CAPITAL STRUCTURE AND FIRMS PERFORMANCE: EVIDENCE FROM KUWAIT

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Capital Structure and Firms Performance: Evidence from Kuwait

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DECLARATION

I declare that the substance of this project paper has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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ABSTRACT

The purpose of this study is to examine the impact of capital structure on the performance of 192 firms listed on the stock exchange of Kuwait, covering from year 2009 to 2013. There are very little empirical studies in the existing literature that investigate the influence of capital structure on performance of Kuwaiti firms. Following previous studies, this study hypothesizes that capital structure will positively influence the performance of Kuwaiti firms. In this respect, capital structures are measured by the total debt to equity ratio (TDE) and total debt to assets ratio (TDA). Meanwhile, the performance variables are measured by the return on assets (ROA) and return on equity (ROE). This study also includes firm specific variables as control variables such as capital expenditure to sales, sales growth, and firm size. By using pooled OLS estimation, the results indicate that there is a positive and significant relationship between TDE and ROE, while TDA is negatively but significantly related with the ROE. Then, the findings show a positive but insignificant impact between TDE and ROA, whereas TDA is negatively and insignificantly related with ROA. The findings also reveal that firm specific variables such as capital expenditure to sales, firm size, and sales growth demonstrate a significant and positive relationship with the ROA and ROE.

Keywords: Firm performance, capital structure, return on equity, return on asset, Kuwait Stock Exchange.

ABSTRAK

Tujuan kajian ini adalah untuk mengkaji kesan struktur modal ke atas prestasi 192 syarikat tersenarai di bursa saham di Kuwait, meliputi dari tahun 2009 hingga 2013. Terdapat sangat sedikit kajian empirikal dalam karya yang sedia ada yang mengkaji pengaruh modal struktur ke atas prestasi firma di Kuwait. Berdasarkan kajian sebelum ini, kajian ini menghipotesiskan bahawa struktur modal akan mempengaruhi prestasi firma di Kuwait secara positif. Dalam hal ini, struktur modal diukur oleh jumlah hutang kepada nisbah ekuiti (TDE) dan jumlah hutang kepada nisbah aset (TDA). Sementara itu, pembolehubah prestasi diukur dengan pulangan atas aset (ROA) dan pulangan ke atas ekuiti (ROE). Kajian ini juga memasukkan pembolehubah spesifik firma sebagai pembolehubah kawalan seperti nisbah perbelanjaan modal atas jualan, pertumbuhan jualan, dan saiz firma. Dengan menggunakan anggaran *'pooled OLS'*, keputusan menunjukkan bahawa terdapat hubungan yang positif dan signifikan di antara TDE dan ROE, manakala TDA mempunyai hubungan yang negatif dan signifikan dengan ROE. Kemudian, hasil kajian menunjukkan kesan yang positif tetapi tidak signifikan antara TDE dan ROA, manakala TDA adalah negatif dan tidak signifikan dengan ROA. Dapatan kajian juga menunjukkan pembolehubah spesifik firma seperti nisbah perbelanjaan modal atas jualan, saiz firma, dan pertumbuhan jualan menunjukkan hubungan yang positif dan signifikan dengan ROA dan ROE.

Kata kunci: Prestasi korporat, struktur modal, pulangan ke atas ekuiti, pulangan ke atas aset, Bursa Saham Kuwait.

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I am deeply grateful to have come to this point of accomplishing my own dissertation in Finance. Indeed, this humble work is a product not only of my personal hard work but also inspiration, encouragement, support and helpful contribution I receive from very generous, loving people.

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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF STUDY

Capital structure refers to the composition of a firm's liabilities and owners' equity. Capital structure decisions are one of the three financing decisions namely investment, financing, and dividend decisions that finance managers have to make (Karadeniz, Kandir, Balcilar, & Onal, 2009). The capital structure of a firm is actually a mix of different securities. In general, a firm can choose among many alternative capital structures. It can issue a large amount of debt or very little debt. It can arrange lease financing, use warrants, issue convertible bonds, sign forward contracts or trade bond swaps. It can issue dozens of distinct securities in countless combinations; however, it attempts to find the particular combination that maximizes its overall market value (Liang, Li, & Song, 2014).

In reality, establishing an optimal capital structure is a difficult task (Shoaib, 2011). He contends that a firm may require issuing a number of securities in a mixture of debt and equity to meet an exact combination that can maximize its value and having succeeded in doing so, the firm has achieved its optimal capital structure. Jensen and Meckling (1976) demonstrates the amount of leverage in a firm's capital structure affects the agency conflicts between managers and shareholders and thus, can alter manager's behaviors and operating decisions. This position is agreed by Harris and Raviv (1991); Graham and Harvey (2001); Ebaid (2009).It is obvious that, the decisions on finance that led to a certain suboptimal financing and capital structure decisions can result in firm failure (Mwangi, Makau, & Kosimbei, 2014). The existence and achievement of an optimal capital structure is of great concern for investors and management of firms. Therefore, since the goals of all financing decisions is to maximize

shareholder wealth, the easiest way to measure the worth of any decision on finance is by examining its impact on firm performance (Mwangi et al., 2014).

The theory of capital structure and its relationship with a firm's performance has been an issue of great concern in corporate finance and accounting literature since the seminal work of Modigliani and Miller (1958). They argue that under very restrictive assumptions of perfect capital market, investors' homogenous expectations, tax-free economy and no transaction costs, capital structure is irrelevant in determining firm value. Their subsequent preference of purely debt financing due to tax shield in 1963 was a contradiction to traditional approaches which suggests an optimal capital structure (Modigliani and Miller, 1963). According to Jensen & Meckling (1976) firm's performance may also be enhanced through high leverage by mitigating conflicts between shareholders and managers concerning free cash flow (Jensen, 1986), the extent of risk to embark on, and optimal investment strategy (Myers, 1977).

According to trade-off theory, higher income to shield are available to more profitable firms and thus have to borrow more to earn tax advantages. As a result of this, firm's performance and debt level are expected to be positively related. Some studies proof empirical evidence to support the positive association between company's performance and level of debt (Berger & Bonaccorsi di Patti, 2006; Hadlock & James, 2002; Ghosh, Nag, and Sirmans, 2000). On the other hand, pecking order theory outlines that profitable companies which generate high retained earnings are expected to make use of a smaller amount of debt in their capital structure rather than those that make low earnings because they will make use of the retained earnings to finance their investment opportunities. As a result of this, firm's performance and debt level are expected to be negatively related.

Since Jensen and Meckling's argument regarding capital structure influence on firm performance, several researchers have followed this extension and have conducted studies aimed at examining the relationship between capital structure and firm performance. While the literature examining the performance implications of capital structure choices is immense in developed economies like USA and Europe, little is empirically known about such implications in emerging economies. As Eldomiaty (2007) argues, capital market is less efficient and incomplete and suffers from higher level of information asymmetry than capital markets in developed countries.

A small number of researches empirically evaluate this association in developing market. An example is the study of Majumdar and Chhibber (1999) that evaluate the association between performance and capital structure of companies in India indicating that performance and level of debt have negative association. Chiang, Chang, and Hui, (2002) evaluate the association between performance and capital structure of firm in Hong Kong in construction and property sector indicating that performance and high gearing is negatively related. Abor (2005) examines the association between profitability and capital structure of listed companies in Ghana indicating that firm's profitability is positively related with total debt to total asset and short debt to total asset, while firm's profitability and log debt to total asset are negatively related.

Kyereboah-Coleman (2007) evaluates the association between performance and capital structure of sub-Saharan Africa microfinance sectors indicating that performance and high leverage have positive relationship. Zeitun and Tian (2007) evaluate the association between performance and capital structure of Jordanian firms indicating that performance and debt level are negatively related. Finally, Abor (2007) evaluates the association between performance and

debt policy of SMEs in South Africa and Ghana indicating that performance is negatively related with capital structure, specifically long-term debt and total debt level. In summary, empirical research relating to the association between capital structure and firm performance in developing markets gave contradictory and mixed evidence; alternatively few research empirically evaluate this relationship in emerging market. Therefore, this study extends the study on the influence of capital structure on the performance of firms by empirically evaluating the association between firm's performance and capital structure in Kuwait.

1.1 PROBLEM STATEMENT

The financing decision is a combination of equity and debt characterizes an important issue encountered by firm's financial managers. This combination may influence the association between capital structure and the performance of firms. There are many empirical studies that examine the relationship between capital structure and corporate performance.

Some previous studies indicate that there is a positive relationship between capital structure and firm performance (Margaritis & Psillaki, 2010; Schonbrodt, 2011; Fosu; 2013 and Al-Kayed, Mohd Zain & Duasa; 2014). Conversely, some other literature suggest the negative correlation between capital structure and firm performance. Majumdar & Chhibber, (1999); Gleason, Mathur and Mathur, (2000); Soumadi & Hayajneh (2008); Ogebe, Ogebe and Alewi (2013); Park & Jang, (2013); Xin & Quang, (2014); Kodongo, Mokoaleli-Mokoteli and Maina, (2014); Dawar, (2014) and Mwangi et al, (2014).

The previous empirical findings trigger an interesting question here, what is the impact of capital structure on the performance of Kuwaiti firms? This is because Omet and Mashharawe (2009) highlight that Kuwaiti firms have low leverage ratios; where capital structures of

Kuwaiti firms have enormously low long-term debt and short-term debt. This may influence the performance of Kuwaiti firms. Omet & Mashharawe (2009) also conclude that the influence of capital structure on firm performance in Kuwait is one of the main problems yet to be resolved, because there is very little empirical evidence from the past studies that investigate the relationship between capital structure and firm performance in Kuwait.

1.2 RESEARCH QUESTION

What is the influence of capital structure on the performance of Kuwaiti listed companies which is measured by ROE and ROA?

1.3 RESEARCH OBJECTIVE

To examine the association between capital structure and firm performance of Kuwaiti listed firms which is measured by ROE and ROA.

1.4 CONTRIBUTION OF STUDY

This study has contributed to the literature by examining the independent variables that influence the performance of Kuwaiti firms from the view point of their capital structure. This has helped us to understand the impact capital structure on the performance of Kuwaiti firms.

This study will be of help to CEO's and finance managers of firms in Kuwait as the output of this study will serve as a useful database and resource material in the area of capital structure. The following are the specific contributions of the study:

• The study reveals the importance of the relationship between capital structure and corporate performance in Kuwait listed firms.

• The study take into consideration the whole listed firms with the total of twelve sectors and also it used an estimation measurement variables based on the theories of capital structure.

The study uses (ROE) and (ROA) to measure the performance Kuwaiti firms in order to express the sensitivity of each of these performance measures towards capital structure. In addition, two kinds of leverage measures are also used to demonstrate the sensitivity of the determinants of capital structure to the measure of leverage (TDE) and (TDA).

• This study is a unique one because there is little study is done before in Kuwait in this specific context.

1.5 SIGNIFICANCE OF STUDY

This study is extend to the previous studies of capital structure and its influence on firm performance based on its focus on Kuwait as a developing country, it provides basis for future studies on capital structure of developing countries. This study will be of importance to other researchers by providing empirical evidence on the influence of capital structure on firm performance. It is of importance to managers by showing the value of effective and efficient capital structure on firm performance and it will also facilitate them in improving the formation of capital structure so as to maximize shareholders wealth.

This study is contributes to regulators and financial institution in Kuwait and other developing countries through provision of necessary information needed on capital structure so as for them to continue to provide and promote debt instruments for firms in order to have an effective capital structure that will prevent any possible threat of financial distress or constraints on the firm.

1.6 SCOPE AND LIMITATION OF STUDY

This study is limited in scope to only listed firms in Kuwait given that comparison with listed companies in advance countries will be practically impossible due to the data of unlisted companies in Kuwait is not permissible. This is attributable to the differences in reporting standard and the size of the market. The features of companies to debt also differs across countries. This study is also limited in temporal scope to 5 years i.e. the period from 2009 to 2013.

1.7 ORGANISATION OF STUDY

This study is divided into five parts. Chapter one introduces the study background, the problem statement, research questions, research objectives, the significance and the scope of the study. Chapter two focuses on the theories of capital structure couple with the existing literature on association between firm performance and capital structure both in the developed and developing (emerging) countries.

Chapter three examines the theoretical framework and methodology adopted for the study in terms of the model specification, methods of estimation, data collection and instrument, sample size and the development hypotheses to be tested as well. Chapter four examines the data analysis with the interpretation of results. By the use of OLS which is inspired from the program of GRETL, the descriptive analysis results, the variance inflation factors, the correlation matrix, and the regression results were presented in qualitative form and fully discussed so that meaningful conclusions were drawn.

The analyses were used to test the formulated hypotheses to establish the relationship which exists among the variables expressed. Chapter five which is the last part of this study deals with

the summary, observation of the study, contributions, implementations and policy recommendations.

1.8 SUMMARY OF CHAPTER

Insights to the relationship between firm performance and capital structure have been given in this chapter. This serves as a background into the topic of discussion. The problem statement, research question, research objective, significance, scope and organization of the study are discussed in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Previous chapter gives an insight on what this study is all about by elucidating on the views of scholars on capital structure and its influence on firm performance; and issues established from their studies. However, this chapter gives a general idea of the related theories on capital structure such as the Pecking Order Theory, the Trade-off Theory, and the Modigliani and Miller propositions. This chapter also elucidate the findings of prior studies on capital structure and its influence on firm performance.

2.1 CAPITAL STRUCTURE THEORIES

Two main theories vividly explained capital structure; they are Static Trade-off and the Pecking Order theories.

2.1.1 STATIC TRADE-OFF THEORY

According to Kraus and Litzenberger (1973), the static trade-off theory assumes that firm's trade off the benefits and costs of debt and equity financing and find an optimal capital structure after accounting for market imperfections such as taxes, bankruptcy costs and agency costs. The theory states that there is a benefit to financing with debt, specifically the tax benefit.

However there is also a cost of financing with debt, namely the indirect bankruptcy costs and the more direct financial distress costs of debt. This is thus the trade-off that all firms, whom are maximizing value, should focus on when choosing the amount of debt and equity needed to

finance their operations. Needless to say, there is a maximum point where the marginal benefit of further increases in debt declines as debt increases, whereas the marginal cost increases. Hence, this static trade-off theory of capital structure states that optimal capital structure is obtained where the net tax advantage of debt financing balances leverage related costs such as financial distress and bankruptcy, holding firm's assets and investment decisions constant.

Baxter (1967) & Altman (1984, 2002) in view of this theory, claim that issuing equity means moving away from the optimum and should therefore be considered bad news. According to Myers (1984), firms adopting this theory could be regarded as setting a target debt-to-value ratio with gradual attempt to achieve it. However, Myers (1984) suggests that managers will be reluctant to issue equity if they feel it is undervalued in the market. The consequence is that investors perceive equity issues to only occur if equity is either fairly priced or overpriced.

According to Van der Sar (2011) leverage enhances firm's performance by limiting conflicts between shareholders and managers as a result of having excess cash. Ebaid (2009) argued that leverage mitigates lower agency costs, since the firm's reputation and the managers' wages are at stake. On the other hand however, higher leverage also means that the firm has higher commitment to fulfil its future obligations, in terms of principal and interest payments.

Furthermore, higher leverage ratios also lead to higher costs relating to financial distress. Miller (1977) documented that the cost related to financial distress is not material compared to the benefits of higher leverage ratios. Moreover, the trade-off theory suggests that those firms with higher levels of retained earnings, i.e. profitable firms, tend to have higher debt levels because they can more effectively use the tax shields on interest.

Besides, since these companies have higher operating profits, the probability and costs of financial distress for them are also lower. Consequently, the trade-off theory expects a positive association between firms' leverage ratios and their performance. (Myers, 1984; Myers and Majluf, 1984; Karadeniz et al., 2009; Chakraborty, 2010).

2.1.2 PECKING ORDER THEORY

Unlike the trade-off theory, the pecking order theory does not assume an optimal level of capital structure. As previously indicated Myers & Majluf (1984) favour the pecking order theory, which incorporates the assumptions of information asymmetries and transaction costs. This pecking order theory therefore suggests that firms should follow a financing hierarchy in order to minimize information asymmetry between parties.

It states that companies prioritize their sources of financing, from internal financing to equity financing, according to the principle of least effort or of least resistance, preferring to raise equity as a financing means of last resort. So, the pecking order theory claims that internal funds are used first and only when all internal finances have been depleted, firms will opt for debt. When it is not sensible to issue any more debt, they will eventually turn to equity as a last financing resource.

Summarizing, theory predicts that more profitable firms that generate high cash flows are expected to use less debt capital than those who generate lower cash flows. The pecking order theory argues that businesses adhere to a hierarchy of financing sources and prefer internal financing when available. However, when external financing is required, firms prefer debt over equity. Equity entails the issuance of additional shares of a company, which generally brings a

higher level of external ownership into the company. Hence, the form of debt that a firm chooses can act as a signal for its need of external finance.

Thus firms that are profitable and therefore generate high cash flows are expected to use less debt compared to those who do not generate high cash flows. This theory therefore suggests that firms prefer debt to equity. (Muritala, 2012) All of the previously mentioned mechanisms suggest that the pecking order theory claims a negative relationship between capital structure and firm performance, since more profitable firms opt to use internal financing over debt.

2.2 OPTIMAL CAPITAL STRUCTURE THEORIES

These theories recognized optimal capital structure and it is in line with the Trade-off theories which put into consideration a balance between the benefits from tax savings through interest savings on one hand, and the consequence of debt (such as asymmetrical information, debt arrangement, and bankruptcy risk) on the other hand (Mayer & Sussman, 2002). This made them argue that better performance is portrayed by firms with higher debt value compare to those with less debt value (Mayer & Sussman, 2002).

Based on the argument on whether seeking for loans through borrowing has positive or negative effect on performance, Mayer and Sussman (2002) stressed that there is non-monotonic relationship between the two because there is no direct bearing between firm capital structure and its performance. Mayer & Sussman (2002) further argue that market dividend can be yield when a firm take a moderate debt, however when it get to some certain level, accumulating of loans will lead to low output.

Intrinsic return is increased when a company reduces after tax cost of investment, thereby investing debts associated with equity of the shareholders (Goedhart, Kohler and Rehm, 2004).

However, a small variety of related capital structure always has very small tax benefits value. The impact of debt is not direct but it is important because debt makes firm has discipline since there is necessity for them to make consistent principal payments and regular payments, and pursuing frivolous acquisitions or investments that has no value is not likely by the firm.

Goedhart, Kohler and Rehm, (2004) On the other hand, firm's flexibility in creating investments value can be limited when there is excessive debt. Therefore, managing capital structure turns out to be a balancing act that serve as a trade-off between fiscal discipline and financial flexibility on one hand, and tax relief on the other hand.

2.3 MODERN CAPITAL STRUCTURE THEORIES

Corporate finance officers (CFO's) takes care of unforeseen chances through maintenance of financial rigidity and keeping a low debt rate, hence CFO's are very careful of taking debts (Graham and Hervey, 2001). Kumaret et al (1999) confirm the assertion that companies that holds onto external finance use to end up having small financing opportunity on the average which shows low output and low production like other countries that have low level of financial growth.

They further explained that firms that only financed with equity grow slowly due to how research opportunities, hence how development despite existing in a more financially developed country. In different to the case of developed countries, industries that depend on banks in low GDP countries develop faster as the banking industries grows.

2.4 CAPITAL STRUCTURE AND FIRM PERFORMANCE

The association between capital structure and firm financial performance led to many arguments in literature of corporate finance in regards to their level of relationship (Soumadi & Hayajneh (2008). However, some previous studies found negative relationship while some indicate positive relationship, and some as well found both negative and positive association between capital structure and various measures of company performance. These previous studies and their findings are discussed vividly in this section.

Wippern, (1966) investigates the relationship between financial leverage and firm performance. In his study he uses debt to equity ratio as financial leverage indicator and earnings to market value of common stock as performance indicator. His results indicated that leverage has a positive effect on firm performance.

Kester, (1986) records a negative link between capital structure and firm performance in the US and Japan. Similar results, negative relationship between capital structure and firm performance, were reported for US firms by Friend and Lang (1988) and Titman and Wessels (1988).

Capon, Farley, & Hoenig, (1990) conducts a meta-analysis from 320 published studies related to financial performance, and finds a positive relationship between usage of leverage levels and financial performance.

Roden and Lewellen, (1995) analyse the impact of capital structure on performance for 48 US based firms with a leveraged buyout during the period 1981 through 1990, using multinomial logit models. Their results indicate a positive relationship between firm performance and its

leverage policy based on tax considerations. Their findings therefore are consistent with the trade-off theory.

Pushner (1995) finds negative effect of leverage on firm performance measured as the total factor productivity (TFP) in Japan. Nickell et al (1997) and Nickell & Nikolitsas (1997) in their studies for the United Kingdom observe some positive relationship between leverage and performance.

Krishnan & Moyer (1997) examine the firm performance, capital structure as well as home country of 17 Hong Kong firms, 21 Malaysian firms, 16 Singaporean firms, and 27 Korean firms. They find that the country of origin has an effect on both capital structure and firm performance, the companies of Hong Kong have a higher and significant association between return on equity return on invested capital and firm capital structure compared with other firms of other countries, Leverage does not have any significance with firm's performance, The Korean companies have a significant and higher leverage compared with firms of other countries, then the performance dissimilarities among all companies from other countries have no statistical significance.

Wald (1999) find similar results for the developed countries, while Wiwattanakantang (1999) also reports a negative relation between book leverage and market leverage and ROA for 270 Thai firms.

Majumdar & Chhibber (1999) examine the relationship between debt levels in capital structure and firm performance of 1,000 firms in India from the period 1988-1994. Existing theory posits

positive relationship; however, the analysis indicates a negative and significant association between debt level and the performance of Indian firms.

Minton and Wruck, (2001) examine domestic financial conservative firms and their capital structure over the period of 1974 to 1998 and they conclude that the performance of low leverage firms outweigh the performance of high level firms. This thus indicates that there is a negative relationship between leverage and a firm's performance.

Fama and French, (2002) also test the pecking order and the trade-off theories on more than 3000 firms. Their study covers the period 1965 to 1999. Their models were based on both cross-section and time series methods in order to check for robustness of their results. They support the pecking order theory by documenting a negative relationship between a firm's leverage and its performance.

Moreover, the findings of Dessi and Robertson (2003) indicate a positive relationship between financial leverage and expected performance. They argue that low growth firms attempt to depend on borrowing to exploit the expected growth opportunities and investing the borrowed money in profitable projects, which will then increase the firm's performance.

Abor (2005) evaluates the influence of capital structure on the profitability of all listed Ghanaian firms over the period (1998-2002). He finds that ROE and Short-term debt (STDTA) have positive relation; ROE and long-term debt to total capital (LTDTA) are negatively related; while ROE and Total debt to total capital (TTDTA) are positively related. Berger and Patti (2006) examine firm performance and capital structure of 588 commercial banks in US from the periods 1990-1995. The findings indicate a strong statistical and economical significant.

Abor (2007) uses a panel data approach on 160 Ghanaian and 200 South African SMEs, where he testes the relationship between leverage ratios and performance of the firms. He suggests that higher leverage ratios would negatively affect a firm's performance, since firms rely extremely on borrowing they will not receive tax shields and this lead to an increase in borrowing costs, which may expose the firms to bankruptcy risks and reduce the return.

Moreover, Kyereboah and Coleman (2007) examine the effect of capital structure on firm performance of 52 microfinance institutions from the period 1995-2004. The findings show that the majority of the microfinance organizations use high leverage by financing their operations with more long-term debt. Highly leveraged microfinance institutions perform better than low leveraged microfinance institutions through many factors such as more clientele, high scale economies, and better risk management.

Zeitun & Tian (2007) investigate the capital structure and firm performance of 167 Jordanian firms from the period 1989-2003. The findings show that the capital structure of the firms had a significant but negative influence on their performance when applying both the accounting and marketing measures. Short-term debt to total assets (STDTA) and Tobin's Q have significant and positive correlated. In overall, the study found that the 1990-1991 War Crisis have positively influenced the performance of Jordanian firms, while the outburst of Intifadah in Gaza and West bank in 2000 had a negative influence on firm performance.

Chathoth & Olsen (2007) test the influence of environment risk, capital structure, and firm strategy on firm performance of 48 publicly traded US restaurant firms from the period 1992-2000. Their findings show that a significantly negative difference in performance is clarified by the factors from the previous constructs of co-alignment model. Soumadi & Hayajneh (2008)

evaluate the influence of firm capital structure on the performance of 76 public listed Jordanian firms from the periods 2001-2006. These firms consist of 23 service firms and 53 industrial firms. Their findings show that capital structure is negatively and statistically related with firm performance.

Furthermore, King, & Santor (2008) examine the effect of family ownership on the capital structure and performance of 613 firms in Canada from the period 1998-2005. The findings show that in regards to Tobin's q ratios, stand-alone family owned companies with one single share class have better market performance than some other firms, in relate to ROA, it has a better accounting performance, and based on debt-to-total assets they achieved higher financial leverage. Meanwhile, family owned companies that apply dual-class shares achieve valuations which are lesser by seventeen percent averagely than usually held firms, in spite of related financial leverage and ROA.

Arbiyan and Safari (2009) also document similar results, after analysing the impact of leverage ratios of 100 Iranian publicly listed firms on their performance over the period 2001 to 2007. They find that short-term and total debts are positively related to profitability measured by ROE, but found a negative relationship between long term debts and ROE.

Furthermore, Ebaid (2009) examines the influence of choice of capital structure on the performance of all publicly traded listed Egyptian firms from the period 1997-2005.The findings show that the choice of capital structure decision has no strong influence on firm performance. STD negatively influences firm performance when using ROA.

Salteh, Ghanavati, & Khosroshahi, (2009) use three performance measures, namely Return on Equity, Tobin's Q and Return on Assets. They suggest a positive link between leverage and firm performance when ROE and Tobin's Q were used to measure firm performance. Nevertheless, when testing the impact of leverage on performance using the ROA, there seems to be a negative impact.

Onaolapo (2010) use data from Nigerian firms and find a negative relationship between firm's debt ratio and a firm's ROA or ROE. Chakraborty, (2010) uses two performance measures including ratio of profit before interest, tax and depreciation to total assets and ratio of cash flows to total assets. They also employ two leverage measures including ratio of total borrowing to asset and ratio of total liability to total liability plus equity. Their results illustrate a negative relation between leverage and performance.

Gleason, Mathur & Mathur (2010) investigate the Interrelationship between firm performance, capital structure, and culture by applying sample of retailers of 14 European nations from the period 2001-2008. Their findings show that performance and capital structure are negatively related.

Also, Adekunle and Sunday (2010) perform panel least square tests to study the impact of debt ratio on firm performance measured as ROE and ROA and suggest that higher levels of leverage negatively affect performance, thus a negative link exists.

Onaolapo and Kajola (2010) find a significant negative impact of leverage on financial measures of firm performance in Nigeria. David and Olorunfemi (2010) use panel data analysis to analyse capital structure and corporate performance in Nigeria petroleum industry. They find

that a positive relationship exist between earning per share and leverage ratio on one hand and positive relationship between dividend per share and leverage ratio on the other hand.

In addition, Margaritis & Psillaki (2010) examine the firm performance, equity ownership and capital structure of 334 French companies from high-growth and low-growth industries from the period 2001-2008. The findings indicate that leverage efficiency is significant and positive in the two sets of leverage distribution which support the efficiency risk hypothesis. More debt and more concentrated ownership in the capital structure are generally related. Leverage choices and ownership type are not significantly related.

Schonbrodt (2011) examines the influence of capital structure on performance of 20,460 US and 7,096 Germany firms from the period 2009-2010. The findings show that external debt and firm performance of German firms are insignificant but more positively related than that of US firms.

By means of panel least squares, Manawaduge, Zoysa, Chowdhury & Chandarakumara, (2011) also record a negative link between leverage and firm performance. Their study entailed 155 firms in Sri Lanka and covered the period 2002-2008. Muritala (2012) analyses the impact of leverage on performance for ten Nigerian firms over the period of 5 years and document a negative link, while Soumadi and Hayajneh (2012) suggest a similar link after analysing 76 firms listed on the Amman stock market.

In a related research, Ali, Zia and Razi, (2012) analyse the impact of capital structure on the performance of petroleum sector of Pakistan. They carry out a regression analysis on the data of 12 randomly selected for a period of 10years. They find that in overall analysis, there is a

significant and positive impact of capital structure on the performance of the petroleum sector whereas in individual analysis, the analysis has no significance because every company has their own capital structure.

Awunyo-Vitor & Jamil Badu (2012) investigate the Performance and capital structure of Ghanaian listed banks from the period 2000-2010. The results show that Ghana listed banks are highly geared and it is negatively related to their performance. There is an inverse relationship between performance and capital structure of the listed firms regarding Tobin's Q and ROE. Ghana bond market is not sufficiently established to attract banks to seek for long-term debt.

Meanwhile, Salim & Yadav (2012) evaluate firm performance and capital structure of 237 Malaysian listed firms during the period of (1995-2011). The findings show that firm performance and capital structure are negatively related. Performance and growth are positively related for all sectors. Using Tobin's Q as performance measurement shows that STD and LTD are significant and positively related. TD is significant and positively related with firm performance. Skopljak & Luo (2012) examine the capital structure and performance of 23 banks in Australia from the period 2005-2007. The findings show that a robust and significant quadratic relationship exists between firm performance and capital of Australian banks.

Pouraghajan, Malekian, Emamgholipour, Lotfollahpour and Bagheri (2012) evaluate the influence of capital structure on the financial performance of 400 listed firms on Tehran Stock Exchange from 12 sectors during the periods 2006-2010. Their findings indicate debt ratios and firm performance are negatively and significantly related, while a significant and positive relationship exist between growth opportunities, asset tangibility ratio, firm size, as well as

asset turnover with measures of financial performance. However, firm age is not significantly related with both ROE and ROA.

Also, Abbadi & Abu-Rub (2012) examine the capital structure and its influence on the Performance of 8 Palestinian banks from the period of 2007-2010. As for the findings, a negative impact between leverage, Total Deposit to Assets and ROA, Leverage as well has a negative influence on Tobin's Q and a positive effect is showed on ROE.

However, in a similar study carried out by Khan (2012) on 36 engineering sector firms in Pakistan, he was able to establish that financial leverage has an insignificant negative relationship with firm performance. He noted that firms in the engineering sector of Pakistan are mainly dependent on short term debt. In another research.

Umar, Tanveer, Aslam & Sajid (2012) examine the influence of capital structure on the financial performance of 100 Pakistani listed firms from 2006-2009. The findings show that EBIT negatively influenced total liabilities to total assets (TLTA), long term liabilities to total asset (LTLTA), and current liabilities-to total asset (CLTA). Net profit margin, EPS, and ROA are negatively related with current liabilities to total asset, but positively related with long term liabilities to total asset and insignificantly related with total liabilities to total assets. ROE has insignificant influence on total liabilities to total assets and current liabilities to total asset but it is positively related with long term liabilities to total asset.

The study of, Tianyu (2013) compares the capital structure and firm performance between European and Chinese listed firms. Therefore, the study used 1200 listed companies in Germany & Sweden, and 1000 Chinese listed companies from the period 2003-2012. The study

find that a negative and significant relationship exist between firm performance and capital structure in China, whereas, positive and significant in two European countries. Shyu, (2013) examines capital structure, ownership structure, and firm performance of group-affiliated Taiwanese firms from the period 1999-2007. The findings show that U-shaped association exist between performance and insider ownership.

Wahba (2013) examines the capital structure, managerial ownership and firm performance in Egypt. The result indicates that debt and firm performance have negative relationship in the presence of managerial ownership concentration but positive in its absence. Oladeji &Tolulope (2013) analyse the impression of capital structure on company performance in the Nigeria Petroleum Industry from the period 2003-2012. As for the findings, Leverage and firm performance have negative relationship, while explanatory variables and corporate performance have positive relationship.

Moreover, Olokoyo (2013) studies the capital structure and corporate performance of 101 Non financial quoted companies from 26 subsectors Nigerian Quoted Firms from 2003-2007. The results are as follow: a negative but significant effect between leverage and (ROA). Also, there exist a significant and positive relationship between (TD/TA); (LD/TA) and (SD/TA) and (Tobin's Q). Ogebe, Ogebe & Alewi (2013) examine the influence of capital structure on performance of firms in Nigerian from the period 2000-2010. The results show that leverage and firm performance are significantly but negatively related.

Nimalthasan (2013) examines the impact of capital structure and the performance of 25 companies in Sri Lanka from the period 2008-2012. The results indicate that there is an insignificant link between debt equity ratio, return on assets (ROA), return on equity (ROE),

net profit, and gross profit. A significant relation exists between Gross profit margin and ROE with debt assets ratio. ROE and capital structure are significantly related with gross profit.

Also, Park & Jang (2013) investigate the inter-relationships among diversification, free cash flow, capital structure and firm performance of 308 companies during 1995 to 2008. Their findings show that debt leverage is effective in reducing free cash flows and improve firm performance for firms applying unrelated diversification; meanwhile leverage directly lessens the negative influence of unrelated diversification on the performance of firms. Fosu (2013) investigates the relations between capital structure, product market competition and the performance of 257 South African firms over the period 1998–2009. His findings show that financial leverage positively and significantly affects firm performance.

Taani (2013) studies the relations between capital structure and corporate performance 45 Jordanian listed companies from the period of 2005-2009. The findings show, STDTA and LTDTA have negative and insignificant relationship with ROA and PM; whereas positive relationship exist between TDE and ROA, and a negative relationship between PM and ROA. Then, STDTA is significant with ROA while LTDTA is significant with PM.

Regarding the study of, Xin & Quang (2014) examine the influence of capital structure and ownership structure on performance of 134 Vietnamese non-financial companies from 2009-2012. The findings illustrate, a negative effect with statistical significance exist between financial performance and capital structure.

Moreover, Kodongo, Mokoaleli-Mokoteli & Maina (2014) investigate the Capital structure, profitability and firm value of listed firm in Kenya from 2002-2011. The findings show that a

negative but significant relationship between Leverage and profitability. Also, leverage has no influence on Tobin's Q. Then, there is a negative relationship between Asset tangibility profitability. Al-Kayed, Syed Mohd Zain & Duasa (2014) examine capital structure and performance of 85 Islamic banks in 19 different countries from 2003-2008. Meanwhile, the findings of this study are, the performance of the Islamic Banks is positively related with capital ratio. In addition, the capital-asset ratio has a U-shaped with profitability.

Dawar (2014) examines the Agency theory, capital structure and firm performance in Indian during the period (2003-2012). Furthermore, the findings show a negative impact between leverage and financial performances. Mwangi, Makau, & Kosimbei (2014) examine the association between capital structure and performance of 42 Kenyan non-financial firms from the period 2006-2012. The findings indicate that financial leverage achieved a statistically significant negative relationship with performance as using both return on equity (ROE) and return on assets (ROA) as proxies.

Following the previous studies, the optimal capital structure of a firm is very paramount to its successful operation though these decisions differ from one firm to another. Some authors are of the view that a positive relationship exists between capital structure and the firm performance while some believes that there is a negative relationship. The need to carry out a study that focuses on the Kuwaiti listed firms is fuelled by dearth of literature on this area.

There is wide acceptance that firm value is affected by capital structure. One of the aims of this study is to contribute to the previous study on capital structure by evaluating its influence on the performance of firms, in Kuwait context.

The main findings are summarized below in table 2.1.

Table 2.1:

Summary of the main previous studies on capital structure and firm performance

<table>
<tr><th>Author</th><th>Objective</th><th>Findings</th></tr>
<tr><td>Krishnan & Moyer

(1997)</td><td>Examine the performance of capital structure and home country of 17 firms from Hong Kong, 21 from Malaysia, 16 from Singapore and 27 from Korea, in 2003</td><td>
<table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROE, ROIC</td><td>TDE</td><td>(-) Ins</td></tr>
<tr><td>ROE, ROIC</td><td>SG, Tax rate</td><td>(+) Ins</td></tr>
<tr><td>ROE, ROIC</td><td>Risk</td><td>(+) S</td></tr>
<tr><td>ROE, ROIC</td><td>Categorical V</td><td>(-) S</td></tr>
<tr><td>ROIC</td><td>FS</td><td>(-) Ins</td></tr>
<tr><td>ROE</td><td>FS</td><td>(+) Ins</td></tr>
</table>
</td></tr>
<tr><td>Majumdar & Chhibber (1999)</td><td>Study the relationship between the levels of debt in the capital structure and performance of 1,000 Indian firms between the period
(1988 and 1994)</td><td>
<table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROE
ROA</td><td>FS, Diversity, Advertising, Liquidity, Inventory</td><td>(+) S</td></tr>
<tr><td>ROE
ROA</td><td>Time-Age-Group-Exercise</td><td>(-) S</td></tr>
<tr><td>ROE
ROA</td><td>Import- Export-Capital intensity</td><td>(+) Ins</td></tr>
<tr><td>ROE
ROA</td><td>Foreign-Distribution-Marketing-SG</td><td>(-) Ins</td></tr>
</table>
</td></tr>
<tr><td>Abor

(2005)</td><td>Examines the effect of capital structure on the profitability of all Ghanaian listed firms
During the period (1998-2002)</td><td>
<table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROE</td><td>SG-SDA</td><td>(+) S</td></tr>
<tr><td>ROE</td><td>LDA-TDA</td><td>(-) S</td></tr>
</table>
</td></tr>
<tr><td>Kyereboah & Coleman (2007)</td><td>Examine the impact of capital structure on the performance of 52 Ghanian microfinance institutions, within the period (1995-2004).</td><td>
<table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROE-ROA</td><td>Risk</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>SDR</td><td>(+) S</td></tr>
<tr><td>ROE</td><td>Age</td><td>(+) S</td></tr>
<tr><td>ROE</td><td>TDR-Risk-FS</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>FS-TDR</td><td>(-) Ins</td></tr>
<tr><td>ROE</td><td>SDR-LDR</td><td>(-) Ins</td></tr>
<tr><td>ROA</td><td>Age-LDR</td><td>(+) Ins</td></tr>
</table>
</td></tr>
<tr><td>Zeitun & Tian

(2007).</td><td>Investigate the capital structure and performance of 167 Jordanian firms from the period 1989-2003</td><td>Capital structure has a significant but negative effect on their performance when applying both the market and accounting measures. (STDTA) and Tobin’s Q are significantly and positively correlated.</td></tr>
<tr><td>Chathoth &</td><td>Test the effect of environment risk,</td><td>There is a negative significant relationship</td></tr>
</table>

<table>
<tr><td>Olsen (2007)</td><td>corporate strategy, and capital structure on the performance of 48 US publicly traded restaurant firms during the period 1992-2000.</td><td>between capital structure and the performance of microfinance institutions.</td></tr>
<tr><td>Soumadi & Hayajneh (2008)</td><td>Examine the influence of capital structure on the performance of 76 public firms listed in Amman stock market in Jordan from the periods 2001-2006.</td><td>Capital structure has a negative statistical relationship with firm performance.</td></tr>
<tr><td>King & Santor (2008)</td><td>Examine how family ownership affects the performance and capital structure of 613 firms in Canada from the period 1998-2005.</td><td><table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>Tobin's q-ROA</td><td>SG</td><td>(+) S</td></tr>
<tr><td>Tobin's q</td><td>Capex to sales-Cross listing</td><td>(+) S</td></tr>
<tr><td>ROA</td><td>FS</td><td>(+) S</td></tr>
<tr><td>Tobin's q-ROA</td><td>TDA</td><td>(-) S</td></tr>
<tr><td>Tobin's q</td><td>FS</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>Capex to sales-Cross listing</td><td>(-) S</td></tr>
<tr><td>Tobin's q</td><td>Age</td><td>(-) Ins</td></tr>
<tr><td>ROA</td><td>Age</td><td>(+) Ins</td></tr>
</table></td></tr>
<tr><td>Ebaid (2009)</td><td>Examines the impact of capital-structure choice on the performance of all publicly traded listed Egyptian firms during the period (1997-2005).</td><td><table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROE</td><td>SDA</td><td>(+) S</td></tr>
<tr><td>ROE-ROA</td><td>LDA</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>SDA-TDA</td><td>(-) S</td></tr>
<tr><td>ROE-ROA-GM</td><td>FS</td><td>(+) Ins</td></tr>
<tr><td>ROE</td><td>TDA</td><td>(+) Ins</td></tr>
<tr><td>GM</td><td>SDA-LDA-TDA</td><td>(-) Ins</td></tr>
</table></td></tr>
<tr><td>Gleason, Mathur & Mathur (2010)</td><td>Investigate the Interrelationship between Culture, Capital Structure, and Performance. Using data from retailers in 14 European countries during (2001-2008).</td><td>A negative relationship between capital structure and performance.</td></tr>
<tr><td>Margaritis & Psillaki (2010)</td><td>Examine the firm performance, equity ownership and capital structure of 334 French firms from low and high-growth industries within the period of (2001-2008).</td><td>The influence of firm performance on leverage is significantly positive</td></tr>
<tr><td>Schonbrodt (2011)</td><td>Examines the impact of capital structure and performance of 20,460 US and 7,096 Germany firms from the period 2009-2010</td><td><table>
<tr><th>Country</th><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>US-Germany</td><td>ROA</td><td>TDA</td><td>(-) S</td></tr>
<tr><td>US-Germany</td><td>ROA</td><td>Tangibility-SG-Liquidity</td><td>(+) S</td></tr>
</table></td></tr>
</table>

<table>
<tr><td></td><td></td><td>
<table>
<tr><td>US</td><td>ROA</td><td>FS</td><td>(+) S</td></tr>
<tr><td>Germany</td><td>ROA</td><td>FS</td><td>(-) S</td></tr>
</table>
</td></tr>
<tr><td>-Awunyo
-Vitor
&
-Jamil Badu

(2012)</td><td>Investigate the Performance and capital structure of Ghanaian listed banks from the period 2000-2010.</td><td>
<table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROE-ROA</td><td>Total revenue</td><td>(+) S</td></tr>
<tr><td>ROE, Tobin's q</td><td>Age squared</td><td>(+) S</td></tr>
<tr><td>Tobin's q</td><td>Market capitalization</td><td>(+) S</td></tr>
<tr><td>ROE-Tobin's q</td><td>TDC</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>Age- Market capitalization-Current Liabilities</td><td>(-) S</td></tr>
<tr><td>Tobin's q</td><td>Total revenue</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>TDC</td><td>(-) Ins</td></tr>
<tr><td>ROA-Tobin's q</td><td>Age-Board size-Current liabilities</td><td>(-) Ins</td></tr>
<tr><td>ROE</td><td>Market capitalization</td><td>(-) Ins</td></tr>
<tr><td>ROA</td><td>Board size-Age square</td><td>(+) Ins</td></tr>
</table>
</td></tr>
<tr><td>-Salim
&
-Yadav

(2012)</td><td>Evaluate firm performance and capital structure of 237 Malaysian listed firms during the period of (1995-2011)</td><td>By the use of ROE, ROA, EPS for measures of firm performance indicate that there are negatively related with capital structure while, performance and growth are positively related. Using Tobin’s Q for measure of performance shows that STD and LTD are significant and positively related. TDA is significant and positively related with firm performance.</td></tr>
<tr><td>Skopljak & Luo

(2012)</td><td>Examine the capital structure and firm performance in Australia by the use of 23 banks and financial institutions from 2005-2007</td><td>There is a significant and robust quadratic relationship between capital structure and the performance Australian of firm.</td></tr>
<tr><td>.Pouraghajan, et all
(2012)</td><td>Examine the influence of capital structure on the financial performance of 400 listed firms on Tehran Stock Exchange from 12 sectors during the periods 2006-2010.</td><td>There is a significant negative relationship between firm performance and TDA, and a significant positive relationship between growth opportunities, asset tangibility ratio, firm size, as well as asset turnover with measures of financial performance. However, firm age is not significantly related with both ROE and ROA.</td></tr>
<tr><td>-Abbadi
&
-Abu-Rub

(2012).</td><td>Examine the Capital Structure and its impact with the Performance of 8 Palestinian banks from the period of 2007-2010.</td><td>A negative impact between leverage, Total Deposit to Assets and ROA, Leverage as well has a negative impact with Tobin’s Q and a positive is noted with ROE.</td></tr>
</table>

<table>
<tr><td>Tanveer, Aslam & Sajid (2012)</td><td>Examine the influence of capital structure on the financial performance of 100 Pakistani listed firms from 2006-2009.</td><td><table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>EBIT-ROA-EPS-Net profit margin</td><td>CLTA-LTLTA-TLTA</td><td>(-) S</td></tr>
<tr><td>ROE-ROA-EPS-Net profit margin</td><td>FS</td><td>(-) S</td></tr>
<tr><td>PE ratio</td><td>CLTA</td><td>(-) S</td></tr>
<tr><td>ROE-PE ratio</td><td>LTLTA</td><td>(+) S</td></tr>
<tr><td>EBIT</td><td>FS</td><td>(+) S</td></tr>
<tr><td>ROE</td><td>CLTA</td><td>(+) Ins</td></tr>
<tr><td>ROE-PE ratio</td><td>TLTA</td><td>(-) Ins</td></tr>
<tr><td>PE ratio</td><td>FS</td><td>(-) Ins</td></tr>
</table></td></tr>
<tr><td>Tianyu He

(2013)</td><td>Compares the capital structure and the performance of 1200 listed companies in Germany & Sweden and 1000 listed companies in China from (2003-2012).</td><td><table>
<tr><th>Country</th><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>China</td><td>Tobin's q</td><td>SG</td><td>(+) S</td></tr>
<tr><td>Germany & Sweden</td><td>Tobin's q</td><td>AG</td><td>(+) S</td></tr>
<tr><td>China</td><td>Tobin's q</td><td>TDA-FS-AG</td><td>(-) S</td></tr>
<tr><td>Germany & Sweden</td><td>Tobin's q</td><td>SG</td><td>(-) S</td></tr>
<tr><td>Ch-Ger & Swe</td><td>Tobin's q</td><td>Liquidity</td><td>(+) Ins</td></tr>
<tr><td>Germany & Sweden</td><td>Tobin's q</td><td>TDA</td><td>(+) Ins</td></tr>
<tr><td>Germany & Sweden</td><td>Tobin's q</td><td>FS</td><td>(-) Ins</td></tr>
</table></td></tr>
<tr><td>Wahba (2013)</td><td>Examines the Capital structure, managerial ownership and firm performance in Egypt</td><td>The relationship between debt and firm performance is negative in the presence of managerial ownership concentration but positive in its absence.</td></tr>
<tr><td>Oladeji, Tolulope

(2013)</td><td>Analyses the impression of capital structure on firm performance in the Nigeria Petroleum Industry from (2003-2012)</td><td><table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROA</td><td>Tax-ROA(-1)</td><td>(+) S</td></tr>
<tr><td>ROA</td><td>Year effect</td><td>(-) S</td></tr>
<tr><td>ROA</td><td>TDA-FS</td><td>(-) Ins</td></tr>
</table></td></tr>
<tr><td>Olokoyo

(2013)</td><td>Studies the Capital Structure and Corporate Performance of 101 Non-financial quoted companies from 26 subsectors Nigerian Quoted Firms from 2003-2007</td><td><table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>Tobin's q</td><td>TDA-LTDA-STDA-FS</td><td>(+) S</td></tr>
<tr><td>Tobin's q-ROA</td><td>FS</td><td>(+) S</td></tr>
<tr><td>Tobin's q-ROA</td><td>LTDA</td><td>(-) S</td></tr>
<tr><td>Tobin's q-ROA</td><td>TDA-STDA</td><td>(-) Ins</td></tr>
</table></td></tr>
<tr><td>-Ogebe, -Ogebe & -Alewi (2013)</td><td>Study the impact of Capital structure on firms' performance of Nigerian firms from 2000-to 2010.</td><td>Leverage has a significant relationship with the performance of firms</td></tr>
<tr><td>Nimalthasan

(2013)</td><td>Examines the impact of capital structure and the Performance of 25 companies in Sri Lanka during the</td><td>There is an insignificant link between Gross profit, net profit, return on equity, return on assets and debt equity ratio. A</td></tr>
</table>

<table>
<tr><td></td><td>period of (2008-2012)</td><td>significant relation has registered between Gross profit margin and Return on equity with debt assets ratio. Capital structure and return on equity are significantly linked with gross profit.</td></tr>
<tr><td>Park & Jang (2013)</td><td>Investigate the inter-relationships among capital structure, free cash flow, diversification and the performance 308 companies during 1995 to 2008.</td><td>Leverage has a negative effects of unrelated diversification on firm performance.</td></tr>
<tr><td>Fosu (2013)</td><td>Investigates the relationship between capital structure, product market competition and the performance of 257 South African firms over the period 1998–2009.</td><td>Financial leverage has a positive and significant effect on firm performance.</td></tr>
<tr><td>Taani

(2013).</td><td>Studies the relationship among capital structure and corporate performance by taking Jorden as evidence with 45 listed companies from the period of (2005-2009).</td><td><table><tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr><tr><td>ROA</td><td>STDA-LTDA</td><td>(-) S</td></tr><tr><td>ROA</td><td>TDE</td><td>(+) Ins</td></tr><tr><td>PM</td><td>STDA-LTDA-TDE</td><td>(-) Ins</td></tr></table></td></tr>
<tr><td>-Xin & Quang (2014)</td><td>Examine the Impression of ownership structure and capital structure on financial performance of Vietnamese firms by the use of 134 non-financial companies from 2009-2012.</td><td>A negative effect with statistical significance between Capital structure and financial performance.</td></tr>
<tr><td>-Kodongo, -Mokoaleli & Maina (2014)</td><td>Investigate the Capital structure, profitability and firm value of listed firm in Kenya from 2002-2011</td><td>A negative but significant relationship between Leverage and profitability. Also, leverage has no influence on Tobin’s Q. Then, there is a negative relationship between Asset tangibility profitability.</td></tr>
<tr><td>-Al-Kayed, -Syed & Duasa (2014)</td><td>Examine capital structure and the performance of 85 Islamic banks in 19 different countries from 2003-2008.</td><td>The performance of the Islamic Banks is positively related with capital ratio.</td></tr>
<tr><td>Dawar (2014)</td><td>Examines the Agency theory, capital structure and firm performance in Indian during the period 2003-2012</td><td><table><tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr><tr><td>ROE-ROA</td><td>FS-Tangibility-Liquidity-Advertisement</td><td>(+) S</td></tr><tr><td>ROE-ROA</td><td>LTDA-STDA-Age</td><td>(-) S</td></tr><tr><td>ROE-ROA</td><td>SG</td><td>(+) Ins</td></tr></table></td></tr>
</table>

<table>
<tr>
<td>.Mwangi, Makau & Kosimbei

(2014)</td>
<td>Examine the relationship between capital structure and the performance of 42 non-financial firms listed in Kenya from the periods 2006-2012.</td>
<td>
<table>
<tr><th>DV's</th><th>IV's</th><th>Re-ship</th></tr>
<tr><td>ROA-ROE</td><td>TCAA-GDP GR</td><td>(+) S</td></tr>
<tr><td>ROA</td><td>TCLA</td><td>(+) S</td></tr>
<tr><td>ROE</td><td>FL</td><td>(-) S</td></tr>
<tr><td>ROA-ROE</td><td>FS</td><td>(+) Ins</td></tr>
<tr><td>ROE</td><td>TCLA</td><td>(-) Ins</td></tr>
</table>
</td>
</tr>
</table>

2.5 SUMMARY OF CHAPTER

Theories of capital structure and previous studies on the topic of this study have been discussed elaborately in this chapter. The empirical findings of different researchers and different methodologies have been explained vividly in this chapter. This entails a comprehensive breakdown of what previous studies have found on this topic.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter sets out the methodology and design of the study. It describes the source of data, method of collection and a summary of the analyses that were carried out.

3.1 DATA SOURCE

Secondary data was used in the study. The data for this study is collected from the DataStream, taken from the balance sheets, income statement of Kuwait Securities Exchange,

3.2 STUDY SAMPLE

Kuwait has 236 firms and 12 banks in total, with 12 different sectors and it contains of listed and non-listed companies. However, this study is designed for all listed firms in the Kuwait Stock Exchange (KSE) only. The sample of this study is composed of 192 companies listed in the Kuwait Stock Exchange, making a total of 960 firm-year observations and period of 5 years from 2009 to 2013, the rest of the companies are removed because they are not listed. This study takes Kuwait as its evidence because there is still no conclusive empirical study in the past literature about how capital structure influences corporate performance of Kuwaiti firms.

The following table shows the sample companies based on the sectors. **(Table 3.1)**

(Table 3.1):

Firms by sectors

Sector	Numbers of companies
Consumer Services	16
Basic Material	4
Consumer Goods	7
Financial Services	50
Health Care	3
Technology	4
Telecommunication	3
Insurance	8
Real Estate	38
Industrial	38
Parallel Market	14
Oil & Gas	7
Total	192

Source: Kuwait stock exchange (KSE) weekly report as at 2/11/2014

3.3 THEORETICAL FRAMEWORK

In order to investigate the research question, the following research framework was adopted.

The independent variable is the capital structure of the firms measured by the Debt to asset, Debt to equity, Sales growth, Firm's size, and Capital expenditure to sales.

The dependent variable was the performance of firms, measured by the return on equity (ROE) and return on Asset (ROA). The controlling variable is included in the model to control for effects of firm size on dependent variable in the period covered by the study.

The Conceptual Framework is shown in Figure 3.1

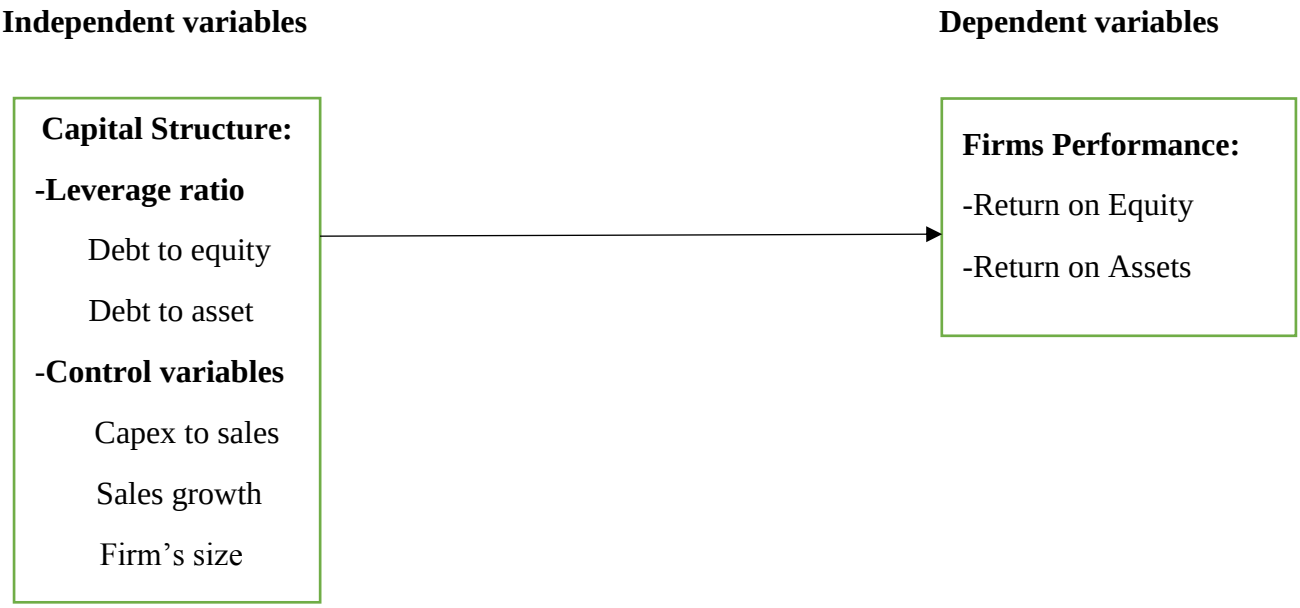

Figure 3.1:

Conceptual Framework

3.4 VARIABLES MEASUREMENT

3.4.1 PERFORMANCE (dependent variables)

The literature indicates that there are many different measures for firm's performance, this study considers corporate performance as the dependent variable and it is measured by using ROE and ROA these proxies are in the same context with previous studies such as (Majumdar & Chhibber, 1999; Abor, 2005; Ebaid, 2009; Taani, 2013).

Therefore, two common accounting-based performance measures are conducted to assess the firm's performance, these measures are as following:

ROE which is calculated as the ratio of net profit to average total equity. This indicator is very significant for shareholders; and the forecasted sign is negative with financial leverage (Ebaid,

2009). However, the ROA is widely regarded as the most practical proxy to test the performance of companies (Zeitun and Tian, 2007; Ebaid, 2009) which calculates as the ratio of net profit to average total asset (Zeitun, & Tian, 2007; King & Santor 2008). It is forecasted a negative but significant relationship with financial leverage. The researchers consider (ROA) as an accounting performance measure (Zeitun, & Tian, 2007; Ebaid, 2009; Oladeji, Tolulope, 2013).

3.4.2 CAPITAL STRUCTURE (Independent variables)

-LEVERAGE RATIO:

Similar to the former literature (Krishnan, & Moyer, 1997; Severin, 2001; Omet, & Mashharawe, 2002; Abor, 2005; Abor, 2007; King & Santor 2008; Margaritis & Psillaki, 2010). Financial leverage was measured in the study by the use of:

Total debt to equity (TDE): It is calculated by dividing total debt by equity.
Total debt to asset (TDA): It is calculated by dividing total debt by equity.

The estimation for these variables is a negative but significant relationship between TDE, TDA and firm's performance (Ebaid 2009; Salim & Yadav, 2012, Taani, 2013, Olokoyo, 2013).

-CONTROL VARIABLES:

Past research suggest that firm's size may influence its performance, larger firms have a greater variety of capabilities and can enjoy economies of scale, which may influence the results and the inferences (Ramaswamy, 2001; Severin 2001; Frank and Goyal, 2003; Jermias, 2008; King & Santor, 2008; Ebaid 2009; Salim, Yadav 2012). Moreover, the firm size is included as a

controller in the model to regulate the differences in firm's operating environment (Al-Kayed, Syed, & Duasa, 2014).

The natural logarithm of the firm's sales is the common way to measure Firm size (SIZE). Positive but insignificant is the impact of this variable on firm's performance as being more diversified, using advanced technology, and having better managers are the prediction of any larger corporations. Monitoring top management by economies of scale is the enjoyment of large enterprises (Himmelberg, Hubbard and Palia, 1999, Taani, 2013).

Growth prospects and investment opportunities can be measured by Sales growth (((New net sales/Old net sales)-1)*100) and it is expected a positive impact with corporate performance. Therefore, sales growth is used to measure how fast a business is expanding (King and Santor, 2008).

Previous study used capital expenditure to sales as control vaciable (King and Santor, 2008). According to King and Santor (2008); Al-Kayed, Syed & Duasa, (2014); Dawar, (2014) is a funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. The higher the capes to sales the higher the performance would be. This type of outlay is made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing a roof to building a brand new factory. This is derived from the capital expenditure divided by the sales (King and Santor, 2008).

3.5 SPECIFICATION OF THE MODEL AND METHODOLOGY

The following regression model tested the relationship between financial leverage and a firm's performance: These two models are adapted from Krishnan, Moyer (1997); Ebaid (2009); King and Senator, (2008); Salim, Yadav, (2012); Tianyu, He, (2013); Taani, (2013).

$$\textbf{ROE} = \beta_0 + \beta_1 TDE_{I.t} + \beta_2 TDA_{I.t} + \beta_3 Capex\ to\ sales_{I.t} + \beta_4 SG_{I.t} + \beta_5 FS_{I.t} + ei_{I,t} \quad (1)$$

$$\textbf{ROA} = \beta_0 + \beta_1 TDE_{I.t} + \beta_2 TDA_{I.t} + \beta_3 Capex\ to\ sales_{I.t} + \beta_4 SG_{I.t} + \beta_5 FS_{I.t} + ei_{I,t} \quad (2)$$

Where:

$ROE_{I.t}$ = Net profit to average total equity for firm *i* in year *t*.

$ROA_{I.t}$ = Net profit to average total asset for firm *i* in year *t*.

$TDE_{I.t}$ = Total debt to equity for firm *i* in year *t*.

$TDA_{I.t}$ = Total debt to asset for firm *i* in year *t*.

$Capex\ to\ sales_{I.t}$ = Capital expenditure to sales for firm *i* in year *t*.

$FS_{I.t}$ (Firm's size) = Natural logarithm of total assets for firm *i* in year *t*.

$SG_{I.t}$(Sales growth) = ((New net sales/Old net sales)-1)*100 for firm *i* in year *t*.

$ei_{I,t}$ = the error term.

The frequency distribution is tested by the use of descriptive statistics, while the significant of the independent variables in the model is tested by Ordinary Least Square (OLS).

3.6 DEVELOPMENT HYPOTHESIS

Based on the previews studies shown on the below table, the hypothesis for this study are as follows:

H1: There is a positive relationship between total term debt to equity ratio and firm performance ROE and ROA.

H2: There is a positive relationship between total term debt to asset ratio and firm performance ROE and ROA.

H3: There is a positive relationship between capital expenditure to sales and firm performance ROE and ROA.

H4: There is a positive relationship between Sales growth and firm performance ROE and ROA.

H5: There is a positive relationship between firm's size and firm performance ROE and ROA.

The following table shows a summary of the variables with their expected sign. **(Table 3.2)**

Table3.2
Summary of variables with expected sign

Author	DV's	IV's	Findings
Krishnan & Moyer (1997)	ROE	TDE	(-) Insignificant
Severin (2001)	ROE	TDA	(-) Significant
	ROE	FS	(+) Insignificant
Abor (2005)	ROE	TDA	(-) Insignificant
	ROE	FS; SG	(+) Insignificant
Zeitun & Tian (2007)	ROA	TDA	(-) Significant
	ROA	FS; SG	(+) Significant
King & Santor (2008)	ROE; ROA	FS; Capex to sales	(+) Significant
	ROA	SG	(+) Insignificant
	ROA	TDA	(-) Significant
Ebaid (2009)	ROA; ROE	FS	(+) Insignificant
Salim & Yadav (2012)	ROA; ROE	TDA	(-) Significant
	ROA; ROE	SG	(+) Significant
	ROA; ROE	FS	(+) Significant
Awunyo, Vitor & Jamil Badu (2012)	ROE	FS	(-) Insignificant
	ROA	FS	(+) Insignificant
Skopljak & Luo (2012)	ROE	FS	(+) Insignificant
	ROA	FS	(+) Insignificant
Abbadi, & Abu-Rub (2012)	ROE	TDA	(+) Insignificant
Nimalthasan (2013)	ROE; ROA	TDE	(-) Insignificant
	ROE	TDA	(+) Significant
	ROA	TDA	(-) Significant
Taani (2013)	ROA	TDE	(-) Significant
Olokoyo (2013)	ROA; ROE	TDA	(-) Insignificant
	ROA; ROE	FS	(+) Insignificant
Oladeji, Tolulope (2013)	ROA	TDA; FS	(-) Insignificant
Odongo; Thabang & Leonard (2014)	ROE; ROA	TDA; TDE	(-) Insignificant
	ROE; ROA	SG	(+) Insignificant
	ROE	FS	(-) Significant
	ROA	FS	(+) Significant
Dawar (2014)	ROE; ROA	SG	(+) Insignificant
	ROE; ROA	FS	(+) Significant
Xin (2014)	ROE	FS; TDA	(-) Significant
	ROA	FS; TDA	
Al-Kayed, et all (2014)	ROA; ROE	FS	(+) Significant

3.7 SUMMARY OF CHAPTER

This chapter has been able to explain and describe vividly the variables used for this study, depict the theoretical framework and the measurements for the variables. This chapter also explains the specification of the model and the method to apply. It finally expatiates on the hypotheses of the study.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.0 INTRODUCTION

Preceding chapter demonstrate the variables used in this study, theoretical framework, hypotheses, and specification of model and the data methodology applied. While, this chapter will clarify intensely the descriptive statistics, correlation matrix, variance inflation factors and analysis of the results of the data regressed for this study.

4.1 DATA AND SUMMARY STATISTICS

The analysis of this study started with the summary of the descriptive statistics. The descriptive statistics for firm performance which is measured with (ROE) and (ROA) and capital structure which measured by Total debt to total asset, total debt to total equity, sales growth, capital expenditure to sales & firm size are stated in Table 4.1.

Table 4.1:

SUMMARY STATISTICS

Variable	Mean	Median	Minimum	Maximum	Std. Dev.
ROE	-0.509953	3.54000	-95.8500	59.9200	17.5864
ROA	1.24011	3.00000	-47.2300	37.4900	9.36772
TDE	28.5638	19.3500	0.000000	99.9500	29.2439
TDA	23.5441	19.9800	0.000000	89.8200	20.6611
SG	-23.2959	0.0000	-100.000	99.6785	46.1606
Capex to sales	9.56631	3.23000	-79.5500	100.600	18.2778
Firm's size	11.1894	11.1761	7.42952	15.9716	1.30200

The table above demonstrates a summary of the descriptive statistics of both dependent and independent variables for the sample of Kuwaiti firms.

The variables which are collected from data stream are shown in the table as average indicators. The rate of return measured by return on equity (ROE) implies an average of -0.51 with a minimum value of -95.85 and a maximum value of 59.2. The standard deviation of this ratio is 17.59. This specific image reveals a bad performance during the period covered by this study. This means that the Kuwaiti firm's management did not invest the equity shareholder in profitable investment.

Concerning return (ROA) measured by the net profit to the average of total asset indicates that the mean is 1.24 with a minimum value of -47.23 and a maximum value of 37.49. The value of 9.37 is registered for the standard deviation. The (ROA) illustrates the effectiveness of the firm in using its proper fixed asset in order to make profit. Therefore, the value of 1.24 indicates that for each KWD (local currency) 100 invested in asset the respective average return is KWD (local currency) 124, this shows a high performance indicator.

The ratio of (TDE) has a mean of 23.56, this means that 23.56 of common equity is financed by total debt, this ratio has a minimum value of 0 and a maximum value of 99.95, than, the standard deviation for this ratio is 29.24. The mean of TDA is 23.59. This suggests that 23.59 of the total asset is financed by total debt. The minimum and the maximum value for this ratio is 0 and 89.82 respectively with the standard deviation of 20.66.

Whereas, the mean value of sales growth (SG) and capital expenditure (Capex to sales) are -23.59 and 9.97 respectively, this means that the decline in the volume of capital expenditure lead to the decrease in the volume of sales growth. The minimum and the maximum values of these ratios are -100, 99.68 and -79.55, 100.6 respectively. The standard deviation of growth sales is 46.16. In contrast, the standard deviation of capital expenditure to sales is 18.28. The

firm's size mean is 11.19 with a minimum value of 7.43 and the maximum value is 15.97, while its standard deviation is 1.

Table 4.2:

VARIANCE INFLATION FACTORS (VIF)

Variables	collinearity
TDE	7.707
TDA	7.652
SG	1.002
Capex to sales	1.027
Firm's size	1.265
VIF	**3.73**

The use of variance inflation factor (VIF) that is illustrated in Table 4.2 for each independent variable in the models is to test whether the multicollinearity exist or not in this analysis. As it can be seen from that table the multicollinearity does not exist at all in this sample, since the largest VIF is 7.707 for TDA and it is less than 10 (Studenmund, 1997; Gujarati, 2003).

Table 4.3:

CORRELATION MATRIX

	ROE	ROA	TDE	TDA	SG	Capex to sales	Firm's size
ROE	1						
ROA	0.868	1					
TDE	-0.048**	-0.031**	1				
TDA	-0.263	-0.093*	0.94	1			
SG	0.0182**	0.0648*	-0.01***	0.0312**	1		
Capex to sales	0.0698*	0.0506*	0.135	0.1671	0.0927*	1	
Firm's size	0.0684*	0.1157	0.44	0.4708	0.0018***	0.1221	1

Note: ***, **, * indicate significant at 1%, 5% and 10% respectively.

Table 4.3 demonstrates the correlations that exist between the variables. The purpose of applying the correlation coefficient is to measure the degree of linear liaison that exists between two variables or more. In table 4.3 it can be seen that there is a significant but negative relationship between total debt to equity (TDE) and return on equity (ROE) at the level of 5 percent. This means that a higher level of (TDE) guide to a lower performance in terms of (ROE). At 5 percent level, sales growth (SG) is positively and significantly correlated with the performance of firm which is measured by (ROE).

The table also shows that, capital expenditure to sales is positively and significantly related with (ROE) at the level of 10 percent. Firm size is positively and significantly related to (ROE) at the level of 10 percent suggesting that large firms in Kuwait enjoy economies of scale. In addition, total debt to equity (TDE) and total debt to asset (TDA) have a negative but significant relationship with return to asset (ROA) at the level of 5 percent and 10 percent respectively. These results show that a higher level of leverage which is measured by (TDE) and (TDA) leads to a lower (ROA). While, a positive and significant correlation at 10 percent level is located between sales growth (SG) and return on asset (ROA).

Whereas, is noted that the relation between capital expenditure to sales (capex to sales) and (ROA) is positive and significant at 10 percent level. Furthermore, the table shows a significant relationship between sales growth (SG) and the both leverage ratio total debt to equity (TDE) and total debt to asset (TDA) at 5 percent and 10 percent respectively but this relation is negative with (TDE) and is positive with (TDA). Moreover, capital expenditure to sales (capex to sales) is significantly and positively correlated with sales growth (SG) at the level of 10 percent. At the level 1 percent firm's size (FS) has a positive and significant relationship with sales growth (SG).

Interestingly, firm size (FS) has a strong relationship with leverage ratios which is positive but insignificant. This implies, that larger firms seek to have a higher leverage ratio. Meanwhile, total debt asset (TDA) is negatively and insignificantly related with return on equity (ROE) this results implies that the decrease in total debt to asset (TDA) is associated with an increase in the performance of firm which measured by (ROE).

4.2 EFFECTS OF CAPITAL STRUCTURE ON RETURN ON EQUITY (Model ONE)

$$\textbf{ROE} = \beta_0 + \beta_1 TDE_{I.t} + \beta_2 TDA_{I.t} + \beta_3 Capex\ to\ sales_{I.t} + \beta_4 SG_{I.t} + \beta_5 FS_{I.t} + ei_{I,t}$$

Table 4.4:

Regression Analysis for Model 1

Dependent variable: (ROE)

Variables	Coefficient	*p-value*	
TDE	0.184559	0.05149	*
TDA	-0.516381	0.00763	***
SG	0.033358	0.07755	*
Capex to sales	0.171531	0.00354	***
Firm size	2.91188	0.00051	***

Note: ***, **,* significant at 0.01, 0.05 and 0.1 respectively. P-value (F) = 0.000013, R square = 0.10773. ROE= Net profit to average total equity; ROA = Net profit to average total asset; TDE= Total debt to equity; TDA= Total debt to asset; Capex to sales= Capital expenditure to sales; FS (Firm's size) = Natural logarithm of total assets; SG (Sales growth) = ((New net sales/Old net sales)-1)*100

The table 4.4 shows the results of ordinary least squares regression used for the purpose of testing the relationship between capital structure and firm's performance represented by (ROE).

Total debt to equity (TDE) and return on equity (ROE) are positively related at 10 percent confidence level, which means that if total term debt equity increases by 1 percent ROE will increase by 18.45 percent. Thus this result implies that the increasing in total debt to equity (TDE) is associated with the increasing in (ROE). This result is not consistent with the previous studies because their findings show a negative relationship (Krishnan, & Moyer, 1997; Nimalthasan, 2013; Taani, 2013 and Odongo et al 2014).

The relationship between total debt to asset (TDA) and return on equity (ROE) is negative but significant at the level of confidence of 1 percent. This means that if total term debt to total asset (TDA) goes up by 1 percent the performance which measured by (ROE) will decline by 51.64 percent. So, this result indicates that an increase in total debt to total asset (TDA) is linked with a decrease in (ROE). This finding is in line with Severin, (2001); Abor, 2005; Zeitun, & Tian, (2007); King & Santor, (2008); Salim & Yadav, (2012) and Xin, (2014).

Sales growth (SG) has a significant and positive relationship with ROE at 1 percent confidence level, this means that if SG raise by 1 percent ROE will climb by 3.33 percent. In other words, an increase in sales growth (SG), will lead to an increase in (ROE). This result is consistence with Abor, (2005); King & Santor, (2008); Salim & Yadav, (2012); Odongo et al (2014) and Dawar, (2014).

Capital expenditure to sales (capex to sales) is positively and significantly related with ROE at the level confidence of 1 percent which is means that, if the capex to sales increase by 1 percent in return (ROE) will increase by 17.15 percent. Suggesting that, when capital expenditure to sales is high the (ROE) used to be high as well. This result is similar with (King & Santor, 2008).

A positive and significant relationship is noted between firm's size (FS) and ROE, implying that the larger the size of the companies the better the performance would be. This finding is in the same context with (Ebaid, 2009; Awunyo & Jamil Badu, 2012; Oladeji, Tolulope, 2013; Al-Kayed et all, 2014).

In addition, the value of R square in this model is 10.77 percent, this means that the independent variables are determined by this value, while 89.23 percent is attributed to other variables. In this specific model the hypothesis H1, H3, H4 and H5 are accepted because the expectations are in line with the findings; (ROE) has a positive relationship with (TDE), (SG), (capex to sales) and (FS). In contrast, H2 is not accepted because of the negative relationship between (TDA) and (ROE), which contradicts with the prediction.

4.3 EFFECTS OF CAPITAL STRUCTURE ON RETURN ON ASSET (Model Two)

$$\textbf{ROA} = \beta_0 + \beta_1 TDE_{I.t} + \beta_2 TDA_{I.t} + \beta_3 Capex\ to\ sales_{I.t} + \beta_4 SG_{I.t} + \beta_5 FS_{I.t} + ei_{I,t}$$

Table 4.5:

Regression Analysis for Model 2

Dependent variable: (ROA)

Variables	Coefficient	p-value	
TDE	0.0258095	0.65337	
TDA	-0.117198	0.32046	
SG	0.0275221	0.02615	**
Capex to sales	0.112663	0.00311	***
Firm size	1.55686	0.00449	***

Note: ***, **,* significant at 0.01, 0.05 and 0.1 respectively. P-value (F) = 0.000271, R square = 0.084089. ROE= Net profit to average total equity; ROA = Net profit to average total asset; TDE= Total debt to equity; TDA= Total debt to asset; Capex to sales= Capital expenditure to sales; FS (Firm's size) = Natural logarithm of total assets; SG (Sales growth) = ((New net sales/Old net sales)-1)*100

The table 4.5 presents the regression results by using ordinary least squares in order to test the effect of capital structure with firm's performance represented by (ROA). A positive but insignificant relationship is noted between total term debt to equity (TDE) and return on equity (ROE). This result is not consistent with the previous studies which is said a negative and insignificant relationship between (TDE) and (ROA) Krishnan, & Moyer, (1997); Nimalthasan, (2013) and Odongo; et al,(2014). In contrast, other study found a negative but significant relationship between TDE and ROA. (Taani, 2013).

Sales growth (SG) is significantly and positively related with ROA at the level of confidence of 5 percent, which means that any increasing in (SG) by 1 percent (ROA) will increase by 2.75 percent. This study is in line with Zeitun, & Tian, (2007); Salim & Yadav, (2012). The

relationship between capital expenditure to sales (capex to sales) and (ROA) is found to be positive and significant at 1 percent confidence level, which is means that if the (capex to sales) increase by 1 percent in return (ROA) will increase by 11.27 percent. Implying that, when capex to sales is high the (ROE) used to be high as well. This result is in line with (King & Santor 2008).

Firm's size (FS) has a positive and significant relation with (ROA) at 1 percent level of confidence, indicating that an increase in (FS) by 1 percent will lead to an increase in (ROA) by 155.67 percent. This finding, is consistence with Zeitun, & Tian, (2007); Salim & Yadav, (2012); Odongo et al, (2014); Dawar, (2014) and Al-Kayed, et all, (2014). Moreover, R^2 in this model is 8.41 percent, this means that the independent variables are explained by this value, whereas, 91.59 percent belongs to other variables.

Concerning the hypothesis H3, H4 and H5 are accepted because of the findings are in the same context with the results which is consistent with the expectation (ROA) has a positive relationship with (TDE), (SG), (capex to sales) and (FS). However H1 and H2 are rejected because of (TDA) and (ROA) are negatively correlated which is not consistent with the forecasting.

4.4 SUMMARY OF CHAPTER

The results of this study have been definitely examined in this chapter. This chapter contents are divided into four sections the summary statistics of data, the correlation matrix presenting the correlation between the independent variables, the variance inflation factors that specifies the level of multicollinearity of the variables, and the regression analyses of the data using pooled OLS.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.0 INTRODUCTION

The former chapter elaborated the results of this study via the findings of the descriptive statistics, correlation matrix and the regression analysis by using OLS. Therefore, this chapter discusses conclusions, implications and recommendations.

5.1 SUMMARY OF STUDY

The main goals of this study are examining whether capital structure affect corporate performance and explaining the relationship between the capital structure and the performance of firms listed on the stock exchange in Kuwait. The data for this study is collected from the DataStream. The sample contains of Kuwaiti listed firms in Kuwait stock exchange.

The analysis is done for 192 firms with 12 different sectors during the period of (2009-2013). The model used in this study is panel data with pooled OLS as a method of regression analysis because this method is considered as the best and the simple among the other methods of regression.

Based on a specific selected sample size and by the use of capital structure determinants such as total debt to total asset, total debt to total equity, capital expenditure to sales, sales growth and firm size as well as return on equity, and return on asset, as performance determinants, generally there is a positive and significant relationship between capital structure and firm performance. In addition, research results shows that by reducing debt ratio, management can increase the company's profitability and thus the amount of the company's financial performance measures and can also increase shareholder wealth.

Results indicate that there is a positive and significant relationship between total debt to equity (TDE) and performance measure of Kuwaiti firms (ROE) while, (TDA) is negatively but significantly related with ROE. In contrast, the finding shows a positive but insignificant relationship between (TDE) and (ROA) whereas, (TDA) has a negative and insignificant impact with (ROA). (TDE) and (TDA) will determine the financial health of companies.

This ratio helps investors to identify risk rate for companies. The company that has a high (TDA) will have a negative impact on firm performance and value. Remarkably, Kuwaiti companies by reducing the (TDA) ratio can increase profitability and thus improved (ROA) and (ROE) measures. Also, results show that there is a significant and positive relationship between variables of capital expenditure to sales, firm size, and sales Growth with measures of the financial performance of companies (ROA) and (ROE). Given this relationship, it can be noted that these three control variables are the affecting factors on the financial performance of Kuwaiti companies.

5.2 IMPLICATION

This study finds out that performance reduced as financial leverage which measured by (TDA) increased while, the performance of firm increased when the financial leverage which measured by (TDE) increase. The study therefore recommends that corporate managers should reduce financial leverage in order to enhance performance. This study further recommends that the government should regulate the financial firm through various monetary and fiscal policies in order to reduce the cost of borrowing given that many companies rely on external borrowing to finance their cash requirements.

5.3 FUTURE RESEARCH

This study is open for further research. As long as the findings shows generally the existence of a positive and significant relationship between capital structure and firm performance, the study suggests that managers should be careful while using debt as a source to finance the firms in order to achieve their targets. Moreover, the pecking order theory suggests that managers should finance their actions with retained earnings and leave the use of debt as a last option for the purpose of generating more profit.

Further research needs to look at the other factors to measure capital structure like short term debt to total asset, long term debt to total asset, current liabilities, firm age, market capitalization, GDP, inflation, tangibility and intangibility that affect the financial performance of corporations. Furthermore, future research needs to take into consideration the market measure (Tobin's q) and gross margin as well. Debt policy and financial performance of medium and large sized enterprises, the micro finance institutions and shareholding firms in Kuwait are another potential areas for further research.

The study concentrated on capital structure and financial performance of listed enterprises in Kuwait, although the stock exchange of Kuwait contains of banking sector and non-listed companies, so further studies should focus in these two elements as well. Further research might consider widening the scope of this research by conducting a comparison between different countries in the same period and by using the same sectors as well such as constructions, food, health care, transportation, telecommunication, oil and gas, real estate, travel and leisure.

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