FINANCIAL STRUCTURE AND MARKET PERFORMANCE OF NON-FINANCIAL FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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MASTER OF SCIENCE (DEVELOPMENT FINANCE)

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

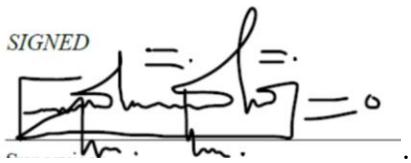
Signed…… Reg. No…….

Date……

I do hereby confirm that I have examined the master's dissertation of

Peter Mutui

And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.



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Dr. Fred Sporta

Dissertation Supervisor

ABSTRACT

The determination of the optimum financial structure of a firm plays a critical role in ascertaining the appropriate amount of funds to be borrowed and the ideal combination of debt and equity for the purpose of financing business operations. The optimal financial structure for a corporation is possessing a robust financial base that enables the organization to capitalize on development prospects while upholding financial equilibrium. Nevertheless, the process of making finance choices is complex and might differ across businesses. The primary study aim was to assess the impact of financial structure on the market performance of non-financial companies listed at NSE. The primary aims of this study were to evaluate the impact of long-term debt on the market performance of non-financial companies listed on the NSE, analyze the effect of short-term debt on market performance, investigate the influence of share capital on market performance, and assess the impact of retained earnings on market performance of firms listed on the NSE. The research study used a descriptive research approach and relied on secondary data. The research used the utilization of secondary data, namely panel data. The temporal range of the investigation spanned from 2018 to 2022. The research included many statistical tests, including Multicollinearity, Heteroscedasticity, Normality test, Autocorrelation Test, and Hausman Test. The findings of the regression analysis showed that there exists a positive correlation between Long Term Debt, Short Term Debt, Retained Earnings and Share Capital, and the market performance of non-financial enterprises listed on the NSE. Furthermore, the observed statistical significance, as shown by the low p-values, implies that these linkages have a substantial impact on market performance. The research findings indicate that the market performance of firms listed on the NSE is positively influenced by short-term and long-term debt, share capital, and retained profits. The observed associations exhibited statistical significance, hence resulting in the rejection of the null hypotheses pertaining to each goal. The report proposes that non-financial enterprises listed on the NSE should consider using short-term debt as a strategy to enhance market performance, while concurrently exercising caution in controlling their debt levels. When considering long-term debt, it is advisable to adopt a prudent approach and seek guidance from professionals, given its relatively modest but nonetheless favorable influence. It is highly recommended to augment the share capital in order to bolster market attractiveness and attract a diverse spectrum of investors. Finally, it is recommended to accumulate larger retained profits as a means of communicating both financial stability and capacity for growth.

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May God bless all you.

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DEDICATION

I dedicate this dissertation to my brothers and my parents, Mama Esther Mutui and the late Mzee Joseph Mutui.

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ABBREVIATION AND ACROYNMS

ADR	American Depositary Receipt
EAT	Earnings after tax
EPS	Earnings per share
GMM	Generalized method moment
IDX	Indonesian Stock Exchange
LTL	Long-Term Liabilities Nairobi Securities Exchange
ROA	Return on assets
ROE	Return on equity
TA	Total Assets
VIF	Variable Inflation Factor
LDR	Loan-To-Deposit Ratio

OPERATIONAL DEFINITION OF TERMS

Financial Structure: The financial structure of a company refers to the composition and proportion of different sources of funding utilized by the organization to support its operations and investments. It encompasses the various types of financing, such as debt and equity, and their respective proportions in the company's capital structure (Charitou & Louca, 2019).

Long-term Debt: Long-term debt refers to borrowed funds or financial obligations that have a maturity period exceeding one year. It typically involves loans or bonds issued by the company and is intended to provide financing for significant investments, such as capital expenditures, acquisitions, or expansion projects. Long-term debt is repaid over an extended period, usually through periodic installments or interest payment (Alnori & Alqahtani, 2019).

Market Performance: Market performance refers to the assessment and evaluation of a company's financial results and success in relation to its competitors and the overall market conditions. It involves analyzing key performance indicators, such as revenue growth, profitability, market share, and stock price performance, to gauge the company's effectiveness in generating value for shareholders and stakeholders (Hirdinis, 2019).

Non-Financial Firms: Non-financial firms are businesses that primarily operate in industries other than finance. These companies engage in producing goods or delivering services rather than providing financial products or services. Examples of non-financial firms include manufacturing companies, retail stores, technology firms, and service providers (Chasan's, 2012).

Retained Earnings: Retained earnings represent the accumulated profits or net income of a company that have been retained and reinvested in the business rather than being distributed to shareholders as dividends. It represents the portion of earnings that the company retains for future growth, expansion, debt repayment, or other capital requirements. Retained earnings serve as a vital source of internal financing and can contribute to the overall financial strength and stability of the company (Salim & Yadav, 2021).

Share Capital: Share capital refers to the funds raised by a company through the issuance of shares or ownership interests to investors or shareholders. It represents the total value of equity or ownership in the company, and shareholders receive ownership rights and entitlement to future profits in proportion to their shareholding. Share capital is an essential component of a company's capital structure and provides the initial and ongoing financial support for the organization (Basti & Bayyurt, 2019).

Short-term Debt: Short-term debt represents borrowed funds or financial obligations that have a maturity period of one year or less. It typically includes loans or credit lines used by companies to meet immediate or temporary financing needs, such as managing working capital requirements, covering operational expenses, or handling seasonal fluctuations in cash flow. Short-term debt is typically repaid within a shorter timeframe, often within a few months or even weeks (Bouteska & Regaieg, 2020).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The financial structure of a company is determined by the balance between its liabilities and equity (Hirdinis, 2019). The financial structure of a company refers to the approach it employs to fund its assets by utilizing a blend of debt and equity that it considers suitable to enhance its operations (Kliestik, 2020). One important part of this is determining the optimum capital structure, which involves evaluating the desired borrowing amount and appropriate balance between equity and debt to meet a company's financial needs (Nguyen & Nguyen, 2020). Therefore, the determination of the right debt-equity mix can affect the value and marketability of a firm.

Primary capital, which includes equity capital, is used to finance a portion of the assets of a company. According to Sakr & Bedeir (2019), different sources, not only the short- or long-term liabilities such as trade payables and financial debts including bonds, loans of banks and other ones have been used for funding the residual value of an asset. Different forms of financial arrangements can be implemented by organizations. A couple of forms of funding are: profit, long-term loan funding, share capital. Firms have several financial decisions to make including lease financing, warrants, convertible bonds, forward contracts of bond swaps (Mukumbi, Eugine and Jinghong, 2020). Alnori and Alqahtani (2019) state that firms can enhance their leverage with near-infinite permutations and combinations by issuing a huge number of securities. According to Basti and Bayyurt (2019), the importance of a company's financial structure for maximizing shareholder value and affecting the growth of the company makes it critical.

Globally, the financial structures adopted by various companies across exhibit significant variations (Shaik, Kethan, & Sravani, 2022). Algieri, Aquino, and Succurro (2020) reported that the significance of a firm's financial structure varied across countries, with the United States assigning a weight of 20%, while Austria, Hungary, and New Zealand allocated over 60%. The lowest percentage was observed in the United States. Enterprises have a diverse range of financial structures available as alternatives to choose from. According to Jansen's (2014) findings, businesses have the ability to get funding in a variety of ways, including via salaries, short- or long-term credit, retained earnings, or capital investments. In their 2017 paper, Mokhova and Zinecker obtained a significant negative correlation between companies' market performances in Greece, Germany, France and Hong Kong as well as their short-term & total debt ratios.

Regionally, despite some markets are still underdeveloped, "the majority of SSA countries have a reasonably developed financial system for enterprises" (Khémiri & Noubbigh, 2018). The research, conducted in Nigeria, showed that non-financial companies listed on the Nigerian Stock Exchange have a significant negative influence of financial indicators (ROA and ROE) for such firms' financial structures (Afolabi et al., 2019). Both at the start of and during operations, financial decisions are critical as these decisions determine the form of business organization growth. Ajibola, Wisdom, and Qudus (2018) point out that the robustness of performance metrics for turnover is materially moderated by the capital structure of non- financial listed firms in Nigeria. These metrics consist of dividend per share, price per share and retained profits. This comment came in response to research on the effect of capital structure of Nigerian non-financial listed firms' performance. The debt ratio has a strong and negative relationship with the firm market performance. According to Ayebanengiyefa (2019) researching in Nigeria the impact of capital composition on corporate performance of listed firms on Nigeria Stock Exchange.

The optimal financial structure for the firm should be the one that maximizes the market price of all outstanding shares (Cug, 2020). Abor's (2015) study finds a positive relationship between Short Term debt ratios (short-term debt/total assets) of Ghanaian listed firms and the firm's performance as measured by ROE. More working capital may be required by high revenue businesses in support of their ongoing operations. The architecture of Ghana's currency system promotes the prosperity of businesses in Ghana (Abor, 2017). The ratio of debt to equity establishes the financial structure of a company as decided by management. According to Vătavu (2015), the ideal debt-to-equity ratio in a company's financing structure may affect both the stock prices that are traded on the securities market as well as the company's value. Because of this, the availability of funding becomes a crucial factor for all enterprises.

Locally, the financial structure of a corporation may have an impact on an organization's governance structure, according to study done by Kiiru, Kamau, and Nzioki (2018). Kiiru, Kamau, and Nzioki (2018) contend that this could affect the company's capacity to make strategic choices that would enhance its performance in the market. According to the Nairobi Securities market (2020), the profits per share (EPS) of non-financial firms listed on their market decreased. Non-financial businesses, as defined by Muiruri (2014), are corporations that do not engage in the supply of services connected to serving as a financial intermediary. The foundation of this notion is the absence of financial intermediation by non-financial businesses. The focus of the research was mostly on the non-financial companies trading on the NSE.

1.1.1 Financial Structure

The concept of financial structure pertains to the combination of debt and equity financing employed by a company to support its operational activities and expansion (Gatsi, 2020). This structure determines how much debt and equity a company has on its balance sheet, and how much

it must pay in interest and dividends. Debt financing involves borrowing money from creditors, while equity financing involves raising capital by selling ownership shares in the company (Uwalomwa & Uadiale, 2018). Companies that rely heavily on debt financing may have lower financial risk, as they are not diluting ownership or giving up control of the company. However, too much debt can also lead to financial instability and bankruptcy. On the other hand, companies that rely heavily on equity financing may have higher financial risk, as they are giving up ownership and control of the company in exchange for capital (Zeghal & Maaloul, 2019). The types of securities issued by a company, such as stocks and bonds, can also impact market performance. For example, stocks are typically more volatile than bonds, as their value is subject to market fluctuations and company performance (Charitou & Louca, 2019).

The study by Basti and Bayyurt (2019) posit that long-term debt comprises rigorous contractual agreements between a firm and its debt issuers, often entailing significant agency and financial distress expenses. Alnori and Alqahtani (2019) have posited that the presence of elevated levels of long-term debt within a company may impede its operational efficiency, as it heightens the likelihood of the company declaring bankruptcy. Vermoesen, Deloof, and Laveren (2013) posit that elevated debt levels can lead to a rise in the aggregate sum of interest payments that are anticipated to be paid on a recurring basis, thereby potentially compromising the liquidity position of the firm. Long-term debt refers to the financial obligation that an entity owes to creditors for a duration exceeding one year from the date of the current balance sheet. El-Sayed Ebaid's (2009) research findings suggest that there is no apparent correlation between long-term debt and return on assets. Foyeke, Olusola, and Aderemi (2016) assert that established corporate entities tend to exhibit a preference for long-term debts as their primary source of debt financing. The aforementioned phenomenon can be attributed primarily to the asset foundation of the corporate

entity, and a prerequisite for numerous financial institutions that accept deposits as the provision of collateral.

Assets and liabilities are classified as current in finance if they're likely to be used, sold, matured, or otherwise settled within one year of the balance sheet date. Long Beach Education (2021) recommends matching your short-term financing with short-term assets and longer-term financing with long-term assets. This is in line with the traditional approach where long-term assets are funded by long-term liabilities. The primary emphasis of the near-term time horizon is the evaluation of decisions affecting a company's current assets and current liabilities. Short-term liabilities are determined by dividing the total value of all current assets by overall short-term loans. This provides the recommended ratio. Hirdinis (2019) found that there is a positive relationship between the short-term debt and growth potential of a firm. The qualitative evidence suggests a positive link between market performance and short-term debt financing (Yazdanfar & Ohman, 2015). There is a positive relationship between the amount of short-term debt a firm has and its growth opportunities, Serrasqueiro et al. (2016) suggested. The frequency is in reverse relative to the gap between short-and long-term interest rates, the company's strength and flexibility, and its available growth prospects.

Share capital is the total capital of a company, which is divided into shares. Joint stock companies require a good amount of capital in order to finance their operations. In Equity Financing, funding from share issuances, a firm can obtain financial resources, commonly known as share capital and debt capital, through the issue of shares (equity) and debentures (debt) (Kaur 2016). Capitalization of a business provides it with the start-up capital to commence operations and realize its purposes for which it was incorporated. According to Armour's (2010) assertion, the Memorandum of Association of a company must comprise details concerning the aggregate

capital intended for the company's registration and the complete count of shares that was dispensed. The aforementioned element serves as the foundational constituent that supports the financial framework of an enterprise. According to the findings of Younus et al. (2014), the phrase share capital pertains to the monetary resources that are amassed by a joint stock enterprise to facilitate its continuous business activities. The share capital of a corporation serves as an indicator of the monetary worth that its investors have infused into the organization at a prior point in time.

The findings by Chasan'(2012) indicated that retained earnings denote the segment of a firm's earnings that is reserved for the intention of reinvesting into the enterprise or settling debts, instead of disbursing as dividends to the company's stockholders. Kopyakova (2017) asserts that a significant proportion of executives tend to prioritize cash from operations as a primary capital source for reinvestment and business expansion. The reason for this is that the avenues for raising capital are constrained to a finite set of alternatives. In light of this, certain corporations opt to retain a greater portion of their profits instead of allocating them towards further business development, especially in cases where they have access to lucrative investment prospects (Campbell, Ramadorai, & Ranish, 2014). A correlation exists between a company's financial organizational structure and its overall market performance.

1.1.2 Market Performance

Market performance refers to how well a company's stocks or securities are performing in the stock market or financial markets in general (Basti & Bayyurt, 2019). One of the key indicators of market performance is the company's stock price (Bouteska & Regaieg, 2020). If the stock price is rising, it indicates that investors have confidence in the company's growth potential and future market performance. Conversely, if the stock price is falling, it may indicate that investors are concerned about the company's market performance or future prospects (Hirdinis, 2019). According to

Gotteland, Shock and Sarin (2020), the market performance of listed businesses refers to how well the stocks of companies are doing on the stock exchange. Investors may purchase and sell shares of publicly listed corporations on the stock market. The rise in a company's stock price is often seen as an indication that the business is prospering financially (Bouteska & Regaieg, 2020).

Sales revenue is the measure for market performance. Sales revenue encompasses the overall performance of a firm in the market, including its ability to generate sales, attract customers, and maintain market share (Zeghal & Maaloul, 2019). The market performance of listed firms is an important indicator of the overall health of the economy (Ansca, Suyapto, Pranoto & Gunawan, 2019). A strong stock market can indicate that investors are confident in the future of the economy, while a weak stock market can suggest that investors are concerned about economic uncertainty. Market performance can be influenced by a variety of factors, including macroeconomic trends, company performance and geopolitical events (Edward & Marciano, 2019).

1.1.3 Non-Financial Firms Listed at NSE

NSE is the main stock exchange in Kenya, and it lists several non-financial firms alongside financial institutions. These non-financial firms operate in various sectors of the economy, including manufacturing, agriculture, telecommunications, energy, and consumer goods (Onguka, Iraya, & Nyamute, 2021). The largest non-financial firms listed on the NSE is Safaricom, a telecommunications company that provides mobile phone and internet services to millions of customers in Kenya. The performance of firms listed on the NSE is observed as an indicator of the overall health of the Kenyan economy. When non-financial firms are doing well, it suggests that there is demand for goods and services in various sectors of the economy, and this can have a positive impact on the broader economy (Onguka, Iraya, & Nyamute, 2021). Conversely, if firms

are struggling, it can indicate that there are challenges facing the economy that need to be addressed.

The NSE provides an important platform for non-financial firms to raise capital, expand their operations, and grow their businesses. By being listed on the NSE, these companies are able to access a wider pool of investors and tap into the growing demand for investment opportunities in Kenya and the wider East African region. In recent years, the NSE has experienced both highs and lows in terms of market performance. In 2017, the NSE recorded its highest ever market capitalization of KES 2.7 trillion, driven by a bullish run in the banking, telecommunications, and energy sectors (Onguka, Iraya, & Nyamute, 2021). However, the market performance declined in subsequent years, partly due to a slowdown in the Kenyan economy and political uncertainty surrounding the 2017 elections. In 2020, the COVID-19 pandemic had a significant impact on the NSE, with the market experiencing a sharp decline in March and April before rebounding later in the year. Although it dropped by 31% in March 2020, the NSE All-Share Index (which measures the performance of all listed companies) recovered to end the year down by only 7.4% (Onguka, Iraya, & Nyamute, 2020). Many non-financial companies trading on the NSE have seen their stock prices decline recently. One example is the decline from 4.2% in 2016 to 3.7% in 2017 in the market performance of non-financial companies listed on the NSE (NSE, 2019).

1.2 Problem Statement

The ideal financial structure for a company would be one in which the company has a strong financial foundation that allows it to take advantage of growth opportunities while maintaining financial stability (Alnori & Alqahtani, 2019). The company would have a balanced mix of debt and equity financing, with enough debt to maintain financial flexibility and enough equity to avoid over-reliance on debt financing. The company would also have a diverse portfolio of securities,

such as stocks and bonds, to spread out risk and appeal to a broad range of investors (Basti & Bayyurt, 2019). This is because a company's financial structure plays a crucial role in how it finances its operations and investments (Wafa, 2017). Nevertheless, the process of making finance choices is complex and might vary across different businesses. For example, the use of an incorrect blend of debt and equity in financing might have a detrimental impact on the market performance of the organization (Vătavu, 2015).

The performance of numerous non-financial companies listed on the NSE in the market has been worsening (Muchiri, Muturi & Ngumi, 2016). - For instance, the market capitalization of non-financial companies listed on the NSE decreased from 4.2% in 2016 to 3.7% in 2017 (NSE, 2019). In addition, between 2011 and 2017 more than 56 percent of non-financial firms listed at NSE experienced a decline in market capitalization (CBK, 2020). These companies face reduced lender appetite because of poor market performance (IMF, 2018). It is not known if the financial structure of the company can lead to an ideal market performance. Hirdinis (2019) argues that a central dilemma for stakeholders is whether there exists an optimal capital structure which would best realize the market valuation of the company.

The problem statement for the study centers on the declining market performance of these firms, despite theoretical expectations of a strong and balanced financial structure. This downturn, evidenced by the reduced market capitalization from 4.2% in 2016 to 3.7% in 2017 (NSE, 2019) and a significant decline in over 56% of such firms between 2011 and 2017 (CBK, 2020), raises concerns among stakeholders about the effectiveness of current financial structures. The study sought to determine if there is an optimal capital structure that could enhance market valuation, addressing a critical gap highlighted by Hirdinis (2019) and responding to the decreased lender

appetite noted by the IMF (2018). The urgency of this research lies in preventing further investor confidence erosion and financial instability in the NSE-listed non-financial firms.

Based on the studies reviewed, there is a relatively less work done on the impact of financial structure on the market performance of non- financial firms listed on NSE. The results of Pouraghajan et al. (2018) indicated a significant correlation between capital structure and firm performance. The research showed that different levels of debt in the capital structure have different performance outcomes. However, there is a caveat in that these results, while important, might not transfer directly to the NSE because of different economic and regulatory contexts between Iran and Kenya. Opungu (2016) "Choice of Capital Structure and Its Impact on Firm Performance and Profitability: An Empirical Analysis of Listed Firms on Nairobi Stock Exchange", Although the results may have more implications for the NSE, there could be other unexplored determinants of market performance, which calls for further investigation in this specific study. – Ater et al. (2017) found a significant and market value-relevant link between non-financial firms' capital structure and their performance at the NSE. Yet the results may not fully capture all of the market performance dynamics, potentially leading to missed understandings. Few studies have precisely examined the effect of long-term debt, short-term debt, share capital and retained earnings the market performance of non-financial firms listed at NSE. Intending to fill this knowledge gap, the study focused on the effect of financial structure on market performance of non-financial firms listed at NSE.

1.3 Research Objectives

The main research objective was to determine the effect of financial structure on market performance of non-financial companies listed at NSE.

1.3.1 Specific Research Objectives

i. To establish the influence of short-term debt on market performance of non-financial companies listed at NSE.

ii. To assess the influence of long-term debt on market performance of non-financial companies listed at NSE.

iii. To examine the influence of share capital on market performance of non-financial companies listed at NSE.

iv. To determine the influence of retained earnings on market performance of non-financial companies listed at NSE.

1.4 Research Hypotheses

***H_{o1}**: Short term debt does not significantly effect on market performance of non-financial companies listed at NSE.*

***H_{o2}**: Long term debt does not significantly effect on market performance of non-financial companies listed at NSE.*

***H_{o3}**: Share capital does not significantly effect on market performance of non-financial companies listed at NSE.*

***H_{o4}**: Retained earnings does not significantly effect on market performance of non-financial companies listed at NSE.*

1.5 Significance of the Study

1.5.1 The Management of NSE Firms

This study has the potential to be beneficial to the management of NSE companies. The study offers the management a perspective that is free from outside influence and is objective regarding

the organization's financial structure. It would be beneficial for them to be aware of the effects of their strategies regarding financial structure on market performance.

1.5.2 Investors

Investors at NSE would benefit from the study's explanation of how financial structure affects market performance. The combination of debt and equity financing a business uses to finance its operations is referred to as financial structure. Investors may choose their investments more wisely if they have a better knowledge of this connection.

1.5.3 The Government and Policymakers

The study is useful for policymakers, as it can provide insights into the impact of financial structure on market performance. This information can be used to inform policy decisions related to financial regulation and corporate governance.

1.5.4 Academicians and Researchers

The results will be used by academics and researchers to ponder whether or not to do more investigation into the study's distinct areas of focus. Companies may use the study's findings to boost their market performance. Better choices regarding how to fund operations and optimize capital structure may be made by businesses when they have a firm grasp of the effect that financial structure has on market performance.

1.6 Scope of the Study

The research and analysis are undertaken around the market performance of non-financial listed firms on the NSE in context of diverse financial structures. The objective of this study was to explore the non-banking sector NSE-listed companies' market performance for the impact of Long-term debt, Short term debt, share capital and Retained Earnings. The research employed a

descriptive method and base its information on secondary sources. The period from 2018 to 2022 composed the majority of the investigation's span.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The concepts related to the research are explained in this section. The literature section develops the conceptual framework of the study and the last section contains prior empirical research reviews (on the effect of financial structure on market performance).

2.1 Theoretical Literature Review

The structure that can hold or support a research study's theory is known as the theoretical framework. It gives an overview of the theory that explains the existence of the research problem under consideration. The Pecking Order Theory, Maturity Matching Theory, Trade-off theory and Modigliani-Miller theory was used to inform the study.

2.1.1 Pecking Order Theory

The Pecking Order Theory was first proposed by Donaldson, Gordon, and Myers (1984). The hypothesis states that firms have a bias for internal finance, retained profits are used before external finance, debt or equity. It is a theory that explains how enterprises decide to finance their operations. Firms, in this view, favor internal finance like retained earnings to external funds including debt or equity. According to the Pecking Order Theory, firms will seek external financing only if the internal one is not enough to meet their requirements. Debt takes precedence over equity as it is cheaper than equity and has a lower cost of capital. According to Frank & Goyal (2008), firms prefer to avoid issuing extra shares as a last resort because it is expensive and increases current shareholder dilution.

The assumption of the Theory is that there is information asymmetry between management and investors. Management is given the credit for superior knowledge concerning the condition of a company's financial health and investment prospects. This information asymmetry creates a finance pecking order, with Retained Profits being the most preferred source of finance, followed by Debt and finally Equity (López-Gracia & Sogorb-Mira, 2008).

According to the Theory businesses have a preference for internal over external sources of finance. This is because issuing more shares can be costly and dilutive to existing shareholders, whereas long-term debt can be cheaper and less dilutive. According to the theory, long-term debt is a last resort for corporations when there are not enough funds internally. This is because long-term debt typically carries higher interest rates and more frequent interest payments, which can put pressure on a company's ability to generate cash. In addition, permanent funding usually requires collateral or other form of isolation, which may restrict the company's asset flexibility management (Ahmadimousaabad et al., 2013).

The theory discusses variable long-term debt. According to the hypothesis, firms first employ internal sources of funds before making use of external financial sources, and the retraction of long-term debt is a last resort. When deciding whether or not to use long-term debt, however, many factors come into play, such as the company's development potential, the cost of borrowing, and the availability of alternative sources of money.

2.1.2 Maturity Matching Theory

The Maturity Matching Theory was proffered by David Durand (1952). The theory says that the company must match up its assets' maturity with the liability maturity. This means that the company should finance permanent assets by long-term debt and other (such as inventories and A/R) by short-term debt.

It assumes that cash inflows from short-term assets should be used to reduce short-term obligations and cash inflows from long-term assets should be used to reduce long-term liabilities. Liquidity and refinancing risk can be avoided by a firm by aligning the maturity of its assets and liabilities. For instance, using long-term debt to finance short-term assets poses the risk of the inability to repay it. In the same vein, when a firm uses short-term debt to finance long-term assets it may face additional reinancing risk if the short-term debt has to be rolled-over continuously, for example at higher interest rates (Seeman & Jacobson, 2017).

According to this hypothesis, firms should use ST debt to finance (ST) assets. Short-term borrowings are frequently employed to finance the company's working capital, which includes its current operations as well as its short-term financing needs. By matching the maturity of the debt to the assets, using short-term debt for short-term assets can also serve to reduce interest rate risk. This can help meet a company's short-term obligations. Conversely, short-term debt has typically higher interest rates than long-term debt and requires more frequent rollover or refinancing, which entails higher costs and risks.

The theory covers the variable on short term debt. The theory covers foreign monetary transactions. In line with the concept, short term debt may be suitable source of finance for businesses with to finance short term assets. This means that current liabilities like accounts payable and short-term debt may finance current assets like inventories and accounts receivable

2.1.3 Trade-off Theory

The proponents of the Trade-off theory are Modigliani and Miller in the 1950s. This theory suggests that firms must carefully balance the benefits and costs associated with their financing choices to optimize their overall financial structure. The existence of an optimum capital structure for each business is one of the key postulates of the Trade-off Theory. This appropriate debt-equity

financing combination is critical to lowering the firm's total cost of capital while increasing its overall value. This idea emphasizes a key benefit of debt financing: tax sheltering. The underlying assumption is that debt interest payments are often tax-deductible, lowering the firm's taxable revenue and eventually contributing to cost savings. This tax benefit of debt is an important factor to consider when deciding on capital structure (Frank & Goyal, 2008).

The Trade-off Theory, on the other hand, acknowledges the possible downside of debt in the form of financial distress costs. These costs may be significant and include expenditures associated to the risk of bankruptcy, such as legal fees, reputational harm, and interruptions to continuing company operations (López-Gracia, & Sogorb-Mira, 2008). As a result, another crucial premise is that enterprises must be careful not to incur excessive debt, which might result in these financial distress costs outweighing the tax advantages. Balancing the tax benefits of debt with the costs of financial hardship is a major difficulty for businesses, and the Trade-off Theory proposes that companies should strive to find the optimal amount of debt that maximizes the net benefit of both aspects. It is simply a trade-off between the possible tax advantages and the expenses and hazards of debt financing.

Furthermore, the theory incorporates the idea of agency costs, recognizing that when businesses incur debt, they create a division of ownership and control. Because it puts financial constraint on management, debt may help align the interests of shareholders and managers. Excessive debt, on the other hand, may lead to conflicts of interest and agency issues, which organizations must properly manage (Ahmadimousaabad et al, 2013). Furthermore, the Trade-off Theory acknowledges that financial risk varies between enterprises and sectors. It holds that the trade-off between debt and equity financing should reflect the unique business's and industry's

risk-return relationship. When selecting their best capital structure, businesses must carefully assess their risk tolerance and the nature of their activities.

The Trade-off Theory is directly applicable to share capital choices since it aids businesses in finding the appropriate mix of equity, including share capital, and debt financing. This theory emphasizes the significance of establishing a balance between the tax benefits of debt and the possible financial distress costs when deciding how much equity to issue via share issuance. Share capital choices affect a company's cost of capital, financial stability, market perception, and the alignment of shareholders' and management's interests. As a result, the Trade-off Theory provides a useful framework for organizations wanting to make educated decisions regarding their share capital structure in order to optimize their total value and fulfill their financial objectives.

2.1.4 Modigliani-Miller Theory

The Modigliani-Miller theorem, created by economists Franco Modigliani and Merton Miller in the 1950s and expanded upon in later work, is a cornerstone of corporate finance. This theory examines how a company’s market value is influenced by its capital structure, i.e., the mixture of debt and equity financing. The Modigliani-Miller theorem, which pertains to capital structure decisions in firms, is a kind of deep background against which one can understand the use of retained earnings in corporations. According to MM Proposition I with taxes, the total market value of a company does not change with its capital structure, including retention. That is, if the capital market is perfect and efficient, it should not matter whether a company keeps earnings or pays them out as dividends – a firm’s total market value should be the same either way. This means that shareholders will be neutral between receiving a dividend or having the firm re-invest earnings in new (or old) projects or other intrafirm uses (Seeman & Jacobson, 2017).

Modigliani-Miller Proposition II, which discusses the relationship between leverage and the cost of equity, offers insights into the cost of retaining earnings within a company. As a firm takes on more debt or, equivalently, retains fewer earnings, it faces a higher cost of equity due to increased financial risk. This suggests that a company choosing to pay out a significant portion of its earnings as dividends, rather than retaining them, may encounter a higher cost of equity capital. Shareholders may demand a greater return to compensate for the perceived increase in financial risk associated with a less conservative capital structure (Shah, & Khan, 2009).

The Modigliani-Miller theory informs n the variable of retained earnings. The theory suggests that a firm's decisions should be guided by the opportunities for profitable investment. If a company can reinvest its retained earnings in projects with positive net present values, it may create more value for shareholders than if it were to distribute those earnings as dividends. This aligns with the broader principle that firms should prioritize projects that maximize shareholder assets.

2.2 Empirical Literature Review

This section reviews studies previously done on financial structure on market performance. The literature review is categorized on long-term debt, short-term debt, share capital and retained earnings.

2.2.1 Short-Term Debt and Market Performance

Maina, Olweny, and Wanjau, (2018) investigated the short-term debt after adjustment for market comparison. They were specifically after an assessment on the importance of observed leverage. The study sample was 35 non-financial sub-sectors out of 65 listed companies on the NSE. 18 firms were in insurance and banking sectors that were excluded in this study. These

businesses were disqualified under the stringent capital structure laws governing these sectors. The data for each variable was extracted from the audited financial statements of the listed companies over a period of 2006-2015 in compliance with the secondary data collection sheet. According to the panel regression approach, a positive and statistically significant association exists between the performance indicators and observed leverage that indicates the Loan to Debt Ratio (LDR). Taking on Troubled Debt Restructuring (TDR) as a lever decreases performance metrics. Thus, conclusions can be drawn to show that listed companies are using noncallable bonds and while debt-the results show their motive is enhancing market performance. This is because the long-term debt instruments possess a higher level of tenure over the short-term money market instruments.

Ganiyu et al (2019) examined the relationship between capital structure and market performance in Nigeria. In addition, they considered the U-shaped link between capital structure and market performance as expected in ACF products. The hypothesis predicts a break in the relationship when firms become too dependent on debt financing. Dynamic panel model was employed, and Nigeria's sample included 115 publicly listed non-financial firms. The Generalized Method of Moments (GMM) was applied in this study to capture the persistence of the dependent variable. The lagged value of the variable was added to the regression model as an explanatory variable to achieve this aim. When using only slightly more debt financing, consistent with benchmark results the most important results indicate a significant relationship between market performance and capital structure. The authors uncovered proof of a U-shaped relationship in terms of market performance and capital structure. Because of the prevalence of debt financing among Nigerian enterprises, this is the case.

When Gatsi (2020) wanted to assess the impact of the debt structure (a component of capital structure) on the market performance of banks listed on the Ghana Stock Exchange between

2010 and 2019, he used a large enough panel dataset Data show that the funding structure of listed Ghanaian banks is only 17.77% equity and 82.23% debt. More than 81% of debt of publicly traded Ghanaian banks is short term, with long term debt standing at about 9%. Short-term debt positively influences the performance of Ghanaian listed banks in the market while long-term debt does the opposite.

Uwalomwa and Uadiale, (2018) examined the influence of capital structure on the stock market value, stock price, and return on assets of firms listed in the Nigerian stock exchange. Sample included was 31 businesses active on Nigerian stock market. To explore the claims, they estimated models using Ordinary Least Squares (OLS), which data came from annual reports published between 2005 and 2017. The research revealed why both short-term borrowings and shareholder capital had positive market performance impact on the publicly traded companies in Nigeria. According to studies, high debt levels lead to poor market performance of a company.

Nyamita, Dorasamy and Garbharran (2015) set out to ascertain the impact of debt financing on the market performance of state-owned enterprises in Kenya in 2015. We analyzed the degree of financial risk adopted by state-owned firms in the period 2002–2012. Debt to equity ratios were calculated by subtracting equity from a company's gross assets. Panel data regression models were constructed, including Fixed Effects (FE), Random Effects (RE) and Generalized Method of Moments (GMM) models, with market performance indices (ROA, ROI, and ROE) incorporated as dependent variables. Results indicate how the use of debt financing negatively affects market performance of state-owned firms in Kenya.

2.2.2 Long-Term Debt and Market Performance

Vu et al. (2020) examined the market performance of non-financial firms listed at Hanoi Stock Exchange in the period of 2010 to 2017. They examined how evenly the companies' maturity

schedules were distributed. The study showed a positive relationship between the firm's market performance, on the one hand, and the long-term to total debt ratio, on the other hand. The findings of the research showed that a company's overall market performance was negatively affected if it uses long-term debt financing because the positive effect of investment in the company in general decreases.

For the privately-owned enterprises debt maturity structure and accuracy of profit forecasts De Meyere, Vander, and Cauwenberge (2018) investigated the relationship. The paper used a rich dataset of Belgian private companies' annual financial statements to show a positive association between profit quality and the probability of long-term debt and a positive association between long-term debt to total debt. It also showed that these networks were more beneficial for SME's than they were for larger privately-owned corporations. Consistent with the hypothesis that banks have greater exposure to small firms share of exposure from creditors, on average, were higher for small businesses.

Adjei (2019) examined the relationship between a company's debt dependence and its ability to survive a financial disaster, using data from the 2008 subprime mortgage crisis. The research showed that the performance of a company in pre-crisis to crisis phase deteriorates as the extent of debt dependence increases. In the results, high-debt firms took more debt during the crisis, the worse their performance was. The study found no link between the financial performance of low debt firms and their new borrowing of debt during the crisis.

Ismiyanti and Mahadwartha (2018) investigated the influence of Debt-Constraint Expropriation (DCE) and Debt-Facilitate Expropriation (DFE) characteristics of debt on the market performance of enterprises Also other ownership forms (e.g. group and no-group-affiliate ownership) were tested to support the main concerns in DCE and DFE. It could be observed that

DCE and DFE have the opposite impact on leverage and performance (DCE was positively correlated, DFE was negatively correlated). The impact of debt on the performance of group-affiliated firms on the DCE was the most positive. Because of risk reduction strategies, related businesses had less debt effect on performance than independent businesses did on DFE.

The objective of Onwe, Mustapha and Yahaya (2020) was to examine the effect of corporate financial structure on the stock market performance of firms listed on the Nigeria Stock Exchange. The data for this study were sourced from the audited annual financial For the analysis of market performance, the ratios of long-term debt to equity and long-term and short-term debt to total assets were used to study financial structure. GMM was utilized to formulate and test hypotheses. Going by the data, it appears that short term debt divided by total assets is negatively and statistically related to return on assets. This relationship links the short-term debt to the total assets, which is a reciprocal relationship between the two. But the long-term Debt/Equity ratio does have a positive impact, even if it is not significant. “The study revealed that a company’s financial performance is adversely impacted on the Nigerian stock exchange when it takes on more debt, whether long or short term”, stated the study findings.

Njoroge, Mathenge, and Omurwa (2020) investigated publicly listed manufacturing firms in Kenya in order to determine the relationship between market performance and debt levels. Data were collected between 2010 and 2018 on the 15 manufacturers that were present in the market during this period. The information was collected via a combination of secondary sources and a census-based approach. The main result of this study was the significant positive link between debt ratio and the relationship between management compensation and market performance of publicly traded manufacturing firms in Kenya. It shows that debt affects the pay–performance relationship of the industrial companies listed on the Nairobi Securities Exchange in Kenya.

2.2.3 Share Capital and Market Performance

Charitou and Louca (2019) examined the stock market performance of foreign businesses who use American Depositary Receipt (ADR) programs to list their shares on major stock exchanges in the United States. The dataset included information on 108 firms from 24 nations that were also listed on major U.S. stock markets. Both raising and not raising capital were options for these firms. Evidence was discovered that capital-raising cross-listed enterprises' market performance improved after listing, both relative to a non-cross-listed matched sample of firms and relative to the time before listing. The impact of share capital and market performance was considerable.

Mujahid and Akhtar (2014) conducted a regression study on the capital structure and textile industry of Pakistan during 2006–2011 using data from 155 textile companies for analyzing the effect of capital structure on market. The study examined the effect of capital structure on market performance and shareholder wealth by examining accounting measures like return on assets, return on equity, and earnings per share. The study revealed that the firm's capital structure helped generate higher market performance and returns for shareholders.

In an empirical research, Meng and Ye (2017) used information from 783 firms trading on the Shanghai and Shenzhen Stock Exchanges between the years 2000 and 2014. The years 2000-2014 were included in the analysis. The researchers conducted extensive analyses of the collected data to arrive at the result. There was a clear geographical variance in how quickly capital structure adaptation occurs. According to the data, East China's rate of capital structure adaption was the highest, followed by West China and Central China. The empirical evidence suggests that East China publicly traded companies exhibit greater frequency of fluctuations in their leverage ratios over a specific time period, in comparison to enterprises located in the other two regions, regardless of the direction of these fluctuations being positive or negative.

According to Tsoy and Heshmati (2017), organizations' capital structures were examined before and after crises to determine whether they were able to quickly change and attain optimum levels of leverage. A total of 1,159 non-financial, publicly traded Korean companies across 10 industries were included in the research. Dates between 1985 and 2015 were included in the dataset. Based on the empirical examination of the study period data, it seems that the debt ratios of Korean publicly traded companies outside of the banking sector had been falling. High levels of leverage were seen just before the Asian crisis, and low levels of leverage were shown after it. According to the data, chaebols in Korea had a larger debt-to-equity ratio than other types of Korean businesses. Several variables, including a company's physical assets, share capital, firm size and age, non-debt tax shield, and originality, seemed to correlate strongly with leverage. The cumulative effect of these variables was substantial, and it affects the company's long-term market performance.

In the context of Nigeria, strong correlation between market performance and share capital was found by Ngene, Okezie, Nwidobie, and Adesina (2012), Nwidobie and Adesina (2013b), and Adesina. The study revealed that the market performance of companies listed on the Nigerian Stock Exchange (NSE) was favoured when their share capital was raised. The study found that a positive relationship exists between the size of share capital and the market capitalization of a company, which is a key predictor of market performance. Okere, Muoneke, and Onuoha (2021) showed that the share capital was related to the market performance in Nigeria (Share capital had a positive correlation coefficient of 2.144). This research was an analysis of share capital and financial performance of companies listed at the NSE. The findings indicate that increase in share capital yields higher performance and profits.

Omai, Memba and Njeru (2018) sought to determine the impact of share capital financing on the market performance of petroleum marketing enterprises in Kenya. The positivistic perspective was used in the analysis of the theoretical premise of the study. Out of the sample of businesses that fit the criteria, they randomly sampled 35 businesses that were started between 2007 and 2016, using criterion sampling. Research methodology used secondary data and surveys to gather primary data. Descriptive statistics and univariate tests (t-test, Pearson correlation) were performed on the data. This would imply that a decline in a business's share capital adversely affects the market performance of the company but may not be statistically significant. Based on the findings of the research it was clear that the corporate finance industry needs new legislation aimed at protecting investors.

2.2.4 Retained Earnings and Market Performance

Chen's (2014) research looked at the factors that determine the capital structures of Chinese public firms. Information from the annual reports of 88 publicly traded Chinese firms was used for this analysis, covering the years 1995-2000. The research used a panel structure. The analysis found no statistically significant relationship between retained profits and stock returns. The model's retained earnings coefficient also regularly showed a negative value, indicating the inverse nature of the link. Based on the data, it seems that Chinese-listed firms that choose to retain a portion of their profits had little to no influence on the financial growth of their company or the stock returns received by investors.

Motanya (2019) analyzed the market performance of Kenya's petroleum companies using retained profits as a source of capital. The researchers used a positivist worldview so that their study's premise could be more easily tested via research. Data from 35 businesses were collected using a cross-sectional survey design using criterion sampling between 2007 and 2016.

Questionnaires were utilized to collect primary data with secondary sources. The findings indicate a weak and unfavorable correlation between retained profits financing and stock market performance at the 1% significance level. Over the duration of the study's observation period, the Kenyan petroleum businesses exhibited higher profitability despite employing retained profits borrowing more often. This is evidence of a considerable uptick in their market performance.

Yemi and Seriki (2018) studied the effect of retained earnings on the stock prices of public listed firms in Nigeria. During the analysis, dividend payments, earning per share and financial leverage were all evaluated. All possible impacts on the correlation between the retained profits and the market value are controlled for through these adjustments. The data for this analysis was sourced from seventy-five non-financial companies traded on the Nigerian Stock Exchange between 2003 and 2014. This analysis was conducted with unbalanced panel data, including cross-sectional and time series data. This data was derived from multiple companies' financial statements for the year. The main methods used were descriptive analysis and multiple regression models to determine the nature of the underlying relationship. The research revealed a positive and significant correlation between earnings per share, retained earnings, dividend payment, and company value. It was found a positive relationship between market value and financial leverage, but this relationship was not significant. The aim of this study was to fill the gap in the literature by examining the empirical relationship between retained profits and firm market value with particular reference to developing economies.

The impact of capital structure on the listed Nigerian manufacturing companies stock market performance from 2004 to 2013 was examined by Oladele, Omotosho, and Adeniyi (2017). In this study, a multiple regression model was used to investigate the impact of capital structure on the financial performance of listed Nigerian manufacturing companies. The outcomes revealed

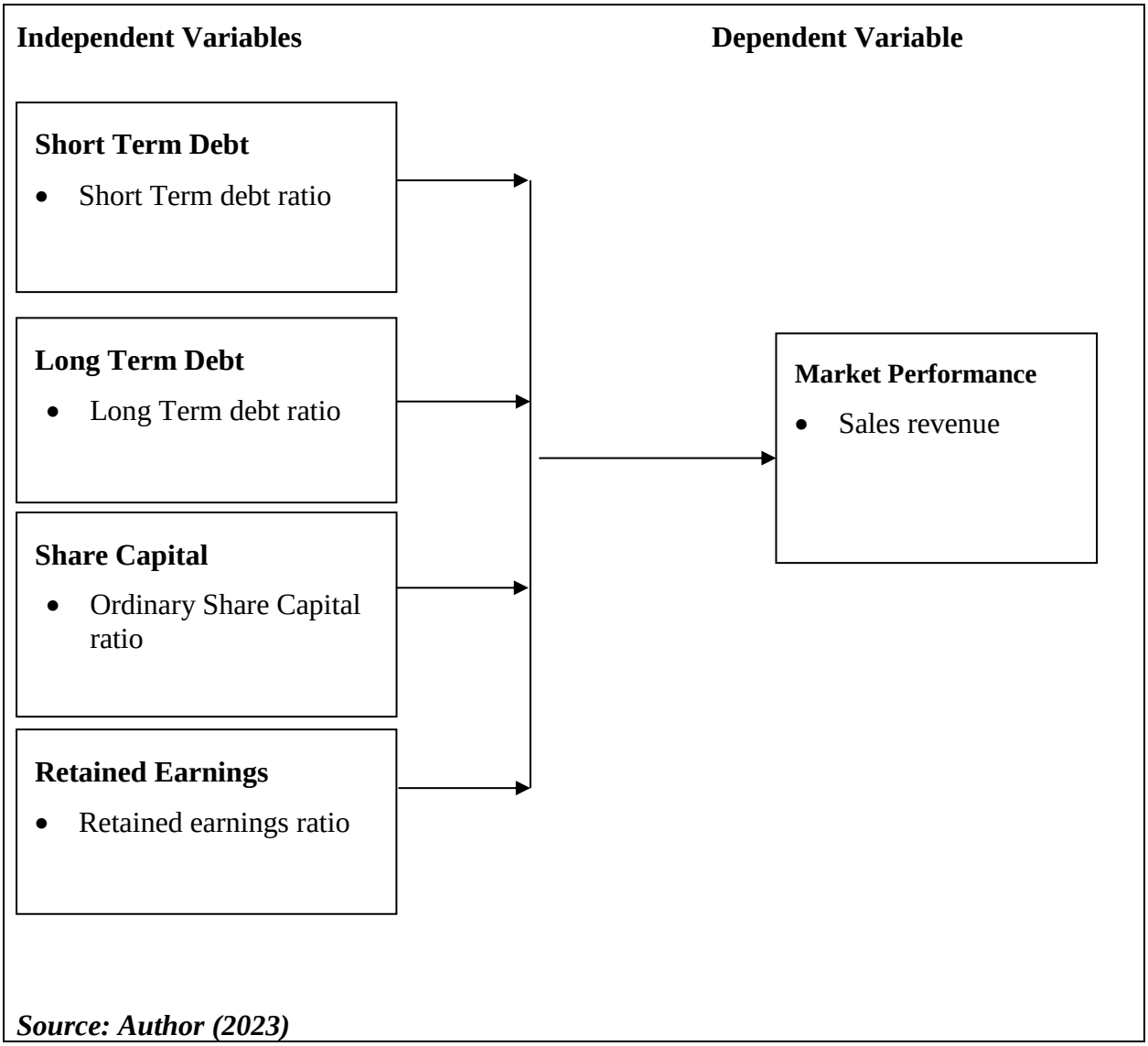
that while return on equity was not affected by capital structure, return on assets, earnings per share, and revenue growth were all significantly influenced. Together, those factors offer a glimpse into how long the companies can survive in the market.

In contrast, Omagwa and Kasomba (2020) studied the market performance of Kenya's domestic commercial airlines compared to their financial structures. They chose 11 domestic regular passenger carriers that provide service in 2012–2018. The study used panel regression to analyze the data. The study found that the use of lease financing by Kenyan domestic commercial airlines, did not impact their market performance. As a direct result of share financing, domestic commercial airlines in Kenya have seen significant financial improvement. The employment of debt financing also had considerable impact on financial outcomes of Kenya's internal commercial aviation industry. Domestic commercial airlines of Kenya's market performance were significantly affected by retained profits.

2.3 Conceptual Framework

A conceptual framework is a set of interrelated concepts or ideas that provide a systematic and coherent approach to understanding a particular phenomenon or problem. The conceptual framework is as shown in Figure 1.

FIGURE 1 Conceptual Framework



Source: Author (2023)

According to the conceptual framework, the market performance is the dependent variable, while the independent variables are short-term debt, long-term debt, share capital, and retained earnings.

2.4 Operationalization of Variables

TABLE 1: Operationalization of Variables

Variable		Measurement
Dependent Variable	Market Performance	Sales Revenue (Log)
Independent Variable	Short Term Debt	Short Term Debt Ratio
Independent Variable	Long Term Debt	Long Term Debt Ratio
Independent Variable	Share Capital	Ordinary Share Capital Ratio
Independent Variable	Retained Earnings	Retained Earnings Ratio

Source: Author (2023)

Market performance measures how well a company is doing in the financial markets. Sales revenue refers to the overall money obtained from selling goods or services over a certain period. It represents the business ability make money from its core business (Gatsi, 2020). Sales revenue is the measure for market performance. Sales revenue encompasses the overall performance of a firm in the market, including its ability to generate sales, attract customers, and maintain market share (Zeghal & Maaloul, 2019). ROI and ROE, although important financial metrics, focus more specifically on profitability and returns to shareholders. By using sales revenue, the study can provide a broader understanding of market performance, taking into account the firm's ability to drive sales and revenue growth (Charitou & Louca, 2019).

Short-term debt are the debt obligations that are due within a year or less. Short-term loans are borrowings that have a repayment period of less than a year (Adjei (2019). They are typically used to meet short-term financing needs, such as managing working capital or addressing temporary cash flow shortages. Long-term debt represents the debt obligations that have a maturity period exceeding one year. Long-term loans are borrowings that have a repayment period extending beyond one year. They are often used for financing long-term investments, such as capital expenditures or acquisitions. Long-term debt is an important measure of a company's

leverage and its ability to manage long-term financial obligations (De Meyere, Vander & Cauwenberge, 2018).

Share capital or equity capital or share equity is the funds that raised by company through the issue of shares (Ismiyanti & Mahadwarth, 2018). The most conventional type of shares issued by companies are ordinary shares, also known as common shares. Share capital is a key element of a company's capital structure and represents the ownership interest of shareholders in the company.

Retained earnings, the accumulated profits of a company, which are not distributed by the Company as dividends, but reinvested in the business (Maina, Olweny, & Wanjau, 2018). They can be defined as the part of company earning which remains after distributing as a dividend to shareholders, and are retained for future growth, reduction of company's debt, or other such purposes (Charitou & Louca, 2019). They mirror the corporation's track record of earnings profitability and its skill in maintaining earnings over time.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter aims to discuss the approach that the researcher should take when attempting to address the research questions. The chapter specifically covered data collection, target population, and research design. The chapter also discusses the data analysis methods to use and the diagnostic tests to run.

3.2 Research Design

The research design of this study was descriptive research design. As Asenahabi (2019) states, the type of research design that is mostly used is descriptive research design, which is when the study objectives are logical. It is intended to figure out the association among the factors in a given situation and the intensity of the relationship between the variables under study. This type of research design is suitable for this study as it seeks to describe the phenomenon of the different variables as they naturally occur, without altering any of them.

3.3 Target Population

The population, according to Rubin and Babbie (2016), is the grouping of elements from which the sample is taken. The population of the research consisted of 44 non-financial companies registered on the NSE, as stated in Table 2.

TABLE 2: Target Population

Sector	Listed Non-financial Firms
Agricultural	6
Automobiles & Accessories	2
Commercial & Services	10
Construction & Allied	5
Energy and Petroleum	4
Investment	5
Investment Services	1
Manufacturing & Allied	9
Real Estate Investment Trust	1
Telecommunication and Technology	1
Total	44

Source: Author (2023)

3.4 Sample and Sampling Techniques

A sampling procedure enables a researcher to compile a small group of items or subjects that are representative of the entire population being studied (Blumberg, Cooper, & Schindler, 2014). According to MacDonald (2020), a census is a study in which every person, thing, or object in the population participates. The census technique is appropriate when very high levels of accuracy and reliability are needed for the study. Additionally, when the population is small, a census is preferred. This study employed the census method, and the sample size was 44 non-financial firms listed on the NSE.

3.5 Data Collection

Secondary data was used in the research. The 44 non-financial companies listed on the NSE provided the data. Data from 2018 to 2022 covered 5 years, allowing for more observations and a panel data.

3.6 Diagnostic Tests

The study performed the Hausman Test, the Multicollinearity Test, the Heteroscedasticity Test, the Normality Test, and the Autocorrelation Test. Diagnostics was carried out to prevent performing regression analysis with false results.

3.6.1 Multicollinearity

When there is a significant connection between the independent and dependent variables, this is known as multicollinearity. The presence of multicollinearity was examined using the variance inflation factor (VIF). If the VIF value is larger than 10, multicollinearity was recognized. This is in keeping with Bryman and Bell's (2013) observation that VIF 10 indicates the existence of multicollinearity. Where the values are larger than 10, multicollinearity was eliminated by deleting the highly linked independent variables.

3.6.2 Heteroscedasticity

Khaled (2019) asserts that heteroscedasticity gives equal weight to all data, discriminates the standard errors, and eventually results in an inaccurate conclusion when testing the hypothesis. Breusch-Pagan was used to examine if the obtained data exhibit heteroscedasticity. The data homoscedasticity hypothesis was examined at a significance level of 0.05. If the p-value is higher than the cutoff of 0.05, we drew the conclusion that the data are not heteroscedastic.

3.6.3 Normality test

The assumption of normality allows for accurate statistical inference from tests of hypothesis (Mishra, 2019). The Jarque-Bera test statistic (Bera & Jarque, 1982) was used to test the normality of the residuals in this study. The intuition was that the data was normal. If the p-value is greater than 0.05, the data is considered to be normally distributed.

3.6.4 Hausman Test

The test, also known as the Hausman specification test, was used to decide whether an estimator is consistent with reference to another, inferior estimator. For example, in Patrick (2021), the Hausman specification test with random effects as null hypothesis needs to be done before deciding between them. The Hausman test was performed to detect the best estimation model between random effects and fixed effects in the data.

3.7 Data Analysis

According to Mishra (2019), data analysis is a process that examines, transforms, and presents data in order to highlight significant information and offer recommendations to the researcher for purposes of decision-making. STATA Software (Version 14) was used for the study. The main data analysis is Pooled OLS, random effect model and the fixed effect model.

3.7.1 Fixed Effects Model (FEM)

The fixed effects model controls for individual-specific heterogeneity by including individual fixed effects or dummy variables in the regression equation. These fixed effects capture time-invariant characteristics of individuals that might affect the dependent variable. By including these fixed effects, the model eliminates the individual-specific effects, focusing on the within-group variations over time. The FEM is suitable when there are unobserved individual characteristics that are constant over time. The model equation is:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \alpha_i + \varepsilon_{it} \quad (1)$$

3.7.2 Random Effects Model (REM)

The random effects model assumes that the effects specific to each individual are random and are independent of the regressors. The methodology treats the idiosyncratic effects on individuals as

random variables and calculates their corresponding variances. The random effects model allows for the inclusion of both time-constant and time-varying explanatory variables. It is more efficient to use random effects model than to use fixed effects model if there exist true random individual-specific effects which do not relate to the regressors. If the individual-specific effects are associated with the covariates, using the random-effects model might lead to imprecise and biased estimates. The model equation is:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \alpha_i + \varepsilon_{it} \quad (2)$$

3.7.3 Pooled OLS Model

The pooled ordinary least squares (OLS) model is the simplest form of panel data analysis. It ignores the individual-specific effects and treats the data as a single cross-sectional sample. This model combines all the observations across individuals and time periods, without accounting for individual heterogeneity or time effects. While the pooled OLS model can provide overall estimates of the relationships between variables, it does not account for individual-specific or time-specific effects, potentially leading to biased results. The model equation is:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{it} \quad (3)$$

Where;

Y = Market Performance
X_1 = Short Term Debt
X_2 = Long Term Debt
X_3 = Share Capital
X_4 = Retained Earning
β_0= Constant Term;
ε = Error term (Margin of error)
i = Non-financial firms;
t = the index of time..

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This section provides an overview of the findings obtained from the results and their subsequent analyses, highlighting their significance in relation to the research objectives and hypotheses. The results are displayed in tables and described through narratives in accordance with the specific objectives. Furthermore, we have provided the descriptive statistics and conducted the diagnostic tests. The subsequent chapter provides an exposition of the outcomes derived from the models that were employed to accomplish the stated objectives of the study.

4.2 Descriptive Statistics

Descriptive statistics gives the mean, standard deviation, minimum and maximum of variable short-term debt ratio, long term debt ratio, retained earnings ratio, share capital ratio and market performance (log of sales revenue) of the non-financial firms at the NSE from Table 3 shows the results in percentages.

TABLE 3: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Short Term Debt	220	0.190	0.171	0.011	0.582
Long Term Debt	220	0.358	0.230	0.007	0.786
Retained Earnings	220	0.230	0.151	0.010	0.500
Share Capital Structure	220	2.285	1.443	0.135	4.981
Market Performance	220	4.242	1.242	1.241	8.520

Source: Author (2023)

Short term debt has a mean of 0.190 and a standard deviation of 0.171. This implies that, on average, 19 percent of the overall financial structure of these non-financial firms arises from short-term debt. The standard deviation, a measure of variability, is quite high, which indicates

that these firms have a significant difference in short-term debt levels. This variation is further reflected in the spread from the lowest (0.011) to the highest (0.582) values across the sample with some firms holding little to no short-term debt while others have a much larger proportion.

However, long-term debt has a higher average, with an average of 0.358 and a standard deviation of 0.230. This means that these non-financial firms' financial structure, on average, is made up of approximately 36% long-term debt. Similar to short-term debt, there is also a lot of variability in long-term debt levels, as evidenced by the standard deviation. The range covers from an average of 0.007 to an average of 0.786, which reflects the different long-term debt financing techniques of these companies.

The mean of retained earnings is 0.230 and the standard deviation is 0.151. In this group, retained earnings averages 23% of the source of capital. The range between the minimum (0.010) and maximum (0.500) values suggests that some firms have much higher Retained earnings as a proportion of their financial structure than others, with the standard deviation being moderate, and hence there is some variability.

Mean of capital structure is 2.285 and its Standard Deviation is 1.443. This variable captures the dispersion of these firms' capital structure, with the mean implying that firms' share capital structures are about 2.3 times larger than their remaining capital components. The standard deviation shows a big dispersion of values, between a minimum of 0.135 and a maximum of 4.981, indicating quite a variation between firms in terms of their dependence of share capital.

For the market performance, we have the log of sales revenue, a mean of 4.242 and a standard deviation of 1.242. This variable tells you that, on average, the firms studied are characterized by the fact of having a performance metric in the market of approximately 4.242.

But the standard deviation and the range of this non-finance sector shows significant dispersion in the market performance of these non-financial firms (min 1.241 to max 8.520).

4.3 Correlation Analysis

In this study, we used correlation analysis to examine the correlation between various variables such as short-term debt, long-term debt, retained earnings, share capital structure, and market performance. The study looked at non-financial firms listed on the NSE. Table 4 depicts the correlation matrix of all the variables in the study.

TABLE 4: Correlation Matrix

	Market Performance	Short Term Debt	Long Term Debt	Share Capital	Retained Earnings
Market Performance	1.000				
Short Term Debt	0.798	1.000			
	0.030				
Long Term Debt	0.711	0.307	1.000		
	0.025	0.024			
Share Capital	0.894	0.492	0.381	1.000	
	0.023	0.013	0.078		
Retained Earnings	0.891	0.489	0.381	0.379	1.000
	0.031	0.083	0.000	0.032	

Source: Author (2023)

The correlation coefficient of r=0.798, (P=0.030) between market performance and short-term debt indicates a strong positive association. This means that when non-financial firms listed at the NSE take on more short-term debt, their market performance tends to improve significantly. This positive correlation suggests that investors and the market, in general, view short-term debt as a positive indicator, possibly because it reflects a company's ability to meet its immediate financial obligations.

The correlation coefficient of r=0.711, (P=0.025) between market performance and long-term debt also shows a positive and significant relationship. While slightly weaker than the correlation with short-term debt, it still implies that non-financial firms that utilize more long-term debt tend to exhibit better market performance. This suggests that investors may interpret long-term debt as a sign of financial stability and growth prospects.

With a correlation coefficient of r=0.894, (P=0.023), the relationship between market performance and share capital is not only strong but also highly significant. A positive correlation of this magnitude indicates that firms with larger share capital often experience better market performance. This connection highlights the market's preference for companies with substantial equity bases, potentially due to the perceived lower financial risk and higher capacity for growth.

The correlation coefficient of 0.891, (P=0.031) between market performance and retained earnings demonstrates a positive and significant association. Firms that accumulate higher retained earnings tend to have better market performance. This correlation suggests that investors value companies that retain and reinvest their earnings for future growth. It reflects a positive sentiment regarding the firm's ability to generate profits and reinvest them effectively.

In summary, these correlation statistics reveal that all four financial variables-short-term debt, long-term debt, share capital, and retained earnings-are positively and significantly associated with market performance for non-financial firms listed at the NSE. These findings suggest that investors and the market, in general, place substantial importance on these financial factors when evaluating the performance and prospects of these companies.

4.4 Diagnostics

The research utilized a range of diagnostic tests to verify that the assumptions of the Classical Linear Regression Model (CLRM) were upheld and not violated. The pre-estimation tests undertaken in this study involved assessing the assumptions of Normality, Multicollinearity, Fixed or Random Effects, and Heteroscedasticity. The experiments were carried out with the aim of reducing the incidence of misleading regression results.

4.4.1 Test for Multicollinearity

The evaluation of multicollinearity in this study was performed by utilizing the variance inflation factors (VIF). According to Field (2009), the presence of Multicollinearity can be inferred when the values of VIF surpass 10. The results are illustrated in Table 5.

TABLE 5: Multicollinearity

Variable	VIF	1/VIF
Short Term Debt	9.060	0.110
Long Term Debt	8.820	0.113
Retained Earnings	2.560	0.391
Share Capital Structure	2.500	0.399
	5.735	0.253

Source: Author (2023)

Based on the data provided in Table 5, it can be observed that the variable labeled "Short Term Debt" demonstrated a Variance Inflation Factor (VIF) value of 9.060, whereas the variable denoted as "Long Term Debt" exhibited a VIF value of 8.820. Furthermore, it is worth noting that the variable "Retained Earnings" exhibited a Variance Inflation Factor (VIF) value of 2.560, whereas the variable "Share Capital Structure" had a VIF value of 2.500. Therefore, the results of

the study revealed the lack of multicollinearity, as evidenced by all the variance inflation factor (VIF) values being less than 10.

4.4.2 Heteroscedasticity Test

In regression models, it is typically believed that the error term exhibits constant variance or homoscedasticity across all observations. If the assumption described before is not maintained, the random variable is denoted as heteroscedastic. The identification of heteroscedasticity in the control model suggests that there may be flaws in the conducted study. The current study utilized the Breusch-Pagan test to investigate the presence of heteroscedasticity in the gathered data, while assuming the null hypothesis that the data demonstrated homoscedasticity.

TABLE 6: Heteroscedasticity Test Results

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity
Ho: Constant variance
Variables: fitted values of Market performance
chi2(1) = 11.29
Prob > chi2 = 0.080

Source: Author (2023)

It was shown that the hypothesis could not be rejected at the level of significance of 0.05 as the estimated chi-square value (11.29) and the corresponding p-value (0.080) were both higher than the critical value of 0.0 As a result, the data did not show evidence of heteroscedasticity.

4.4.3 Normality Test

In the research, the Jarque-Bera test was used to analyze the normality of the data. The Jarque-Bera test is a statistical test that is used to check if the observed data is normally distributed

compared to the theoretical distribution by comparing the skewness and kurtosis to the standard normal distribution. In order to check how much unexplained variance of the model is following the underlying assumptions, the analysis of normality of the residuals of the model was performed. The null hypothesis was that the data would show a normally distributed pattern. The results are shown in Table 7.

TABLE 7: Normality Test

. jb residuals		
		0.067
Jarque-Bera	normality test: 10.02 Chi(2)	
Jarque-Bera	test for Ho: normality:	

Source: Author (2023)

The findings presented in Table 7 demonstrate that the Chi-square statistic yielded a value of 10.02, with a corresponding P-value of 0.067. Notably, this P-value exceeded the predetermined significance level of 0.05. Therefore, it was determined that the data followed a normal distribution as the p-value exceeded the critical threshold of 0.05.

4.4.4 Hausman Test

We performed the Hausman specification test to estimate the efficiency of the estimator relative to a much less effective alternative estimator. As Green (2008) notes, the difference between random effects and fixed effects must be tested using a Hausman specification test. It is even true even though it may seem pointless. The null hypothesis is that the random effects model is appropriate. For the Durbin-Wu-Hausman Test, we compared the random effects model with the fixed effects model to figure out which was the more accurate estimating model. The hypothesis posited that the use of random effects, versus fixed effects, would be better. Table 8 shows the results.

TABLE 8: Hausman Test

	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Short Term Debt	-0.012	-0.087	0.075	0.055
Long Term Debt	0.068	0.044	0.024	0.033
Retained Earnings	0.047	-0.026	0.073	0.095
Share Capital Structure	0.100	0.041	0.059	0.057
chi2(3)	2.43			
Prob>chi2	0.6567			

Source: Author (2023)

The Hausman test results indicate that the chi-square value was 2.43 and the p-value associated with it was 0.6567. Given these data, one would expect that the chi-square value generated is not statistically significant at the 5 percent level of significance. As a result (and because), the researcher decided not to reject the hypothesis that the random effects model is better than the fixed effects model and the random effects model was chosen to represent the data.

4.5 Regression analysis

The objective of this research was to perform an ordinary least squares regression to determine whether there is any significant relationship between the financial structure of non-financial listed entities and their market performance in the Nairobi Stock Exchange (NSE).Regression analysis is the name that used to represent multiple methods which could be utilized in the modeling and examining of several variables, whereby the main aim of the examination is to determine the relationship between dependent variable and one or more independent variables. Table 9 shows the results of the study.

TABLE 9: Regression Outputs

Market Performance	Coef.	Std. Err.	z	P>|z|
Short Term Debt	0.254	0.074	3.413	0.000
Long Term Debt	0.763	0.258	2.960	0.003
Retained Earnings	0.338	0.160	2.110	0.035
Share Capital	0.845	0.322	2.620	0.009
_cons	0.027	0.019	1.410	0.159
Wald chi2(4) =470.55				
Prob>chi2=0.000				
R squared Overall = 0.8238				

Source: Author (2023)

The fitted model was;

$$Y_{it} = 0.027 + \beta_1 0.254_{it} + \beta_2 0.763_{it} + \beta_3 0.338_{it} + \beta_4 0.845_{it} \quad (4)$$

The R-squared value of 0.8238 shows that these four variables-Short Term Debt, Long Term Debt, Retained Earnings, and Share Capital - collectively account for about 82.38 percent of the variations in the market performance of the overall model is statistically significant (by Prob>chi2= 0.000 and Wald chi2 (4) = 470.55).

The 0.254 value indicates that there is a positive correlation between Short Term Debt and market performance. A positive coefficient indicates a positive correlation between Short Term Debt and market performance, meaning that an increase in Short Term Debt leads to a rise in market performance. The obtained p-value of 0.000 is considered statistically significant since it is below the predetermined significance level of 0.05. This means that there is some level of statistical relationship between Short Term Debt and market performance. This statement suggest that a large amount of data exists that demonstrates Short Term Debt has meaningful impact on market performance.

The Long-Term Debt coefficient was determined to be 0.763, showing a positive relationship with market performance. This implies that there exists a positive relationship between

the increase in Long Term Debt and market performance. Based on the obtained p-value of 0.003, since it is less than the predetermined significance level of 0.05, an association is present with statistical significance. Consequently, one can deduce that the market behavior of non–financial corporates traded on the NSE was heavily influenced by Long Term Debt.

The coefficient of Retained Earnings was 0.338. This indicates a positive relationship between Retained Earnings and market performance, the coefficient shows. Market performance and Retained Earnings growth have a positive correlation. The resulting p-value of 0.035 is less than the standard significance threshold of 0.05, meaning the results are statistically significant. This means there are likely some strong positive correlations between Retained Earnings and market performance.

Finally, the coefficient of Share Capital was 0.845. The positive coefficient shows that share capital has a direct relationship with the market performance. The trend of Share Capital increase also showed positive correlation with improved market performance. Since the p-value obtained is 0.009, which is less than the threshold we set (0.05), we conclude statistical evidence that the relation is significant. In consequence, Share Capital has a significant effect on the stock market performance of non-financial enterprises listed on the NSE.

The results of the regression analysis show that there is a positive relationship between Short Term Debt, Long Term Debt, Retained Earnings, and Share Capital of the non-financial listed companies on NSE and the market performance of these companies. Moreover, the statistical significance demonstrated by the low p-values indicates that these connections have a significant bearing on market performance.

4.6 Discussion of Findings

The main objective of this study was to study the effect of financial structure on the stock market performance of the listed non-financial companies in National Stock Exchange (NSE). In this study, the pre-analysis tests were performed on the Normality, Multicollinearity, Fixed or Random Effects, Heteroscedasticity. These results confirmed that the underlying assumptions were appropriate for regression analysis.

4.6.1 Short-Term Debt

The primary objective of this study was to test the effect of short-term debt on market performance of non-financial listed firms at the National Stock Exchange (NSE). Correlation analysis revealed that there was a significant positive association between market performance and short-term debt as indicated by the value of $r = 0.798$ ($p = 0.030$). This trend implies a positive relationship between the rise of commercial paper issued by non-financial corporations listed on the NSE and an appreciable improvement in their market performance. The positive correlation indicates that investors and market participants view short term debt as a good sign, possibly because it reflects the company's ability to meet its short-term financial obligations. On the other, regression analysis revealed a Coefficient of determination (R^2) value of 71% which shows that there is a positive association between Short-term Debt and the market performance. The value of the coefficient for Short-term Debt is 0.254. If the value is positive the Long-Term Debt is positively correlated with market performance, meaning that an increase in the Long-Term Debt is accompanied by an increase in market performance. Since the p-value of 0.000 is less than the predetermined significance level of 0.05, it is considered statistically significant. This indicates that there is a correlation between Short Term Debt and market performance-a statistically significant one. The null hypothesis was statistically significant and therefore rejected.

The results are consistent with the study carried by Maina et al. (2018), that studied the effect of observed leverage on the financial performance of Non-financial firms listed in Kenya. The study observed a very significant positive relationship between performance indicators and observed leverage, as measured by the loan-to-deposit ratio (LDR). However, the use of TDR leverage measure negatively impacted the performance indicators. Ganiyu et al., (2019) conducted research that indicated a relationship between capital structure and performance of companies, specifically where debt financing is applied sparingly. The research shows an empirical evidence of a non-linearity link between capital structure and firm performance in Nigeria particularly the use of too much short-term debt financing by firms. This finding implies that performance is being affected by the level of short-term debt financing used by these firms. Gatsi (2020) carried out a study that revealed that there is a positive significant relationship between short-term debt and profitability, while a negative relationship exists between long-term debt and profitability in terms of financial performance. In their study Uwalomwa and Uadiale (2018) found a significant positive relationship between short-term debt and shareholder value, and the performance of publicly-listed firms in Nigeria. Furthermore, it was found through the analysis that long-term debt has a substantial detrimental effect on a company's financial success. Nyamita, Dorasamy and Garbha-ran (2015) found that there is an inverse relationship between debt finance and the performance of state-owned enterprises in Kenya.

4.6.2 Long-Term Debt

The second objective of this study was to examine the effect of long-term debt on the market performance of non-financial firms listed on the NSE. Results from the correlation analysis indicated a significant positive relationship between market performance and long-term debt as it was evidenced by a correlation value of r=0.711 (P=0.025). The relationship isn't as strong as with

short-term debt, but it still suggests that companies using more long-term debt are likely to perform better in the market. Long Term Debt had a coefficient of 0.763, indicating a positive relationship with market performance. This implies that there is a positive relationship between market performance and the growth in Long Term Debt. The p-value of 0.003, falls below the set significance (0.05) and therefore represents a significant correlation. Therefore, it is concluded that Long Term Debt has a significant impact on the market performance of non-financial corporations listed on the NSE. We therefore rejected the null hypothesis.

These results are consistent with Le (2020), who found a positive relationship between a company's market success and a rise in market value debt to total debt ratio. From the results of the study, it can be concluded that the employment of long-term debt financing can potentially have a positive effect on a firm's market performance. This, mostly because it smooths out the positives of an investment in terms of the overall success of a firm. According to Meyer et al. (2018) a positive association exists between earnings quality and the probability of having long-term debt, and with the long-term debt ratio to total debt. The conclusion was drawn from an analysis of financial statement data from a sample of privately-owned Belgian firms. Moreover, the research discovered that the correlations of trust were stronger in the instance of small and medium sized enterprises (SMEs) than in bigger privately-owned companies. This is in accordance with the idea that small businesses have a greater basic level of risk to lenders. Adjei (2019) found in his study that the degree of leverage had a strong effect on the magnitude of performance decline during the transition from the pre-crisis to the crisis period. The results showed that companies with high debt experienced a negative change in corporate performance and that this was directly linked with the amount of additional debt taken on during the crisis. The relationship between the short-term debt-to-total-assets ratio and return on assets was found significant and negative by the

study conducted by Onwe, Mustapha, and Yahaya (2020). The long-term debt-to-equity ratio was found to have a positive effect, albeit small effect, on the return on assets. In their study, Njoroge et al. (2020) conducted an empirical analysis to examine the impact of the debt ratio on the association between management compensation and the financial performance of listed manufacturing firms in Kenya. In their results, a significant negative relationship was found between debt ratio and this association, implying that the level of debt has a major effect on the relationship between compensation of management and the performance of listed manufacturing firms in Kenya.

4.6.3 Share Capital

The third objective of this study was to research the effect of share capital on non-financial companies listed on the Nairobi Stock Exchange (NSE) with respect to market performance. The results of the correlation analysis showed a strong and very significant relationship between market performance and share capital with a correlation value of r=0.894 (P=0.023). The result shows a strong relationship between a firm's share capital size and its market performance such that firms with larger share capital have better market performance. This correlation demonstrates the market's preference for companies with large equity bases, perhaps due to the perceived diminution of financial risk and greater potential for growth. The resulting regression coefficient was 0.845 for Share Capital. If Share Capital is positive with respect to performance, the coefficient is positive and implies a direct relationship. As we notice the rise in Share Capital there will also be a corresponding positive improvement in market performance. Since the p-value of 0.009 is below the p-value of 0.05 we have set up as threshold, it is statistically significant that there is a relation here. Therefore, it can be conjectured that the Share Capital of non-financial

listed companies on the NSE has a significant impact on the market performance. The null has been rejected.

The results confirm the empirical finding by Charitou and Louca (2019) showing that firms raising capital by way of cross-listing are more likely to experience subsequent performance improvements after the listing. We observe this enhancement by comparing these firms to a matched sample of non-cross-listed ones, and by comparing their performance to the pre-listing period. Conversely, the study found that non–capital-raising cross-listed firms outperform a matched sample of non–cross-listed firms, both before the listing event and thereafter. Mujahid and Akhtar (2014) reported that capital structure of a firm played an appreciative role in financial performance and ownership wealth. Based on the research from Omai, Memba, and Njeru (2018), it has been found that a reduction in share capital has a negative impact on a company's profitability. This effect is not statistically significant. The research indicates that there is an obvious need for regulatory intervention to protect investors with a view to developing corporate finance standards in the industry.

4.6.4 Retained Earnings

The fourth goal was to evaluate the impact that retained earnings was having on the market performance of non-financial listed stocks that were trading on the NSE (National Stock Exchange). The correlation analysis results indicated a significantly strong positive relation between market performance and retained earnings, which was confirmed by a correlation coefficient value of 0.891 (P=0.013). Those companies with more accumulated retained profits usually show stronger market performance. The regression output shows that the regression coefficient for Retained Earnings was 0.338. The calculated coefficient indicates a positive correlation between Retained Earnings and market share. This is a positive correlation for the

increase in Retained Earnings and the market. The resulting p-value of 0.035 lies below the traditional significance threshold of 0.05, suggesting statistical significance. This indicates that there could be a statistically significant positive relationship between Retained Earnings and market performance. Thus, the null hypothesis is statistically significant and was thus rejected.

This supports the result of Motanya (2019), which revealed a negative and non-significant relationship between retained profits financing and profitability. The research carried out by Yemi and Seriki (2018) showed that there was a positive and significant relationship between retained earnings, earnings per share, dividend payment, and firm value. The correlation between market value and financial leverage, however, found to be positive but insignificant. According to Oladele, Omotosho, and Adeniyi (2017), capital structure has a limited impact on the return on equity. But the effect is significant on the return of assets, earnings per share and sales growth of listed manufacturing companies. According to Chen (2014), empirical evidence indicates that there is a weak and insignificant relationship between retained earnings and equity returns. In addition, worth to mention is the inverse link between the variables which can be seen by the constantly negative coefficient of retained profits in the model. In conclusion, the study found no evidence of significant returns gained by investors in Chinese-listed firms through earnings retention. Thus, this insignificance does not affect the financial growth of the company.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a comprehensive overview of the research results, conclusions, and suggestions derived from the study. These findings are provided in relation to the study goals, which aimed to assess the impact of financial structure on the market performance of non-financial businesses listed at the NSE.

5.2 Summary of Findings

5.2.1 Short-Term Debt

The first purpose of this study was to investigate the impact of short-term debt on the market performance of non-financial companies that are publicly traded on the NSE. The empirical investigation produced a robust positive association, suggesting that an augmentation in short-term debt has a beneficial impact on a firm's market performance. This suggests that investors and market players see short-term debt as a beneficial tool, maybe because it indicates a company's liquidity and its capacity to fulfill its immediate financial obligations. The association was further supported by the regression analysis, and the obtained findings were found to be statistically significant, resulting in the rejection of the null hypothesis.

5.2.2 Long-Term Debt

The second goal of the study was assessing the impact of long-term debt on the market performance of the same group of non-financial enterprises over an extended period of time. While the observed connection exhibited a positive relationship, it was found to be somewhat less robust in comparison to the association seen with short-term debt. This observation continues to suggest

that the use of long-term debt as a financial tactic is often associated with enhanced market performance. The findings from the regression analysis provided support for this statement. In addition, it is important to note that the observed association between long-term debt and market performance was found to be statistically significant. This finding provides confirmation that long-term debt really has a quantifiable and meaningful influence on market performance. Consequently, the null hypothesis, which posits no effect of long-term debt on market performance, may be rejected based on these results.

5.2.3 Share Capital

The aim of the third goal was to examine the impact of share capital on the market performance of non-financial enterprises. The results revealed a robust and statistically significant positive association between share capital and market performance. This observation implies that there is a tendency in the market to favor firms that own significant share capital, maybe attributable to a reduced perception of financial risk and an increased possibility for expansion. The findings from the regression analysis provided further support for this view, indicating a positive relationship between a growth in share capital and an improvement in market performance. The obtained data exhibited statistical significance, hence providing strong evidence to reject the null hypothesis.

5.2.4 Retained Earnings

The goal of the fourth objective of the study was to investigate the correlation between retained profits and market performance. The available empirical data indicates a significant positive association. This observation implies that companies that own bigger amounts of retained profits tend to exhibit superior performance in the market. This tendency may suggest that organizations with more retained profits are seen as financially solid and capable of achieving sustained development. The regression analysis yielded data that provided support for the observed

connection, and the statistical significance of this relationship was verified. As a result, the null hypothesis was refuted, highlighting the significant influence that retained profits have on market performance.

5.3 Conclusion

The study concludes that there is a significant positive relationship between short-term debt and the market performance of non-financial firms listed on the NSE. The data indicates that when these companies take on more short-term debt, they generally experience an improvement in market performance. This could be due to market perception that companies able to manage short-term obligations effectively are more liquid and financially stable, making them attractive investment opportunities. The statistical results were sufficiently robust, rejecting the null hypothesis and confirming the association between short-term debt and market performance as statistically significant.

The study concludes that long-term debt also has a positively significant impact on the market performance of non-financial firms listed on the NSE. While the strength of this relationship was found to be somewhat weaker compared to short-term debt, it nonetheless illustrates that long-term debt can serve as an effective financial tool for enhancing market performance. The statistical evidence confirms that taking on long-term debt is viewed positively by the market, perhaps indicating investor confidence in the firm's long-term growth strategy and financial sustainability. Therefore, the null hypothesis regarding long-term debt was also rejected.

The study concludes that there is a strong and highly significant positive relationship between share capital and the market performance of non-financial firms listed on the NSE. This confirms that the market tends to favor companies with more substantial share capital, likely because these firms are perceived as less risky and more capable of sustained growth. The

empirical data was robust, revealing that an increase in share capital correlates with enhanced market performance. Therefore, the null hypothesis for this objective was confidently rejected.

The study concludes that retained earnings have a substantial positive impact on the market performance of non-financial firms listed on the NSE. Firms with higher levels of retained earnings generally see better market performance, possibly because they are perceived as more financially stable and better positioned for growth. The empirical evidence strongly supported this conclusion, as the relationship was found to be statistically significant. Therefore, the null hypothesis relating to the influence of retained earnings on market performance was rejected.

5.4 Recommendation

The study proposes that non-financial enterprises listed on the NSE should contemplate the use of short-term debt as a strategic approach to enhance their market performance. Based on the observed robust positive association, it can be inferred that short-term borrowing has a favorable impact on investor confidence and contributes to the enhancement of market value. Nevertheless, it is important for companies to effectively handle this debt in order to guarantee their ability to fulfill their financial responsibilities and avoid any negative impact on their liquidity situations.

The study suggests that non-financial enterprises listed on the NSE should exercise prudence while considering the use of long-term debt. The empirical evidence indicates that long-term debt has a favorable impact on market performance, but to a lesser extent than short-term debt. Hence, it is essential for enterprises to conduct thorough risk assessments and seek guidance from financial professionals in order to ascertain the most advantageous magnitude of long-term debt.

The study suggests that non-financial enterprises listed on the NSE should consider augmenting their share capital, as it has been seen to have a significant and favorable influence on market performance. Companies may choose to issue extra shares or use other types of equity financing in order to enhance their share capital. This particular approach is expected to augment their market appeal and maybe provide a reduced level of risk, therefore attracting a broader spectrum of investors.

The study suggests that non-financial companies listed on the NSE should prioritize the implementation of policies aimed at increasing their levels of retained profits. The observed robust positive association between this particular method and market success suggests that it might potentially serve as a reliable indication of financial soundness and the possibility for growth. It is advisable for companies to assess their profit distribution strategies and contemplate the retention of a greater share of profits for the purpose of reinvesting in company operations. Such a course of action has the potential to provide favorable outcomes for their market performance.

5.5 Suggestions for Further Research

The study suggests that further research could delve into various other financial variables and their impact on market performance, such as operational efficiency, asset turnover, and dividend payout ratios, to provide a more comprehensive understanding. Additionally, it would be beneficial to extend this study across different time frames and varying economic conditions to assess the stability of these relationships. Comparative analyses involving firms listed on other securities exchanges, both within and outside of Africa, could also offer valuable insights. Finally, qualitative methods such as interviews with financial managers and investors may provide deeper contextual understanding of the observed statistical relationships.

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APPENDICES

Appendix I: Data Collection Sheet

Firm	Year	Short Term Debt Ratio	Long Term Debt Rati	Share Capital Ordinary Share Capital ratio	Retained Earning Retained Ratio	Market Performance Log of Sales Revenues
A	2022	-	-	-	-	-
A	2021	-	-	-	-	-
A	2020	-	-	-	-	-
A	2019	-	-	-	-	-
A	2018	-	-	-	-	-
B	2022	-	-	-	-	-
B	2021	-	-	-	-	-
B	2020	-	-	-	-	-
B	2019	-	-	-	-	-
B	2018	-	-	-	-	-
C	2022	-	-	-	-	-
C	2021	-	-	-	-	-
C	2020	-	-	-	-	-
C	2019	-	-	-	-	-
C	2018	-	-	-	-	-
D	2022	-	-	-	-	-
D	2021	-	-	-	-	-
D	2020	-	-	-	-	-
D	2019	-	-	-	-	-

D	2018	-	-	-	-	-	-	-	-
E	2022	-	-	-	-	-	-	-	-
E	2021	-	-	-	-	-	-	-	-
E	2020	-	-	-	-	-	-	-	-
E	2019	-	-	-	-	-	-	-	-
E	2018	-	-	-	-	-	-	-	-
F	2022	-	-	-	-	-	-	-	-
F	2021	-	-	-	-	-	-	-	-
F	2020	-	-	-	-	-	-	-	-
F	2019	-	-	-	-	-	-	-	-
F	2018	-	-	-	-	-	-	-	-
G	2022	-	-	-	-	-	-	-	-
G	2021	-	-	-	-	-	-	-	-
G	2020	-	-	-	-	-	-	-	-
G	2019	-	-	-	-	-	-	-	-
G	2018	-	-	-	-	-	-	-	-
H	2022	-	-	-	-	-	-	-	-
H	2021	-	-	-	-	-	-	-	-
H	2020	-	-	-	-	-	-	-	-
H	2019	-	-	-	-	-	-	-	-
H	2018	-	-	-	-	-	-	-	-
I	2022	-	-	-	-	-	-	-	-
I	2021	-	-	-	-	-	-	-	-
I	2020	-	-	-	-	-	-	-	-
I	2019	-	-	-	-	-	-	-	-

I	2018	-	-	-	-	-	-	-
J	2022	-	-	-	-	-	-	-
J	2021	-	-	-	-	-	-	-
J	2020	-	-	-	-	-	-	-
J	2019	-	-	-	-	-	-	-
J	2018	-	-	-	-	-	-	-

Appendix II: List of Non-financial Firms Listed at NSE

Sector	Company
Agricultural	Eaagads Limited
	Kakuzi Plc
	Kapchorua Tea Kenya Plc
	Limuru Tea Company Plc
	Sasini Plc
	Williamson Tea Kenya Plc
Automobiles & Accessories	Car and General
	Sameer Africa Plc
Commercial & Services	Atlas Development Services
	Deacons (East Africa) PLC
	Express Kenya Ltd
	Kenya Airways Limited
	Longhorn Publishers Plc
	Nation Media Group Plc
	Standard Group Plc
	TPS Eastern Africa Limited
	Uchumi Supermarket Plc
	WPP Scangroup Plc
Construction & Allied	Athi-River Mining Plc
	Bamburi Cement Limited
	Crown Paints Kenya Plc
	East Africa Portland Cement Company
	East African Cables Ltd
Energy and Petroleum	Kengen Company Plc
	Kenya Power and Lighting Co. Ltd
	Total Kenya Ltd
	Umeme Limited
Investment	Centum Investment Company Plc
	Home Afrika Limited
	Kurwitu Ventures Ltd.
	Olympia Capital Holdings Limited
	Transcentury
Investment Services	Nairobi Securities Exchange
Manufacturing & Allied	BOC Kenya Plc
	British American Tobacco Kenya Plc
	Carbacid Investments Plc
	East African Breweries Ltd.

	Eveready East Africa Limited
	Flame Tree Group Holdings Ltd
	Kenya Orchards Ltd
	Mumias Sugar Company Ltd
	Unga Group Ltd
Real Estate Investment Trust	Stanlib Fahari I-REIT
Telecommunication and Technology	Safaricom Limited

Source: NSE (2023)