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AN ANALYSIS OF FACTORS FLUENCING CAPITAL STRUCTU DECISIONS OF MICROFINANCE INSTITUTIONS IN KENYA

ment of the Problem

tudy analysed factors influencing capital structure decisions in inance Institutions in Kenya

al Objective

lyze factors influencing capital structure decisions in Microfinance tions in Kenya

c Objectives

ermine how market conditions influence capital structure choice in M

ermine the extent to which growth rate influence capital structure in

ermine the extent to which Business Risks influence capital structure on in MFIs

ermine the extent to which Financial Flexibility influence capital struct on in MFIs

Hypothesess

$H_{o:}$ There is no significant positive relationship between the factors influencing capital structure decisions in MFIs

$H_{1:}$ There is a significant positive relationship between between the factors influencing capital structure decisions in MFIs

Significance of the Study

(MFIs) have risen to the forefront as invaluable institutions in the development process. capital constraints have hindered the expansion of microfinance programs such that the demand for financial services still far exceeds the currently available supply. The study was significant to the management of the MFIs who gained knowledge on the impact on factors influencing capital structure decisions so as to make sound financial choice on capital structures, as well as scholars.

LITERATURE REVIEW

The study was based on the following theories

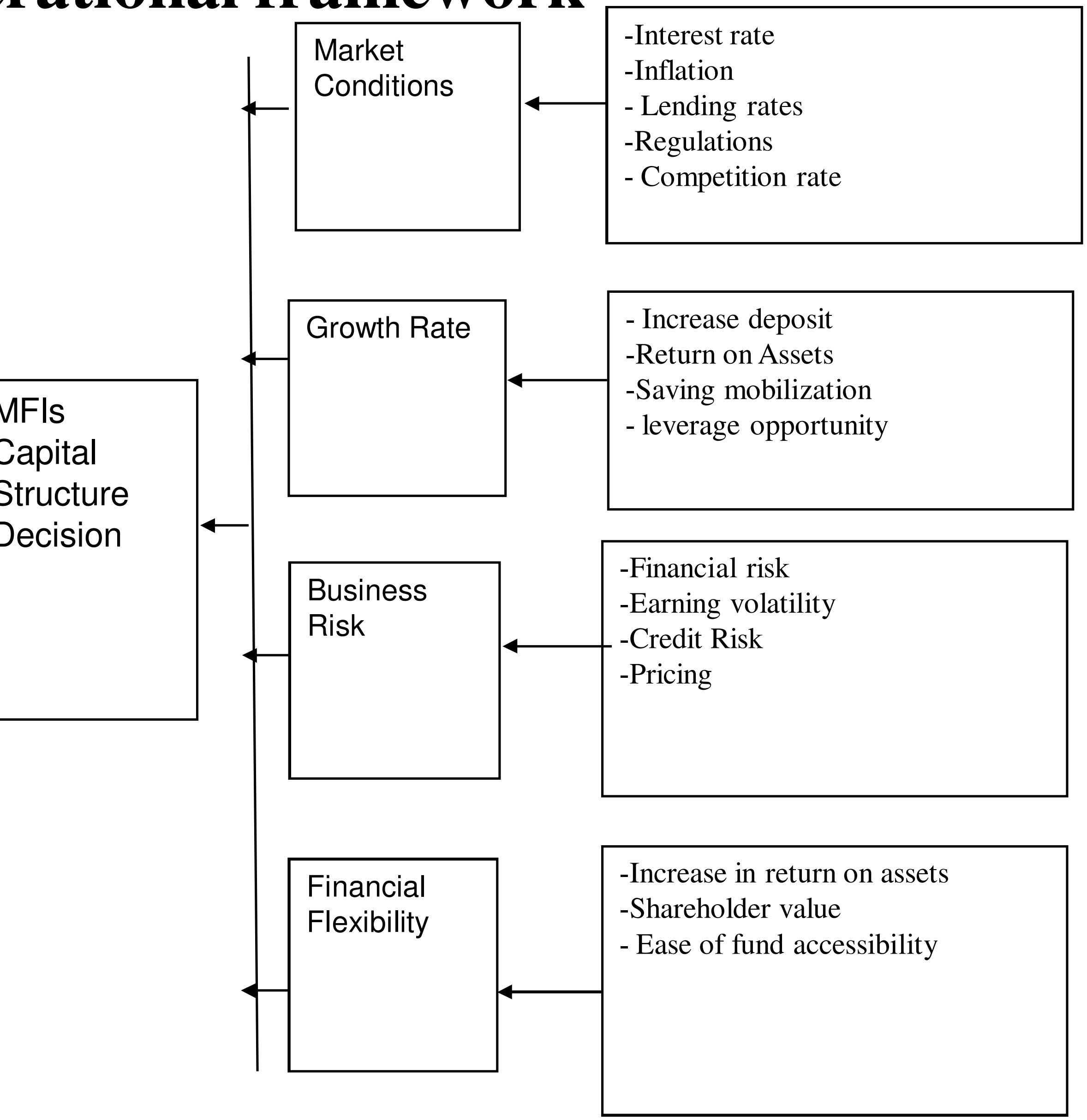
digliani and miller Theory; with the existence of perfect capital market, apital structure decisions would have no impact on the value of the firr

king order theory; Businesses adhere to a hierarchy of financing sources internal financing when available, and debt is preferred over equity if ex financing is required.

radeoff theory ;that the firm will borrow up to the point where the mar e of tax shields on additional debt is just offset by the increase in the pre ue of possible cost of financial distress. The value of the firm will decrea because of financial distress

gency theory; Managers as agents will generally make decisions that inc alue of the firm's equity, because top managers often hold shares in the re hired and retained with the approval of the board of directors, which is elected by stakeholders (principals).

erational framework



ARCH METHODOLOGY

riptive survey research design inform of a survey was employed.

riptive statistics were used to describe the main features of data ction in quantitative terms.

lation of the study

FI which are registered with Association of Microfinance utions in Kenya (AMFIK, 2013).

pling design and sample size

tudy used simple random sampling technique to select the target ation Simple random sampling was chosen in selecting the sample size it offer equal opportunities to all items in a population to be selected for udy. Mugenda and Mugenda (2003) indicated that a sample of 10% to of the population was sufficient for a study. Therefore a sample of 49 finance institutions was selected for the study. The respondents of the were senior managers from sampled microfinance institutions.

Collection

tudy collected both primary and secondary data. The data ction instruments were questionnaires. The questionnaire ained both open and close ended questions. The questionnaire semi-structured questionnaires

Validity and reliability

y was ensured by pilot-testing the instrument . Reliability of the research instrumer anced through a pilot study that was done among staff working in MFIs. Reliability ed by correlating the scores of each questionnaire for each variable using Pearson p moment correlation coefficient (r)

Data analysis

atistical Package for Social Sciences software (version 21) was used to generate data alyzed using descriptive statistics. Data presentation was done by the use of pie cha and graphs, percentages and frequency tables. Inferential statistics such as regressi relation analysis was used to establish the extent to which the factors influence cap re decisions in MFIs. A linear regression model was used to show the relationship b variables under study.

$$Y = \alpha + \beta X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{4\ +e}$$

Y= Depended variable, Capital Structure Decisions

α = Constant

β= Coefficient factor

$X_{1=}$ Market Conditions

$X_{2=}$ Growth Rate

X_3= Business Risk

X_4= Financial Flexibility $_{e=}$ Error

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

model summary

el	R	R 2	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig Ch
	.082(a)	.798	.718	0.34	1.741	6.000	6.207	8.191	.00

redictors: (Constant), Market Conditions, Growth Rate, Business Risk an
Financial Flexibility
Dependent: Capital Structure Decisions
n the regression model summary analysis, the study established that th
sted a significant positive variability between dependent variable capit
tructure decisions and independent variables factors influencing capita
cture decisions; market conditions, growth rate, business risk and finan
flexibility as $R^{2=}$ .798, Adjusted R^2 =.718, F=6.000, P=.001<0.05.

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	3.841	9	.307	5.191	0.01(a)
	Residual	7.714	36	.059		
	Total	11.556	45			

redictors: (Constant), Market Conditions, Growth Rate, Business Risk and Financ
Flexibility

Dependent: Capital Structure Decisions

table gives an F-test to determine whether the model had a good fit for the data
t ($F=5.191$, $P=0.01< 0.05$) indicated that the model formed between capital stru
ecisions and factors influencing capital structures. The study established that the
ed a significant strong positive variation between predictor values market condi
growth rate, business risk and financial flexibility and dependence variable capita
decisions at 0.01 significant levels.

Coefficients

el		Un-standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	6.768	.275		3.640	0.0
	Market Conditions	5.883	.405	.857	11.931	0.0
	Growth Rate	4.717	.546	.722	10.803	0.0
	Business Risk	2.668	.520	.591	5.906	0.0
	Financial Flexibility	3.591	.690	.729	1.672	0.0

redictors: (Constant), Market Conditions, Growth Rate, Business Risk an
Financial Flexibility

Dependent: Capital Structure Decisions

$$Y = 6.768 + 5.883 X_1 + 7.717X_2 + 2.668X_3 + 3.591X_4$$

he study tested null hypotheses (H_o), that there is no significant positiv
tionship between market conditions and capital structure choices in M
he study established that there existed a significant positive influence o
rket conditions on capital decisions in microfinance institutions as r= 5.8
.931, $P=0.04<0.05$. Therefore the study accepts the alternative hypoth
$_1$), that there existed a significant positive relationship between mark
conditions and capital structure choices in MFIs

dy tested hypotheses (H_o), that there was no significant positive relationship between
and capital structure decision in MFIs. The study established that there existed a signif
itive influence of growth rate on capital decisions in microfinance institutions as r= 4.7
).803, P=0.03<0.05. Therefore the study accepts the alternative hypothesis (H_1), that th
a significant positive relationship between growth rate and capital structure choices
udy tested a null hypothesis (H_o), that there was no significant positive relationship be
iness risk and capital structure decision in MFIs. The study established that there existe
cant positive influence of business risks on capital decisions in microfinance institution
68, t=5.906, P=0.01<0.05. Therefore the study rejects the null hypothesis and accepts
ative hypothesis (H_1), that there existed a significant positive relationship between bu
risks and capital structure choices in MFIs.

udy tested a null hypothesis (H_o), that there was no significant positive relationship be
ial flexibility and capital structure decision in MFIs. The study established that there ex
ant positive influence of financial flexibility on capital decisions in microfinance institut
668, t=5.906, P=0.01<0.05. Therefore the study rejects the null hypothesis and accepts
native hypothesis (H_1), that there existed a significant positive relationship between fina
flexibility and capital structure decisions in MFIs.

ARY, CONCLUSION AND RECOMMENDATIONS
dy established that market conditions in which microfinance institutions operate inf
structure decision. The study revealed that foreign exchange rates, high interest rate
e capital structure decision. Market variations on MFIs funding patterns, the pledgi
's assets as collateral, regulations governing microfinance institutions and the finan
governing MFI capital financing options also influenced the MFIs capital structure.
dy revealed that prediction of microfinance industry growth influenced the instituti
tructure decisions to a great extent. The study also revealed that MFI leverage opp
e capital structure decision in institutions. The study further revealed that level of r
ts, high return rate, market variation in MFI funding patterns and increase in market
y influence financing decisions in MFIs .The study further established that the increa
information asymmetries and expected linkage between the existence of tangible a
els of debt affects capital financing choice decisions are the growth rate factors influ
tructure decisions. Leverage opportunity and the tendency towards increased leve
al influences capital structure decisions.
e findings, majority of the respondents indicated that interest charge on source of
g influence institution decisions on capital structures and explain that interest char
g option determine their level of their profitability and high operating costs and ca
nts within the MFI industry have prevented MFIs from meeting the enormous dem

dy found that high risk conditions, credit risks, investment decisions and finan e institution decisions on capital structures in microfinance institutions. The stu ned that high cost of volatility of earnings increases a MFI's probability of financial n cost of fund ration influence financing option . From the hypothesis testing, there cant positive relationship between market conditions, growth rate of firm, busin ncial flexibility of the firm and capital structure choices in MFIs.

ons

ly concluded that market conditions in which microfinance institutions operate influenc e decision. The market conditions such as foreign exchange rates, high interest rate, MFI and pledging the firm's assets as collateral and regulations governing microfinance ins ncial policies governing MFI influencing capital financing option. The study therefore co re existed a significant positive relationship between market conditions and capital s in MFIs.The study concluded that predictions of microfinance industry growth influe on capital structure decisions to a great extent. The MFI leverage opportunity, level of r igh return rate, market variation in MFI funding patterns and increase in market share e financing decisions in MFIs. The study also concluded that increase in savings, info tries and expected linkage between the existence of tangible assets and levels of deb inancing choice decisions are the growth rate factors, leverage opportunity and the t increased leveraging of capital influences capital structure decisions in MFIs.

dy concluded that interest charge on source of financing and high cost of volatility c
s increases a MFI's probability of financial distress and high cost of fund ration influe
g option. Saving of MFIs influence financing option decisions, the firm capital expe
e level of borrowing and that spread between the cost of funds and the interest rat
influence financing decisions in microfinance institution to a very great extent. The
hat MFI's optimal leverage as a function of risk influence financing option decisions.
dy established that there existed a significant positive influence of growth rate on ca
s in microfinance institutions accepting that there existed a significant positive
ship between growth rate and capital structure choices in MFIs.
dy concluded that there existed a significant positive influence of business risks on c
s in microfinance institutions. This was because business risks affected operations c
nce influencing capital structure choices.
dy also established that high cost of volatility of earnings increases a MFI's probabili
l distress and high cost of fund ration influence financing option the study conclude
f MFIs influence financing option decisions, the firm capital expenditure, spread be
of funds and the interest rate charged. MFI's optimal leverage as a function of risk
ed financing option decisions. The study also concluded that there existed a signific
relationship between financial flexibility and capital structure decisions in MFIs.

nendation

dy recommends that MFIs should strive to enhance growth. This was because anticipat
rate provides a measure of extent to which earning per share (EPS) of MFIs are likely to
ed by leverage. The MFI is likely to use debt financing with limited fixed charge only wh
n equity is likely to be magnified. The management of the MFIs should make a relative
analysis against debt and equity financing in anticipation to growth i to determine appr
tructure.

dy established that business risks facing microfinance influence capital structure decisio
ause there exists a negative relationship between the capital structure and business ris
of MFI failure is greater if it has less stable earnings. Similarly, as the probability of bank
s the agency problems related to debt become more aggravating. Thus, as MFIs' risk
s, the debt level in capital structure should decrease.

dy recommends that MFIs should increase savings, enhance capital expenditure, spread
n the cost of funds and the interest rate charged and MFI's optimal leverage as a functi
ning the financial flexibility and financing option decisions. This was due to the existenc
nt positive relationship between financial flexibility and capital structure decisions in M

dy investigated factors influencing capital structure decisions in Microfinance Institutio
he study recommends that a further study should be carried out to investigate the
ship between capital structure and financial performance in micro credit institutions in
r study could also be done to determine the effects of capital structures on financial
bility in microfinance institutions in Kenya.

END

THANK YOU.