

## EFFECT OF CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE OF FIRMS LISTED ON THE RWANDA STOCK EXCHANGE

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### ABSTRACT

This study sought to appraise the effect of capital structure on financial performance of firms listed on RSE. Both primary and secondary data were used by the study. The study adopted descriptive research design and the population was all the six companies listed in the Rwanda Stock Exchange (RSE). A census survey was conducted on all the six listed firms and purposive sampling technique was used to sample the respondents to participate in the study. Data was analyzed using descriptive statistics, correlation analysis and regression analysis using SPSS version 20. The study findings indicated that capital structure is negatively associated with ROA. Furthermore, capital structure is negatively associated with ROE. The regression results indicated that the relationship between capital structure and both ROA and ROE is negative and significant, Based on the study findings, the study concluded that, the association between capital structures and both ROA and ROE is negative and capital structure explains a larger change in ROA than in ROE. Furthermore, the relationship between capital structure and both ROA and ROE is negative and significant. Generally, the study concluded that capital structure is negatively and significantly related to financial performance of firms listed at the RSE. The study recommends that firms listed at the RSE should improve their capital structure and implement strategies that lead to a reduction in liquidity ratio as it leads to improved financial performance. The firms should keep its leverage level under control and have clear working capital management guidelines to avoid bankruptcy

**Keywords:** Capital structure, financial performance, Rwanda stock exchange, ROA, ROE.