.1.3 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) stands prominent African Interchange, established in Kenya some of rapidly emergent markets in Sub-Saharan Africa. Started back trendy 1954, NSE has a six era culture in listing equity and debt securities. It bids world class transaction ability for local and international investors seeking to gain exposure to Kenya and Africa's financial growth. NSE demutualized and self-listed in 2014 and has a significant part in growth of Kenya's economy by boosting investments as well as assisting local and international firms' access gainful capital. Moreover, NSE works under the authority of the Capital Markets Authority of Kenya. The institution stands to be complete affiliate of the World Coalition in Exchange, an author participant in African stocks interactions link and the

East African Securities connections relationship. Further, companies listed at NSE fall under 14 sectors which include: Agricultural; Automobile; Banking; Commercial and Services; Construction and Allied; Energy and Petroleum; Insurance; Investment; Investment Services; Manufacturing and Allied Sector; Telecommunication and Technology; Real Estate Investment trust; and Exchange traded fund sector (NSE N. S., 2017).

1.2 Statement of the Problem

Capital structure decisions have attracted numerous interests in corporate finance from many scholars and researchers, mainly due to its importance in determining financial performance of many firms. Studies found out that companies found that debt ratio is determined by asset levels, profitability, growth, products, and industry among other factors (Mohammadzadeh 2011).

Further research carried out by Jensen and Saeedi and Mahmoodi (2011) demonstrated that amount of debt in a firms capital structure affects the agency conflict between the shareholders and the managers and impacts on the management investment decision thereby contributing to the amount of leverage in the capital affecting the firm's financial performance and subsequent the value. Several researchers have conducted several studies that examine the relationship between financial leverage and firm's performance and empirical evidence from the studies produce contradicting and mixed results.

Previous study between 1999 -2014, on impact of profitability on capital structure on companies quoted at NSE revealed that there was a weak positive relationship between profitability and capital structure (Mugendi, 2014). Kamau (2013) in his research outlined that debt to equity ratio accounts for a small percentage in financial performance and there could be other factors like efficiency that affect performance.

Ebaid (2009) carried out a study on adjustment towards capital structure on the firms listed in NSE for 12 years from 1999 to 2010 and concluded that managers employ targeted behaviour that lead to adjustment process in the firm use of debt, a further observation was that firm use of debt is not only related to profitability but other factors like growth opportunities, level of firms assets among were found to contributes debt level and affect the financial performance.

The literature done by other researchers on capital structure decisions and their effect on financial performance has focused more on developed markets little research is empirically found about developing economies like Kenya, where the capital markets are less efficient and suffers from high level of information asymmetry than capital markets in developed countries. In the Kenyan context, studies on the relationship between capital

structure and financial performance have emphasized more on sectors such as banking, parastatals, firms listed at NSE and microfinance institutions. The insurance sector in Kenya has been largely under-researched and ignored in this context. It is on this note that the researcher purposed to undertake this study to test and examine the relationship between capital structure and financial performance of insurance firms listed in the Nairobi stock exchange to fill the research gap.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to find out the connection between capital structure and financial performance of insurance firms listed in the Nairobi Stock Exchange.

1.3.2 Specific Objectives

1) To determine how debt capital impacts the performance of NSE-listed insurance companies

2) To assess the equity capital effect of the insurance companies listed in the NSE

3) To establish how preferential shares, affect the performance of NSE-listed insurance companies

1.4 Research Hypotheses

This research was guided by the following research Hypotheses, that entail:

H_{01}: Debt capital impacts the performance of NSE –listed insurance companies.

H_{02}: Equity capital affects the insurance ccompanies listed in the NSE.

H_{03}: Prefrential shares significantly affects the performance of NSE-Listed insurance companies.

1.5 Scope of the Study

The main intention of this study was limited to examining capital structure and financial performance in the context of the companies listed under manufacturing and allied sector at NSE in Kenya in duration of 6 years from 2013 to 2017. To justify why the period under study was of six years 2013-2017. The content scope was majorly on the influence of capital structure on the financial performance. This was informed by the fact that capital structure is a major financial decision that a firm has to make. Moreover, the geographical scope was mainly within the city of Nairobi. This was because most of the companies head offices were located in Nairobi. The population scope of the study included all the 6 insurance companies listed at the Nairobi securities exchange in Kenya. This study concentrated on the matters raised in the research questions. It was founded on secondary figures gathered on evaluation of records that included the NSE handbooks, Economic Survey documents; annual reports of the companies listed at NSE, Kenya.

1.6 Significance of the Study

The findings of this study will make a contribution to the existing body of knowledge on effect of capital structure on profitability of insurance firms listed at Nairobi Securities Exchange, Kenya. The major contribution of the study is that capital structure predict firm profitability. Some previous studies have evaluated the relationship between capital structure and profitability.

However the attributes of the four variables used in those previous studies were different, results contradictory and inconclusive. The theoretical value of the study to empirical

literature, finance practice, finance theory relate to the study outcome that indicated that most of the total equity of the listed firms under study comprised of internal equity showing firms' preference of using internal funds in place of external funds thus supporting pecking order theory that postulates that increased use of external capital such as debt and equity influences the firm value negatively and increases the chances of financial distress.

According to study outcome listed insurance firms in preference of internal financing sources to highly costly external sources. The findings delivers researchers, theorists, investors, and executives with relevant evidence on capital structure and profitability which will allow them to wholly refocus on the concept and its value to the firm.

The management in insurance sector will find the findings of this study important during decision making with regard to optimal financial mix that will lead to increased profitability and shareholder value maximization. Both future and existing investors in insurance industry will benefit from the study findings since the result will facilitate decision making in an effort to maximize their returns.

The results will act as a way of evaluating the performance of the management. Investment advisors such as brokerage companies, investment institutions among others will supplement their understanding in financing choices to arm them much better in recommending their customers to make cautious and prudent decisions that will maximize their returns and reduce related risks.

1.7 Limitations to the Study

This study respondents were limited to responses in that they were not willing to give information about their organizations. The examiner guaranteed members that the

mentioned information would be taken care of with the most extreme classification and just for insightful reasons.

1.8 Organization of the Study

There are five chapters on the study's project. The context, the description of the issue, the research goals and questions, the value of the study, and the scope and restrictions of the study are defined in Chapter one. Chapter two dealt with the analysis of literature; it involved the theoretical analysis and empirical examination based on the study's objectives / variables. The chapter ended with a conceptual structure, a hypothesized model which showed the variable and relationships that are dependent and independent. The research methodology for adoption is mentioned in Chapter Three.

The research design, target population, sample technique and sample size, data collection tools and the data analysis technology were identified. Chapter Four sets forth the research findings and discussion, presenting the background information on descriptive statistics and inferential statistics. Finally, Chapter Five provides the summary, conclusion, contributions of the study and recommendations for further studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section analyzed the appropriate literature in theory and empirical to respond to this study's research hypothesis. The section addressed the primary theories on which the study constructed this research structure.

2.2 Theoretical review

This section showed the different theories of capital structure. They include: Pecking order theory, trade-off theory, and Moddigalian and Miller Theory

2.2.1 Pecking Order Theory

The pecking order is associated with Donaldson (1961) but most notable developments were done by Myers and Majluf (1984) who introduced the asymmetry in information dimension to the pecking order hypothesis. The proponents of the theory posit that business concerns preferred debt finance to issuance of equity in case the internal cash flow is insufficient for capital expenditure. Thus the use of internal financing is highly preferred to any other source of external finance for capital expenditures.

The internal financing option is preferred since it attracts no floatation costs. Additionally, internal financing does not need additional disclosure of financial information jeopardize the firm’s competitive advantage. When necessary to consume external funds, the theory gives an order of preferred external fund sources (Watson & Head, 2010). This theory provides for preference to use of internal funds in place of external funds that encapsulate debt and equity in an effort to preserve value and firm stability.

The implication is that increased use of external capital such as debt and equity influences the firm value negatively and increases the chances of financial distress (Fischer, Heinkel, & Zechner, 1989). This theory provides that firms prefer internal sources to costly external finance. The pecking order hypothesis therefore holds that firms that consume less debt was more profitable than firms with a big debt appetite.

2.2.2 Trade-off theory of Capital Structure

The key assumption in the Modigliani and Miller (1958) is that there are no bankruptcy and tax costs. The trade-off theory is an advancement of the MM proposition but captivating into account impact of taxes and bankruptcy costs (Cekrezi, 2013). The tradeoff philosophy was proposed by Robichek and Myers in (1966). The theory proposes that an organization should relate the costs of debt (for instance debt overhang) to its paybacks in order to determine its optimal capital structure, and at that point implement this optimal (Myers, 2016).

The main assumptions of trade off theory include: capital markets are perfect; no costs on tax, agency and transaction (Adair & Adaskou, 2015). The theory attempts to argue that there exists 19 prime capital structure which can maximize the worth of a company. However, in an ideal situation it may not be possible to have an optimal capital position. Moreover, according to Myers (1984) an organization which uses that concept establishes a goal obligation ratio and then progressively moves near the goal.

The mark is regulated by harmonizing debt tax guards in contradiction of rates of insolvency. Benefits and costs may be attained in many different ways (Frank & Goyal, 2009). The tax-bankruptcy tradeoff viewpoint is that organizations poise the levy benefits of debt contrary to the burden expenses of bankruptcy. Further, static trade off model

asserts that there is an ideal capital configuration which exploits the significance of an organization during matching the expenditures and paybacks of an extra piece of duty, are categorized as simulations of trade-off. On the other hand, dynamic trade off theory organizations let their leverage ratios fluctuate within an optimal range (Ghazouani, 2013).

This concept is important to the study for the reason that its aim tries to show how organizations choose goal control ratios grounded on profits versus expenses, economic anguish budgets and assistance outlays. Trade off theory is significant in the sense that it helps to articulate that organizations are partially funded with debts and partly with equity. In a going concern situation, the firm may have inadequate reserves to back all its ventures. Therefore, the principle helps to demonstrate the effect of equity and its influence on financial performance.

2.2.3 Moddigalian and Miller Theory

Modigliani and Miller (1963) theoretical perspective is applauded as one of the most profound advances in explanation of optimal capital structure. The theorists attempted to describe the financial decisions that are irrelevant in determination of the value of the firm. The Modigliani and Miller theory of capital structure makes an assumption that the value of a firm is the same irrespective of the financing structure adopted; whether debt or equity. The second proposition is that the WACC remains constant. Additionally, suppositions are made on existence of perfect markets. Further assumptions are made on absence of transaction costs, default risk, and taxation.

Additionally, the theorists supposes that both firms and investors are in a position to access funds at same interest rate. Finally, assumptions are made on existence of uniform

expectations and identical risk. According to the theory, all users have the same access to relevant information (Ahmeti & Prenaj, 2015). Modigliani and Miller (1958) maiden proposition asserted the independence of firm value from its capital structure.

The theory holds that firms that consume more debt are more valuable. The implication is that such firms have a higher market value than those that use lower debt. This theory is relevant to the study because it provides for a non-biased perspective on the effect of capital structure and profitability. By providing that financing decisions are irrelevant to the firm, the theory offers a neutral platform to undertake an incisive empirical analysis of this relationship within the targeted population.

2.3 Empirical review

This chapter consists of associated literature on the hypothesized interactions in relation to debt and economic performance, shareholdings and corporate performance. The following are these relationships.

2.3.1 Debt and Firm performance

Maniiagi *et al.,* (2013) in the research of the relationship between the capital structure of an organization and the consequences of an example of 30 organizations listed on the NSE whose data for the 5yrs time 2007-2011; found that organizations referenced on the NSE had grasped a pecking request speculation inferable from obscure obligation showcase and long-haul obligation related prohibitive agreements, making long haul advances exorbitant. Most organizations will, in general, utilize momentary obligation to back their tasks. All advantages were emphatically connected to critical intermediaries from the outcomes for the capital structure. This proposes huge partnerships with

enormous resources used to go about as a guarantee to verify advances for long haul obligation.

Maniiagi (2015) found in their examination of the relationship between the structure of the capital of the organization, that the NSE recorded organizations have taken an attractive supposition request because of their obscure obligation markets and the prohibitive settlement of their long haul obligation related credits and utilized new obligation to create longer-term advances that cost it. Most organizations will, in general, utilize transient obligation to fund their tasks. The results of significant intermediaries for the capital structure were emphatically identified with every one of the advantages. This shows enormous companies with huge resources can work like c have long haul obligations.

In another study, Javeid and Akihtar (2012) investigated the association between the capital structure and cash related outcomes. They found that there is a positive relationship between money related adequacy, fiscal impact, and business headway. The examination focusing on Pakistan's Karachi Stock Exchange utilized association and backslide testing on cash related data. The revelations of the assessments are dependable with the affiliation's speculation. In any case, the rest of the financing decisions were separated and based exclusively on impact.

2.3.2 Equity capital and firm Performance

In an overview by the Nairobi Stock Exchange (NSE) coded organizations, Kibet(2013) directed an association between the structure and cash. The examination evaluated the impact on obligation, value and apparatus costs. The investigation utilized board data from the power division during the period 2006-2011 and utilized different relapse

strategies. The discoveries demonstrate that the obligation, value and apparatus proportions factors are huge determinants of stock costs for the area under thought. The proportion and obligation likewise beneficially affected offer costs, while values adversely affected offer costs.

Agbola (2015) carried out an empirical study on the relationship between Ghana's corporate capital and profitability. The study sampled all companies cited during the study period. 22 businesses are included in the population of the survey. The variables used in the study are productivity and leverage ratios. There were also other variables such as company size and sales growth. The data analysis was done using regression analysis to see how ROE and capital structure metrics relate to each other. The results showed that there is a significant positive relationship between short-term debt and company performance. A negative relationship has been recorded for long-term debt to assets and company performance.

A study on the effect of capital structure choice on the performance of companies in Egypt was carried out by Ebila (2012). Multiple regressions were used to test what the relationship is for data analysis. In this study, the independent variables were short-term, long-term, and full debt. The actions taken in the operations of businesses, on the other hand, are ROA, gross profit margin and ROE. The selected sample of information was taken from non-financial firms and from 1997-2005 data collected. It was concluded that the selection of the capital structure chosen by a company usually has neither an impact nor an impact on the company's results. In this study the results are obtained through a variety of firm steps, so the true relation between the different variables is obvious.

2.3.3 Preference Share capital and Firm's Performance

Kaumbuthu (2010) finished a study of the relationship among capital structure and really worth returns for creators and related enterprises in the Nairobi Securities Exchange 2004 to 2008 Duration. The willpower diploma changed into the capital structure's agent for the sufficiency of capital return. The appraisal applied the ruin religion assessment and saw a threatening relationship among the dedication worth degree and ROE. The appraisal centered strangely on one bit of recorded firms in the Nairobi Securities Exchange concentrated only on a small amount of funding.

Okooth and Gemechuw (2013) displayed that fee abundancy, useful resource best and the board gainfulness essentially affect Kenya's enterprise banking execution. Regardless, the effect of liquidity on the presentation of enterprise banks is not essential. The connection among financial institution effects and capital sufficiency and the board feasibility apparently changed into super and to have a negative relationship with aid satisfactory. The divulgences demonstrated that bank-express parts altogether impact Kenya's business bank results, besides a liquidity variable. Along these lines, cash related ability of the Kenyan corporate banks is fundamentally affected by the board of Directors and board decisions and macroeconomic factors make little obligation.

2.3.4 Firm performance

Migiro and Abata (2016) carried out an investigation into the capital structure of Nigerian organizations and their business performance. An example of 30 firms referenced was inspected and various relapses were utilized somewhere in the range of 2005 and 2014. The discoveries of the investigations have demonstrated that the obligation/value blend and ROE were essentially negative. Abdul (2012) did comparable investigations so as to build up the connection between choices of capital structures and friends' results in

Pakistan. As per the findings, money related influence is fundamentally averse to business results as indicated by ROA, GM and Tobin's Q.

A positive yet not factually critical connection between a duty and a salary of the business was found by the Equity Return (ROE). Nigerian stock exchange value lists were checked on by Lawal and Ijirshar (2013). So as to utilize judgmental inspecting, thirty firms have been chosen. Information from the Nigerian bourses' manuals and yearly financial records were assembled for the period 2006-2010 from the organizations included. The examination uncovered an ideal association between the budgetary exhibitions and profit installments utilizing a relapse investigation. In any case, an obligation to value was unfavorably identified with organizations ' stock market esteems.

A study was carried by Nyaboga in 2008 on the connection between NSE-recorded undertakings ' capital structures and Agency costs. There were blended outcomes in the outcomes. By and large, there was a feeble connection between NSE's capital structure and organization costs. Then again, high development organizations have built up a solid connection among obligation and productivity proportions however an extremely terrible connection between resource use. Muhoro (2013) has evaluated somewhere in the range of 2003 and 2012 the influence effect of the decisions on the consequences of the NSE capital structure in the Construction Financial Outlook and the related organizations. The populace utilized in this examination were five structures recorded and related firms. The connection was set up utilizing numerous straight relapse structures. The investigation found a decent association between absolute obligation, long haul obligation, transient obligation, amount, income development and value returns.

Tale (2014) conducted a study on the relationship capital structure and financial performance between 2008-2013. In the period 2008 to 2013, recognized 40 non-money companies in the NSE were incorporated into the examination. The examination was directed utilizing the relapse investigation technique and the investigation discoveries demonstrated that the benefits connection between money related results and real resources was irrelevant. Banafa (2015) directed an examination of the effect of the creation segment's capital structure and gainfulness in Kenya. The investigation completed an independent test of the capital structure and found that it has noteworthy constructive outcomes on organizations ' results.

Amenya (2015) carried out an investigation into the capital structure and corporate adequacy for a long time inside Kenya's monetary points of view. 61 organizations were referenced in the NSE examine, however, the exploration diminished to 15 an example of 26 organizations with an irregular screening strategy. The investigation reasoned that when the monetary influence is spread out., there are negative effects on the organization's results. Significant unfriendly connection to the results of the organization.

Yabs (2015) conducted a study on capital structure study for Kenyan land firms and the results of its financial points of view. The examination focused on an example of 28 property firms over a five-year time span. Relapse investigation was utilized and the aftereffects of the research demonstrated an advantageous effect between the organization's own structure of capital and its financial outcomes.

2.4 Summary of the literature gaps

Author/year	**Study topic**	**Variable study**	**Study's findings**	**Gaps in research**
Abdull (2012)	Capital structure	Independent variables;	The connection between the	However, this research includes

	decisions and Pakistani businesses ' outcomes.	control and liquidity of the variable underlying dependence; ROE	financial leverages and the company performance measurement was adverse, but the yield on equities was not statistically important.	single issues of structural capital that have led to revenue, equities and asset maintenance.
Akhtar (2012)	Financial output and capital structure.	Financial leverage was included as an independent variable and EBIT as a dependency variable	They discovered a positive link between financial leverage, economic efficiency, and business and volume.	However, this research was based solely on leverage and on other choices on financing. The research divide was established by this survey, which is crucial to the current revenue, dividend settlement and debt of the study.
Kaumbuthu(2011)	Relationship of the Nairobi Securities Exchange between capital structure and equity return on manufacturing and related industries	The variable was the construction of capital involving the economic flexibility, present assets, and debt proportion, and yield to equity as a dependent variable.	The research performed a correlation assessment and found that equity and ROE are related negatively.	The research focused on only one Nairobi Securities Exchange industry and only touched on one aspect of financing choices.
EbaiId (2009)	Impact on the outcomes of Egyptian firms of choice of capital structures.	Capital structure and efficiency were autonomous variables and conditional varying	The results demonstrate a favorable connection between the structure of capital and the outcomes of the company.	The study shows that the equity structure has little or no impact on a company's outcomes. The conflicting results enable additional factors for new investigations addressed by the

				study to be implemented
Kibet (2013)	Capital structure relationship to exchange rates depending on the Nairobi Stock Exchange (NSE) quoted companies of energy.	Debt equity and the geared proportion were included in the separate variable while stock rates were included in the independent variable.	Furthermore, it was shown that sharing and debt have a positive impact on share rates, while equity has a negative effect on share prices. The report showed that the ratios of debt, equity and gear were major determinants of equity pricing.	This research identified a dividend payout and a difference in benefit research that is detailed in this research.
Lawal and ijirsha(2013)	Structure of inventory and economic results in Nigeria	The current asset ratio for the dividend payout and the profit retained, debt-equity, while financial performance was part of a dependency variable, constituted an independent variable	The results of the study showed a positive correlation with economic performance and dividend payment share prices. The equity debt, however, had a negative connection to the value of the share market price of the company.	This study examines the financial components of retained earnings and exchange and tries to complete the gulf in the earned earnings, share, bond, and dividend payout percentage.
Maniiagi *et al*., (2013)	The link between the capital structure and results of a sample of 30 NSE enterprises	Total assets were a component of the autonomous variable whereas ROE output was a component of the binding variable.	The findings demonstrated a powerful correlation between the overall wealth of the capital structure and proxies.	The findings demonstrated a powerful correlation between the overall wealth of the capital structure and proxies.
Muhoro (2013)	impact of the	Included in the	The study found	This study was

	choices on capital structure performance in the financial perspective of the buildings and related companies mentioned in NSE	independent variable were total debts, long-term debts, short-term debt, volume, marketing development, and ROE while dependence was evaluated by profitability and EBIT.	an advantageous link between full debt, long-term indebtedness, short-term debt, magnitude, income growth, and capital yields.	not about the size of the property framework, but about the financial decisions that this study will clearly study.
Migiiro & Abaata (2016)	Nigerian companies ' capital structure and company performance	Debt equities were the independent variable and ROE was the dependent variable	As the outcomes of the study show, the combination of debt/equity and ROE is a significantly negative relationship.	This study was more concerned with corporate performance than with the capital structure being studied in this investigation.
Nyaboga (2008)	The relation between the equity framework and the costs of the organization for NSE enterprises.	The independent variables involved debt, development, and dependent variables were efficiency, efficiency, and productivity.	There were mixed outcomes from the findings. Overall, the capital structure and the price of NSE agencies were weak. On the other side, high growth companies show that the debt-efficiency ratios are powerful, but that they have a very fragile asset use connection.	There were few elements to the capital structure such as financial leverage, dividends, and the current asset borrowing ratio. This study creates a research gap regarding ROA, ROE, AND EBIT which will be reflected in the study. This study identified several elements of the capital structure.
Okooth and Gemenchuw (2013)	Kenya capital structure and business banks ' performance	Quality and management, efficiency, and profitability constituted the conditional assessment	The findings showed that Kenya's operations are significantly influenced by certain bank	It can, therefore, be concluded that the financial performance of commercial banks in Kenya is mainly driven by

		variable of outcomes independent	factors, with the exception of liquidity factor.	board and administration decisions, whereas the macroeconomic factors are irrelevant. The current study dwelt on insurance companies.
Tal (2014)	Structure of assets and relation of output	Including cash flow, dividend payout withheld revenue, and debt were the independent variables. The findings based variable	The findings indicated that the link between financial performance and concrete assets was beneficial	This is based not just on the variables influencing the capital structure but on concrete resources, which entails saving income, stocks, and debt that will be reflected in the present studies.
Yabs(2015)	Kenyan true property companies ' investment framework and economic outlook results	The structure of the assets was the autonomous variable, while profitability was the reliant financial efficiency variable.	Research results had a favorable impact on the economic outlook between capital composition and company outcomes.	This research focussed on companies in the immobilization sector whose performance is not consistent

Source: Researcher (2018)

2.4.1 Summary of the Literature and research gaps

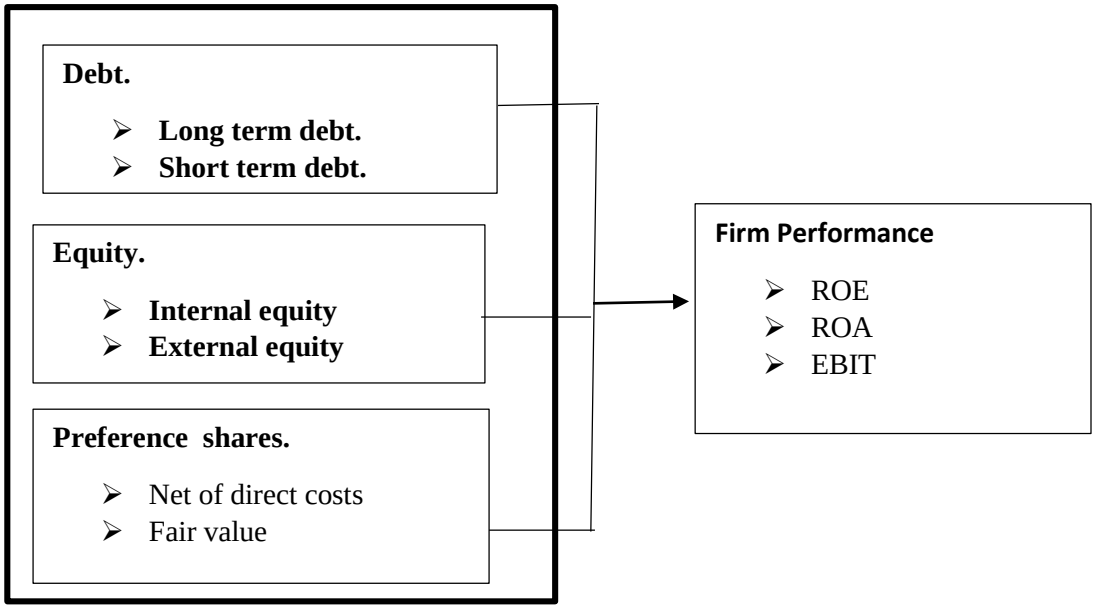
For the capital structure, the exploration strategies and the discoveries of hypothetical research have specific importance, while by and by organizations recorded on the NSE have a specific reference an incentive in deciding the capital structure. This exploration will confirm and impact adequacy on the structure and nature of capital and the

relationship between's capital structures. Accordingly, a company that improves gainfulness and expands the estimation of the partnership should just know both the effect and the arrangement of the benefits throughout the years. Capital structure is a significant discourse and focal point of monetary writing. Research on impacts of the structure of capital on liabilitie and total measure of obligation, in relation to retention of income and financial outcomes. Capital structure also relates to the common value stocks and financial performance on value inclinations.

2.5 Conceptual Framework

A conceptual framework is a schematic presentation of as variables for creating conceptual distinctions, organizing and maintaining the ideas comprising a broad concept Ravitch and Riggan (2012). Under these studies, retained earnings, shares and debt affect the corporate performance capital structures, while the dependent variable consists of corporate performance involving return on equities, capital return and pre-interest and tax revenues.

Independent Variable **Dependent variable**



Source; Researcher (2018).

Fig 1.1 Conceptual Framework.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the overall methodology for conducting this research. The section included research design, population target, the procedure of sampling and sampling, a technique of information compilation, analysis of information and ethical factors.

3.2 Research Design

Research design is the structure of study that gathers together all the components of a project. It is a plan, structure and strategy of the proposed research activity (Akhtar, 2016). This study employed descriptive research design because it was relevant to the study. The relevance of the design to this study was that it helpedobserve and describe the characteristics of the given population without interfering with themin any manner.

The overall goal of this study was to evaluate the capital structure andfinancial performance of companies listed under manufacturing and allied sector at Nairobi Securities Exchange in Kenya. Descriptive research is defined as an investigation technique used to describe the prevailing occurrences as precisely as probable. The foremost objectiveof descriptive study is to define methodically the present phenomena beneath the study.(Atmowardoyo, 2016). Therefore, descriptive research design was employed in this study tohelp describe systematically and accurately the characteristics of the given population.

3.3 Target Population

The population is the full collection of counts obtained from items with one or more prevalent features, according to Bryman & Bell, (2011). According to this research, the population consisted of five insurance firms listed on the Nairobi stock exchange.

3.4 Data Collection Procedures

For the years, 2013, 2014, 2015, 2016 and 2017 money-related periods on NSE insurance listed companies recordes was gathered. The NSE Library was promptly accessible for secondary data collections from different sources, including reviewed financial reports and documentations about the insurance firms recorded on the NSE Hand Books.

3.5 Empirical Model

As Muthen and Muthen (2007) suggest, the dependent variable is a constant regression model. A sizeable proportion of 0.30–0.5 shows a gentle linear reliance between two factors, whereas Adejimi and Oyediran and Ogunsanmi (2010) show a powerful linear regression of 0.5 to 1.0. A correlation design was used to evaluate the relationship between independent and conditional factors. The research results were organized and summarized by the table. The independent variables were linked to the dependent variable by multiple models of regression;

$$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where;

Y = Firm performance

X_1 = Debt

X_2 = Equity

X_3 = Preference shares

B0 = Term constant

μ = This is the error word that records unexplained model differences.

$B_1 - \beta_3$= Independent variable coefficients

$X_1 - X_3$ = Independent variable

The significant level in this research was 5 percent, meaning that all statistical tests were conducted and contrasted to a significant level of 5 percent.

3.6 Data Analysis and presentation

Data analysis is utilized to include request, structure, and pertinence to the gathered mass of data (Mugend and Mugend, 2006). The information quality was checked preceding the endorsement of the data for real factual examination. The Social Science Statistical Package (SPSS) version 23.0, the data; was used to analyse both the descriptive and infentila statistics.. As per the guidelines of each test, the elucidations were to be created. Elucidating insights and study factors, including mean and standard deviation measures, was determined for every member. The information was presented through diagrams. The f-proportion produced in the ANOVA diagram surveys the opportunity, a line of the best fit. For the condition to be measurably critical at 5 percent significance arrange, the p-esteem created by the F proportion is beneath 0.05. At the point when the p-esteem is more prominent than 0.05, the model isn't factually fundamental. For p-esteem beneath 0,05, a significance level of 5 percent is regarded to be significant (Hair *et al.,* 2010) while figures, tables, and pie diagrams are utilized to show the data.

3.7 Operationalization and measurement of variables

Table3.1 Operationalization and measurement of variables.

	Type of variable	operationalization	measurement	Scale
Firm performance	**Dependent variable**	**• Return on Equity • Return on asset • Earnings before interest and tax**	**EBIT/TOTAL ASSETS**	**Rate**
Debt	**Independent variable**	**Long term debt**	**Debt /Total Capital**	**Rate**
Equity	**Independent Variable**	**• External equity • Internal equity**	**Equity/total Capital**	**Rate**
Preference shares	**Independent Variable**	**Net of direct costs •** • Fair value	**shares/Total Capital**	**Rate**

3.8 Ethical Considerations

Research ethics are critical in everyday life research endeavors and necessitates that researchers should guard the dignity of their subjects and circulate well the information that is studied (Akaranga & Makau, 2016). This study was conducted with honesty and it was not intended for personal gain or to hurt the respondents. Information gathered was purely used for the purposes of this research and was not used for abuse of confidentiality of the subjects. The privacy of all 6 insurance firms listed in the NSE was very much guaranteed in the process of the study. The findings of the study were only used for the purpose that the research was intended for.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the research findings on the relationship between capital structure and financial performance of insurance companies listed in the Nairobi stock exchange. The output analysis was carried out for a period of 5years from the year 2013 to 2017. Regression analysis was used in the data analysis.

4.2 Descriptive Statistics

This section discusses the descriptive statistics of the data analyzed for the 5-year duration. The descriptive statistics for both dependent variable financial performance and the three independent variables show the results indicated in the summarized in the table below;

Table 4.1 Descriptive Statistics

	Debt	**Equity**	**Shares**
Mean	0.8677	6.4686	0.6761
Standard Error	0.0512	0.0362	0.3182
Median	0.6035	6.3794	0.1520
Standard Deviation	0.6870	0.4859	4.2687

Source: Research data (2019)

From the output, the cross-section data on the 6 insurance companies over the five years comprised of observations for each of the four variables incorporated in the analysis. The results show positive means for all variables. The range of the variables is identified by the median row and the table further shows the maximum and minimum values of the

variables. The mean for Debt is 86.77% with a standard deviation of 14.98%. Equity for the insurance companies stands at 6.4 with a maximum value of 8.0 and the minimum value of 4.6 indicating that most insurance companies' Equity vary. That is the data is clustered within the mean.

4.3 Correlation Analysis

Table 4.2 Correlation Analysis

	EBIT	D	E	PS
Financial performance	**1**			
Debt	**0.334701**	**1**		
Equity	**0.327386**	**0.524352**	**1**	
Preference shares	**0.307248**	**-0.163181**	**0.182115**	**1**

Source: Research data (2019)

Multicollinearity check is useful in testing whether two variables are highly correlated. From the correlation matrix above it shows that there is no multicollinearity, the coefficients are below 0.7 meaning there are low associations between the independent variables. According to Adejimi, Oyediran, and Ogunsanmi (2010), a correlation coefficient of 0.7 to 0.99 indicate a problem of multicollinearity. From the matrix, most cells show low positive correlations. Only Preference shares (PS) which have low negative correlation coefficients against Debt (D) and Equity(E).

4.4 Regression Analysis

This section discusses the regression statistics output, statistical significance of the model and model coefficients.

4.4.1 Regression Output

The regression statistics output derived from the analysis is summarized in the table below;

Table 4.3 Summary Regression Output

Model	R	R square	Adjusted R	Std. Error of the Estimate
1	.564	.31	.26	.3612

a. Dependent Variable: Firm Performance
b. Predictors: (Constant), Debt,Equity shares
Source: Research data, 2019

The table above provides the model summary results whereby it gives values of R, R2, Adjusted R2, and standard error. This shows how well the regression model fits the data analyzed. The R value shows the correlation which is 0.564. This means that the degree of correlation 56.4 % is high and that there is a positive correlation between debt,equity and shares during the period under study. R square column shows the level of firm performance that can be expounded by the predictors (ROA,ROE and EBIT) which is 0.31. This suggests that there was a variation of 31% of firm performance of insurance companies listed under NSE in Kenya and therefore 69% of the sector's performance could be explained further using factors that are not part of the study. Given the value of R square, it was explicit that 31% of the firm performance was explained from the study.

4.4.2 Statistical Significance of the Model

The significance of the estimated model can be summarized in the ANOVA table below;

Table 4.4 Analysis of Variance (ANOVA)
ANOVA

	dF	**SS**	**MS**	**F**	**Significance F**
Regression	3	12.7228	2.5445	9.1772	0

Residual	3	48.2448	0.2772		
Total	6	60.9677			

Source: research data (2018)

In this output, the test statistic, F, is reported in the analysis of variance table, F (5,174) =9.177. The p-value for this statistic is p< 0.001. This shows that there is evidence that there are differences in the means across variables indicating there is a significant effect of independent variables on financial performance.

4.4.3 Estimated Model Coefficients

The regression model coefficient derived from the analysis in the table below;

Table 4.5 Model Coefficients

Coefficients		**Standard Error**	**t Stat**	**P-value**	**Lower 95%**	**Upper 95%**
Intercept	-1.367	0.593	-2.305	0.022	-2.539	-0.196
Debt	0.176	0.068	2.603	0.010	0.043	0.310
Equity	0.218	0.096	2.267	0.025	0.028	0.407
Preference shares	0.008	0.012	0.659	0.511	-0.016	0.031

Source: research data(2019)

The equation derived is

Y = -1.367 + 0.176X1 + 0.218X2 + 0.010X3

Where:

X1 = Debt

X2 = Equity

X3= Preference Shares

The debt, equity and preference shares can be measured as at a constant zero in this model, with the financial performance of -1,367. In fact, it can be found that financial performance, equity, and choice have a positive relationship. A unit-to-deficit increase would lead to a significant improvement in financial performance by 17.6 percent, a rise in unit profits by 21.8 percent and a unit-to-preferences increase of 0.8 percent would result in a rise in financial performance by a factor of 0.8 percent. Furthermore, there was a negative relationship between financial performance and preference shares, which would lead to a decline in financial performance by a unit increase of 0.010 preferential shares.

A more thorough model review shows that the debt, equity and preference share models coefficients have a positive effect on financial performance whereas adjustments in ordinary shares have a negative impact on financial performance. Debt and domestic equities have a major role to play in the estimation of ordinary shares with an insignificant factor in financial performance. The financial performance of insurance companies and debt, equity and preference shares were quite strongly related. The common share coefficient was negative, suggesting that the financial performance with preferential shares had a negative relationship.

4.5 Summary

After data collection, the secondary data was tabulated, edited, processed and analyzed. The following were the answers to the research questions. The answers were summarized from the different analysis done using SPSS version 23.

4.5.1 Debt and financial performance of insurance companies

The model formula indicates that debt growth would have a positive effect on financial performance, leading to better returns. As debt levels rise, the output per unit measure is projected to increase by 17.6 percent. The p-value of such estimates, according to ANOVA, is $p < 0.001$. This indicates that various means exist between variables that suggest that debt has an important effect on financial performance.

4.5.2 Equity and financial performance of insurance companies

In the model formula, an improvement in equity will result in an increase of 21.8 percent in financial performance. The revised R2's value is 0.1859, implying that the financial results of insurance undertakings listed in the NSE have improved by 18.59 percent as a result of changes in equity. The p-values for this estimate are $p < 0.001$ with respect to ANOVA. It indicates that variations in the means across variables suggest that the equity's effect on financial performance is important.

4.5.3 Preference shares and financial performance of insurance companies

With respect to the correlation analysis, preference shares have a positive correlation of 0.307248 with financial performance. The value of adjusted R2 is 0.1859, an indication that there was a variation of 18.59% on the financial performance of insurance firms listed in the NSE, due to changes in the preferences shares. With regard to the model, a unit increase in preference shares would lead to an increase in financial performance by an insignificant factor of 0.8%.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The results from chapter four are outlined in this chapter. The study aimed to develop the relationship between the capital structure and the financial performance of insurance companies listed in NSE in Kenya based on its review, conclusions, and recommendations. Of the six insurance companies from 2013 to 2017, the research has used secondary data information. Recommendations and sugestions for further study were highlighted.

5.2 Summary of Findings

It can be seen from the study, that the financial performance of the insurance companies listed in the NSE has some effect on the financial structure. The model formula indicates that debt growth would have a positive impact on financial performance, leading to increased profitability. If the rate of debt increases, the output will fall. The study demonstrates similar effects in financial performance on equity and preferred stocks. As equity and preference shares are increased unit wise, the financial performance tends to increase, which implies that debt and equity are greater than preference shares, which have an insignificant factor in predicting financial performance. On the other hand, preference shares have different effects, namely that the rise in the unit change would have a negative effect on the financial performance by lowering performance.

The results showed that insurers that collect the debt, equities and preferred stocks improved financial performance, as their ROA, ROE, and EBIT tends to rise. Preference shares however, can adversely affect performance and thus reduce financial performance. The study also found that the three independent variables formed a statistically significant

model of variance analysis (ANOVA). This means that the variables suit well to describe capital structure. The results of the regression showed that there was a positive correlation between independent variables other than preference shares with a minimal negative link to financial performance. In contrast with the other factors, debt affected financial performance in an unprecedented way.

5.3 Conclusion

The overall purpose was to assess whether the financial performance of Kenyan insurance companies was influenced by the capital structure. It was concluded that the debt had a positive effect on the performance of the insurance company. The debt ratios of the insurance companies were thus raised, leading to hyper-financial performance while the debt levels of the insurance companies were declining.

In addition, Capital has a positive impact on the financial performance of insurance companies, which would result in an increase in the share of insurance companies, whereas a fall in the capital would lead to a lower financial performance of insurance firms. It was also found that preference shares had a positive impact on the financial performance of the insurance companies and would result in an increase in preference shares of the insurance companies. A reduction in NSE insurance companies ' preference shares would lead to a decrease in financial performance.

5.4 Limitation

A number of challenges were encountered by the researcher, especially during data collection. One of the variables was quite difficult to get as the industry operates in a different way. Getting Equity for an insurance company is tricky as items under assets and liabilities were not well defined and varied from firm to firm.

Data used was extracted the financial statements of the insurance firms listed. These proved to be difficult to get as not all information was readily available at first. These annual reports are usually prepared under underlying assumptions and concepts. The assumption is biased thus non-standardization of their applicability especially in terms of provisions and estimates.

Data reported historical, therefore unable to adequately predict the future due to the volatility in the market. Finally, most of the financial statements having been restated in the previous year lead to misstatement of the firm's performance hence creating an opportunity for prior year adjustments and the public is not informed adequately on the same. This implies that the pattern portrayed may affect the conclusions established.

5.5 Recommendations

Insurance company management must make informed decisions on borrowings in order to have a positive impact on financial performance. The insurance company's financial managers should, therefore, maintain an acceptable capital structure that leads to increased financial performance, so that the debt does not reach the projected optimum level of the industry.

It is attractive and efficient to invest in equity and preference assets. Until taking decisions on growing preference share capital, due consideration should be taken as preference shares have an adverse effect on financial performance. Investors are advised, to make good investments, thus generating more money, using research results to choose profitable insurance companies.

5.6 Suggestion for Further Studies

The study can be extended to all insurance firms so as to give a more informed result for the insurance industry. Similar studies can also be replicated in a few years to determine the effect of capital structure on the financial performance of insurance firms listed at the NSE. This is due to the fact that with time, technology improves and operations at the NSE could be conducted in a different way thus a need to monitor the effect of capital structure on the financial performance of insurance firms listed at the NSE.

This study focused on the effect of capital structure on the financial performance of insurance firms listed at the NSE, thus generalization cannot be extended to all other sectors. Further studies could be undertaken in sectors like commercial or financial institutions. Also, studies on other aspects of a firm that affect financial performance can be looked into. For instance, corporate governance and also management efficiency.

References

Abdul, G .K. (2012). The Relationship of Capital Structure Decisions with Firm Performance: A Study of the Engineering Sector of Pakistan. *International Journal of Accounting and Financial Reporting*, 2(1), 2162-3082.

Adair, P., & Adaskou, M. (2015). Trade off theory Vs. pecking order theory and the determinants of corporate leverage. *Journal of Congent Economics and Finance*, 3, 1- 12.

Ahmeti, F., & Prenaj, B. (2015). A Critical Review of Modigliani and Miller's Theorem of Capital Structure.

Akaranga S.I. & Jude O (2016). "Work Ethics for University Lecturers: An Example of Nairobi and Kenyatta International Journal of Arts and Commerce, 2 (8) 8-22.

Amenya, J. (2015). The Effect of Capital Structure on Profitability: *An Empirical analysis of Listed Firms in Ghana. Journal of Risk Finance*, 6, 438-47.

Akhtar. S, & Oliver, B. (2016). Determinants of Capital Structure for Japanese Multinational and Domestic Corporations. *International Review of Finance*, 9(1–2), 1–26

Agbola, J. (2015). Determinants of the capital structure of Ghanaian firms, AERC Research Paper 176, African Economic Research Consortium, Nairobi. March 2008

Berger, A. N., & Bonaccorsi-diPatti, E. (2006). Capital structure and firm performance: a new approach to testing agency theory and an application to the banking industry. Journal of Banking and Finance, 30(4), 1065-1102.

Bryman, A. and Bell, E. (2011) *Business research methods*. Oxford: Oxford university press.

Boodhoo, R. (2015). Capital structure and ownership structure: a review of literature.

Cekrezi, A. (2013). Literature Review of the Trade−off Theory of Capital Structure. *Iliria International Review* , 125-134.

Cooper, D., & Schindler, P.S. (2014).*Basic Research Methods*. (12th Ed.). New York, NY: McGraw-Hill, International Edition.

Cytonn Investments Financial investments Cytonn Investments (2017). Annual Supervision Report, Cytonn Investments.

Donaldson, L., & Davis, J. H. (1961). Stewardship theory or agency theory: CEO governance and shareholder returns. Australian Journal of *Management*, 16(1), 49–64.

Ebila, E. I. (2012). The impact of capital structure choice on firm performance: empirical evidence from Egypt. The Journal of Risk Finance, 10(5), 477-487.

Ebaid, I. E. (2009).The Impact of Capital Structure Choice on Firm Performance: Empirical Evidence from Egypt. *The Journal of Risk Finance*, 10(5), 477-487

Fatihudin, D., Jusni, & Mochklas, M. (2017). How Measuring Financial Performance.*International Journal of Civil Engineering and Technology*, 9(6), 553–557.

Fisher, F. & McGowan, J. (1989). On the Misuse of Accounting Rates of Return to Infer Monopoly Profits. American Economic Review, 73, 82-97.

Frank, M. Z., & Goyal, V. K. (2009). Capital Structure Decisions: Which Factors are Reliably Important? Munich Personal RePEc Archive

Ghazouani, T. (2013). The Capital Structure through the Trade-Off Theory: Evidence from Tunisian Firm. *International Journal of Economics and Financial Issues* , 3(3), 625- 636.

Javed M, and Akhtar E. (2012), Optimal Financial Policy and Firm Valuation, Journal of Finance 39, pg.593-607

Jensen, H. (2011). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Journal of Financial Economics, 3(4), 305-360

Kamau, A. & Were, M. (2011). What drives banking sector performance in Kenya. *Global Business and Economics Research Journal*, 2 (4), 45-59

Kibet, L. (2013). Relationship between capital structure and profitability of MFIs in Kenya. Unpublished MBA project. The University of Nairobi.

Kharwish, H. (2011). Determinants of Commercial Banks' performance in Jordan. International Research Journal of Finance and Economics, 19-45.

Kochhar, R. (1997). Strategic assets, capital structure, and firm performance. Journal of financial and strategic decisions, 10, 23-36.

Kaumbuthu M. (2011), Relationship between capital structure and return on equity for Industrial and allied sectors in the Nairobi Securities Exchange.

Maniagi J. and Gilbert N.(2013), Corporate Governance, Dividend Policy and Performance. *International Journal of Innovative Research and Development*, 25(6), 896-906

Malik, H. (2011). Determinants of insurance companies' profitability: An analysis of insurance sector of Pakistan. *Academic Research International*, 1(3), 315.

Margaritis, D., & Psillaki, M. (2010). Capital structure, equity ownership, and firm performance. Journal of Banking & Finance, 34(3), 621–632. http://dx.doi.org/10.1016/j.jbankfin. 2009.08.023

Mohammadzadeh H. (2011) Capital Structure and Firm Performance; Evidence from Tehran Stock Exchange. 2011 Conference Islamic Azad University, Marand, Iran

Modigliani, F. & Miller, M. H (1958). Corporate Income Taxes and the Cost of Capital: A Correction. American Economic Review, 53, 433–443

Mugenda, & Mugenda. (2003). Research methods: Quantitative and qualitative approach. Nairobi Acts press.

Mugenda O. and Mugenda G. (2006), *Research methods: Quantitative and qualitative approaches*. African Centre for Technology Studies.

Muthen, B. O. (2007). Latent variable hybrids: Overview of old and new models. In G. R. Hancock & K. M. Samuelsen (Eds.), Advances in latent variable mixture models (pp. 1–24). Charlotte, NC: Information Age Publishing

Myers. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 187- 221.

Myers. (1984). The capital structure puzzle. *Journal of Financial Economics, 39*.

Myers, S. C. (2001). Capital structure. *Journal of Economic Perspectives*, 81-102.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 187-221

Ngugi, R.W. (2003), Development of the Nairobi Stock Exchange: A Historical Perspective, KIPPRA Discussion Paper No. 27.

Okoth, V. & Gemechu, B. (2013). Determinants of Financial Performance of Commercial Banks in Kenya. International Journal of Economics and Financial. Vol. 3(1).

Pandey, I. M. (2009). Financial management: Capital structure planning and policy

Pouraghajan, A., Malekian, E., Emamgholipour, M., Lotfollahpour, V., & Bagheri, M. M. (2012). The relationship between capital structure and firm performance

evaluation measures: Evidence from the Tehran Stock Exchange. *International journal of Business and Commerce*, 1(9), 166-181

Ravitch, S. M., & Riggan, M. (2012). *Reason and rigor: How conceptual frameworks guide research*. Thousand Oaks, CA: Sage Publications

San, O.T. and Heng, T.B. (2011) Capital Structure and Corporate Performance of Malaysian Construction Sector. International Journal of Humanities and Social Science, 1, 28-36.

Saunders, M., Lewis, P., & Thornhill, A. (2007). *Research methods for business students*, 5th edition, Great Britain, Prentice Hall

Saad, N. M. (2010). Corporate Governance Compliance and the Effects on Capital Structure. International Journal of Economics and Financial, 2(1), 105-114.

Tale, G.(2014). Capital structure and corporate performance: evidence from Jordan. Australian Accounting Business and Finance Journal, 1(4)

Thomas, P... (2010). Research Methodology and Design. Research Methodology and Design. https://doi.org/10.1515/9783110215519.82

Watson, F., & Head, M. H. (2010). The cost of capital, corporation finance and the theory of investment. *The American Economic Review*, 48(3), 261–297

Zikmund, W. (2003). *Exploring Marketing Research (7th Ed.). The* USA. Thompson, South-Western.

APPENDICES

APPENDIX I: LIST OF INSURANCE COMPANIES LISTED AT NSE

1) Pan Africa Insurance Holdings Ltd

2) Jubilee Holdings Ltd

3) Liberty Kenya Holdings Ltd

4) Kenya Re-Insurance Corporation Ltd

5) CIC Insurance Group Ltd

6) British-American Investments Company (Kenya) Ltd.

APPENDIX I: SECONDARY DATA TABLE (FOR INSURANCE COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE)

Insurance Firms	Year	Debt Capital	Preference Shares	Equity
Pan Africa Insurance Holdings Ltd	2013	0.6681	7.4039	1.1145
	2014	0.6616	7.6531	4.0543
	2015	0.6855	7.6712	3.4365
	2016	0.7041	7.8634	1.0234
	2017	0.7724	7.89	0.9707
Jubilee Holdings	2013	0.8236	7.5802	1.495
	2014	0.8159	7.6745	1.4112
	2015	0.7816	7.7865	1.6208
	2016	0.7784	7.8722	1.8599
	2017	0.7523	7.9158	1.9872
Liberty Kenya Holdings	2013	0.8436	7.3783	2.3125
	2014	0.8336	7.4373	4.3564
	2015	0.8262	7.4977	4.7458
	2016	0.8145	7.5211	3.5246
	2017	0.8195	7.5382	3.857
Kenya Re	2013	0.3964	7.281	2.8371
	2014	0.3974	7.365	2.6406
	2015	0.3849	7.4414	2.7475
	2016	0.3785	7.5079	2.7937
	2017	0.3868	7.5515	2.6116
CIC Insurance	2013	0.6139	7.0462	2.3852
	2014	0.6111	7.1482	2.7551
	2015	0.6075	7.2314	2.5020
	2016	0.6958	7.3746	0.6964
	2017	0.6844	7.3947	0.9495
British-American Investments Company (Kenya) Ltd.	2013	0.8293	7.0412	2.4944
	2013	0.8658	7.2198	2.8011
	2014	0.8318	7.3245	2.0440
	2015	0.8544	7.3909	1.7304
	2016	0.8698	7.4331	1.7509
	2017	0.8219	7.3541	1.6299