CAPITAL STRUCTURE AND PROFITABILITY OF SOVEREIGN INVESTMENT GROUP LIMITED, UGANDA

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Abstract

The aim of this study is to ascertain the nature of capital structure employed in Sovereign Investment Group Limited so as to assess the level of profitability of Sovereign Investment Group Limited, and to establish the relationship between capital structure employed and profitability of Sovereign Investment Group Limited.
The research study used both qualitative and quantitative approaches of data collection with descriptive and correlation designs. The descriptive design allowed the researcher to describe the capital structure of Sovereign Investment Group Limited.
The researcher used correlation design to determine the relationship between Capital Structure and Profitability of Sovereign Investment Group Limited. The researcher used questionnaires supported by document analysis to collect data from the selected respondents. Both descriptive statistics and Pearson Correlation were used in analyzing data and reporting the study results. A sample of 70 respondents was used in the study. It was concluded that both equity and debt are employed at a low level, meaning that there is under investment in Sovereign Investment Group Limited and it may be attributed to some of the determinants of capital structure in an organization such as firm size. Further the results indicated that the level of profitability in Sovereign Investment Group Limited is low. This implies that the companies are not generating enough profits from their investments thus not having enough funds to expand their businesses. However, from the Pearson Correlation table the results indicate that there is a strong relationship between capital structure and profitability of sovereign investment group limited at correlation coefficient $r = 0.794$. The null hypothesis which stated that there is no significant relationship between capital structure and profitability of Sovereign Investment Group Limited was therefore rejected and the alternative one was accepted.
The study made practical recommendations to Sovereign Investment Group Limited, Firms in Uganda and Professional and Qualified Personnel in various fields of finance, and suggestions for further research was made as well.

Keywords: Capital Structure, Profitability, Sovereign investment group limited.

INTRODUCTION

Capital structure is one of the most puzzling issues in worldwide corporate finance literature (Brounen & Eichholtz, 2001). The proportion of debt to equity is a strategic choice of Corporate Managers. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention needs to be given while determining capital structure decision. A cautious attention has to be paid as far as the optimum capital structure is concerned. With unplanned capital structure, companies may fail to economize the use of their funds leading to low profitability. Consequently, it is being increasingly realized that a company should plan its capital structure to maximize the use of funds and to be able to increase their profitability (Pandey, 2009).

Capital structure decision is very vital for any organization; every organization wants a mix or arrangements that eventually achieves or increases its profitability and overall value. Different alternatives are available to companies to finance itself sometimes through issuing shares securities, or some time from debt, organizations achieve different combinations of huge or small amount of debt. An organization takes the combinations, which increase their efficiency and profitability and its market value (Brigham & Houston, 2004).

According to Abor (2005), in his study on the effect of capital structure on profitability of listed firms in Ghana, there is a significant positive relationship between the ratio of short-term debt to total assets and return on equity. However, a negative relationship between the ratio of long term debt to total assets and return on equity was found. With regard to the relationship between total debt and return rates, the results show a significantly positive association between the ratio of total debt to total assets and return on equity.

In Uganda, in the last decade, controls on interest rates and credit have been gradually abolished so as to improve on the efficiency of mobilization and allocation of financial resources. In 1994 commercial banks were allowed to set their own interest rates based on market conditions. The objective of this move was to promote economic growth and financial development through increased efficiency in savings mobilization, credit allocation and investment (Nannyonjo, 2001).

This study looked at the capital structure of Sovereign Investment Group Limited. Sovereign Investment Group Limited is a Uganda based company which comprises of four companies namely: The Terp Group Limited which was established in March 1998 as one of the first indigenous public relations firms in Uganda and also deals in events management. The Gideon's Men Limited which was incorporated in Uganda in 2006 as a licensed security company. Tomosi's Farm Bwesharire Limited which is a private limited liability company incorporated in Uganda 2009 and deals in cattle rearing, agro-processing and agro-marketing. Corban

Limited was incorporated in 2005 and its main business is real estates.

The shareholders of Sovereign Investment Group Limited have financed the companies both through equity and debts in order to ensure improvement in their profitability. However, according to the audits conducted for the last three years and management reports, the profitability of Sovereign Investment Group Limited has been lower than the targeted profitability of 25% and above (Audit and Management report of 2010 - 2012). The reports shows that the profitability percentage was The Terp Group Limited 3 % (2010), 5 % (2011) and 6% (2012), The Gideon's Men Limited 10 % (2010), 13 % (2011) and 15 % (2012), Tomosi's Farm Bwesharire Limited -3 % (2010), -1 % (2011) and 1% (2012) and Corban Limited 14 % (2010), 18 % (2011) and 20 % (2012). Therefore the researcher took the study so as to investigate the capital structure of Sovereign Investment Group Ltd and find out its contribution to the profitability of the organization.

Capital structure mechanisms, when used, could support increased investment in companies (Brounen & Eichholtz, 2001). The management of Sovereign Investment Group Limited has been making effort to finance their businesses using both equity and debts in order to reach the targeted profitability level which was estimated to be 25% and above (Audit and Management report of 2010 - 2012). Despite the management's efforts to adopt capital structure mechanisms by applying both equity and debts to finance their investments; there is still a low level of profitability of Sovereign Investment Group Limited (Management report of 2012). The study was undertaken to examine why the level of profitability is still low despite efforts to finance investments using capital structure (Equity and Debt). The following objectives were investigated as under:

i. To ascertain the nature of capital structure employed in Sovereign Investment Group Limited
ii. To assess the level of profitability of Sovereign Investment Group Limited
iii. To establish the relationship between capital structure employed and profitability of Sovereign Investment Group Limited

It was hypothesized that there is no significant relationship between capital structure and profitability of Sovereign Investment Group Limited

The study took place at Sovereign Investment Group Limited in Uganda. Sovereign Investment Group Limited comprises of companies such as The Terp Group Limited, The Gideon's Men Limited and Corban Limited located in Kampala District, plot 37/41 Port bell Luzira road and Tomosi's Farm Bwesharire Located in Kiruhura District, Kinoni Sub-county, Naama Village. This study basically revolved around capital structure and their impact on profitability. The study looked at the capital structure comprising of Equity and Debt as the only indicators of the independent variable and profitability as the dependent variable. The researcher was also limited to the use of inferential statistics specifically Pearson correlation and linear regressions in the analysis in order to make inferences and conclusion basing on this statistical tool. The study looked at the relevant information covering a period from 2010 - 2012, this is because at this time most of the companies were highly operational and their profitability was seen to be lower than expected. The study took six months (February - July 2013).

Theoretical Framework

The study was guided by the Tradeoff theory of Modigliani and Miller (1958), which assumes that there are benefits within a given capital structure up until the optimal capital structure is reached; which increase the efficiency, profitability and market value of the firm. The theory recognizes the tax benefit derived from interest payments on loans, because they are allowed to deduct it as expense when computing corporation tax payable to the government, thus issuing loans effectively reduces a company's tax liability and increases profitability. Paying dividends on equity, however, is not deductible. The theory further explains that a firm has an optimum capital structure based on trade-off between costs and benefits of using either debt or equity in financing.

Owalobi and Anyang (2013), supported this theory by stating that a firm's optimal debt - equity ratio is determined by a trade - off between the bankruptcy cost and tax advantage of borrowing and it is achieved at the point when the marginal benefits of the tax on additional debt is equal to the present value of financial distress costs.

The study was also based on Pecking order theory which explains why internal finance is more popular than external finance and why debt is considered the best option for firms. This theory assumes that managers will use pecking order by first using internally generated funds which are less costly to acquire. If more funds are required then go for cheap debt (capital with fixed interest) before equity (Issuing of more shares) in financing the firm's activities (Myers, 1984).

The researcher adopts these two theories because both support the use of capital structure comprising of equity and debt financing in determining the profitability of a firm, depending on the mix and benefits derived from them. Also the theories stresses that both should be used until an optimal capital structure is reached where profitability is at maximum level. This means if Sovereign Investment Group Limited is to improve their profitability they should ensure their capital structure is carefully selected and analyzed. Therefore in this study the components of capital structure that influence the profitability of a company will be identified henceforth ascertain their nature and relationship.

Conceptual Framework

The study was intended to establish the relationship between capital structure and profitability of Sovereign Investment Group Limited. The figure 1 shows the conceptual framework indicating the relationship between capital structure and profitability as adopted by the researcher.

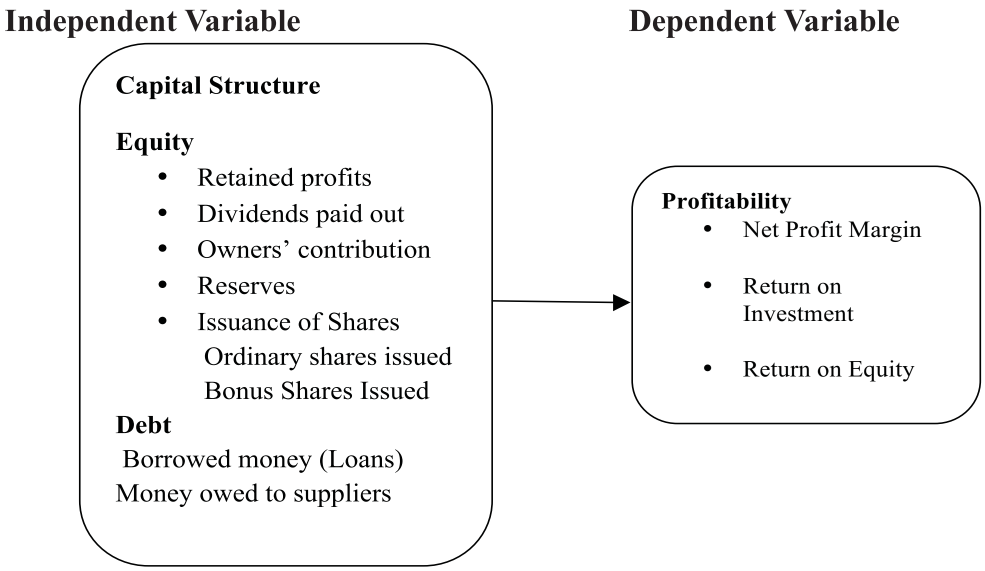

Figure 1: Conceptual Framework
Source: Made by the Researcher and adapted from (Pandey, 2005)

The conceptual framework shows how the independent variable influences the dependent variable. The independent variables comprises of components of capital structure. The output of which is profitability, meaning that if proper capital structure is employed, it will lead to improved profitability.

METHODS AND INSTRUMENT

The research study employed both qualitative and quantitative approaches of data collection with descriptive and correlation designs. The study took place in Uganda, at Sovereign Investment Group Limited comprising of The Terp Group Limited, The Gideon's Men Limited and Corban Limited located in Kampala District, Nakawa Division, plot 37/41 Port bell Luzira road, Corban Building opposite Nile Breweries and Tomosi's Farm Bwesharire Limited Located in Tomosi's Farm Bwesharire Located in Kiruhura District, Kinoni Sub-county, Naama Village.

According to Burns and Grove (1993), a population is defined as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a study. The idea is not far from Sekarans' view (2001), as he defines a population as "the entire group of people, events or things of interest that the researcher wishes to investigate". The study population was **85** employees of Sovereign Investment Group Limited.

The researcher used Morgan and Krejcie (1970), table (check appendices) to determine the sample size of the study. Since the target population of the study was **85** respondents. Morgan and Krejcie (1970), recommend that if a researcher has a target population of **85**, the sample size for the study is **70**. Therefore the study sample size was **70** respondents.

The researcher used Census because they are few to give primary information that is required within the company as far as the topic under investigation is concerned and simple random sampling also was used where all the respondents are not needed.

The data in this study was collected through self- administered questionnaire. The researcher also used a document analysis to collect secondary data on profitability of Sovereign Group Investment limited which was not able to be collected using a questionnaire. Validity of the instrument was established by using expert judgment. The instrument was considered valid when the CVI gotten was above 0.60 as recommended by Lynn, 1986. The Statistical Package for Social Science (SPSS) was used to determine the reliability of the instrument before collecting the data. Objective 1 and 2 was analyzed using descriptive statistics where mean and standard deviation were used while objective 3 was analyzed using Pearson correlation and regression analysis. The hypothesis was tested using the P-Value at a significance level of (α) 0.05. Data collected from the document analysis was analyzed manually and results were used to supplement and support the findings from the main instrument.

RESULTS AND DISCUSSION

Demographic Characteristics of Research Participants

Table 4 shows the demographic characteristics of the respondents. In terms of gender the results indicate that male respondents were **42 (60%)** and female were **28 (40%).** Regarding the age those who had 31-35 years in the study were **33 (47.1%)** followed by those of 26 - 30 **23 (32.9%).** Next was those who had 20 - 25 and 36 and above each **7(10.0%).** Pertaining to education, the study findings indicate that, those who were at a degree level were the majority **44 (62.9%)** followed by those who had diploma level **16 (22.9%).** Next were those who were at certificate and masters level were **5 (7.1%).** The majority of the respondents being degree and diplomas' holders means that they had the ability to understand and interpret the questionnaire correctly.

When it comes to position held, the study findings revealed that the majority of the respondents were in supervision department **17 (24.3%)** followed by marketing staff **14 (20.0%)** next were those who were managers **13 (18.6%)** followed by those who were accountant **10 (14.3%)** next were directors and supplies **8 (11.4%)**. This implies that most of the respondents had general knowledge on how the companies finance their businesses since they participate in decision making due to their positions in the companies. Finally in respect to the years of services, it was revealed that those who have worked for 4 - 6 years were the majority **47 (67.2%)** followed by those who have worked for 1 - 3 Years **19 (27.1%)** and lastly those who have worked for over 6 years **4 (5.7%)**.

Table 4: Demographic Characteristics

Items N=70	Description	Frequency	Percent
Sex	Male	42	60.0
	Female	28	40.0
Age	20-25	7	10.0
	26-30	23	32.9
	31-35	33	47.1
	36 and Above	7	10.0
Level of education	Certificate	5	7.1
	Diploma	16	22.9
	Degree	44	62.9
	Masters	5	7.1
Office hold	Director	08	11.4
	Manager	13	18.6
	Accountant	10	14.3
	Marketing staff	14	20.0
	Supplies staff	8	11.4
	Supervisors	17	24.3
Years in service	1-3 years	19	27.1
	4-6 years	47	67.2
	over 6 years	4	5.7

Sources: Primary Data

Nature of Capital Structure Employed in Sovereign Investment Group Limited

The first objective of the study was to ascertain the nature of capital structure employed in Sovereign Investment Group Limited. The specific variable investigated under this objective included equity and debt. This objective was analyzed using the mean and standard deviation. The mean portrays the occurrence of a response and standard deviation portrays the extent to which scores deviate from the mean.

Table 5: Capital Structure

Items rated	μ	S.D	Interpretation
Equity			
The company refinances the business using ploughed back profits	2.03	0.96	Low
All profits made during the year are issued as dividends to shareholders.	2.16	0.85	Low
Equity shareholders are given first priority whenever company wants to raise more capital.	2.07	0.80	Low
Use of retained profits in financing investment has been reducing overtime.	2.07	0.86	Low
The company issues bonus shares to raise more financing for the business.	2.03	0.99	Low
Almost all the interest paid leaves us with nothing to pay dividends.	2.23	0.99	Low
The company issues common shares whenever they want to raise capital.	2.10	0.80	Low
Company has to repay the capital to the owners only at the time of winding up.	1.97	0.80	Low
The company accepts the buying back of shares from shareholders.	2.07	0.73	Low
The company keeps reserves for future investments.	2.16	0.75	Low
Directors contribute their own personal savings to finance the business.	2.49	1.02	Low
Aggregate Mean and Standard Deviation	**2.12**	**0.87**	**Low**
Debt			
The company finances the business using loans.	2.59	0.91	High
The amount of loans have been increasing overtime.	2.25	0.99	Low
Loans are the cheapest source of business capital.	2.14	0.79	Low
Loans help to reduce the taxes the company pays.	2.49	1.93	Low
Purchases of assets like cars, land, machines are by use of loans.	2.29	1.05	Low
Goods and services are purchased on credit.	2.64	1.02	High
Taking loans ties this business in fixed repayment plans.	2.44	0.83	Low
The company work very hard just to repay the loan so as to avoid defaulting.	2.07	0.87	Low
The company's loans are more than the income it is currently making.	2.30	0.89	Low
The interest charged on the company has been increasing overtime.	2.41	0.83	Low
The income generated is enough to cover interest payments on loans.	2.30	0.67	Low
Interest charged affects the company's profits.	2.41	0.92	Low
The continuity in business is questionable because of high costs.	2.46	1.03	Low
The company is finding it hard to pay back the loan and interest.	2.28	0.84	Low
The company has ever failed to repay a loan and interest.	2.17	0.98	Low
The company pays a lot in terms of interest.	2.36	0.93	Low
Aggregate Mean and Standard Deviation	**2.35**	**0.90**	**Low**
Grand Mean and Standard Deviation	**2.24**	**0.89**	**Low**

Sources: Primary Data

Legend 1 Scale interpretation

3.26 - 4.00 Very high
2.51 - 3.25 High
1.76 - 2.50 Low
1.00 - 1.75 Very Low

Table 5 gives the summary on objective one which was to ascertain the nature of capital structure employed in Sovereign Investment Group Limited. The results indicated that the capital structure of Sovereign Investment Group Limited comprises of equity and debt but both employed at a low level, since the use of debt had a mean of **(2.35)** and SD of **(0.90)** and equity had a mean of **(2.12)** and SD **(0.87)** which is a low mean with regard to legend 1 or scale that was used in the study.

This suggests that the respondents agree that the Sovereign Investment Group Limited employs capital structure at a low level thus being the reason why their profitability is low. This may mean that there is under investment among the companies and it may be attributed to some of the determinants of capital structure in an organization such as firm size, since Antoniou, Guney and Paudyal (2002), argued that several studies find that the size of a firm is a good explanatory variable for its capital structure ratio. Bevan and Danbolt (2002), also supported by arguing that large firms tend to hold more debt, because they are regarded as being 'too big to fail' and therefore receive better access to the capital market while smaller firms on the other hand may find it relatively harder to acquire debt capital, thus implying that Sovereign Investment group Limited finds it hard to borrow more funds to expand their investment due to their size and thus they only use the internal funds and small debts to run their daily operations thus remaining with no extra funds to expand the business.

The level of Profitability of Sovereign Investment Group Limited

The second objective was to assess the level of profitability of Sovereign Investment Group Limited. The specific variable investigated under this objective included Net Profit Margin, Return on Investment, Return on Equity. This objective was analyzed using the mean, percentages and standard deviation. The mean portrays the occurrence of a response and standard deviation portrays the extent to which scores deviate from the mean.

Table 6 gives the summary on objective two which was to ascertain the level of profitability in Sovereign Investment Group Limited. With regard to Net Profit margin, the results indicated that there are low profits in Sovereign Investment Group Limited because most of the respondents disagreed with the availability of enough profits to run operations and finance the investments. The results indicated a mean of **(2.23)** and SD of **(0.92)** which is a low mean and high standard deviation with regard to legend 2 or scale that was used in the study. This suggests that respondents agree that the profitability of Sovereign Investment Group Limited is low. This implies that the companies may not have enough retained profits for expanding their investments, since it is from retained profits that a company can finance its investments.

With regard to return on investment, the results indicated that the return on investment in Sovereign Investment Group Limited is still low because most of the respondents disagreed with the companies making profits from their investments on assets.

Table 6: Level of Profitability of Sovereign Investment Group Limited

Profitability	µ	S.D	Interpretation
Net Profit Margin			
Company's Net profit margins have increased in the last 3 years.	2.23	0 .89	Low
Company has been able to generate profit for the last 3 years.	2.30	0.92	Low
Company has been able to buy their assets from profits	2.30	0.86	Low
Company has been able to pay their expenses from retained profits.	2.19	0.89	Low
Company pays in time their suppliers as a result of availability of profits.	2.21	0.93	Low
Company has funded its business growth from profits.	2.13	1.02	Low
Aggregate Mean and Standard Deviation	**2.23**	**0.92**	**Low**
Return on Investment			
Company have made profits from their investments.	1.97	0.80	Low
The company assets generate income.	2.26	0.96	Low
The money borrowed is paid out of the profits.	2.23	1.02	Low
There has been increase in earnings per investment.	2.22	0.82	Low
Aggregate Mean and Standard Deviation	**2.17**	**0.90**	**Low**
Return on Equity			
The shareholders have been receiving dividends from shares they invested.	2.04	0.81	Low
The company has been making profits from the money invested by shareholders.	2.11	0.91	Low
There has been increase in earnings per share.	2.20	0.93	Low
Aggregate Mean and Standard Deviation	**2.12**	**0.88**	**Low**
Grand Mean	**2.17**	**0 .90**	**Low**

Sources: Primary Data

Legend 2	**Scale Interpretation**
3.26 - 4.00	Very high
251 - 3.25	High
1.76 - 2.50	Low
1.00 - 1.75	Very Low

The results indicated a mean of **(2.17)** and SD of (**0.90)** which is a low mean and high standard deviation with regard to legend 2 or scale that was used in the study. This implies that the management of Sovereign Investment Group Limited is not fully utilizing the available resources to generate more income or internal funds for more investments thus being attributed to low profitability.

The above findings is supported by Niall (2005), who said that the return on investment is an indicator of how profitable a company is relative to its total assets and gives an idea as to how efficient management is at using its assets to generate earnings and also shows how well a company controls its costs and utilizes its resources. He further explained that this ratio is used to determine the amount of income each asset generates and it measures overall profitability from investment in assets.

With regard to return on equity, the results indicated that the return on equity in Sovereign Investment Group Limited is still low because most of the respondents disagreed with the shareholders receiving dividends and earnings per share increasing. The results indicated a mean of **(2.12)** and SD of **(0.88)** which is a low mean and high standard deviation with regard to legend 2 or scale that was used in the study. This implies that Sovereign Investment Group Limited is not utilizing the resources of the shareholders fully since the earning per share is not increasing and dividends are not being paid.

This findings is supported by Pandey (2006), who noted that the return on equity indicates how well management is utilizing the resources of the shareholders and that the ratio of net profits to owners' equity reflects the extent to which management has achieved proper utilization of shareholders resources and that a business that has a high return on equity is more likely to be one that is capable of generating cash internally.

According to secondary data collected using the document analysis on the profitability of Sovereign Investment Group Limited in Uganda as shown by Appendix V, it was revealed that Terp Group Ltd had a Net Profitability Ration raging from 5 - 10%; a return on equity of less that 20%; and a return on investment of less than 10%. When it came to the Gideon's Men Ltd, it was revealed that the net profit was between 15 - 20%; the return on equity was between 20 - 30%; and the return on investment was between 10 - 20%. As for Corban Ltd, it was revealed that the net profit margin was less than 5%; the return on equity was less than 20%; and the return on investment was less than 10%, and lastly, when it came to Tomosi's Farm Bwesharire, it was recorded that the net profit margin was less than 5%; the return on equity was less than 20%; and the return on Investment was less than 10%. Considering the average which is shown in Appendix VI, it was recorded that on average, the net profit margin was 8.25%, the return on equity was 15.75%, and the return on investment was 8.75%, thus supporting the above findings collected from the main instrument.

Relationship between Capital Structure Employed and Profitability of Sovereign Investment Group Limited

The last objective was to establish the relationship between capital structure employed and profitability of Sovereign Investment Group Limited. This objective was analyzed using Pearson Correlation table to examine the relationship and the extent of the relationship between the two variables and test the hypothesis of which the result are shown in table number 7.

Table 7: Capital Structure and Profitability

		Profitability
Capital Structure	Pearson Correlation	.794**
	Sig. (2-tailed)	.000
	N	70

**Correlation is significant at the 0.05 level (2-tailed)

Table 7 shows the study finding on the relationship between capital structure and profitability of Sovereign Investment Group Limited and to what extent the relationship exists. The results from the Pearson Correlation table above indicates that there is a positive and strong relationship between capital structure and profitability of sovereign investment group limited at correlation coefficient r = 0.794. This implies that the capital structure plays a vital role in determining the profitability of Sovereign Investment Group Limited. When it comes to the extent to which this relationship exists, this can be observed by manual calculation from the Pearson correlation table where $(0.794)^2 = 0.630 \times 100 = 63\%$. This means that capital structure contributes 63% to profitability of Sovereign Investment Group Limited. This may mean that there are other factors which should interrelate with capital structures such that the profitability of Sovereign Investment Group Limited can be increased.

The above findings is in line with the research findings of Eriotis, Frangouli, and Neokosmides (2000), conducted in Pakistan to constitute an attempt to investigate the relationship between debt - to equity ratio and firm's profitability. In their study the level of the firm in investment and its degree of market power was observed. The facts and figures of various industries of 1995 - 96 were taken into study. It was observed through their study that the capital structure plays a vital role in a firm's profitability. They found out that firm's profitability depends on debt-to-equity ratio and that debt -to-equity ratio varies from firm to firm. They also discovered that the selection of debt-to- equity ratio makes successful financial strategy and that some firms choose a high rate equity ratio and the others depend on lower rate equity ratio. However they also observed from the study of various industries that debt-to-equity ratio has a negative impact on a firm's profitability.

Contribution of Equity and Debt on the Profitability

The study further explored the contribution of equity and debt on the profitability of Sovereign Investment Group Limited.

Table 8: Contribution of each of the capital structure on the profitability

Coefficients[a]

	Unstandardized Coefficients	Standardized Coefficients	Sig.
	B	Beta	
(Constant)	10.401		.000
Equity	.235	.401*	.000
Debt	.035	.325*	.000

a. Dependent Variable: Level of Profitability

Source: Primary Data

Table 8 gives us some important information, and is where we have been able to look at the b, beta and significance of our two predictors separately. The first column gives us the names of our predictor variables. The variable labeled 'constant' is the intercept, or a. The second column gives us our b coefficients, the value that Y will change by if X changes by 1 unit. If we look at equity, the value is 0.401; and for debt, the value is 0.325. Since both of the indicators are positive, it means that as the quality of equity and debt increase the level of profitability will go high. Also from table 8 it was revealed that equity contributes more than debt to profitability of Sovereign Investment Group Limited.

The above findings is supported by Pandey (2006), who argued that businesses have an option of raising capital internally by retaining earnings and that the equity cost of capital is free of cost because it is not legally binding for businesses to pay dividends to ordinary shareholders since it is not fixed as is the case with interest rates and preference dividend rate thus contributing to profitability more than debt.

The B values also tell us to what degree each variable affects the dependent variable if the effects of all other independent variables are held constant. Each of these beta values has an associated standard error indicating to what extent these values would vary across different samples and standard error are used to determine whether or not the b value differs significantly from zero.

For hypothesis testing, results from table 7 provide P - value of 0.000 which is less than 0.05 (level of significance). The null hypothesis which stated that there is no significant relationship between capital structure and profitability of Sovereign Investment Group Limited was therefore rejected and the alterative one was accepted. This implies that there is a significant relationship between the capital structure and the profitability of sovereign Investment Group Limited. This means that if the mix of capital structure is high, then the profitability will yield positive results.

CONCLUSION

It was concluded that the capital structure of Sovereign Group Investment Limited comprises of equity and debt but both employed at a low level, the results also indicated that the level of profitability in Sovereign Group Investment Limited is low, however, from the Pearson Correlation table the results indicates that there is a strong relationship between Capital structure and profitability of Sovereign Investment Group Limited. This implies that if Sovereign Investment Group Limited employs a better capital structure their profitability will increase.

The null hypothesis which stated that there is no significant relationship between capital structure and profitability of Sovereign Investment Group Limited was therefore rejected and the alternative one was accepted which states that there is significant relationship between capital structure and profitability of Sovereign Investment Group Limited

Recommendation

Sovereign Investment Group Limited should improve the nature of their capital structure by increasing the use of both equity and debt in financing their operations and investments so as to expand their businesses, since from the findings both equity and debt are employed at a low level thus affecting their profitability.
This could be achieved by issuing more shares to shareholders and acquiring more loans from financial institutions thus having more funds.

However when Sovereign Investment Group Limited has exhausted its shareholders' funding and chooses to finance its expansion of operations by borrowing, special consideration must be taken to ensure that the assets financed by the borrowed funds bring in a higher return than the interest the company is required to pay on the debt. If this is not done, the company will erode the reserves in order to pay the debt as the assets financed will not be making enough returns to cover the debt. Sovereign Investment Group Limited must select source of funding carefully to avoid falling into the leverage risk trap.

Sovereign Investment Group Limited should fully utilize its resources so as to generate more internal funds for more investments thus being able to increase their profitability; currently their resources are underutilized. This can be achieved by ensuring that all the assets of Sovereign Investment Group Limited are tracked through keeping proper records, making sure it is being put in to use and checking on any misuse.

Sovereign Investment Group Limited should be encouraged to make maximizing of their profitability the major focus when deciding their choice of capital structure since there is a positive significant relationship existing between their capital structure choice and their profitability as revealed by the findings of this study.

This can be achieved by Sovereign Investment Group Limited finding an appropriate mix of capital structure that maximizes their profitability.

Sovereign Investment Group Limited should however employ more of equity than debts in their capital structure because it contributes more to profitability as compared with using debts in financing their investment, as shown in table 8. This may be due to the interest cost involved in using debts financing. Equity financing can be improved by retaining most of profits and issuing more ordinary shares.

Also, firms in Uganda should strive to optimize their capital structure by an appropriate mix of debt - equity capital, because an optimal capital structure is the debt-equity mix that best maximize firms' profitability. They should always strike a balance between their choice of capital structures and the resultant effects on shareholders risks and returns, and the cost of capital.

Also, professional and qualified personnel should be charged with the financing decision of firms in Uganda since an optimal capital structure is a must for firms in Uganda if they must compete effectively and survive in times of financial and economic distresses, and attaining an optimal capital structure requires an effective and strategic planning.

Suggestions for further studies

The study recommended that a further research be carried out on other factors which should interrelate with capital structure such that the profitability of Sovereign Investment Group Limited can be increased, since from the study it revealed that capital structure only contributes to **63%** to profitability of Sovereign Investment Group Limited.

Also a further research should be carried out on the effects of the geographical location of the firms and the ongoing global economic downturn on the capital structure and profitability of firms in Uganda. This is because geographical location of the firms determines their accessibility to different sources of funding and ongoing global downturn determines the lending rates.

Another study should also be carried out on how corporate governance affects capital structure decision and financial performance of a company. This is because corporate governance affects major decisions of the company.

Debt Policy and profitability of Medium and Large Sized Enterprises in Uganda is another potential area for further research. This is because the policies attached to the loans or debts enable a company to decide whether to borrow funds for investments or not.

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