EFFECT OF CAPITAL STRUCTURE ON GROWTH OF AGRICULTURAL FIRMS LISTED IN NSE KENYA

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Abstract: **This paper contributes to the capital structure literature by investigating the effect of capital structure on growth of agricultural firms in Kenya listed on NSE, using annual data for the period 2012-2017. An empirical model to analyze the effects was specified and estimated using both fixed and random effects estimation techniques. The study used a sample of all the 7 agricultural companies listed on the NSE. The study was anchored on theoretical framework. It relied on secondary data. Regression and correlation analysis model was used to investigate relationship of capital structure on growth. The estimation results provide evidence capital structure has an effect on growth of agricultural firms listed on the NSE. Specifically, the results reveal a positive relationship between profitability and current liabilities to capital employed and a positive relationship between liquidity and size, earnings per share and sales growth. We also established while a negative link is evident between liquidity, the size of the firm and short-term debt. The evidence adduced is important for forming credit markets policies for agricultural firms both at the macro and the micro level.**

Keywords: **Nairobi Securities Exchange, Long term debt to Capital Employed, Short term debt to Capital Employed.**

I. INTRODUCTION

1.1 Background of the Study:

Miller and Modigliani (1958) observed that the firm's value was dependent on the operating profits and future prospects of growth for the firm. It was stated that high future growth prospects results in high market value and high share prices (Miller and Modigliani 1958). The recent data in Kenyashows that the GDP growth from the agricultural sector induces growth among the 40 percent poorest population. According to A De Janvry&Sadoulet (2016), agriculture has a strong growth linkage effect to the Chinese economy. Sri Lanka's economy employs 30 per cent of the labor force. As at 2015 (IFAD, 2016). New Zealand has very high ratio of agricultural exports to total exports. But since 1960-61, the proportion in the total mix of exports has fallen from 92.5% to 53.4 %, Johnson, R.W.M. (1996b).In his study, Muhammed et al found that a negative coefficient exists between the values of food imports. This means that whenever food import in the country increases, national agricultural production tends to decline. (2006).

In Malawi agricultural activities, agricultural development policies have dominated the policy arena since independence in 1964. (Chirwa, Kumwenda, Jumbe, Chilonda, &Minde (2008); Doward&Chirwa(2011).Inits blueprint policy document for economic recovery, the Economic Recovery Strategy for wealth and Employment Creation (ERS). Agriculture is dominant in Kenya's economy, it's the main productive sub- sector through which the country will generate wealth and create employment as well as achieve food security and reduce poverty. The growth in the agricultural sector started to pick up in 2002 rising to 1.8% in 2004 and 6.7% in 2005; about 50% of Kenyans are faced with food insecurity. (Government of Kenya, 2011).

According to the Central Bank of Kenya report (2016), KinyuaJ. B (2015). Growth in the Agriculture sector slowed to 4.0 per cent in 2016 from 5.5 per cent in 2015. According to the Central bank of Kenya (2016), the economy remained strong in 2016, growing by 5.8 per cent compared to 5.7 per centin 2015.The growth in performance in 2016 was supported by favorable weather conditions that boosted agricultural production, public investment spending, lower global oil prices and strong recovery in tourism. In the first quarter of 2017, agriculture declined by 1.1 percent compared to 4.0 per cent growth in the first quarter of 2016 on account of prolonged drought conditions experienced during the second half of 2016.Consequently, due to the importance of firms operating in the agricultural industry, strategies need to be undertaken to maintain strong financial performance as indicated by measures such as the rate of return on assets, return on equity, and operating profit margin. When these indices grow, the firm operates efficiently, profitably, survives, grows and reacts to the environmental opportunities and threats in a proactive manner (Gao, 2010; Miller, Boehije&Dobins, 2013).While a few studies have analyzed the determinants of capital structure of listed firms at the NSE little has been done the effect of capital structure on growth. Consistent with the research problem, the following pressing issue should receive more attention: What is the effect of capital structure on growth of agricultural firms in Kenya?

1.2 Statement of the research problem:

According to the NSE (2015) report, from the investor's point of view the shares in the agriculture listed companies were lagging behind other listed companies in the market. This was attributed to the low returns from the sector. Correct financing decisions affect the growth of firms. Despite the support from the government, the agricultural sector in Kenya has continued to perform poorly leading to the closure of some of the companies. According to (PDA, 2010; KDB 2010). While a few studies have analyzed the determinants of capital structure of listed firms at the NSE little has been done the effect of capital structure on growth. Consistent with the research problem, the following pressing issue should receive more attention: What is the effect of capital structure on growth of agricultural firms in Kenya?

1.3 Objectives of the Study:

1.3.1 General Objective:

The main objective of the study was to determine the relationship of capital structure on the growth of agricultural companies listed on the Nairobi Securities Exchange.

1.3.2 Specific Objective:

The specific objective of the study was to:

i. Establish the long-term debt-to-capital employed on sales growth of agricultural companies listed on the Nairobi Securities Exchange.

1.4 Hypothesis of the Study:

H_0: long term debt-to-capital employed do not affect sales growth of agricultural companies listed on the Nairobi Securities Exchange.

1.5 Significance of the Study:

This study makes at least three contributions to the existing literature on the effect of capital structure on growth. First, it is timely, in view of the unresolved debate on the role of debt and equity on firm's growth. Second, the study findings will enable financial managers to analyze the interrelation between capital structure and growth to formulate strategies that ensure profitability for firms and shareholders too. Understanding the effect of capital structure in agricultural firms growth will enable investors make informed decisions regarding wealth maximization. This study will equip researchers will with knowledge on the effect of capital structure of firms in the agricultural industry in Kenya hence allowing them to advance their research in this field. The study will also be beneficial by providing empirical evidence on effect of capital structure of listed agricultural firms in Kenya. The Capital Markets Authority aims to promote investor education and create interest in capital markets and through this study, it will be able to analyze the policy recommendations set forth and implement them to ensure investment protection by providing relevant information on the determinants of capital structure of firms in this sector and how they affect the shareholders wealth.

1.6 Scope of the Study:

As at the time of study 61 firms were listed on the NSE, after selecting only agriculture-based firms only7 firms qualify.

II. REVIEW OF RELATED LITERARATURE

2.1 Modigliani and Miller Theorem:

Shibanda (2016) asserted there is little relevance of capital structure on value of a firm. Pagano (2005) argued that this approach was formulated in 1958 and it advocated for capital structure irrelevance in determining firm value. Miller and Modigliani observed that the firm's value was dependent on the operating profits and future prospects of growth for the firm. High future growth prospects result in high market value and high share prices. Fan (2012). Bose (2010) observed that the theory was based on the assumptions that: the borrowing costs were same for both investors and companies there were no taxes, , information was symmetrical both for the investors and the companies thus reducing the chances of agency costs and investors would be rational in the decision making process, transaction costs for selling and buying shares were nonexistent, debt financing did not affect the earnings before interest and taxes (EBIT) therefore the market value of the firm is not dependent on the capital structure policy adopted by the firm.

Copeland C2012) asserted In a world where corporate taxes are nonexistent, the weighted average cost of capital (WACC) remains unaffected by changes in leverage levels However, in the real-world corporate taxes exist. In the existence of corporate taxes, WACC decreases as the firms increases leverage. The shareholders require higher returns for the increased risk As firms increase their leverage ratios, the cost of equity increases because this puts the shareholders at a higher risk of bankruptcy and little residual claims as a result of paying out retained earnings to creditors. On the other hand, increasing leverage enables a firm to gain through the tax deductibility of interest payments. This is a corporate tax shield which means that taking up more debt reduces the tax payments by the firm. Alifani and Nugroho (2013) noted that firms prefer to have high debt proportions in their capital structure to benefit from the tax shield which ensures they pay fewer taxes than the unlevered firms hence increasing the value of the firm. Modigliani and Miller (1963) attempted to solve the leverage ratio puzzle by setting the marginal ratio to be equivalent of the average ratio which states that firms always set long run leverage targets. According to M&M, for a marginal project, the reproduction and the replacement value leverage are equal and the net present value is zero. Modigliani and Miller (1958, 1961 and 1963) devised three propositions to support their capital structure irrelevance theory. The first proposition states that the capital structure composition does not affect firm value and increasing the debt proportion to finance the assets of the firm does not increase the firm's value. This proposition argued that both the creditors and shareholders have the same priority and income gained is divided equally among them. The second proposition states that as the firm increases leverage, shareholders perceive a higher risk and a higher return thus leading to an escalation in cost of equity. An escalation in the debt-equity ratio leads to a hike in cost capital. The third proposition stated the irrelevance of the dividend policy on the firm's market value.

According to Villami (2000) third proposition states that the market value is unconstrained by the dividend policy. Whether a firm decides to pay higher dividends or no dividends at all, the firm's value will be unaffected by the dividend policy implemented by the firm. Stern and Chew (2003) argued that market values of firm are affected by the dividend policy and even though they acknowledged the work of Modigliani and Miller, they provided evidence that proves that movements in stock prices are affected by the capital structure decision and the dividend policies that firms implement.

Stiglitz (1969) disputed the assumptions under which the M&M theory was based for corporates and individuals to borrow at the same market rate is not possible and bankruptcy costs do exist. Furthermore, taxes are existent and capital markets are imperfect. In the real-world individuals borrow at higher market rates than corporate organizations.

Marzo (2007) argued that a jump in leverage ratios leads to a rise in earnings per share of stock and therefore disagreed with the M&M theory which specifies that the capital structure chosen does not change the firm's value. Brealey et al. (2013) analyzed the implications of implementing the M&M theorem and suggested that many financial firms collapsed during the global financial crisis in 2008 as a result of high leverage. Therefore, they disagreed with the theorem put forward by the M&M theorem which suggests that capital structure decision is irrelevant and firms can take up as much debt as possible without affecting the value of the firm.

2.2 Pecking Order Theory:

Myers and Majful (1984) argued that firms prefer internal financing and would rather use retained earnings to finance future projects before resorting to debt and finally equity. They stated that when firms issue new equity, investors will devalue new equity issued since they believe that the new equity is overvalued. Firms will use internal funds then issue debt and when the firm exceeds the target leverage ratio they will issue new equity (Donaldson, 1961).

Abosede (2012) added some assumptions which included: new shares must be issued to the public and not the insiders, information is asymmetrical between the shareholders and the firm's managers, cost of equity is much higher than the cost of incurring debt and managers have more knowledge on the value of the future projects. The cost of equity surpasses the cost of debt due to the probability of undervaluation by investors; therefore, firms will opt to follow the pecking order.

French (2002) Majful (1984) stated that firms will shy away from issuing new equity and as a result they will pass out new investment opportunities to avoid the perception of overvaluation by investors, that organizations with fewer investments pay higher dividends to their shareholders.

2.3 Trade off Theory:

The M&M theory had certain limitations since it indicated the importance of leverage through the tax debt shield effect.Kraus and Litzenberger (1973) argued that optimal leverage ratio indicates the balance between the bankruptcy costs and tax benefits of accrued debt

Financial distress is a combination of both the bankruptcy and non-bankruptcy costs (Bevan and Danbolt,2000).

2.4 Market Timing Theory:

Baker and Wurgler (2002), Welch, (2004). noted that the pecking order focused on the optimal capital hierarchy while the tradeoff theory only focused on the leverage ratio that cushion firms from financial distress. They argue that both theories avoid addressing the important factor of timing that is the optimal time to make the capital structure decision and issue new stocks to the market. They developed the market timing theory with an aim of determining the optimal market timing to issue new stocks to the market. The market timing theory is founded on the assumptions that asymmetric information may vary in the stock market and management trusts the application of the market timing strategy of the stock market

The market timing theory states that an equity offering will follow a period of high financial performance and positive returns (Lucas and McDonald, 1990).

2.5 Growth:

Growth is given by equality of the marginal net revenue from additional growth and the marginal cost of such growth. In the case of the agricultural firm, if the marginal net revenue from additional expansion is fairly constant but the marginal costs of expansion rise r**api**dly, the optimal rate of growth may be very low.

2.6 Empirical Evidence:

Firms will use generated cash flows within the firm first before resorting to debt or equity (Shyam and Myers, 1999). They tested the pecking order theory in USA between the time periods of 1971-1989 firms follow a hierarchy of financial options to finance operations of the firm. Frank and Goyal (2002) tested the USA market over the time period 1980-1998 and got contradictory results with the pecking order theory.

(Fama and French, 2002). They support the tradeoff theory predictions by observing that firms which have more investments have a lower leverage ratio compared to firms with less investments. However, they proclaimed that there is a negative correlation between leverage and profitability hence disputing the predictions of the tradeoff theory.

Loof (2003) observed various markets in the world and concluded that European firms deviate more from the target than firms located in USA. His results supported the tradeoff theory. Leary and Roberts (2004) found out that firms will not be in a hurry to restructure if the benefits of target adjustment are outweighed by the cost ofadjusting to the target leverage ratio, this might lead to the delay in adjusting to the target leverage ratio.

Financial managers will tend to time the equity and debt markets before taking up more debt or issuing new stock. Marsh (1982) demonstrates that UK firms follow the market timing theory. He provided evidence that companies always observe the target leverage ratio before they take up new loans to finance future projects. Pagano, Panetta and Zingales (1998) examined the factors affecting IPO in Italy and found out that companies offer new stock to rebalance their accounts after periods of investment and growth and not necessarily to finance future projects.

According to Sujay (2015) used panel data to analyze 257 South African firms between the time period of 1998-2009 and proved that there was a positive relationship between leverage and profitability Financial leverage has a positive influence on financial performance and share prices. Highly leveraged firms report higher financial performance and increased

stock returns Empirical studies conducted in the U.K indicate that the higher the leverage ratio, the lower the stock returns. A low leverage ratio signals growth opportunity while a high leverage ratio might lead to financial risks and retained earnings might be used to service the loan instead of being divided among the shareholders (Muradoglu, 2005).

A significant relationship lacks between capital structure and financial performance in the banking and financial sector. This could be as a result of the regulations imposed by the Central Bank of Kenya (Mang'unyi, 2011). He also observed that foreign owned banks perform better than locally owned banks due to foreign governance practices. Foreign banks with foreign directors and expatriate employees can easily gain trust from investors than locally owned financial institutions. Rui (2012) observed that capital structure does not affect financial performance of financial institutions.

Large firms take advantage of the tax debt shield effect and maintain high debt equity ratios while high growth firms do the opposite and maintain low debt equity ratios by ploughing back profits instead of taking up more debt, as a result, the effect of capital structure decision on the share prices is insignificant. Kamau (2010) analyzed the capital structure employed by insurance companies in Kenya and found a weak relationship between capital structure and financial performance.

2.7 Overview of Literature:

It is evident that various researchers got contradictory results in determining the factors affecting capital structure in an organization. Maina (2014) discovered that a negative correlation between capital structure and financial performance and stock returns while Sujay (2015) claimed that leverage has a positive effect on financial performance and stock returns. Other studies concluded that there was a weak relationship between capital structure, financial performance and share prices.

Liquidity is another major determinant of capital structure. In studies of listed Romanian firmsit was established the existence of a negative relationship between liquidity and capital structure. Serghiescu and Vaidean (2014), Marsh (1982) realized a negative relationship between liquidity and leverage ratios. Frank and Goyal (2002), Hovakimian (2004) and Mang'unyi (2011) Shyam and Myers (1999), agree that the age of the firm and size of the firm are critical determinants of the choice of financing a firm decides to implement. These studies concluded that large firms which have been operating for a long period of time have high debt ratios hence a positive relationship between the age of the firm, size of the firm and capital structure.

The capital structure theories view the capital structure choice from different angles by concentrating on developed economies with advanced capital markets and financially diversified stable economies thus leaving a huge gap in knowledge of effect of capital structure on growth.

2.8 Conceptual framework:

Miller and Modigliani (1958) observed that the firm's value was dependent on the operating profits and future prospects of growth for the firm. High future growth prospects results in high market value and high share prices.

III. RESEARCH METHODOLOGY

3.1 Introduction:

This chapter presents the methodological base for the study. Specifically, it addresses; the research design, study area, target population, sampling technique and sample size, data type and sources, instrumentation, pilot study, validity of research instruments, reliability of research instruments, data analysis and presentation, hypothesis testing and ethical considerations.

3.2 Research Design:

This study employed correlation and regression research design. Correlation research design is a more conventional approach to studying capital structure considerations. Correlation study allows researcher to determine the relationship between the independent and dependent variables associated (Kothari, 2010). Quantitative data relating to the indicators of asset structure, profitability, age of the firm, and size of the firm of firms listed on the Nairobi Securities Exchange was collected over past six years from 2007 to 2012 annual reports and correlated with debt ratios of the same firms over time.

3.3 Study Population:

This was a study agricultural companies Listed on the NSE. There are 61 companies listed on the NSE as at June 2017. Only 7 agricultural listed companies were selected.

3.4 Study Area:

The study was carried out on all the agricultural companies listed on the Nairobi Securities in Kenya. Nairobi County covers a geographical area of 696 km^2 with about 3 million people living in Nairobi (Republic of Kenya, 2009). The period of study was from 2010 to 2015;

3.5 Sampling Technique and Sample Size:

3.5.1 Sampling Technique:

The research utilized purposive sampling technique to identify the population of the study among the selected firms listed on NSE. 7 agricultural firms out of 61 firms listed were selected. All the agricultural firms were selected.

3.5.2 Sample Size:

Table 2represents 7 firms listed under the NSE. This study involves panel data for the firms in the period of 2012 to 2017. Initially the sample consisted of 61 firms which were then the total number of listed firms.

Table 1: Sample Matrix

Agricultural	Population	Sample size
Eaagads	1	1
Kakuzi Pic	1	1
Kapchoruar Tea Kenya Plc	1	1
The Limuru Tea Co	1	1
Sasini Ltd	1	1
Williamson Tea Kenya	1	1
Total	**7**	**7**

Source: NSE (2018)

3.6 Data Type and Sources:

The financial secondary data was obtained by content analysis techniques from the financial statements of the listed firms for the period 2010 to 2015 year. Financial data was used because it gives better representation of leverage and performance the key variables of our study. All the seven agricultural firms listed in NSE were sampled for this study. Information relating to the firm's; Return on Assets and capital structure provided in the company's financial statements was sourced from online database, capital markets authority and the Central Bank of Kenya.

3.6.1 Secondary Data:

The researcher consulted sources that include: online database, capital markets authority and the Central Bank of Kenya, the data collected from explanatory variables were analyzed to establish possible association between the variables. Online database was used to obtain secondary data, (statement of assets and liabilities, comprehensive income statement and cash flow statements) and annual report of NSE to investigate the effect of capital structure on growth.

3.6.2 Description of data:

The following section describes the key variables and terms of measurement for each variable. Dependent and independent variables are grouped into components; namely, independent variables which consist of capital structure; Long term debt to capital employed Short term debt to capital employed and dependent variables which consist of growth indicators Sales, Profitability and Size

The terms of measurement used are described as in Table 2.

Table 2: Summary for terms of measurement

Variables	Terms of measurement
FS (firm size)	Logarithm of volume of sales
FL (financial leverage)	Long- term debt-to- equity ratio
CS (Short term debt to Capital Emp)	Short term debt∕Capital Employed
CS (Long term debt to Capital Emp)	Long term debt∕Capital Employed
LD (liquidity decision)	Current assets to Current liabilities

Source: Self Conceptualization (2018)

3.7 Instrumentation:

Instrument is a term that researchers use for a measurement device. Instrumentation is the course of action the process of developing, testing, and using the device. Researchers chose which type of instrument, or instruments, to use based on the research question. In this study based on the research questions content analysis and will be the most effective instrument. The research instrument has been formulated to capture the effect of financial leverage on performance and the effect of intervening variables on performance.

3.8 Pilot Study:

A pilot study was conducted on some non-financial firms not listed on the NSE for period of 2010 to 2011. The information obtained from the pilot study was used to test the consistency of the model in predicting financial performances. The purpose of pilot study was to assist the researcher to ascertain validity and reliability of the research instruments which are described in the subsequent subsections.

3.8.1 Validity of the Research Instruments:

Validity is the degree to which a study instrument accurately reflects or assesses the specific concept that the researcher is attempting to measure (Cohen and Swerdik, M, M, 2010). To test validity of the instruments to be used in the study, the instruments were availed to the selected experienced researchers. These senior researchers guided and advised the researcher accordingly in improving the research instruments before commencing data collection these provided the assurance that the findings were true. Construct validity was attained since the study was for a period of 5 years for all the agricultural NSE. On the other hand, content validity was achieved by the identification of the indicators of Short term debt to equity, long term debt to equity, total debt to equity and return on assets. This ensured that all the relevant information was captured in the study to enhance validity.

3.8.2 Reliability of the Research Instruments:

Reliability is the coherence or consistency in measuring instruments. To check the reliability of the instrument, the collected data from to detect the difficulties that the researcher was likely face while analyzing the variables. The secondary data was presented to a senior researcher who vouched the data and provided assurance that the data was reliable.

3.9 Data Analysis and Presentation:

The study employed regression and correlation statistics with the aid of SPSS programme to investigate relationship in capital structure and growth. The data analyzed was gathered from annual financial reports of firms listed on NSE. The descriptive and inferential statistical tools such as mean and standard deviation were applied to describe relevant information about each variable. To calculate level of financial performance the mean and standard deviation was calculated for the financial performance for NSE companies for the period between (2012- 2017

3.10 Hypotheses Testing:

To test the multiple regression models, the researcher used a Pearson correlation test to determine the direction of relationships and associations among the independent and dependent variables. Hypotheses' testing was done using Multiple Regression analysis to test if there is an effect of independent variables on the dependent variable. The estimated equation for multiple linear regression models is:

$G = \alpha + b_1 CS + €$

Where: CS: Capital structure

G: Growth

€: error variables

Source: Author, 2018

IV. EMPIRICAL RESULTSAND DISCUSSIONS

4.1 Introduction:

In this chapter data analysis, findings and findings discussion are presented. Specifically, the following are addressed; descriptive statistics, hypothesis tests using regression and partial correlation.

4.2 Descriptive Statistics:

The descriptive statistics for the six variables have been obtained for empirical investigation and are presented in the

Table 3 shown below.

Table 3: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CA	24	33001.00	3380625.00	1452423.6667	1268679.75749
CL	23	11500.00	857813.00	301948.7826	241566.72827
Profitability	21	-11.88	47.18	15.2467	19.98875
SALES	25	68025.00	4201195.00	1952337.6400	1506242.67774
size	23	11.12	15.25	13.5412	1.47495
Liquidity	21	3.46	14.20	6.6740	3.12221

The total Mean of sales growth for the period 2012 to 2017 was 45.7 % with a standard deviation of 35 %indicating large variability in sales growth over time. The Minimum and Maximum values of sales growth over the same period of time were 1.5%and 95% respectively. Analysis of variance was conducted among the seven agricultural firms listed in NSE in respect to sales.

4.3 Trend analysis:

Figure 1 shows the sales growth trend for seven companies from 2012 to 2017. The trend indicates that the sales growth has been fluctuating with negligible declining trend.
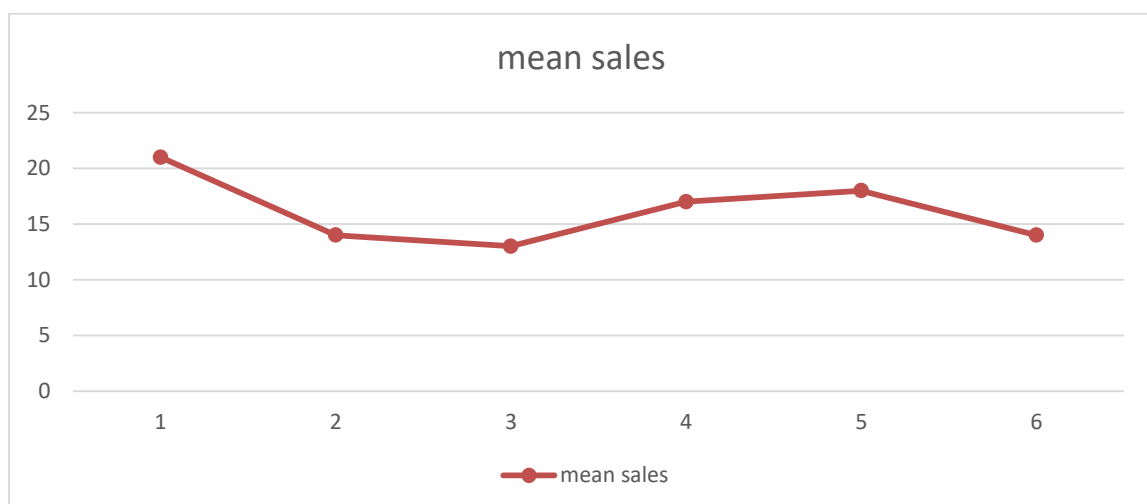

Figure 1: Sales growth trend

x-axis year   y-axis   mean of sales

Source: Research Data NSE 2017

4.4 Correlation Analysis:

In order to establish the relationship among various study variables, correlation analysis was carried out: capital structure and growth variables. Sales growth is significantly related to Current assets CAr = .953 p= .000. Positively and significantly related to Current liabilities CL r =.695 p=0.001. Size is positively and significantly related to Current Assets CA r= .781 p=.000 and Current Liabilities CL r= .626 p= .003

Table Results of Correlation (Zero Oder)

Table 4: Correlation Analysis

Correlations

		CA	CL	SALES	Profitability	Liquidity	size
CA	Pearson Correlation	1					
	Sig. (2-tailed)						
CL	Pearson Correlation	.817**	1				
	Sig. (2-tailed)	.000					
SALES	Pearson Correlation	.953**	.695**	1			
	Sig. (2-tailed)	.000	.001				
Profitability	Pearson Correlation	.059	.242	.406	1		
	Sig. (2-tailed)	.841	.385	.084			
Liquidity	Pearson Correlation	.133	-.383	.111	-.181	1	
	Sig. (2-tailed)	.566	.086	.671	.554		
size	Pearson Correlation	.781**	.626**	.879**	.107	-.125	1
	Sig. (2-tailed)	.000	.003	.000	.695	.621	
**. Correlation is significant at the 0.01 level (2-tailed).							

Source Research Data NSE 2012-2017

4.4.1 Regression of Current Liabilities to Capital employed and liquidity on size:

A bivariate regression analysis was conducted using current liabilities to capital employed and liquidity size as a predictor. The results shown in **5** indicate that current liabilities to capital employed had a significant impact on earnings per share (p-value = 0.040). The coefficient of current liabilities to capital employed was 36.134, with a p-value of 0.014 which is more than 0.01. This indicates that there was a statistically significant relationship between current liabilities to capital employed and earnings per share companies listed in the NSE. The model reveals 36% % (R-Square 0.36) of the size growth is explained by current liabilities to capital employed and liquidity.

Table 5: Regression of Current Liabilities to Capital employed and liquidity on size

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.607[a]	.369	.279	1.18785
a. Predictors: (Constant), Liquidity, CLtoCE				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.554	2	5.777	4.094	.040[b]
	Residual	19.754	14	1.411		
	Total	31.307	16			
a. Dependent Variable: size						
b. Predictors: (Constant), Liquidity, CLtoCE						

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.736	3.781		.988	.340
	CLtoCE	36.134	12.891	1.600	2.803	.014
	Liquidity	.569	.238	1.363	2.388	.032
a. Dependent Variable: size						

The resulting linear regression equation to estimate return on assets:

Size In (sales) = 3.736 + 36.134 CL to CE + .569 Liquidity + ε

Where:

ε= error term

The hypothesis criterion was that the null hypothesis Ho should be rejected if β≠0 and p- values ≤ 0.01. The study fails to reject H_1 since p = 014 and .032 which is <0.01 and conclude that **there is statistically significant negative relationship between debt ratioand growth.** This is inconsistent with the study by Baum (2007) who confirms statistically insignificant effect. The findings agree with the Capital structure theory as postulated by Modigliani & miller (1963). These traditional theories argue that the amount of debt in capital structure does not affect growth and value of a firm, contrary to Javed and Mizra (2013) finding that total debt to equity ratio is negatively significant related growth.

The results from this study are not in agreement with other studies done in other countries, which showed significant effect of leverage on performance. Abor (2007) found significantly positive relationship between debt ratio and measures of profitability. Hadlock and James (2002) also concluded that companies prefer debt financing because they anticipate higher returns hence positive association between debt and profitability.

According to Myers (2001) when investment is financed through debt it creates an incentive problem because return on a project has to be shared between bond holders

V. CONCLUSION

The study sought to establish the effect of capital structure on growth of the seven listed agricultural companies in the NSE. Findings on weather capital structure, and liquidity had a significant effect on growth measured by earnings per share EPS showed that capital structure had a positive influence on growth and that the variations growth could be explained by capital structure. The findings disagreed with those of Abiola (2012) who conducted a study on the influences of microfinance on micro and small enterprises (MSEs) growth in Nigeria. The study found strong evidence that access to microfinance did not enhance growth of micro and small enterprises in Nigeria. However, other firm level characteristics such as business size and business location, were found to have positive influence on enterprise growth. Mwangi *et al.,* (2014) further stated that organizations need to consider several factors such as overall economy, their customers, distributors, competitors. Further from an operations standpoint, the firm needs to consider its inventory levels, capacity constraints, ability to procure inventory from its suppliers, etc. before forecasting sales growth. In addition, the findings revealed that liquidity had a positive and significant relationship with return on growth while it was negative and insignificant to earnings per share (EPS). This finding is further supported by overall regression results which show that the overall model has a statistically significant influence on the Earnings per share, size and sales and therefore the alternate hypothesis was accepted. This meant that capital structure had a positive effect on the growth of the listed agricultural companies in NSE. Correlation analysis results from the primary data indicated that capital structure is positively and significantly related to growth.

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