

**INFLUENCE OF FINANCIAL DETERMINANTS ON
FINANCING STRUCTURE AMONG WOMEN-LED
SMALL AND MEDIUM SIZE ENTERPRISES IN KENYA.**

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DECLARATION

This Thesis is my original work and has not been presented for a degree in any other University.

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DEDICATION

I dedicate my work to my late parents, Mzee Okwiri and Mama Afili Otsula, my late brothers Ageorgy and Athom TKO Lominah. To my spouse Salma, my sister Margie, sons Shaqib and Hussein including lovely daughters Hidaya, Sadia, Phiridaus and Khadijah, my nephew Neville Okwiri including my late son Walid Okwiri Junior.

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
AG	Assets Growth
ANOVA	Analysis of Variance
CSH	Cash flow Structure high
CSL	Cash flow structure low
D/E	Debt / Equity
Df	Degree of freedom
DR	Debt Ratio
DPH	Drawings Policy high
DPL	Drawings Policy low
EPS	Earnings per share
ESPP	Entrepreneurial Strategic Planning Practices
FSD	Financial Sector Deepening
FSL	Financial Structure low
FSH	Financial Structure high
GPM	Gross Profit Margin
GDP	Gross Domestic Product
GRH	Growth high
GRL	Growth low
IKME	Industrial Knitting Micro Enterprises
IFRS	International Financial Reporting Standards
ILO	International Labor Office
KENPRO	Kenya Projects Organization
KWFT	Kenya Women Finance Trust
LI	Liquid Investment
LTD	Long Term Debt
LTDTTC	Long Term Debt to Capital
MM	Modigliani and Miller
NPV	Net Present Value
NI	Net Income
NEFA	Non-Earning Fixed Asset
NPM	Net Profit Margin
NGO	Non-Governmental Organization
OE	Entrepreneurship Orientation
OECD	Organization for Economic Cooperation and Development
PTP	Propensity to Pay
ROCE	Return on Capital Employed
RE / TE	Retained Earnings to Total Equity

RE	Retained Earning
ROA	Return on Assets
ROI	Return on Investment
ROE	Return on Equity
SACCO	Savings and Credit Cooperative Society
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
STDC	Short Term Debt to Capital
STD	Short Term Debt
TD	Total Debt
TE	Total Equity
TVET	Technical and Vocational Education and Training
WTF	Women Trust Fund
WACC	Weighted Average Cost of Capital
WID	Women in Development

DEFINITION OF TERMS

Capital Structure	Is a mixture of long term sources of finance - debts, common equity, preferred equity and retained earnings (Ebaid, 2009)
Cash Flow Structure	Is the proportion of cash flows from operating, investing and financing activities to the overall cash flows generated in a given financial period (Keefe & Yaghoubi, 2016)
Cost of Capital	Cost of Capital is the rate of return that a firm must earn on the projects in which it invests to maintain the market value of its shares (Mudida & Ngene, 2010).
Conceptual Framework	System of concepts , assumptions , expectations , beliefs and theories that supports and informs the research (Miles & Huberman, 1994)
Drawings Policy	This is the approach a firm uses to withdraw money generated from profits. It is similar to a dividend policy for small and medium-size enterprises (Memon, Chen, Tauni & Ali, 2018)
Financing structure	It is the approach used to finance business through the mix of the various sources of finance especially the proportion of debt and equity. It is related to capital structure (Ebaid, 2009).
Firm Growth	This is the increase in the value of a firm often taken as an increase in assets or investment over time (Ross, 2009).
Firm size	The magnitude of a firm often measured by asset base, turnover, employee base or market company capitalization (Ross, 2009).
Quality of Financial Information	Refers to the general usefulness of financial information concerning its relevance, reliability, comparability, and understandability (Oluoch, 2014).
Retained Earnings	The number of net earnings not paid out as dividends but retained. This constitutes an immediate source of finance (Mudida & Ngene, 2010).
Theory	A body of knowledge which may or may not be associated with particular explanatory models (Thomas, 2007)

ABSTRACT

Despite the significant positive impact of SMEs on Kenya's economy and the immense contribution to sustainable economic development through contribution to gross domestic product and creation of employment, the growth of this sector is highly threatened by the poor financial performance, which translates into collapse of most SMEs. Such would negatively affect the livelihood of households relying on these enterprises for their survival. Although numerous studies have analyzed the determinants of financing structure, the results obtained are mixed. Further, there is limited research on determinants of financing structure among women-led small and medium-size enterprises in Kenya. It is in this light that; the present study sought to establish how these factors influence financing structure given the lack of clarity from literature. The study was rooted in the research predicament due to the lack of clarity on the relationship between indicators of financial structure and long term survival of SMEs; especially because of the opposing theories of Modigliani and Miller Capital Structure Irrelevance Theory; the Pecking Order Theory and the Signaling Effect Theory. This study sought to appraise the influence of financial determinants on financing structure among women-led small and medium size enterprises in Kenya using cross-sectional survey. The target population was drawn from 1,746 Women-Led SMEs in Kajiado County. From this target population, a sample of 290 respondents was drawn using the Saunders, Lewis and Thornhill formula and the respondents were selected using proportionate stratified sampling approach. The study obtained its data from both secondary and primary sources. The primary data on firm's quality of financial information was collected through administration of structured questionnaires to the respondents using drop and pick approach, while secondary data relating to total assets, sales turnover, cash flows from operations and profit drawings were collected using researcher's developed institutional tool. The research tools were pretested for validity and reliability. Collected data was analyzed using both qualitative and quantitative analysis technique. After establishing the nature of SMEs using descriptive statistics and analysis of variance, the study used a Multiple Linear Regression to test the Null Hypotheses, at 95% confidence interval using the t-statistic and p-value. The study failed to reject the Null Hypothesis for growth to reveal that growth does not affect the financing structure of the SMEs. It, however, rejected the test of the null hypotheses for size, cash flow structure and quality of financial information; implying each positively affect the financing structure. Drawings policy had a negative effect on the financing structure. The study was limited to a cross-sectional analysis because of the poor record keeping aspects of the SMEs and focused only on Women-Led SMEs in Kajiado County, aspects that may limit the generalizability of the findings. It is recommended that similar studies be done in other counties and other spectra of SMEs to provide comparable findings. Regulators need to enhance efforts to facilitate growth, cash flows and quality of information available to SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There is a general agreement among economists, business practitioners and policymakers that Small and Medium-Sized Enterprises (SMEs') is one of the key drivers of economic growth (Mahembe *et al.*, 2011). A robust SME sector contributes immensely to the economy by generating higher production volumes, creating more employment opportunities, increasing exports, introducing innovation and entrepreneurial skills. SMEs are the initial step towards development in economies towards industrialization (Fida, 2008). Emphatically, the dynamic role of SMEs in developing economies positions SMEs as engines through which the growth objectives of these developing economies can be realized, a role that has been applauded (Fida, 2008).

Particularly, SMEs contribute to the socio-economic development agenda in numerous ways, for example, creating employment for rural and urban growing labor force and the provision of desirable sustainability and innovation in the economy as a whole. Fayad (2008) asserts that most of the current mega enterprises have their origin in SMEs. This is to confirm that, the benefits of the small business sector is recognized in global economies irrespective of the economy's development stage. The World Bank did estimate that the SME contribution to employment generation was 73.5% in Egypt, 66% in Ghana, 39% in South Africa, 66.9% in India and 50.9% in the United States among others (Muritala Taiwo *et al.*, 2012).

Opinya and Rotich (2015), contend that SMEs' contribution to the generation of employment is unmatched in the private sector. Meanwhile, Amoako (2013), postulates that SMEs make a significant claim towards economic development of most countries in the contemporary world. This is through their substantial revenue generation and more significantly on the Gross Domestic Product - GDP (Koech, 2015).

Beck et al. (2008) indicate that, in their early stages of development, SMEs rely on internal sources of funding, including the owner's savings, retained earnings or funding through the sale of assets. Further, the study points out that, as the enterprises start expanding, external sources become more important and their availability can determine the enterprise's growth possibilities. It suffices to mention that, external finance is positively and vitally associated with productivity while financing from internal funds and other informal sources is often negatively associated with growth and enterprise performance (Beck et al., 2008).

In the developing economies, interest in the role of SMEs in the development process continues to be at the forefront of policy debates (Paul & Nixon, 2000). According to their study, SMEs claim the following merits: they can stimulate the process of both inter and intra-regional decentralization and may well become a countervailing force against the economic power of larger enterprises, they encourage entrepreneurship, likely to utilize labor-intensive technologies and thus have an impact on employment generation, they can usually be established rapidly and put into operation to produce quick returns. Generally, the development of SMEs is seen as accelerating the achievement of wider economic and socioeconomic objectives including poverty alleviation (Paul & Nixon, 2000).

Tambunan (2008) asserts that SMEs play a pivotal role in economic development. Conceivably they are seen as the main source of employment generation and output growth both in developing and developed economies. As indicated above, in developing economies, the role of SMEs' becomes more crucial as they have the potential to generate employment, improve income distribution, export growth and alleviate poverty. Further, SMEs ignite the development of rural economy, industry, and entrepreneurship. Gichuki et al. (2014) state that SMEs have immensely contributed to respective economies. The beneficiary of this economic growth is the developing countries owing to their dominance of the economic landscape. UNIDO (1999) estimates that SMEs represent over 90% of the private business and contribute to more than 50% of employment and GDP in most African countries.

A study done by the Competition Commission of South Africa in 2004 found out that, 99.3% of South African businesses were SMEs and that these SMEs accounted for 53.9% of total employment and contributed 34.8% to GDP. Indeed, African economies are generating much of their wealth and development through SMEs which represent a bigger number of enterprises in the region (Gichuki et al., 2015). Kenya is not exceptional. It equally enjoys the benefits accruing from SMEs (Gichuki, Njeru & Tirimba, 2014). SMEs contribute to the growth of an economy through the generation of employment opportunities.

According to Miller and Nyauncho, 2014, it is estimated that 80% of job opportunities are provided by SMEs in Kenya, including other notable contributions like tax base expansion and driving innovation (Katua, 2014). Further, Opinya and Rotich (2015) posit that SMEs generate up to 75% of the jobs created in Kenya as well as contributing 18% of the country's GDP. In recognition of this economic contribution, the Government of Kenya has identified and is implementing various economic programs and projects particularly the Vision 2030. The National efforts are to prioritize the economic entities through steady improvements, productivity, and growth (Opinya & Rotich, 2015; Gichuki et al., 2015).

In Kenya, SMEs are facing operational constraints that hinder their financing structure and general growth (Opinya & Rotich, 2015). According to Opinya and Rotich (2015), the growth of SMEs in Kenya is significantly evidenced by the fact that, three out of five SMEs collapse within the first three years of operation. This phenomenon hampers the growth of SMEs in the country, thus reducing their contribution towards economic growth and development. Further, SMEs are characterized by inconsistent performance regarding financial and organizational frameworks (Gichuki, Njeru, & Tirimba, 2014). Indeed, financial performance is seen as a core area regarding SMEs effectiveness, enriches maximization of profits on assets and shareholders' wealth (Tian & Zeitun, 2007).

Theories have shown that, business financing structure is a crucial aspect of a firm's performance. In this regard, a firm's financial stewards identify the optimal capital structure that would ensure the minimization of the firm's cost of finance, thereby maximizing the firm's revenue (Omowunmi, 2012). More precisely, business financing

structure can be traced to Pecking-Order Theory (Myers & Majluf, 1984) which supports the financing structure preferences (Zhu, 2014). The agency theory focuses on costs which are created out of conflicts of interest emanating from shareholders, managers and debt holders (Jensen & Meckling, 1976). The static trade-off theory suggests that a firm's borrowing capability depends upon the tangible value of assets (Myers, 1984). The pecking order theory, on the other hand, states that capital structure is driven by firm's desire to finance new investments, first by internal financing, then with low-risk debt, and finally if all fails, with equity (Shibru, Kedir & Mekonnen, 2015).

According to Zhu (2014), numerous studies investigated financing structures about equity, debt and dividend policy. For instance, Caglayan and Sak (2010) in their study on the determinants of capital structure of banks in Turkish provided evidence that, Pecking Order Theory is a pertinent theory to Turkish banks while Amidu (2007) study on Ghanaian banks supports both the Static Trade-Off and Pecking Order argument. However, Shibru, Kedir, and Mekonnen (2015) find little evidence to support Static Trade-Off Theory and the Agency Cost Theory.

1.1.1 Small and Medium Size Enterprises in Kenya.

The term SME covers a wide range of definitions and measures, varying from country to country (Rijkers et al., 2014). Although there is no universally agreed definition of SME, some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover. The most common definition basis used is the number of employees because of the comparative ease of collecting information. There is variation in defining the upper and lower size limit of an SME (Tarus & Ng'ang'a, 2013). The European Union (EU) categorizes firms with fewer than 50 employees as small and those with fewer than 250 employees as medium (EU Commission, 2003). The definition of SMEs adopted in this study is adopted from Tarus and Ng'ang'a (2013 which pegs the upper limit of the employee base of SME at 50 employees. The terms 'firm' and 'enterprise' are used interchangeably.

Kenya Association of Manufacturers-KAM (2018) indicates varying degrees of SMEs' features in Kajiado and Kenya at large, as follows; they are small units, often family owned, most of them are small independent enterprises, standing alone and producing for a well-defined market, some are specialized firms, producing specialized products, selling to the international and /or local markets, they rely on low-cost raw materials, low energy costs, low labor costs, and are characterized by low division of labor, flexible and often small production runs, they have low capital formations and finally, they are largely labor-intensive units with low-level technologies; but one needs to note the emergence of high skill and technology-intensive SMEs.

In Kenya, the SMEs have the potential of raising many citizens from the lower economic levels to the mainstream economy (Koech, 2015). A recognition that has made the Government of Kenya (GoK) strengthen SMEs in Kenya's Vision 2030 by improving their productivity, innovation and performance (Ministry of Planning, National Development & Vision 2030-MPNDV2030, 2007). The SME sector in Kenya has experienced tremendous growth of enterprises from micro to SMEs to the point that, it cuts across all sectors of the economy, providing one of the main sources of employment as well generating widespread economic development in the country (Republic of Kenya -RoK, 2010).

The Global Economic Report (World Economic Forum, 2010) ranked Kenya 98th Country out of 133 in global competitiveness in 2009-2010. This was a 5-point drop from the 2008-2009 ranking when it was 93rd. It may look favorable in the African context, but the rating is lower than that of key trading partners in Africa particularly South Africa and Egypt who rank 45th and 70th respectively (GER, 2010). It is also noted that, the rating is also significantly low from the global perspective.

Despite this acknowledged importance and SME contribution to economic growth, SMEs across the globe, and in Kenya in particular, are still faced with numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance, the GER Reports (2001-2010) noted that Kenyan SMEs also suffer from poor management skills, which is a result of a lack of adequate training and education.

This results in high rates of business failure – Kenya has one of the lowest SMEs survival rates in the world. The Economic Survey (RoK, 2012) asserts that, the SME sector contributed 79.8% of new jobs created in that year in Kenya. This is to say, job creation in this sector went up by 5.1 percent in 2011. The increase was 445,900 indicating a higher growth in absolute terms compared to the increase of 437,300 registered in 2010.

The importance and contribution of SMEs to achieving macroeconomic goals of nations, especially in developing nations, has attracted the attention of scholars in the entrepreneurship discipline in recent years (Shelley, 2004). According to annual Kenya Economic Survey, out of the total new jobs created in 2008, SMEs contributed up to 89.9% and in 2009, out of the total jobs created, SMEs contributed up to 79.9% (GoK, 2010). In 2010, the sector contributed up to 59% of Kenya's total GDP (GoK, 2010). In 2012, SME sector contributed up to 79.8% of new jobs created in that year (GoK, 2012). Consequently, Kenya's development plan recognizes the SMEs sector as a pillar to achieving middle-income status by 2030.

Further, the Sessional Paper No.2 of 2005 (RoK, 2005), SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries. In spite of the high mortality rates, SMEs significance, statistics indicate that three out of five businesses fail within the first two years of operation (GoK, 2007). Lack of credit access has been cited as a major constrain hindering SMEs growth (Kiiru,1991: Oketch, 2000). In recent years, the GoK has been taking measures to ensure that SMEs have access to financing. Introduction of the Youth Enterprise Fund and Women Enterprise has been found to promote SMEs financing access from 7.5% in 2006 to 17.9% in 2009 (Financial Sector Deepening Kenya, 2009).

Presently, under Regulation six of the Public Procurement and Regulation, 2011, there is the National Sensitization on Youth Access to 10% of all Government Procurements (PPOA, 2011). This preferential treatment for SMEs by GoK is meant to develop the SME sector and hence the general economy of the country. Starting and operating an SME, just like any other enterprise, includes a possibility of success as well as failure.

Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Efficient management may also lack due to external factors that are beyond the owner manager's control (Oketch, 2000). These factors are inherent in the institutional environment of Kenya which favors larger firms. Also, ongoing changes in the business environment about the globalization of markets act as a further challenge to SMEs growth prospects. Liberalization of markets has made competition real among firms and only those with a competitive edge can survive (Matovu, 2006).

Indeed, the Kenyan SMEs, have employed the majority of Kenyans who have not been absorbed in the public, large private and not-for-profit sectors (RoK, 2013). Specifically, 87.6% of the total jobs generated in 2009 were from the SME sector. The sector has ensured an increase in employment creation as well as increase in revenue and capital base thus contributing to GDP at 59% (RoK, 2010). The contribution of SMEs towards employment, GDP and to the country's revenue and capital base depends on SME performance (Ebrahim, Ahmed & Taha, 2010). This is where the performance of SMEs, measures the percentage of turnover resulting from firm products, return on asset (ROA), and return on equity (ROE) and earning per share (EPS).

1.1.2 Financing structure

Financing structures are related to the regulation, supervision and oversight of the financial and payment systems, including markets and institutions to promoting financial stability, market efficiency and client-asset and consumer protection (Olakunle & Jones, 2014). These Financial structures help to institutionalize good financial practices leading to the promotion of stability and continuity. They further explain how firms choose capital structure (Olakunle & Jones, 2014).

Financing structure impacts the capital structure of a firm. Capital structure, which reflects the financing structure of a firm, is one of the most critical concerns in contemporary corporate finance, it has not only received increased attention in recent years but also it has received much attention from contemporary scholars (Nakhaei & Jafari, 2015). It

becomes phenomenal when it is considered alongside cash flow management. According to Nakhaei and Jafari (2015), the objective of cash flow management is to optimize the levels of cash flows to maximize shareholder wealth. Nakhaei and Jafari (2015), set out to appraise the relationship between capital structure and free cash flows and financial performance in companies listed on the Tehran Stock Exchange (TSE). The scope of the study covered the period 2009 through 2013. In their study, capital structure and free cash flows are the concepts forming the independent variables while financial performance is proxied by return on asset, annual stock return and economic value added. They further use firm size as a control variable. The study employed the use of secondary data on the financial affairs of the listed companies and relied on regression analysis to test the hypotheses. The findings of the study reveal that capital structure is inversely related with all metrics of financial performance being stock returns, return on assets and economic value added.

In effect, a capital structure policy should follow a defined set of guidelines on financing structure to achieve and adhere to a definite target for capital structure. This would ensure reaching an optimal capital structure by comparing economic costs to benefits and as well as keeping to the financing pattern followed by the enterprises. By employing an effective financing structure, the enterprise would then follow a pre-determined hierarchy in exhausting available strategic financing options. An appropriate capital structure is a critical outfit for any enterprise. The decision is important not only because of the need to maximize returns to the shareholders, but it is also important because of the impact of such decision on an organization's ability to deal with its competitive environment (Simerly & Li, 2002).

1.1.3 A Global Perspective of the Determinants of Financing structure

Globally, several studies have investigated firms' financing structure at given points in time. According to Wu (2013), several studies have analyzed the determinants of financing structure. Nonetheless, these determinants are universal and cut across the borders. Thus, financing structure seems to have similar patterns of behavior around the world regardless of evident institutional differences (De Jong, Kabir, Nguyen, 2008;

Antoniou Guney, Paudyal, 2008). Evidence show that, developed markets, such as the United States and Europe as well as emerging markets, financing structure characteristics are explained by more or less the same variables.

Nawi (2015) conducted a study investigating the determinants of capital structure in small and medium-sized enterprises (SMEs) in Malaysia and their effect on firms' performance. The results reveal that, firm characteristics were found to relate to all types of capital structure. Both complete and partial mediating effects are also discovered in this study. The results provide evidence to support the pecking order hypothesis (Myers, 1984; Myers & Majluf, 1984) and agency theory (Jensen & Meckling, 1976). It appeared that SMEs owner-managers in Malaysia does not strive to adjust their capital structure towards some optimal debt ratio, which is contrary to the static trade-off theory of capital structure.

The results in the study by Krasauskaite (2011) suggest that, firm size has a conflicting influence on leverage. Micro firms, on average, are less levered than small or medium-sized firms. Micro firms, on average, are more indebted than small firms, and small firms, on average, have higher leverage ratios than medium-sized enterprises. In addition, if it is distinguished between the decision to obtain long-term debt financing and the decision on the relative amount of this source of financing, the results of the empirical analysis suggest that, the determinants of these two decisions are not the same. Finally, although the results imply that all three size-based groups of SMEs in the Baltic countries behave in accordance with the pecking order theory regarding their capital structure, there are significant differences in the determinants of leverage among these groups. Therefore, in the studies of capital structure of SMEs, it might be useful to consider the three groups of SMEs separately.

Keefe and Yaghoubi (2016) evaluated the influence of cash flow volatility on capital structure and different use of debt maturities across world markets. Their study is borne out of the reality that the inter-relationship between capital structures, which is related to financing structure in this study, with cash flow volatility has not reached a consensus point. Their study employs a variety of measures of cash flow volatility as well as approaches to the non-linear association of proportional variables.

Their findings indicate that, holding all factors constant, a unit standard deviation change from the arithmetic average of cash flow volatility corresponds with a 24% change, in the opposite direction as the standard deviation, of long term debt ratio. It similarly implies a fall of 26% of the possibility of holding debt with maturities exceeding ten years as well as a positive change of the possibility of holding none of the short or long term debt.

Memon, Chen, Tauni and Ali (2018) set to establish if cash flow volatility determines the financing structure of a firm especially concerning the debt structure. The study is borne out of the limited focus on developing country firms particularly China establishments. They evaluate the influence of cash flow volatility on leverage levels of firms among Chinese firms listed at Chinese stock exchanges. The study employs 5-year moving standard deviations of cash flows from operating activities of the firms. They rely on a methodology that uses a generalized linear model to test whether cash flow volatility influences firm leverage, which is related to financing structure that is used in this study. The study further uses ordered profit regression to evaluate the effect of volatility on debt maturity ordered categories. To do away with endogeneity difficulties, the study uses lag volatility and related determinant variables in the estimation models.

The research evidence from Memon et al. (2018) indicates that cash flow volatility has a negative effect on firm leverage. Further evidence shows that in the analysis of the sub-samples of Chinese state-owned firms, the inverse relationship is non-existent. Concerning maturity terms of debt held by firms, the evidence reveals that the higher the volatility of cash flows, the shorter the debt maturities of the debt held in the ownership structure and vice versa. In a nutshell, a unit standard deviation increase leads a 9% fall in long term market leverage ratio coupled with a fall of 27% in the probability of issuing long-term notes or debentures. The tax code, bankruptcy laws, the state of development of bond markets, and patterns of ownership also may matter (Wu, 2013). Wu (2013) further postulates that, the empirical studies on financing structure focuses on the analysis of certain firm characteristics such as; profitability,

tangibility, firm size, growth, asset structure and dividend policy as determinants of leverage.

1.1.4 A Local Perspective of Determinants of Financing structure.

Several studies have been done in the Kenyan environment that may help make an inference as to the various determinants of financing structure of a firm.

Oluoch (2015) established qualitative accruals' quality and its effect on the cost of capital which essentially reflects the financing structure of a firm given that, reliant debt firms have a low cost of capital while equity reliant firms have a higher cost of capital.

Oluoch (2015) used three measures of accruals' quality being the innate accruals quality, the discretionary accruals quality and the qualitative accruals quality that was based on the relevance, reliability, comparability and understandability of the accruals information. The findings showed that, innate and qualitative accruals quality had an effect of the cost of capital while discretionary accruals quality had no effect on cost of capital and therefore it can be inferred that, it has no effect on the financing structure. The study however focused on the large firms listed at the Nairobi Securities Exchange and ignored the effect on small firms like the women –led SMEs.

Afande (2015) evaluated the factors affecting growth of SMEs in Nairobi Central District (CBD). The study focused on how access to credit, firm age and education levels of the entrepreneurs influences firm growth. Using descriptive research design, and a sample of 75 questionnaires, and multiple linear regression, the study found out that, access to credit had the strongest positive influence on growth while entrepreneurs' age had the least effect. The effect of the level of education fell between these two extreme levels.

In addition to country's macro-economic / institutional factors, other studies suggest culture to have a market influence on capital structure (Chui et al., 2002). In view of this, one of the greatest challenges facing the Government of Kenya (GoK) is the creation of productive employment opportunities for its rapidly increasing workforce (GoK, 2013), a problem that would comfortably be solved by the proliferation of the SME sector (Koech, 2015). However, despite the significant positive impact of SMEs on Kenya's economy

and the immense contribution to sustainable economic development through contribution to generation of employment in Kenya, sustainable growth of these enterprises in the country is insignificant (Gichuki et al., 2014).

Indeed, it has been shown that, for every 100 new enterprises started in a year, 60 per cent close down within the first year of operation and those that survive the first year, 40 per cent are likely to close in the second year. (Tarus & Ng'ang'a, 2013; Opinya & Rotich, 2015). Such a performance highly threatens the role of SMEs in the economic growth and development of Kenya, which affects the SMEs' ability to contribute effectively to sustainable development of the economy, and might negatively affect the country's economy (Gichuki et al., 2014). This is further aggravated by the following challenges:

First, many SMEs lack the resources and expertise to successfully grow or start a business (Tarus & Ng'ang'a, 2013). This results in production inefficiencies. Second, in spite of positive moves made by both National and County Governments, the business environment remains suited to large corporations. This impedes SMEs entry to markets, information and support structures and their ability to compete and succeed. Third, SMEs by nature tend to be more sensitive to the economic environment. This leaves them vulnerable to external challenges and heightens their risk as an investment. National and County Governments amongst others have long recognized the potential and impact the SME sector holds but the operational constraints are in developing scalable and commercially sustainable models and business policies to service this sector's needs (Tarus & Ng'ang'a, 2013). It is also acceptable that, business owners in the SME sector can be a lonely pursuit. Many SMEs are isolated and deprived of an active network of contacts and access to the latest opportunities and ideas. Consequently, a business policy should be able to determine a platform to support SMEs, in as much as these enterprises, hold the most potential to make a positive impact on job creation and building of social infrastructure (Tarus & Ng'ang'a, 2013).

Conceivably, there are confounding conclusions on; firm size, firm growth, quality of financial information, cash flow structures and profits drawings policy as determinants of business financing structure among women-led small and medium-size enterprises around the

world in general and Kenya in particular. It is in this light that; the present study seeks to provide recommendations on approaches to overcome problems faced by women-led SMEs in their financial performance. The study sought to evaluate the determinants of financing structures among women-led SMEs to address operational financing constraints.

1.2. Statement of the Problem

Despite the significant positive impact of SMEs on Kenya's economy and the immense contribution to sustainable economic development through contribution to the generation of employment in Kenya, sustainable growth of these enterprises in the country is highly challenged by their poor financial performance (Gichuki et al., 2014). The poor performance of SMEs in Kenya is manifesting itself in terms of collapse of most of these entities. Notably, statistics indicate that, for every 100 new enterprises started in a year, 60 percent close down within the first year of operation and those that survive the first year, 40 percent are likely to close in the second year. (Tarus & Ng'ang'a, 2013; Opinya & Rotich, 2015). The reported high collapses of this sector might significantly affect the country's economy and as well have a devastating negative effect on the livelihood of households relying on these enterprises for their daily bread and survival.

The role of SMEs' in the economic growth and social development of Kenya is therefore highly threatened by the prevailing financial performance of the SMEs in the country. This scenario strangles the SMEs' ability to contribute effectively to the sustainable development of the economy, which in effect negatively affect the country's economy (Gichuki et al., 2014). Whereas, financing structure is critical to SMEs' business performance, it is not clear how financial determinants influence such financial structure of women-led SMEs' in Kenya. Theoretical arguments have been linking growth of enterprise positively to firm performance (Tingler, 2015).

Firms that are smaller in size are consistently considered to have a higher probability of non-survival. Consistent to these theoretical arguments, several studies provide empirical evidence for a respective influence of financial determinants on the financing structure on

the probability of survival of companies. (Wu, 2013). Thus, to analyze the consequences of growth, knowledge of the factors determining financing structure is valuable. The agency theory of Jensen and Meckling (1976) for instance, predict an inverse relationship between the determinants and the financing structure as indicated by leverage due to the selfish interests of the business managers while Modigliani and Miller (1958, 1963) predict that the financial determinants have no bearing on financing structure (capital structure decisions are indeed irrelevant) and the classical valuation theory predicts a positive effect. Similar confounding aspects are evident from empirical literature.

In summary, this problem arises from four perspectives: confounding theories, conceptual grounding, empirical evidences and conclusions. The theories provide varying explanations on effects of financial determinants on financing structure, for example, as indicated above, the agency theory explains inverse relationship while Modigliani and Miller, (1958) Capital Structure irrelevant theory explains no effect, conceptual grounding provide numerous variables, this is to say, varying studies using varying financial determinants and the extant literature does not explain how the financial determinants affect the financial structure.

Conceivably, there is limited research on; firm size, firm growth, quality of financial information, cash flow structures and profits drawings policy as determinants of financing structure among women-led small and medium-size enterprises in Kenya. It is in this light that; the present study sought to establish how these factors affect financing structure given the lack of clarity from literature.

1.3. Research Objectives

This section provides the general as well as specific objectives.

1.3.1. General Objective

The overall objective of the study was to evaluate the influence of financial determinants on the financing structure among women-led SMEs in Kenya.

1.3.2 Specific Objectives

The choice of the specific objectives was informed by the; pecking-order theory (Myers & Majluf, 1984), stewardship theory, agency theory (Jensen & Meckling, 1976) and the life cycle theory (Penrose, 1952). The pecking order theory explains the business financing structure being supported by preferences such as cash flow structure, and firm profit drawings' policy (Zhu, 2014). Stewardship theory suggests a strong firm growth as a function of maximization of shareholder wealth through firm performance including variables like firm size, and firm's quality of financial information. The agency theory focuses on costs affecting the firm's profit drawings (Jensen & Meckling, 1976). Life cycle theory describe the development of the firm through growth on consumption and savings behavior. It explains the development of financing needs and capital structure of the firm (Timmons, 2004). Based on these proposals, the present study considered; firm size, firm growth, cash flow structure, profit borrowing policy and quality of financial information as the independent variables and the financing structure as dependent variables leading to construction of the following specific objectives;

- i. To evaluate the influence of firm size on the financing structure among women-led SMEs in Kenya.
- ii. To determine the influence of firm's growth on the financing structure among women-led SMEs in Kenya.
- iii. To evaluate the influence of firm's cash flow structure on the financing structure among women-led SMEs in Kenya.
- iv. To determine the influence of firm's profit drawings policy on the financing structure among women-led SMEs in Kenya.
- v. To evaluate the influence of a firm's quality of financial information on the financing structure among women-led SMEs in Kenya

1.4. Research Hypotheses

The Research Hypotheses of the study are specified in the alternate format as follows:

H₀₁: Firm size has no significant influence on the financing structure among women-led SMEs in Kenya.

H₀₂: Firm growth has no significant influence on the financing structure of women-led SMEs in Kenya.

H₀₃: Firm cash flow structure has no significant influence on the financing structure among women-led SMEs in Kenya.

H₀₄: Firm profit drawings' policy has no significant influence on the financing structure among women-led SMEs in Kenya.

H₀₅: Quality of financial information has no significant influence on the financing structure among women-led SMEs in Kenya.

1.5. The Significance of the Study

The National Government of Kenya has unceasingly strived to give more attention to SME sector with a view that, it will facilitate the realization of economic development towards industrialization (Republic of Kenya: Sessional Paper No 2 1992, 1996, 2005). Undoubtedly, continued research in the SME sector has invariably enabled the National Government to adjust its strategies to improve the sector. Many studies have been done on SMEs, however not much has been done on evaluating the determinants of financing structure among women-led SMEs in Kenya.

Given the above, the study is of value to Kenyan SMEs as the findings and recommendations would assist to evaluate the determinants of financing structure of women-led SMEs. The Kenyan National and County governments are likely to find the study findings and recommendations very relevant in developing financing structures that promote SME sector to efficient financial performance levels, thus creating an avenue for

sustainable growth and development characterized by; more employment creation, reduced poverty and stimulation of growth. The findings and recommendations of this study are likely to be important in the formulation of financing structures governing the SMEs. The study sought to provide recommendations and findings to help policy makers in the Kenyan National and County Governments and International Agencies like donors in making informed business financing decisions to sustain SMEs in the local and regional markets as well as the international markets.

The Kenya National Government and its agencies are bound to gain by obtaining information to enable them to put in place financing structures to support the achievement and financial performance of SMEs. The study findings are likely to be important to the public in understanding the role of SMEs in poverty eradication, generation of employment opportunities and their expectations in the management of SMEs. The study would contribute to adding new knowledge to enhance the financial performance of SMEs in developing countries, making the study beneficial to academicians and scholars. The study is likely to be an avenue for more research in evaluating the determinants of financing structures among women-led SMEs in developing economies. This would make the study useful to researchers and scientists in this area.

1.6.The Scope of the Study

The empowerment of women is one of the fundamental issues in the process of development in the Kenyan context and beyond. The paucity of information regarding how SMEs grow and change over time to sustainability has become glaring. According to the Kenya National Bureau of Statistics (KNBS), an SME is a registered enterprise employing less than 150 people. This study addressed issues of SMEs dynamics by evaluating the determinants of business financing policies among women-led SMEs using primary data collected from Kajiado County in Kenya, where there are a variety and diversity of Kenyan SMEs.

The human resources embodied in the management of SMEs, their location, the business sector and respective financial determinants were evaluated to see how they impact on the business financing policies of women-led SMEs. The target population was 8,729 women-led SMEs representing 49.94% of the 17,480 SMEs in Kajiado County.

This study focused on the financial determinants of financing structure among women-led SMEs in Kajiado County in Kenya. The main focus was to evaluate the impact of financial determinants on financing structure of these women-led SMEs. This included firm size, cash flow structure, firm growth, profits drawings policy and quality of financial information. Although the literature identified many aspects of determinants of financing structure that impact on SMEs' financial performance, this study focused on firm size, firm growth, quality of financial information, cash flow structure and profit drawing policy as indicated section 1.3.2 above.

1.7.Limitations of the Study

Several limitations were experienced in the course of the study. Firstly, the scope of the study was limited to women-led SMEs. This was motivated by the fact that; women managers have been shown to have varied managerial success rates from their male counterparts. This limits the generalizability of the findings to women-led SMEs. This is however not extremely limiting because this is a research segment that is largely ignored by the extant literature and therefore the study served to bridge this empirical gap.

The other limitation of the study emanated from the limited time of 3 years over which the growth of the firms was evaluated. Over such a time, growth rates are not expected to be overly pronounced. It was however considered an appropriate time because the ability to obtain long term data from the SMEs was remote because most of them are in their formative stages since formation. It is recognized that; short term growth rates are equally as important as the long term ones.

Also, the study was limited in scope to five independent variables of firm size, firm growth cash flow structure, profit drawings' policy and quality of financial information. It

therefore did not consider a different set of equally important variables such as firm age, firm financial performance and perhaps the quality of the managerial team. Their omission was nonetheless based on extant literature where studies have been carried out in these variables. Afande (2015) for instance considered them in his study of Nairobi CBD small and medium-size enterprises.

Lastly, this study focused on SMEs. The findings may therefore not be generalizable to large enterprises like the blue-chip companies listed at the Nairobi Securities Exchange. This was however not an overly limiting limitation because SMEs and their studies are providing an alternative stream of literature separate from that inherent in the traditional corporate finance. This study therefore fills the gap left by the emphasis on large organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The study looked at the determinants of financing structure among women-led SMEs in Kenya. Given this, the chapter provides a review of the related literature on the determinants of financing structure of women-led SMEs in Kenya. In the chapter, the study reviewed theories and empirical studies that did explain the determinants of financing structure of women-led SMEs. The chapter did critically analyze the empirical studies which were useful in identifying the research gaps that had been un-addressed by other researchers including important areas that have not been covered by past researchers, as well as recommendations. The chapter also contains the conceptual framework which demonstrates an understanding of the relationship between variables and the highlights on the framework as well as chapter summary.

2.2 Theoretical Framework

Various theories have been propounded by researchers, articulating the impact of financing structures on enterprises. Such theories have been found to contain valuable information and guidance on financing structure among women-led SMEs (Nawi, 2015). The theories assist in formulating financing structures of women-led SMEs. Since enterprises are inherently risky, the financing structure should empower women-led SMEs to make sure they are managed properly (Brealey, Myers, & Allen, 2011). The financing decisions coupled with original investment decisions made by SMEs affect how the pie is sliced (Ross, 2003). The theories include; Corporate Governance Theories, Agency Theory (Jensen & Meckling, 1976), Static Trade-off Theory (Myers, 1984), Life Cycle Theory, Bankruptcy Cost Theory (Modigliani & Miller, 1963), and Market Timing Theory (Baker & Wurgler, 2002).

2.1.1. Agency Theory

Agency theory propounded by Jensen and Meckling (1976), Ross (1973) focuses on the costs which are created due to conflicts of interest between shareholders, managers and debt holders. Agency theory is concerned with the diverging interest when the firm ownership and management are separated (Jensen, 1986). The theory argues about the relationship between the agent (e.g. the manager), and the principal (e.g. the shareholders). The major assumption of this theory is that, the separation of ownership and management creates conflicts among principals and agents. The emergence of the conflicts in the firm creates tension and result in high agency cost. It is assumed that, the final objective of all stakeholders is to maximize their wealth. On the other side, agents may have another objective rather than maximizing principals' wealth. If the agents do not meet the principals' interests and objectives, then a conflict arises among them.

Harris and Raviv (1991) explain the three types of agency costs which can help explain the relevance of capital structure as; asset substitution effect, under-investment problem, and free cash flows. In the asset substitution effect, as Debt /Equity (D/E) increases, management has an increased incentive to undertake risky (even negative Net Present Value-NPV) projects. This is because, if the project is successful, shareholders get all the upside, whereas if it is unsuccessful, debt holders get all the downside. If the projects are undertaken, there is a chance of firm value decreasing and a wealth transfer from debt holders to shareholders. With the under-investment problem, if the debt is risky (e.g. in a growth company), the gain from the project accrues to debt holders rather than shareholders.

Thus, management has an incentive to reject positive NPV projects, even though they have the potential to increase firm value. As regards free cash flow, unless free cash flow is given back to investors, management has an incentive to destroy firm value through empire building and perks etc. Increasing leverage imposes financial discipline. The free cash flow theory advanced by Michael C Jensen (1986) says that, dangerously high debt levels increase value, despite the threat of financial distress, when a firm's operating cash flow significantly exceeds its profitable investment opportunities. The free cash flow

theory is designed for mature firms that are prone to over-investment. Due to this free cash flow theory, agency cost theory supports a positive relationship between capital structure and profitability.

Jensen and Meckling (1976) argued that, there is less conflict between principals and agents in Small and Medium Enterprises (SMEs). The reason is that, in SMEs' owner and the manager is one person. According to Ang et al. (2000), family or small firms can be considered as zero agency cost since the level of conflict is low in these kinds of firms. The idea of zero agency cost is also supported by Anderson and Reeb (2003) and McConaughy (2000). They argued that, the existing incentive structured in small and medium-size firms create fewer agency conflicts between different claimants. However, SMEs may experience agency cost, when the principals and agents are separated. Also, problems like entrenched ownership and asymmetric altruism within the SMEs may create difficulties (Gomez-Meija et al, 2001; Schulze et al, 2001). SMEs have agency cost problem when they decide to separate managers from stakeholders.

The agency cost problem is also tense in SMEs because they do not have to disclose their financial information and financial statements. Daskalakis and psillaki (2008) argued that, the problem of agency cost increase, when a firm has a high level of asymmetric information. Therefore, it is expected that small businesses experience a greater agency cost since the manager of the business gives the priority to his interest. On the other side, solutions for agency cost problem in SMEs are more expensive than in large listed companies. Monitoring process in SMEs is harder than listed firm. Moreover, rules and regulations force large companies to be transparent about their financial activities while SMEs are free from any financial disclosure.

In conclusion, SMEs have fewer conflicts; hence they can minimize the agency costs. However, contrasting views have suggested that, SMEs are experiencing conflicts which make them vulnerable. Existence of conflicts may paralyze SMEs to make decisions and threaten the enterprise's survival (Schulze et al, 2003). SMEs may raise more debt to control the self- interests of the agents, and to limit the negative consequences of altruism within the enterprises.

According to Schulze et al. (2003) altruism results in the problem of a free ride. They argued that, the phenomenon of altruism shows how the agency problem becomes more apparent in SMEs if they do not allocate the resources properly. Therefore, the level of the agency conflict becomes a decisive factor that affects the capital structure of the SMEs. The idea of a higher level of agency cost in SMEs is also supported by Gomez-Mejia, Nunez-Nickel and Gutierrez (2001).

2.2.2 Stakeholders Theory

The stakeholder's theory advanced by Edward Freeman (1984 & 2010) emphasizes on the issues concerning the stakeholders in an institution, by stipulating that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders to ensure that, each interest of these receives some degree of satisfaction (Abrams, 1951). The theory narrows its scope to identifying the shareholders as the only interest group of a corporate entity. However, it is better in explaining the role of corporate governance by highlighting different constituents of a firm (Coleman, 2008). With an original view of the firm, the shareholder is the only one recognized by SMEs in most countries because they are the owners of the companies.

Given this, the firm has a fiduciary duty to maximize their returns and put their needs first. In more recent business models, the institution converts the inputs of investors, employees, and suppliers into forms that are saleable to customers, hence return to its shareholders. This model addresses the needs of investors, employers, suppliers and customers. In some scenarios competitors and prospective clients can be regarded as stakeholders to help improve business efficiency in the market place.

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity, impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that, companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. Indeed, it has been realized that economic value is created

by people who voluntarily come together and cooperate to improve everyone's position (Freeman, Wicks & Parmar, 2004).

Jensen (2001) critiques the Stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituency). The argument of Jensen (2001) suggests that, the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as the flow of information from senior management to lower ranks, interpersonal relations, working environment, etc. are all critical issues that should be considered. Some of these other issues provided a platform for other arguments. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to the empirical testing of the extension have limited its relevance (Sanda, Mikailu & Garba, 2005). The theory provides interactions between the firm and its non-financial stakeholders like customers, suppliers, competitors, employees, and community as important determinants of optimal capital structure.

2.2.3 Stewardship Theory

The stewardship theory advanced by Donaldson and Davis (1991 & 1993) suggests that, managers should be considered good stewards who should act in the best interest of the owners (Donaldson & Davis, 1991). The fundamentals of stewardship theory focus on the behavior of executives. The steward's behavior is pro-organizational and collectivist, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis, Schoorman & Donaldson, 1997).

According to Smallman (2004) where shareholder wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the stewards will have a clear mission. Further, stewards balance tensions between different beneficiaries and other interest groups. Therefore, stewardship theory is an argument put forward in firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance.

Stewardship theory sees a strong relationship between managers and the success of the firm, and therefore the stewards protect and maximize shareholder wealth through firm performance. A steward, who improves performance successfully, satisfies most stakeholder groups in an organization, when these groups have interests that are well served by increasing organizational wealth (Davis, Schoorman & Donaldson 1997).

When the position of the Chief Executive officer (CEO) and Chairman is held by a single person (as the case with women-led SMEs, the fate of the organization and the power to determine strategy is the responsibility of a single person. Thus the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control (Davis, Schoorman & Donaldson 1997). Therefore, stewardship theory takes a more relaxed view of the separation of the role of chairman and CEO, and supports the appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke 2004).

2.2.4 Resource Dependence Theory (RDT).

According to Pfeffer and Salancik (1978) in their seminal book entitled; *The External Control of Organizations: A Resource Dependence Perspective* (1978), the Resource Dependence Theory is concerned with how organizational behavior is affected by external resources the organization utilizes, such as raw materials. Further, the theory is important because an organization's ability to gather, alter and exploit raw materials faster than competitors can be fundamental to success. Conceivably, enterprises should be encouraged to view customers as a resource predisposed to scarcity.

RDT is underpinned by the idea that resources are key to organizational success and that access and control over resources is a basis of power. Resources are often controlled by organizations not in the control of the organization needing them, meaning that strategies must be carefully considered to maintain open access to resources (Pfeffer & Salancik, 1978). Organizations typically build redundancy into resource acquisition to reduce their reliance on single sources e.g. by liaising with multiple suppliers.

Resource dependence theories argue that, a board exists as a provider of resources to executives to help them achieve organizational goals (Hillman, Cannella, & Paetzold, 2000, Hillman & Daziel, 2003). Resource dependence theories recommend interventions by the board while advocating for strong financial, human, and intangible supports to the executives. For example, board members who are professionals can use their expertise to train and mentor executives in a way that improves organizational performance. Board members can also tap into their networks of support to attract resources to the organization. Resource dependence theories recommend that most of the decisions be made by executives with some approval of the board.

2.2.5 Modigliani and Miller (MM) Capital Structure Irrelevance Hypothesis

Modigliani and Miller (1958) initiated Modigliani–Miller (MM) theorem, known as capital structure irrelevance principle. The MM Theorem is comprised of four different propositions (Modigliani & Miller, 1963). The first proposition states that under certain conditions, the debt-equity ratio of a firm does not have any effect on the firm’s market value. The second proposition says that the financial leverage of a firm does not influence its weighted average cost of capital (WACC). The third proposition argues that, the market value of a firm has no relationship with the firm’s policy of dividends. The fourth proposition proposes that a firm’s equity holders do not care about its financing structure.

According to Villamil (2008), the MM Theorem has two fundamental contributions to the finance field. Firstly, it represents one of the first formal uses of a no-arbitrage argument. The assumptions are; neutral taxes business environment; no bankruptcy and other financial distress cost; information symmetry occurs in debt and credit markets (i.e., different firms borrow or lend at the same interest rate); and firms’ financial policy does not expose any financial information. Modigliani and Miller (1958) also assume that, all firms belong to their respective set of companies with similar earnings across countries of the world. These relevant assumptions are significant because they set certain conditions for effective arbitrage: If financial markets are not affected by taxes, bankruptcy or other financial distress costs, asymmetric information or any other factors which limits access to credit, all investors can easily copy what a successful firm has done in the market to

arbitrage. Subsequently, the systematic analysis of these assumptions has led to an expansion of the theories by researchers within fields of corporate finance.

MM hypothesis of the irrelevance of capital structure mainly holds because it assumes that, the corporate taxes are absent. Thus, the levered and unlevered firms stand on the same footing. But, in reality this is not the case. Firms do have to pay corporate taxes and as we know, interest paid on debentures is tax deductible. Hence, it becomes more profitable for a firm to have leverage (debt) as it saves taxes and thus the value of such a firm increase. Thus, in the presence of corporate taxes, MM hypothesize that, the value of a firm increases as the leverage increases. According to Modigliani and Miller's Publications (1958, 1961 and 1963), three important propositions, which form the base of their theorem are:

Proposition I – A firm's total market value is independent of its capital structure.

Proposition II – The cost of equity increases with its debt-equity ratio.

Proposition III – A firm's total market value is independent of its dividend policy.

According to the first proposition of Irrelevance of the Capital Structure, Modigliani and Miller take into consideration and discuss two firms with different structures of capital, one including debt in its structure of capital whereas the other one without debt in its structure of capital. Modigliani and Miller have concluded that financial decisions taken by companies do not imply their market value, by assuming that both firms are given equal cash flow (Brigham & Ehrhardt, 2010).

Modigliani and Miller (1958) theorize that, expected cash flow is divided proportionally between company investors in compliance with the capital structure, whereas the company's value remains unaffected by this share-out (Popescu & Sorin, 2011). According to Modigliani and Miller (1958), the asset profitability and risk determine the value of the company and not the capital structure. The first proposition by Modigliani and Miller (1958) holds, due to the exclusion of interest from the payment of taxes, firms that have more debt in the capital structure are more valuable, or have a higher market

value than firms that do not have debt in their capital structure; this is known as the tax shield effect.

Due to the system of taxation (which excludes the interest paid on the debt), the tax portion paid is smaller for firms with debt in the capital structure than it is for those that have no debt. This influences directly the firm's market value (Alifani & Nugroho, 2013). According to Alifani and Nugroho (2013) firms find it convenient to have the debt in their capital structure due to the tax shield effect, which consequently means that they pay less tax, due to the payment of interest and this thing influences the market value of the firm. According to the second proposition of the Rate of Return on Equity, the cost of equity increases with the increment of the debt-equity ratio in the capital structure of a firm.

According to Villamil (2000) the second M & M proposition suggests that, the firm's weighted average cost of capital is not affected by its leverage. Hence, M & M proposition II specifies when the firm's debt-equity ratio increases, so do the firm's cost of equity undergoes a linear increase. It posits that, since investors are rational, the expected return of equity (ROE) is directly proportional to the increase in gearing. The expected return of equity is compensated by the benefit of cheaper debt finance, and, therefore the Weighted Average Cost of Capital (WAAC) remains unchanged (Alifani & Nugroho, 2013). The weighted average cost of capital (WACC) is not influenced by the capital structure, as a result, the firm's value remains unaffected by the capital structure, in the case when corporate taxes are not included in the model. So in this case, financial decisions are not important for the firm's value and shareholders' equity. In this model, the firm can use any sort mixture of capital structure, without effect in its value (Kaplan, Financial Knowledge Bank, 2012).

Modigliani and Miller (1958) further suggests that, the second proposition talk of the effect of taxes. They argue that the ratio of corporate tax is equal to the current value of savings from taxes. Therefore, the firm can decrease weighted the average cost of capital (WAAC) by increasing the debt percentage in the capital structure, since such companies pay less tax, due to the tax shield phenomenon (Brigham & Ehrhardt, 2010). When tax is included, firms can benefit from the increment of the debt percentage in the structure of

capital due to the tax shield, as a result, the weighted average cost of capital (WAAC) will decrease, whereas the firm's value will increase (Pan, 2012).

According to the third proposition of Irrelevance of the Dividend Policy, a firm's total market value is not affected by its dividend policy. Modigliani and Miller (1961) state that the dividend policy is not important for the firm's value (Villamil, 2000). The third proposition determines that there is no dependence on the firm's market value of its dividend policy. M & M (1961) argue that the market value of a firm is determined by its earning power and the risk of its underlying assets. M & M claim that in a perfect market, the value of a firm remains unaffected by its dividend policy (Miller & Modigliani, 1961). On the third proposition, Breuer & Gürtler (2008) argues that, this proposition is nothing more than net present value. Furthermore, concerning this proposition, the authors stress the fact that, there is a possibility for the firm's financiers to make independent decisions regarding the firm's investment decisions (Breuer & Gürtler, 2008).

The critics of MM's Hypothesis argue from the MM proposal that, in the presence of corporate taxes that the value of firm increases with an increase in leverage. Thus, it can be said that, a firm can increase its value by increasing its leverage and maximize it by employing 100% debt in the capital. But, this proposition is criticized for its practical application. That is, in practice, firms do not employ very high levels of debt and lenders also do not lend the money beyond a limit. Therefore, the debt portion never becomes 100% but firms choose an optimum level of debt. The reasons for this are: firstly, as the debt increases, the savings of corporate taxes also increases and at the same time the amount of personal taxes to be paid also increases. Thus, the liability of personal taxes offsets the advantage of corporate taxes. Secondly, greater amount of debt also increases financial risk of the firm. Thus, the cost of financial distress also increases which again offsets the advantage of corporate tax savings.

2.2.3 Life Cycle Theory of Financing Structure

Life cycle theory originates from economic literature (Penrose, 1952). The theory is generally used to describe the development of the firm through growth phases or on

consumption and savings behavior. Also, Timmons (2004) asserts that the life cycle model has been advanced to explain the development of financing needs and capital structure of the firm. The model assumes the firm in its early stage of development relies significantly on internal finance. As the firm develops, it can obtain more external finance due to fewer information asymmetries (resulting from the ability of outsiders to scrutinize its creditworthiness). However, firms will use less debt in the later stages of development since they use retained profits to finance investments. This theory is relevant to SMEs as they are opaque and carry high information costs (Psillaki & Daskalakis, 2009), especially those with a relatively short historical performance.

There are quite some previous studies supporting the applicability of the life-cycle model in explaining the financing decisions of SMEs (Mac anBhaird and Lucey, 2010). Berger and Udell (1998) used data from several US datasets to explain how firm financing avenues change over time. They demonstrated that, financing choices and needs change as a firm grows in size, gains more experience and becomes more transparent. However, Gregory et al. (2005) maintained that, it is not possible to contain the life-cycle of SMEs in one model, as implied by Berger and Udell (1998). The model is unable to present a full scenario concerning the relationship between firm characteristics and capital structure.

2.2.6 MM Dividend Irrelevance Theory

Miller and Modigliani (MM) proposed the view that the dividend policy does not affect the share price and hence, no effect on the market value of a firm (Modigliani & Miller, 1963). They suggested that, the share value is the function of the firm's investment decision. The value of the firm increases on account of increase in earnings rather than the way the earnings are being distributed between dividends and retained earnings. MM argued that, the earnings could be distributed as dividends as well as can be retained. If a firm retains all the earnings instead of distributing the dividends, then the shareholder will enjoy the capital appreciation earned by investing the retained earnings. On the other hand, if a firm distributes all the earnings, the shareholders will get the dividends beforehand equal to capital appreciation which could have been derived from retained earnings. Dividend Irrelevance means that dividend is not relevant as the investors are only

interested in the returns they receive whether they receive in the form of dividends or capital gains. It is the earning power which decides the market value of the firm. That implies that dividend policy has no role to affect the company's share price anyway. A theory, known as MM dividend relevance theory, was propounded by Miller and Modigliani to support this view.

This Irrelevance Theory showed that a firm's value is independent of its ratio of debt to equity financing with the assumptions that, neutral taxes, no capital market frictions (i.e. no transaction costs, asset trade restrictions or bankruptcy costs), symmetric access to credit markets (i.e. firms and investors can borrow or lend at the same rate) and firm financial policy reveals no information. Cost of capital does not affect the capital structure, particularly debt then no effect on firm value. In other words, the value of the levered firm, equals the value of unlevered firm. Subsequently in their 1963 paper, Modigliani and Miller relaxed the assumptions by introducing taxes into their model in which case the method of financing becomes relevant. In the relaxation of the assumptions of the Irrelevance Theory, (Modigliani and Miller, 1963), suggests that, the capital structure can alter the value of a firm in the world of corporate tax and a firm can maximize its value by the use of debt which provides an interest tax shield.

A firm has more value if it uses debt financing because debt reduces the corporate tax. The savings due to the use of debt adds to the value of the firm. The firm that uses more debt saves more in the form of corporate tax shield. This suggests that, debt is a preferable source of financing for less taxation is laid on debt, (Modigliani and Miller, 1963). Therefore, the theory acknowledges that, if capital structure is optimal at 100% debt financing, it will minimize the weighted average cost of capital and maximizes firm performance. However, according to the theory, there is a positive relationship between firm's leverage and its performance but the theory has not taken into consideration other factors that affect leverage and the different sizes of the firm.

2.3 Conceptual framework

A conceptual framework is always grounded in the theoretical framework underpinning a study. The overriding objective of the conceptual framework is to ensure that, the resultant research findings make sense, are satisfactory and are largely generalizable. Sekaran (2013) further indicates that the framework is useful in stimulating research while ensuring the extension of knowledge by providing both direction and renewed motivation for the inquiry. It is through a conceptual framework that the empiricism and rigor of a study can be enhanced.

Sekaran (2013) emphasises that readers of research devoid of a conceptual framework find it burdensome to establish its academic position and the underlying factors to the researcher's assertions and hypotheses. In this study developed a conceptual framework adopted from the following theories: Agency Theory (Jensen & Meckling, 1976), Life Cycle Theory, MM Theory (Modigliani & Miller, 1963) and reviewed empirical studies. Overall, the study regards, firm size, firm growth, cash flow structure, profit borrowing policy and financial information quality as independent variables while business financing structure as the dependent variable. The conceptual framework is captured in figure 1.

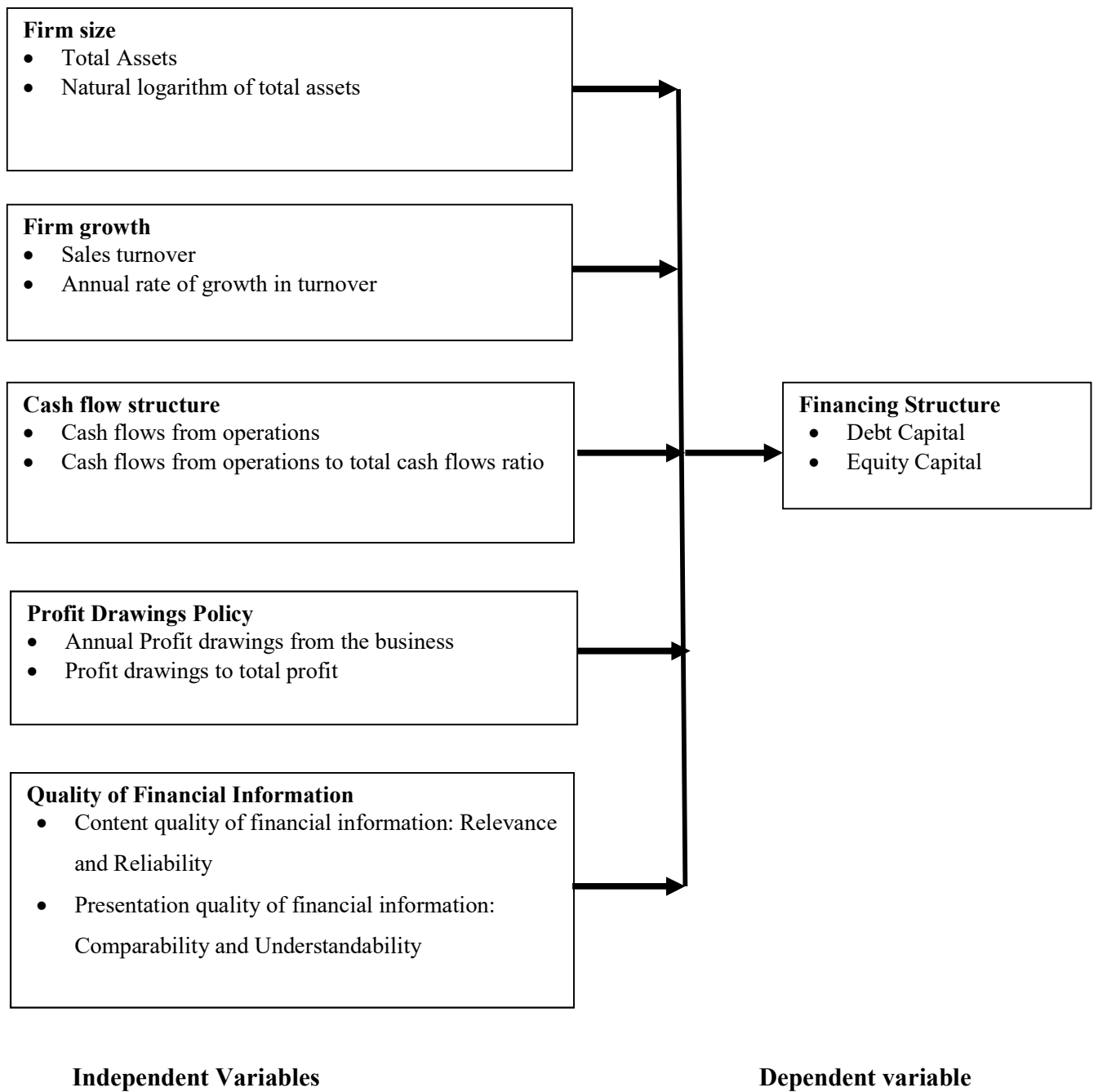


Figure2.1: Conceptual Framework

2.4. Empirical Literature Review

The variables in the framework above are empirically reviewed in this section. These are evaluated in the context of SMEs although the literature cuts across several types of businesses.

2.4.1 Firm Size

Ross (2009) indicates that firm size is the magnitude of a firm that can be indicated by asset base, employee base, turnover or company market capitalization. There exists a conflict between the viewpoints about the relationship of leverage relative to firm size. There is assumed a positive relationship between the leverage and firm size. The large firms do not consider the bankruptcy costs as a variable in determining the level of leverage. Therefore, larger firms have fewer chances of bankruptcy. The second assumption consists of the negative relationship between the leverage and firm's size, as there is asymmetric information on large firms. This reduces the chance of undervaluation of new equity issues and thus leads to using more equity financing.

According to Nawi (2015), numerous studies confirm a significant positive impact of firm's size on leverage. However, there are some studies finding a significantly negative relationship between size and short-term leverage. Although, the empirical evidence on SME financing in developed economies points towards a positive relationship between firm size and both total and long-term leverage and an inverse association between firm size and short-term leverage, the situation was different for developing countries (Nawi, 2015). In the context of developing economies, empirical work has confirmed a positive association between firm size and both short and long-term leverage. Most capital structure theories argue that, the type of assets owned by a firm in some way affects its capital structure choice.

Scott (1977) suggests that, by selling secured debt, firms increase the value of their equity by expropriating wealth from their existing unsecured creditor. Arguments put forth by Myers and Majluf (1984) also suggest that, firms may find it advantageous to sell secured debt. Their model demonstrates that, there may be costs associated with issuing securities

about which the firm's managers have better information than outside shareholders. Issuing debt secured by property with known values avoids these costs. For this reason, firms with assets that can be used as collateral may be expected to issue more debt to take advantage of this opportunity. Work by Galai and Masulis (1976), Jensen and Meckling (1976), Myers (1977) suggests that, stockholders of leveraged firms have an incentive to invest sub-optimally to expropriate wealth from the firm's bondholders. This incentive may also induce a positive relation between debt ratios and the capacity of firms to collateralize their debt.

If the debt can be collateralized, the borrower is restricted to use the funds for a specified project. Since no such guarantee can be used for projects that cannot be collateralized, creditors may require more favorable terms, which in turn may lead such firms to use equity rather than debt financing (Galai & Masulis, 1976). The strength of the capital structure is a function of asset structure. Assets are items of value an organization owns or controls. It refers to the decision between the debt, debt equivalent source of finance and equity financing of the enterprise's activities. It may also be seen as the enterprise's underlying value. It focuses on the balance between funding from equities and funding from long-term debt. The presumption is that; firms use funds from both sources to acquire income producing assets. In fact, capital structure is also known as capitalization. The asset structure of a firm is an important aspect, as it measures its ability to survive and compete with other firms.

Further, asset structure guides the decisional efficacy in regard to the way finance is raised (Wu, 2013). Conceivably, an enterprise that does not have a strong asset structure cannot be able to request for external financing. Indeed, profit –making firms acquire assets at a measurable cost and use them for generating earnings. Consequently, assets must justify their place on the balance sheet by bringing in returns. The enterprise's asset structure represents its strategy for earning from its asset base (Wu, 2013). Asset Structure shows how the firm chooses to maximize return on assets (ROA) while on the other hand, financial structure describes the sources of all funds an enterprise uses for acquiring assets

and paying expenses (Panno, 2003). Indeed, profit-making enterprises acquire assets at a measurable cost and use them for generating earnings.

Consequently, assets must justify their place on the balance sheet by bringing in returns. The enterprise's asset structure represents its strategy for earning from its asset base (Panno, 2003). The components of asset structure, financial structure and capital structure (capitalization) all appear on the enterprise's balance sheet. Enterprises evaluate structure regarding the relative magnitudes of components within each category. There are several theoretical reasons why firm size would be related to the financing structure of the firm. Firstly, smaller firms may find it relatively costlier to resolve informational asymmetries with lenders and financiers. Consequently, smaller firms are offered less capital, or are offered capital at significantly higher costs relative to larger firms, which discourages the use of outside financing by smaller firms (Antoniou et al., 2008).

The transaction costs associated with financing may also affect financing choices as transaction costs are most likely a function of scale, with smaller scale financing resulting in relatively higher transaction costs (Titman & Wessels, 1988; Wald, 1999). A related issue is the marginal effects of market access for different sized firms (Scherr et al., 1993). This could be a function of high transaction costs effectively making some financing options outside the available set of financing choices of the firm. However, market access can also be constrained directly in that some financing options are not in the scale range that financiers would consider issuing finance. A simple example is a scale required to obtain equity funds publicly, thereby excluding smaller firms from this type of finance. Another explanation for smaller firms having less outside financing or lower debt is if the relative costs of bankruptcy are an inverse function of firm size.

Indeed, bankruptcy costs can be both direct, affecting liquidation returns, or indirect in the form of stakeholders losing confidence in the businesses survival or through less discretion on operating decisions (Titman & Wessels, 1988). Finally, if the operating risk is inversely related to firm size, this should predispose smaller firms to use relatively less debt and outside financing (Cosh & Hughes, 1994). Empirical evidence about the investigation of the relationship between size and financing for firms of similar scale

generally supports a positive relationship between firm size and leverage, long-term leverage, outside financing and bank financing. One caveat to this is a negative relationship between short-term liabilities and firm size (Osteryoung et al., 1992; Chittenden et al., 1996; Michaelas et al., 1999; Fluck et al., 2000).

Burkart and Ellingsen (2004) state that the size of a firm has an important influence on the debt ratios as firms with more real assets tends to have greater access to long-term debt. Honhyan (2009) finds that larger firms tend to be more diversified and fail less often, so size can be an inverse proxy for the probability of bankruptcy. Cassar (2004) argues that it may be relatively costlier for smaller firms to resolve information asymmetries with debt providers. Consequently, smaller firms may be offered less debt capital. Also, transaction costs are typically a function of scale and may be higher for smaller firms. Therefore, it is hypothesized that, there is a positive relationship between the size of the SME and access to debt finance from commercial banks.

Related to firm size is asset structure should be an important determinant of the capital structure of a new firm (Titman & Wessels, 1988). Titman and Wessels (1988) argue that, the degree to which a firm's assets are tangible and generic should result in the firm having a greater liquidation value because it reduces the magnitude of financial loss incurred by financiers should the company default. Pledging the firms' assets as collateral also reduces adverse selection and moral hazard costs. Storey (1994) and Berger and Udell (1998) suggest that bank financing will depend on whether lending can be secured by tangible assets.

Empirical evidence suggests a positive relationship consistent with theoretical arguments between asset structure and leverage for large firms. The limited smaller firm research, while not conclusive, shows signs of a positive relationship between asset structure and leverage, long-term debt, and possibly a negative relationship with short-term debt (Van der Wijst and Thurik, 1993; Chittenden et al., 1996; Jordan et al., 1998; Michaels et al., 1999).

2.4.2. Firm Growth

Firm growth is the increase in the value of a firm often taken as an increase in assets or investment over time (Ross, 2009). A potential obstacle to firm growth is also the availability of external funds. If this is an important issue, firm size should be related or correlated with financial leverage (Ross, 2009). Rajart and Zingales (1998) find that financial market development affects both the growth in the average size of existing establishments and the growth in the number of new establishments in industries dependent on external finance (though disproportionately the former). Thus, the theoretical effect of the development of financial markets on the average size of firms is ambiguous.

Pagano, Panetta, and Zingales (1998) argue that this is a reason why so few Italian firms go public. By limiting the access to the public equity market, this effect may also limit the size of firms. On the other hand, existing firms will be able to grow faster, increasing the average size of firms. Whether the average size of firms in industries that rely on external finance is larger. According to the trade-off theory, firms holding future growth opportunities, which are intangible assets, tend to borrow less than firms holding more tangible assets because growth opportunities cannot be collateralized Myers (1977).

However, the pecking order theory of Myers and Majluf (1984) predicts that, leverage and growth are positively related. For growing firms, internal funds may be insufficient to finance their positive investment opportunities and, hence, they are likely to be in need of external funds. According to the pecking order theory, if external funds are required, firms will prefer debt to equity because of lower information costs associated with debt issues. This results in a positive relationship between leverage and growth opportunities.

Applying pecking order arguments, growing firms place a greater demand on the internally generated funds of the firm. Consequentially, firms with relatively high growth will tend to look outside the firm to finance the growth. Therefore, these firms should look to short-term less secured debt than to longer-term more secured debt for their financing needs. This should lead to firms with relatively higher growth having more leverage.

Also, there is a relationship between the degree of previous growth and future growth.
(Myers & Majluf,1984)

Michaelas et al. (1999) argue that future growth opportunities will be positively related to leverage, in particular short-term leverage. They argue that, the agency problem and consequentially the costs of financing are reduced if the firm issues short-term rather than long-term debt. This is in direct contrast to Myers (1977), who argues that conflicts between debt and equity holders are especially serious for assets that give the firm the option to undertake growth opportunities in the future, resulting in firms with such growth opportunities having less debt. Michaelas et al. (1999) found future growth positively related to leverage, while Chittenden et al. (1996) and Jordan et al. (1998) found mixed evidence

2.4.3 Cash flow Structure.

According to Smith (2017), liquidity is the life blood of any SME, making cash flow more important than the magnitude of the profit or the return on investment. Cash flow is the difference in the amount of cash available at the beginning of a period, referred in accounting terms as opening balance, and the amount at the end of that period, referred to as closing balance. Cash inflows result from the sale of goods or services. Cash outflows result from the need for the business to pay for costs such as raw materials, transport, labor, and power. The difference between the two is the net cash flow. A healthy, consistent cash flow position creates liquidity for the SME. This enables the SME to sustain its operations resulting in the generation of higher profits Gregory et al., 2005).

Profits enable re-investment which drives growth. This life-cycle makes maintaining liquidity the priority of any manager of an SME. Cash flow is of vital importance to the health of all businesses, particularly SMEs. An SME may be able to continue to trade in the short term even if they are making a loss, by delaying creditor payments, but no small business can survive long without enough cash to meet its immediate needs. Regardless of the size of the SME or what industry it is in, one key statement is relevant to all SMEs;

If your expenses exceed your cash, then you have a cash flow problem. Too many SMEs struggle to properly manage and sustain positive cash flow.

There are sensitivities on cash flow patterns due to incentives, problems or asymmetric information in SMEs. Moreover, SMEs motivate to reduce overinvestment and underinvestment problems, thus allowing these entities to attain an optimal level of investment and cash flow structures. Thus SMEs are in a better position to create value through their investment decisions (Keasy et al., 1997). Another feature of SMEs' cash flow structures that is accounted for when probing how owner control influences the sensitivity of investment spending is seen in the light that, the optimal capital structure coupled with investment decisions will in most part be determined at the personal level (Keasy et al., 1997).

2.4.4 Drawings Policy

Whereas large established firms have an established policy of managing drawings from profits which is often called dividend policy, most small firms do not have such a regime. Accordingly, theirs is more of a drawings policy from than business rather than a dividend policy in the strict sense of the word. Hogan and Hutson (2005) however note that such these two terms are used interchangeably. Dividend Policy is used by companies to decide how much dividend to pay out to shareholders. From the financial accounting aspect after deducting expense from the revenue, a company generates profit. A portion of the profit is kept within the company as retained earnings and the other portion is distributed as dividends to shareholders (Simon, 2009).

In fact, the value of a share depends much on the amount of dividend distributed to shareholders. This is guided by the share valuation model. Usually, dividends are distributed in the form of cash (cash dividends) or share (share dividends). Nonetheless, when a company distributes cash dividends, it ought to have sufficient cash to do so. If distributed, it may create operational constraints on cash flow, since profit generated may not be in the form of cash. Investors earn returns from their shares in the form of capital gains and dividend yield. The rate of tax is another factor that may influence dividend

level in addition to cash and profits. Indeed, in some countries dividends are taxable. The higher the dividend, the higher the tax an investor needs to pay. In such cases, high dividends are not desirable. If a company is expanding, it needs to keep sufficient cash for its expansion plans rather than having to go to the equity or debt market to raise additional finance.

The common dividend policies are as follows: stable dividend policy, constant payout ratio and residual dividend policy. In the stable dividend policy, management maintains a fixed dividend per share each year. In the stable dividend policy, management maintains a fixed dividend per share each year. The impact on share pricing can be seen from the share valuation formula $P_0 = D_1/(r-g)$ where P_0 is the current price, D_1 is the dividend in the coming year, r is the required equity return and g is the dividend growth rate. If there is no growth in dividend, $g = 0$, and $P_0 = D_1/r$. After one year $P_1 = D_1/r$ but $D_1 = D_2$. Thus $P_1 = P_2$ and there is no growth in the share price.

In the constant payout ratio situation, management maintains a fixed percentage dividend payout ratio. This provides clear direction for investors. In a residual dividend policy, profits are used to fund new projects with the residual or remaining profit distributed as dividends. According to Baker and Powell (1999) asserts that, Researchers have different views about whether the percentage of earnings that a firm pays out in dividends materially affects its long –term share price. Some empirical studies appear to support Modigliani and Miller (1961) classic dividend irrelevance proposition. Further, Farrelly, Baker and Edelman (1985) assert that, corporate managers typically opine that dividend policy affects a firm's value and that an optimal level of dividend payout exists. In practice, most firms pay cash dividends, in spite of its high cost. Baker et al. (1999) conclude that, empirical evidence on whether dividend policy affects a firm's value offers contradictory advice to corporate managers. Currently, many academicians and corporate managers still debate whether dividend policy matters.

Modigliani and Miller's (1961) dividend irrelevancy proposition asserts that, if a company distributed high dividends now, it may reduce its dividends later and thus the total effect is zero in time value e.g. a company may distribute a dividend of Kshs 10/- per share and

investors may expect this rate of payment for some time. Eventually, the company reduces its dividend to Kshs. 7/- per share and the ultimate time value result is the same. It is further observed by Simon (2009), a sudden increase in dividend may not be a positive signal. In an efficient market, investors can distinguish between a genuine dividend increase and an artificial dividend increase.

Companies try to maintain a stable dividend payout because if they reduce their dividend payments, investors may suspect that the company has cash flow problems. In a nutshell, a company must not cut a positive net present value (NPV) by paying dividends. Otherwise, dividends cannot be maintained. It must not reduce its dividend as this may imply there are cash flow problems. A company should try to pay dividends but at the same time maintain sufficient retained earnings to avoid having to raise new finance. Further, it must never allow distribution of high dividend to be funded by borrowing money and worsening its debt-equity ratio. For better performance and business image, a company should set a target dividend payout ratio which is constructive but which also depends on the stability and prospects of the business (Simon, 2009).

Related to dividend policy and drawings policy is profitability (Amanuel, 2011). The hypothesized relationship between firm profitability and capital structure is founded on Myers (1984) pecking order hypothesis. Given the information asymmetries between the firm and outsiders, firms have a preference for inside financing over outside financing. Therefore, profitable firms, which have access to retained profits, can use these for firm financing rather than accessing outside sources. Even though more profitable firms would be more likely to get access to such capital, these firms will prefer inside funds to finance their operations and investments. Empirical evidence from previous studies examining SMEs is consistent with pecking order arguments with leverage reported to be negatively related to profitability (Wijst & Thurik, 1993; Chittenden et al., 1996; Jordan et al., 1998; Coleman and Cohn, 1999; Mishra and McConaughy, 1999; Michaelas et al., 1999).

2.3.5 Quality of Financial Information

Quality of financial information relates to the ability of financial information to be useful to various users for economic decision making (Oluoch, 2014). According to Oluoch (2014), there are two types of qualities of financial information. These are the content qualities and the presentation qualities of information. With respect to the content qualities, he asserts that, information must have attributes of relevance and reliability for the content to be useful to the decision makers. This is going to be the case if the information is provided on a timely basis, has elements of forecast value as well as attributes of confirmatory value.

Oluoch (2014) goes ahead to assert that reliable information is that which is factually accurate and is dependable for its faithful representation of the financial condition of the business. This is the case if the information is neutral, complete, is faithfully represented and has elements of financial conservatism. Presentation characteristics reflect the ability of information to be presented in such a manner as to make it useful for decision making. In line with Oluoch (2014), information is said to be having desirable presentation attributes if it not only is understandable, but it is also comparable on a time series basis as well as on a cross-sectional basis with other similar firms. It is this quartet of qualities (relevance, reliability, comparability and understandability) that are used in this study to assess the quality of information available to women-led SMEs in Kenya.

2.3.6. Financing structure

According to the inertia theory of capital structure, firms avoid any action to change their capital structure because of transaction costs (Welch, 2004). The latter implies that a firm's capital structure is changed by retained earnings and stock price changes, which alter the size of a firm's assets. As suggested in the inertia theory as well as pecking order theory, using internal funds is the best financing structure and both trade-off and pecking order theories suggest that, debt issuance is the better policy, rather than equity issuance.

This equity-issuing phenomenon cannot be explained by either the pecking order or inertia theory, where firms accumulate retained earnings when there is significant asymmetric

information. A possible explanation for this result is that the financial distress risk increases globally regarding the trade-off theory, or that asymmetric information costs are not great regarding the pecking order theory. The best financing structure in the pecking order theory is issuing over-priced equity. Considering the world economy over the last twenty years, the phenomenon of equity issuing might indicate that management are more concerned with financial distress rather than with asymmetric information costs. Alternatively, the equity issue might be reflected by the market participants' concerns.

2.5 Empirical Literature Review

The problem of developing a certain theory on evaluating the determinants of business financing policies and designing empirical tests that are demonstrative to provide a basis for choosing among the various theories is still unresolved. The outcome of this joint optimizing behavior is essential, as it has implications on business financing policies of small and medium-sized enterprises.

Aremu and Adeyemi (2011) in their study revealed that the widespread of small businesses is the main driving force behind job creation, poverty reduction, wealth creation, income distribution and reduction in income disparities. The study further revealed that, most government interventions failed to create a much-needed transformation due to poor coordination and monitoring and policy inconsistencies. Their findings have revealed that most of the small and medium-sized enterprises in Nigeria die within their first five years of existence; smaller percentages go into extinction between the sixth and tenth year while only about five to ten percent of young companies survive, thrive and grow to maturity.

Key among the factors responsible for the premature death include insufficient capital, lack of focus, inadequate market research, overconcentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies, lack of proper records or lack of any at all, inability to separate business and family or personal finances, lack of business strategies, inability to distinguish between revenue and profit, inability to procure the right

plant and machineries, inability to engage or employ the right caliber staff, and cut-throat competition. Alam, Jani and Omar (2011) study revealed that women entrepreneurs had become important players in the entrepreneurial landscape. Although the number is still small as compared to businesses owned by men, this is encouraging as it shows that women no longer adhere to the stereotype that only men can be wage earners in the family.

Girma (2015) established that, personal characteristics of women entrepreneurs in small enterprises affect their performance. It also shows that lack of their own premises (land) to run their business, financial access given by micro finances or other lending institutions, inadequate access to business training, stiff competition in the market place, access to technology and access to raw materials were the key economic factors that affect the performance of women entrepreneurs in small businesses. The study also found that, conflicting gender roles or household responsibilities, network with outsiders and social acceptability were the major social factors that affect these entrepreneurs. The stakeholders are required to create an enabling environment for the growth and development of small businesses.

However, this study found that, access to policymakers, high amount of tax, network with administrative bodies, interest rate charged and overall legal and regulatory environments were the main factors that affect women entrepreneurs. The study also found that, customer service training, marketing training, financial report training and entrepreneurship training were the main challenges of the entrepreneurs. Based on the major findings, recommendations were forwarded to existing and potential entrepreneurs, small business, micro finances and other government bodies. Morellec, Nikolov, and Schürhoff (2012) study revealed that, internal and external corporate governance has a significant impact on firms' financing structure. The study concludes that, heterogeneity in leverage ratios is partly determined by differences in agency costs across companies.

The study by Lew (2012) found that, firms which are financially stable issue relatively more debt. Second, they have a preference for moderate debt levels and thus limit their bankruptcy probability. According to the study, the behavior of firms appears generally aligned with the trade-off theory, although the pecking order and market timing theories

also partially explain the equity issuance condition. Second, “the debt-equity choice” can likewise be explained by the use of a theoretically combined approach, using the three major capital structure theories. In this approach, firms increase their value by both increasing debts for tax benefits and low adverse selection costs and by issuing equity when the stock price is high. Third, the trade-off, pecking order and market timing theories can be combined on the assumption that firms maximize their values under conditions of the existence of asymmetric information, tax shields and bankruptcy probability.

Amanuel (2011) study examined the relevance of theoretical internal (firm level) factors that determine capital structure of manufacturing companies in Addis Ababa, Ethiopia. Amanuel (2011) used seven explanatory variables: tangibility, non-tax shield, growth, earning volatility, profitability, age and size, and three dependent variables: total debt ratio, short term ratio and long term ratio to establish the determinants of capital structure of manufacturing companies in Ethiopia. The results of Ordinary Least Square (OLS) regression showed that, tangibility, non-debt tax shields, earning volatility, profitability, and size of the firm variables are the significant determinants of capital structure of Addis Ababa manufacturing companies in response to one of the models, out of the three models employed in the study.

Gaud, Hoesli and Bender (2007) investigated the debt-equity choice in 13 European countries in their sample, they found that, financial firms are greatly different from non-financial ones, with respect to the product and services they provide, the regulations they abide by, and most importantly, their marketability and the way they raise their capital. Therefore, the bias cannot be avoided when considering both types of firms regarding a business financing structure put forward. However, in their analysis, they did not separate financial firms and non-financial firms.

Omowunmi (2012) study reveals that, Nigerian firms rely heavily on short term financing rather than long term finance. This difference in long-versus short-term debt, to an extent, might limit the explanatory power of the capital structure theories in Nigeria. The results of this empirical study suggest that, some of the insights from modern capital structure theories are portable to Nigeria in that, certain firm-specific factors that are relevant for

explaining the capital structure and corporate performance in the Western Countries are also relevant in Nigeria. This is true despite profound institutional differences that exist between Nigeria and the Western Countries. Overall, the empirical results from this study offer some support for the pecking order theory and static trade-off theory of capital structure.

2.5.1 Firm Size and Business Financing structure

The results in the study by Lisboa (2017) suggest that, firm size is an important determinant for explaining firms' capital structure of SMEs in Portugal. Furthermore, exports intensity and crisis effect do not impact a firm's indebtedness. Findings are consistent with the hierarchy of funds proposed by the Pecking Order Theory. The Static Trade-off Theory is also important, as a fixed asset can be used as collateral in the case of a firm's bankruptcy. Additionally, results suggest that, exporter SMEs hold more short-term than long-term debt, especially small-sized firms. Finally, companies' debt ratio presents a constant tendency during the period analyzed.

Schroder and Sosman (2016) conducted a study in which it was established that, the firm characteristics including firm size have the largest impact on capital structure dynamics in Europe. Among the macroeconomic variables, the term structure is found to have a positive effect on target leverage and the leverage boundaries. This implies that, companies tend to lever up or allow high leverage levels in times in which the economic prospects are promising. In the year 2015 Shibru, Kedir and Mekonnen conducted a study, with the result of fixed effect model indicating that firm Size had positive relationships with the leverage of banks, and statistically significant at 1% level. This implies that, every one percent change (increase or decrease) in the bank's size keeping the other thing constant had a resultant change of one-percent on the leverage in the same direction.

The results also suggest that, the bigger the bank, the more external funds it will use. The possible reason is that, larger banks have a lower variance of earnings, and the providers of the debt capital are more willing to lend to larger banks as they are perceived to have lower risk levels. These results confirm the concept that, large firms can borrow more

easily, either because of a better reputation or because of a perceived lower risk due to better diversification. This is largely consistent with the static trade-off theory and agency cost theory. Nevertheless, many previous studies, such as by Amidu (2007), and Caglayan and Sak (2010) indicated a similarly strong significant positive relationship. The findings provide further support for the findings of the regression result which demonstrates a positive relationship between size and leverage.

Nawi (2015) conducted a study investigating the determinants of capital structure in small and medium-sized enterprises (SMEs) in Malaysia and their effect on firms' performance. The results reveal that, firm characteristics were found to relate to all types of capital structure. Both complete and partial mediating effects are also discovered in this study. The results provide evidence to support the pecking order hypothesis (Myers, 1984; Myers & Majluf, 1984) and agency theory (Jensen & Meckling, 1976). It appeared that, SMEs owner-managers in Malaysia do not strive to adjust their capital structure towards some optimal debt ratio, which is contrary to the static trade-off theory of capital structure.

The study conducted by Hasanaj (2014) found that, the main determinant factors which contribute to the bank leverage level of the Banking Industry in Albania between the years 2008 to 2013 are mainly bank size conforming to sign expectations based on following empirical findings. Olakunle and Jones (2014) in their study deduced that, there is a non-statistically significant positive correlation between size and firms leverage (short-term and total debt) for static trade-off theory, agency costs and pecking order theory. These results for Nigerian firms suggest that, there are significant constraints that restrict Nigerian firms from taking full advantage of their size for leverage.

Wu (2013) study using regression analysis shows partial support to the hypothesis of company size being inversely related to the severity of debt hindering growth. However, such an effect is only limited to the smallest 30% of the firms in Europe concerning net investment but consistently so for all firms with one-year employment growth measures. The study by Borgia and Newman (2012) also established that the financial structure is influenced by firm size. The results in the study by Krasauskaite (2011) suggest that, firm size has a conflicting influence on leverage. Micro firms, on average, are less levered than

small or medium-sized firms. Micro firms, on average, are more indebted than small firms, and small firms, on average, have higher leverage ratios than medium-sized enterprises.

Also, if it is distinguished between the decision to obtain long-term debt financing and the decision on the relative amount of this source of financing, the results of the empirical analysis suggest that, the determinants of these two decisions are not the same. Finally, although the results imply that, all three size-based groups of SMEs in the Baltic countries behave by the pecking order theory regarding their capital structure, there are significant differences in the determinants of leverage among these groups. Therefore, in the studies of the capital structure of SMEs, it might be useful to consider the three groups of SMEs separately.

The study by Pinkova (2012) using analysis of variance (ANOVA), correlation and regression analyses show that, firm size and asset tangibility appear to be relevant determinants of capital structure at Czech automotive industry. It has been observed that, the maturity of debt has to be considered, since the investigation of total debt only does not provide precious results. The findings do not unequivocally support either the static trade-off theory or the pecking order theory. According to the results in Lisboa's study (2017), the asset structure of SMEs in Portugal is an important determinant for explaining firms' capital structure.

Martina conducted a study in (2015) to investigate the relationship between tangible assets and the capital structure of Croatian small and medium-sized enterprises. The results of the study found that, tangible assets are differently correlated with short-term and long-term leverage. The relationship between tangible assets and short-term leverage was negative and statistically significant in all observed years. The relationship between tangible assets and long-term leverage was positive in all observed years and statistically significant. The results showed that, small and medium-sized companies use their collateral to attract long-term debt, which means that, small and medium-sized companies use lower costs and the interest rate of long-term debt about short-term debt. These findings are consistent with the static trade-off theory which predicts a positive relation between leverage and asset tangibility and also with the pecking order theory, which is

generally interpreted as predicting a negative relation between leverage and asset tangibility. They also confirm the findings in the study by Koralun-Bereźnicka (2013). The study by Borgia and Newman (2012) also established that the financial structure is influenced by asset structure.

2.5.2 Firm Growth and Business Financing structure

Ndubuisi, Juliet & Onyema (2018) conclude that financial leverage has significant effect on the profit growth of firms in Nigeria and also that there exists a significant relationship between the inflation rate and profit growth but the relationship with the interest and exchange rates on financial leverage of quoted companies in Nigeria. The nature of the relationship differs from one another, a positive relationship was reported for the total debt to capital ratio, debt to asset ratio and long term debt to capital ratios and a negative relationship for the debt to equity ratio and the cost of debt. the study therefore recommend that every company quoted in Nigeria find the mix of debt to equity capital that best suits them which can become their optimal capital structure to be able to maximize profit at minimal cost. It is important that every company quoted in Nigeria find the mix of debt to equity capital that best suits them which can become their optimal capital structure to be able to maximize profit at minimal cost. Financial decisions on profit growth for any firm should be made in consonance with the prevailing inflation rates at that time by the management of quoted firms in Nigeria.

Ibrahim and Akinlo (2017) study investigated the relationship between firm size, growth and the profitability of quoted non- financial firms in Nigeria using 115 companies that have ever been listed on the Nigerian Stock Exchange. The generalized method of moment results suggests that increase in profitability is the engine room of all-encompassing growth. Transitivity, profit has positive effect on growth while growth has positive effect on size.

The study by Abdul and Badmus (2017). on the relationship between leverage and performance of Chemicals and Paints firms quoted on the floor of Nigerian Stock Exchange used Return on Assets (ROA) was used as measure of performance while

Equity (EQT) and Debt Ratio (DR) as proxies for capital structure. The results showed that EQT finance has a significant and positive impact on ROA but DR has a negative and insignificant relationship on the performance measure. It was therefore recommended that firms in the sector should be more of equity financed than debt by sourcing more of equity in their finance ratio and avoiding too many debts. This finding of this study provides evidence in support of Agency Cost.

Lisboa (2017) concludes that, firm growth importantly is a determinant for explaining the capital structure of SMEs in Portugal. The result of the study by Shibru et al (2015) revealed that, there was a negative and statistically insignificant relationship between leverage and growth of banks. The negative coefficient of growth indicates a negative relationship between growth and leverage. However, this negative relationship is found statistically insignificant with the p-value of 0.11. Though the negative sign confirms that, growing banks are expected to have less debt ratio which was consistent with static trade-off theory and the previous empirical findings of Olayinka (2011) the insignificant result indicates that, growth was not considered as a proper explanatory variable of leverage in the Ethiopian banking industry. This insignificant result was also consistent with the previous empirical findings of Najjar and Petrov (2011).

The possible reason may be that, the measure (percentage change in a total asset) used in this study did not reflect the growth of banks fully. Other more significant results might be obtained by using another measure (market-to-book ratio) for growth which was difficult to use for this study where there is no active secondary market. In the same way, the findings from interview data also provide further support for the findings of the regression result which demonstrates that, growth was not a proper factor that determines the capital structure of banks in Ethiopia. Further, Al-Najjar and Taylor (2008) found that, firms with high growth rates tend to use less debt to mitigate agency conflicts that arise due to high information asymmetry. The study by Pinkova (2012) shows that growth is not a statistically significant determinant of leverage at the Czech automotive industry.

The study by Thairu and Wahome (2016) linked innovation to growth through improvements in efficiency, productivity, quality, competitive positioning, and market

share, the local study by Thairu and Wahome (2016) concludes that innovation is positively related with performance and leads to increased profit.

Tingler's (2015) study found that firm growth in general refers to the change in size of a company between two points in time. Several indicators to measure firm growth exist including a firm's sales, assets, employees, or profits. To determine firm growth, a relative approach, deriving the firm growth rate, and an absolute approach, deriving the absolute change in firm size over time. In order to analyze the effects of firm growth, it is first necessary to understand the different underlying drivers of firm growth. According to Tingler (2015), the determinants of organic firm growth can be grouped into firm internal on the one hand and firm-external determinants on the other hand.

The major firm-internal driving factors of organic growth are structural characteristics such as firm size, financial determinants such as the access to capital, personnel determinants of the management, strategic determinants as the level of diversification. The most relevant firm-internal factors driving inorganic growth are a firm's strive for synergies, its financial resources, its size, and its management's personal goals. Nawaf (2015) study which investigated the impact of financial leverage, company growth and size on profitability in Jordan using a sample of 25 industrial companies listed on Amman stock exchange revealed that there is a significant effect of financial growth on profitability.

2.5.3 Cash Flow Structure and Business Financing structure

The study by Hasanaj (2014) indicates that, capital adequacy is generally the bank's strength and stability as it is the measurement of capital ratio to its assets: loans and investments. So the increase in capital, increases the risk of earnings variations in the future. Therefore, the most concerning problem of the managers, is the control of the firms and the concern of creditors to limit default risk. The capital structure can be positively related to long term debt and negatively related to short term debts according to the hypothesis of *ceteris paribus*.

Tahir and Sabir conducted a study in the year (2015) which found that overall Family-Owned Businesses (FOBs) exhibit lower sensitivities between investment and cash flow. There was a positive but weaker association between investment and cash inflow that sheds some light on the peculiar characteristic of FOBs i.e. lower expropriation of minority shareholders which create more value. Regarding financing decisions, the study concluded that, first of all, the significant negative relation between cash flow and debt ratio indicates a weak application of pecking order theory in family firms. Furthermore, this result explains that problems due to asymmetric information are less severe in FOBs which allow them easier access to external funds as compared to Non-FOBs. The study recommends that, as FOBs exhibit lower investment-cash flow sensitivities, asymmetric information and agency problems, the regulatory authority should take well-defined steps to enhance the family-owned businesses in the country. The study concluded that, there is a weak application of pecking order theory in family firms. Conversely, Non-FOBs are advised to take measures against asymmetric information problem.

Keefe and Yaghoubi (2016) evaluated the influence of cash flow volatility on capital structure and different use of debt maturities across world markets. Their study is borne out of the reality that the inter-relationship between capital structures, which is related to financing structure in this study, with cash flow volatility has not reached a consensus point. Their study employs a variety of measures of cash flow volatility as well as approaches to the non-linear association of proportional variables. Their findings indicate that holding all factors constant, a unit standard deviation change from the arithmetic average of cash flow volatility corresponds with a 24% change, in the opposite direction as the standard deviation, of long term debt ratio. It similarly implies a fall of 26% of the possibility of holding debt with maturities exceeding ten years as well as a positive change of the possibility of holding none of the short or long term debt.

Memon, Chen, Tauni and Ali (2018) set to establish if cash flow volatility determines the financing structure of a firm especially concerning the debt structure. The study is borne out of the limited focus on developing country firms particularly china establishments. They evaluate the influence of cash flow volatility on leverage levels

of firms among Chinese firms listed at Chinese stock exchanges. The study employs 5-year moving standard deviations of cash flows from operating activities of the firms. They rely on a methodology that uses a generalized linear model to test whether cash flow volatility influences firm leverage, which is related to financing structure that is used in this study. The study further uses ordered probit regression to evaluate the effect of volatility on debt maturity ordered categories. To do away with endogeneity difficulties, the study uses lag volatility and related determinant variables in the estimation models. The research evidence from Memon et al. (2018) indicates that cash flow volatility has a negative effect on firm leverage.

Further evidence shows that in the analysis of the sub-samples of Chinese state-owned firms, the inverse relationship is non-existent. Concerning maturity terms of debt held by firms, the evidence reveals that the higher the volatility of cash flows, the shorter the debt maturities of the debt held in the ownership structure and vice versa. In a nutshell, a unit standard deviation increase leads a 9% fall in long term market leverage ratio coupled with a fall of 27% in the probability of issuing long-term notes or debentures.

Capital structure, which reflects the financing structure of a firm, is one of the most critical concerns in contemporary corporate finance and a sense it has not only has attention increased in recent years but also it has received much attention from contemporary scholars (Nakhaei & Jafari, 2015). It becomes phenomenal when it is considered alongside cash flow management. According to Nakhaei and Jafari (2015), the objective of cash flow management is to optimize the levels of cash flow to maximize shareholder wealth. Nakhaei and Jafari (2015), set out to appraise the relationship between capital structure and free cash flows and financial performance in companies listed on the Tehran Stock Exchange (TSE).

The scope of the study covered the period 2009 through 2013. In their study, capital structure and free cash flow are the concepts forming the independent variables while financial performance is proxied by return on asset, annual stock return and economic value added. They further use firm size as a control variable. The study employed the use

of secondary data on the financial affairs of the listed companies and relied on regression analysis to test the hypotheses. The findings of the study reveal that capital structure is inversely related with all metrics of financial performance being stock returns, return on assets and economic value added.

According to Manian and Fathi (2017), free cash flows provide a yardstick for evaluating the performance of businesses. They further indicate that free cash flows show to confirm the cash available to a firm once it has factored in the costs of maintaining or procuring assets. It is instructive that companies that have positive free cash flows are likely to experience superior performance when compared with those with negative cash flows (Manian & Fathi, 2017).

To illustrate this point, Manian and Fathi (2017) using listed companies at the Tehran Stock Exchange over the 2011-2015 period set to establish the relationship between free cash flows and financial performance. The population of 102 companies translated into a census study. The results of the study indicated that there is a positive relationship between free cash flows, return on assets and return on equity as indicators of performance as well as the future value of firms listed at TSE. Whereas instrumental, the study focused on only listed companies and it is not clear if the findings can be replicated for SMEs and other firms not listed at the stock markets. Further, the findings are unique to the Tehran market that is influenced by Islamic finance and it is not clear if they apply to environments that do not follow the Islamic finance model.

2.5.4 Firm Dividend Policy and Business Financing structure

The study by Tahir and Sabir (2015) concluded that, there was a dividend payout ratio higher in family firms. Nonetheless, the study argued that, owner's large stake in Family-Owned Businesses (FOBs') allow them to pressurize managers to distribute a higher proportion of net earnings as a dividend payment to shareholders. The study findings also highlight an effective and efficient dividend policy in family firms as they suffer severe cash flow problems. Therefore, FOBs dividend policies are in line with the free cash flow interpretation of dividend models.

Al-Najjar (2011) investigated the interrelationship between firms' capital structure and dividend policy. It was discovered that, the financing structure is driven by the similar determinants of a firm's capital structure and dividend policy. However, Al-Najjar (2011) did not specify the relationship between the dividend payout ratio and the debt-to-asset ratio. It is difficult to verify how the financing structure changes along with that of the dividend policy. The dividend policy is important because it provides a source of stable income for investors to scrutinize. It is also a valuation tool for financial analysts since dividends can be a signal of the trade-off between the retaining earnings to shareholders and reinvesting the cash to fund the firm's investment opportunities. Lenders are also concerned about dividend policy because the dividends paid to shareholders might negatively influence the repayment they expect to receive.

A study by Dhanani (2005) found out that policy on dividend sharing is very crucial in maximizing shareholder's wealth. The policy can influence information asymmetry between managers and shareholders; agency problems between managers and shareholders; taxes and transaction costs and in turn, enhance the value to shareholders' wealth. In an imperfect market setting, sharing of proceeds can influence shareholders' wealth by providing information to investors or through wealth redistribution among shareholders

The study by Amidu (2007) found that policy on dividend affects firm performance especially the profitability measured by the return on assets. The results showed a positive and significant relationship between return on assets, return on equity, growth in sales and policy. This showed that when a firm has a policy to pay dividends, its profitability is influenced. The results also showed a statistically significant relationship between profitability and payout ratio. The study by Hussainey, Mgbame and Chijoke-Mgbame (2011) found that there was a significant negative relationship between share price volatility and payout ratio, and there was a negative relationship between share price volatility and dividend yield. In the study findings, the payout ratio was the predominant determinant of the share price volatility. It was showed that a firm's size has significant negative impact on volatility of stock price and firm's size. These findings from studies

by Amidu (2007), and Hussainey *et al.* (2011) were very beneficial to the present study in regarding pay out as an independent variable. However, the study did not show how related variables; sharing of proceeds methods and the financial structure influenced the growth of shareholders' wealth, a gap the present study filled.

Adesola and Okwong (2009) study found that policy on dividend is significantly associated with earnings, earnings per share and previous year dividends but discovered that growth and size had no effect on policy. The study by Adesola and Okwong (2009) was categorical that the policy influenced the growth of shareholders' wealth. A study by Ilaboya and Aggreh (2013) found out that dividend yield exerts a positive and significant influence on share price volatility of firms while payout exerts a negative and insignificant influence on share price volatility. The study then recommends that those companies should be consciously meticulous in their thoughts on efficient approach to maximizing the wealth of shareholders and simultaneously meeting the company's needs to finance its investments. This is to say that firms need to adopt a very effective method in sharing proceeds, which would ensure that there is growth as well as satisfaction of the shareholder's needs.

According to Olando, Mbewa and Jagongo (2012), dividend policy is the distribution of earnings in real assets among the shareholders of the firm in proportion to their ownership. As such; the policy on sharing of proceeds means the payout policy pursued in deciding the size and pattern of cash distribution to shareholders over time. It should be realized that the primary goal of the financial stewards is to grow shareholders' wealth through maximization. This act translates into maximizing the value of the company as measured by the price of the company's common stock. Such a goal can be achieved by giving the shareholders a "fair" payment on their investments.

The study by Nazir *et al.* (2010) studied the relationship between shareholders' wealth; price volatility and sharing proceeds policy, applying the fixed effect and random effect models on panel data the study found that share price volatility has significant negative association with dividend yield and payout. It was further reported that size and leverage have non-significant negative effect on share price volatility. A study by Suleman, Asghar,

Ali Shah and Hamid (2011) assessed the association of policy on sharing proceeds and share price volatility and used multiple regressions model. Contrary to Nazir et al. (2010) results, it was found that share price volatility has significant positive relationship with dividend yield and that share price volatility has significant negative relationship with growth. The studies' by Nazir et al. (2010) and Suleman *et al.* (2011) findings indicated that the policy determinants; yield and dividend payout influenced the growth of shareholders' wealth.

The study by De Wet and Mpinda (2012) found out that in the long run, dividend yield is positively related to market price per share, while earnings per share do not have a significant impact on the market price per share. Although it is clear that the dividend yield influenced the growth of shareholders' wealth, from the study findings, there is no evidence of the study having considered variable beyond the dividend yield which seemed to play a central role in such growth. Although the study used a regression analysis to establish the relationship, it omitted very essential variable; type of dividend and financial structure. Further the dividend payout was very silent.

The study by Hashemijoo, Ardekani and Younesi (2102), examined the relationship between policy on sharing proceeds and shareholders' wealth. It sought to establish the relationship between share price volatility with two main measurements of sharing proceeds policy, dividend yield and payout, applying multiple regression. The study found that there was significant negative relationship between share price volatility with two main measurements of sharing proceeds policy; yield and payout. It was concluded that yield had most impact on shareholders' wealth. The study was very generous in providing useful information to the present study and was capable of establishing that yield and payout would be suitable independent variable. The study showed that yield and payout influenced the growth of shareholders' wealth. A shortcoming in the study by was its failure to build a strong case on the influence of the sharing proceeds policy and financial structure, which is what the present study will do as it also considers yield and payout

The study by Murekefu and Ouma (2013) sought to establish the relationship between payout and firm performance and found that payout was a major factor affecting firm

performance. The study found that there was strong positive relationship between payout and firm performance and that dividend policy was relevant. In complexion, the study advised that since sharing proceeds policy is relevant, the proficiency of management team should devote adequate time in designing a sharing proceeds policy that will enhance firm performance and therefore shareholder value. The study used a statistical analysis model to justify its results, which was a very important aspect. The information from the study was used in the present study to establish the indicators of some independent variables; yield and pay out. However, it was not possible from the study to establish the effects of the policy on sharing proceeds and financial structure on the growth of Shareholders' wealth.

2.5.5 Quality of Financial Information and Financing structure

In Kenya, Oluoch (2014) established qualitative accruals quality and its effect of the cost of capital which essentially reflects the financing structure of a firm given that reliant debt firms have a low cost of capital while equity reliant firms have a higher cost of capital. Oluoch (2014) used three measures of accruals quality being the innate accruals quality, the discretionary accruals quality and the qualitative accruals quality that was based on the relevance, reliability, comparability and understandability of the accruals information. The findings showed that innate and qualitative accruals quality had an effect of the cost of capital while discretionary accruals quality had no effect on the cost of capital and therefore it can be inferred that it does not affect the financing structure. The study however focused on the large firms listed at the Nairobi Securities Exchange and ignored the effect for small firms like the SMEs led by women.

The study is rooted in the life cycle theory of financing while the financing structure of a firm depends on the firm's stage in the business life cycle. Life cycle theory originates from economic literature (Penrose, 1952). The theory is generally used to describe the development of the firm through growth phases or on consumption and savings behavior. Also, Timmons (2004) asserts that the life cycle model has been advanced to explain the development of financing needs and capital structure of the firm. The model assumes the firm in its early stage of development relies significantly on internal finance. As the firm

develops, it can obtain more external finance due to fewer information asymmetries (resulting from the ability of outsiders to scrutinize its creditworthiness). However, firms will use less debt in the later stages of development since they use retained profits to finance investments. This theory is relevant to SMEs as they are opaque and carry high information costs (Psillaki & Daskalakis, 2009), especially those with a relatively short historical performance.

There are quite some previous studies supporting the applicability of the life-cycle model in explaining the financing decisions of SMEs (Mac anBhaird & Lucey, 2010). Berger and Udell (1998) used data from several US datasets to explain how firm financing avenues change over time. They demonstrated that, financing choices and needs change as a firm grows in size, gains more experience and becomes more transparent. However, Gregory et al. (2005) maintained that, it is not possible to contain the life-cycle of SMEs in one model, as implied by Berger and Udell (1998). The model is unable to present a full scenario concerning the relationship between firm characteristics and capital structure.

The findings in the study by Abang'a (2017) indicated that financial reporting quality improved after adoption of International public sector accounting standards (IPSAS). The regression results showed that assets and liquidity are associated at statistically significant level to financial reporting quality. From the results, it was observed that the overall financial reporting quality after the IPSAS adoption was but there was marginal improvement compared to the financial reporting quality before the IPSAS adoption. Multiple regression analysis showed that liquidity represented by ratio of current asset and current liability and total assets represented by log of assets were found to be significant and were statistically associated with financial reporting quality.

The results of regression analysis showed a positive relationship between firm size and financial reporting quality was rejected. A positive relationship between age of the firm and financial reporting quality was also found. There was a significant positive relationship between liquidity and financial reporting quality. There was a negative insignificant relationship between size of the firm and financial reporting quality, negative insignificant relationship between leverage and financial reporting quality, positive

significant relationship between age of the semiautonomous government agencies and financial reporting quality, and positive significant relationship between liquidity and financial reporting quality. However, there was negative insignificant relationship between audit committee size and financial reporting quality. Lastly, there was a positive insignificant relationship between profitability (control variable) measured by return on assets, and financial reporting quality among SAGAs in Kenya.

The results in the study by Mahboub (2017) revealed that better financial reporting quality of the annual reports in banking sector can be achieved by having higher proportion of debts, higher ownership by the shareholders, and higher board size. These findings could be of interest to potential investors, management and regulators in the process of financial reporting quality (FRQ) enhancement. The study found that Comprehensive assessment of the quality of financial reports is vital as it may enhance users' quality of economic decision making and improve overall market efficiency, thereby decreasing the cost of capital. Employing multivariate OLS model, the study found that financial leverage, ownership structure, and board size influence banks financial reporting quality FRQ. However, there were no support of bank size, profitability, and board independence to be associated with FRQ of banking sector in Lebanon. Thus, financial leverage, ownership structure, and board size can be considered as the most important determinants that influence FRQ. Thus, these determinants should be given more attention by the Lebanese banks. Therefore, the study recommends that banking sector should assess their monitoring rules to guarantee definite rules for the avoidance of "window dressing behavior" of management in financial reporting. This will further enhance investors' confidence the banking sector.

Al-Asiry (2017) found an insignificant relation between size and FRQ. Hence, size has no significant influence on the quality of financial reporting. Al-Asiry (2017) found a significant positive relation between profitability and FRQ. The quality of information is more for a firm with a higher performance. This result indicated that profitable companies have growth opportunities they may disclose better information to show the reliability of

their earnings and the projects that they presume to attain; this will spread their reputations and keep away from under-estimation of their actions (Fathi, 2013).

The testing results in the study by Noodezh, Amiri and Ghany (2016) show that the concentration of ownership, the capital structure, profit margins, the size of the board, having a align relationship with the transparency the financial reporting there are. Also the transparency the more of financial information which the significant purpose of the main objective of regulatory bodies, in particular the securities and exchange organization, can contribute to the efficient allocation of resources and to eliminate all forms of information asymmetry.

Monday and Nancy (2016) found leverage to be and negatively related to FRQ. This result did not comfort the agency cost theory and lends support to the dispute that companies with greater debt are more probably tend to disclose fewer public information. These results in the studies by Uyar et al (2013) and (Zare et al (2013) demonstrated that companies with huge debts are enforced to disclose more information to satisfy their creditors. Thus, companies with higher financial leverage are likely subjected to more agency costs; hence, it may presume that there is a direct association between financial leverage and FRQ. This finding can be explained by the fact that competitive costs of disclosure increase when the firm is highly profitable; thus, companies do not want to utilize their advantage to competitors and therefore the quality of information disclosed could decrease. Monday and Nancy (2016) and Ebrahim abadi and Asadi (2016) concluded that there is a negative relation between profitability and quality of the information disclosure.

Oba (2014) opined that board independence has a significantly negative effect on the quality of financial reports, which in other words means that the existence of more independent directors does not guarantee the timeliness o financial reports. Fathi (2013), Haji and Ghazali (2013) and AL-Asiry (2017) found leverage to be not statistically significant in explaining the quality of financial reporting. These results provided strong evidence that leverage does not significantly enhance quality disclosure of information. This relationship can also be justified by the way of behaving of managers, as they present

better information to demonstrate their capability to maximize value for shareholders and enlarge their compensation. Takhtaei and Mousavi (2012) found a negative relation between firm size and FRQ. This finding indicated that small-sized companies have revealed their readiness to disclose more might point that they incline to put themselves for competitive advantages and public visibility

2.6. Empirical Review Relevant to the Study

In 2015, Financial Sector Deepening-Kenya (FSD), the World Bank and Central Bank of Kenya jointly conducted a research project in an attempt to understand the supply and demand side of the SME market. The research highlighted the difficulty in tracking the size of the SME market and its need for financial services. The research showed the supply side of SME finance, which evolved between 2009 and 2013, resulting in a rapid expansion in Kenya's financial sector. For Kenya to fulfill its desire to underpin inclusive and sustained economic development, SME lending must increase and improve further. In 2016, another project carried out by FSD to build capacity within Kenya's financial services sector to SMEs, showed banks were not serving SMEs effectively.

Improvements in financing would include reducing the high cost of SME credit by implementing more efficient collateral registration processes, and the adoption of innovative finance products such as factoring and leasing. Increased funding access in the agriculture sector, which is the backbone of the economy, is required. Although the agriculture sector provides a livelihood and employment for the majority of Kenyans, contributing 30% to Gross Domestic Product (GDP) and accounting for 80% of national employment, its percentage of SME financing is small. Overall, there is a need for changes to the law, fiscal policies, financial institution strategy and management of SME financing.

Following on the large numbers of corporate collapses and scandals during the last decade considerable attention has been given in studying corporate governance practices of large firms around the world. There is a concern of managing the large corporation and aligning the interest of shareholders with management since the idea of 'Modern Corporation' was

developed. However, less attention is given on corporate governance practices in Small and Medium Sized Enterprises (from now on referred to as SMEs). Thus far, research on corporate governance of SMEs is limited compared to research on large firms (Dyer, 2003; Smith, 2007).

There is a school of thought which claims that, corporate governance problems may not exist within SMEs as ownership control is considered to be strong in these firms and the agency problems are therefore less likely to exist while another school of thought which considers corporate governance problems may equally exist within SMEs. Abor and Adjasi (2007) argue that, there is a global concern for the application of corporate governance practices in small and medium-sized firms. They maintain that, good corporate governance practices help Small and Medium Sized firms to obtain funds from investors and financial institutions. They further argue that: "Entrepreneurial Firms need access to resources for growth. They need inputs on business operations, good strategy and best practices in the industrial sector. These resources can be provided for through the presence of non-executive directors or external board members as in the case of listed firms".

To attract financing from banks and other lenders, SMEs also have to be open and transparent, must share adequate financial information and must have professional management. SMEs can also be required by law or the bank to have a board of directors protecting the financiers. They also may be required to give balance sheets and profit and loss statements or more sophisticated documents such as annual budgets, risk assessments or financial plans. Although the legal requirements for smaller companies differ greatly from those for larger companies, the principles related to running a business in an open and transparent manner to attract financing are the same for most companies.

A study shows that, SMEs consistently consider access to finance a problem (Observatory of European SMEs, 2003). Although it is a basic condition to share sufficient information with banks to assess loan applications, many SMEs in the EU have problems doing so according to the study. Transparency appears to be one of the main problems. Very often smaller companies do not have the financial administrative skills, the understanding, the

time or the financial means to produce the financial information required by banks. Also, collateral requirements based on real estate or other assets cannot always be fulfilled. Also, interest rates and bank charges are normally higher for smaller companies than for larger companies.

The issue of governance has often been considered and acknowledged as a major problematic issue affecting all types of enterprises particularly the SMEs. It is more specific to the context of small and medium-size firms than that of large enterprises. In this respect, the SME specifics have to be considered separately i.e. without assimilating or interacting them with those of large-size business. The SME might apply similar governance codes to those about large businesses, yet, several elements which have a remarkable impact on affecting their structures and systems of governance must be taken into account (OCDE, 2006). Hence, the SME environment has recently made this subject matter a vital issue worthy of interest. Economists underline the essential role these enterprises play in creating employment, enhancing growth, innovation, exports etc. Regarding the underdeveloped countries, the SME has paramount importance, and even a more critical role as far as the economy is concerned.

The SMEs have some specific characteristics distinguishing them from large enterprises namely, the strategies of planning and the survey of the practices of management (Kerr, 2006). Indeed, as regards the SME, the separation between the propriety and the decision making does not exist (Charreaux, 1998). The main managerial functions along with the capital are most frequently concentrated in the hands of the controlling owner and/or his family (Ben Hamad, 2004). This study was geared towards understanding the benefits that SMEs derive from the practice of good corporate governance in Kenya.

2.7 Critique of Existing Literature

Most empirical studies reviewed were not analysed according to sectors and the present study incorporates SMEs sector dummies to tackle this problem. Some important firm-specific variables like Cash Flow Structure are not examined in the model of the reviewed empirical studies. Therefore, this study incorporates these variables in the empirical

model. Conflicting results still noted on the factors affecting capital structure choice in both developed and developing countries. Re-testing the factors in the SME context would provide the latest empirical evidence on the determinants of capital structure decision. Most past empirical studies relied on agency variables. There were a few empirical studies examining the existence of agency cost theory. This study considered the following theories of financing namely; Agency theory, Life-cycle theory, Modigliani and Miller theorem, Stakeholders theory, Stewardship theory and Resource-dependence theory.

2.8 Summary of Existing Literature

This chapter looked at both the theoretical and empirical reviews. In theoretical review, the study looked at the theories which lay the foundation of the study. The study emphasized the Pecking-order theory, Agency theory, Static trade-off theory, Life cycle theory, Bankruptcy Cost theory, and Market timing theory. The theories explain the financial determinants of business financing structure. Given the analysis, the major contribution of these theories is that, high leverage or low equity/asset ratio reduces agency cost of outside equity and thus increases firm value by compelling financial stewards to act more in the interest of SMEs. Consequently, business financing structure is deemed to have an impact on the performance of women-owned SMEs.

The empirical review looked at determinants of business financing structure of SMEs'; firm size, firm growth, cash flow structure and dividend policy. From the study, the researcher can conclude that, there is empirical evidence of the existence of a relationship between business financing structure of SMEs and firm size, firm growth, cash flow structure and dividend policy.

2.9 Research Gaps

There are some studies that allude to determinants of financing structure of SMEs as being firm size, firm growth, asset structure, cash flow patterns and, dividend policy. Notably some researchers routinely use controlled dummy variables to test how firm characteristics affect the firm's financial structure. However, this approach does not tell

us clearly how and why the strategies affect the sustainable performance of SMEs by performance variations across firms within a given sector.

Those above theoretical and empirical studies serve as a basis for further studies in the areas of capital structure and firm's performance or profitability because most of their findings contradict each other. For instance, Salim and Yadav (2012) examined the relationship between capital structure and firm performance and found that capital structure negatively impacts performance measured by Return on Equity (ROE), which is consistent with Ebaid (2009) who also documented the same results. Therefore, this study goes on to evaluate the financial determinants of the business financing structure of women-led SMEs' in Kajiado County, Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

According to Myers (2009), a research methodology is a strategy which moves from the underlying assumptions to research design and data collection. However, the common classification of research method is qualitative and quantitative notwithstanding other modes of distinctions. Empirically, both quantitative and qualitative methods are based on the nature of knowledge, how the researcher interprets the world and the result of the research study. It suffices to mention that, on the other side of the ledger, both terms refer to research methods- data collection and analysis, generalizations and representations derived from the data. In this chapter, the sequence is as follows: research design, population studied, sampling frame, sample and sampling techniques, instruments, data collection procedures, pilot test and data processing and analysis including regression model specification that was used to test the hypotheses of the study as articulated in chapter one. Also included are the measures that were used to ensure the validity and reliability of the research instruments.

Anchoring the design is the research philosophy. This study is rooted in the positivism philosophy. This philosophy according to Sekaran (2013) can also be called quantitative, objectivist, scientific or traditionalist philosophy. It was adopted because the descriptive approach adopted as the research design perfectly falls in the scientific category where the test of the hypotheses can tell the cause-effect relationships of the study. The approach draws from the research methodology available for scientific research. The econometric models used in this study makes it perfectly fall in the scientific approach to research hence the adoption of the positivist philosophy. The approach to research is based on research methodologies commonly used in science. Sekaran (2013) indicates that this approach is characterized by a detached approach to research that seeks out the facts or causes of any social phenomena in a systematic way. It is founded on the belief that; the study of human behavior should be conducted in the same way as studies conducted in the

natural sciences. This explanation attempts to establish causal links between the different variables of the subject and relate them to a particular theory or practice.

3.2. Research Design

According to Bogdan and Knopp Bikken (2006); McMillan and Schumacher (2001) as well as Denzin and Lincoln (2000) a research design is the researcher's plan of inquiry that puts paradigms or models of interpretation into motion and on how to proceed in gaining an understanding of a phenomenon in its natural setting. Ary, Jacobs and Razavieh (2000) support this assertion as well. Sekaran (2000) and Burn (1994) describe research design as a systematic and organized effort to investigate a specific problem to provide a solution. Consequently, its output is to add new knowledge, develop theories as well as gathering evidence to prove generalizations (Sekaran, 2000). This study used a descriptive research design (describing the characteristics of an existing phenomenon) in soliciting information by evaluating the financial determinants of business financing structure among women-led SMEs in Kajiado County, Kenya.

3.3 Target Population.

Target population refers to the entire group of individuals or objects to which a researcher is interested in generalizing the results of the study and having the same observable characteristics (Mugenda & Mugenda, 2003). Further, a target population is the number of a real or hypothetical set of people, events or study which a researcher wishes to generalize on, Brogan and Call (1989). Orodho (2005) asserts that, a population sometimes referred to as a target population is the set of elements that a researcher focuses upon and to which the results obtained by testing the sample should be generalized. Samples are always subsets or small parts of the total number that could be studied (Orodho & Kombo, 2006).

The study used women operating SMEs in Kajiado County. According to the population and housing census, County Government of Kajiado (2013), SME owners are projected to be 17,480 by 2017 out of which 20% are determined to have been in operation over the study period (2013-2017). This translates to 3,496 firms. KNBS (2017) projects that

women operating SMEs is approximately 49.94 % of the total business community which translates to 1,746 for the Kajiado County. So the target population was 1,746 SME women business owners. Most of the self-employed persons are engaged in livestock trade, business retail and wholesale trade, horticulture/floriculture, industrial activities and Jua kali and tourist sector-sale of beads. Currently, there are limited employment opportunities in the County and efforts need to be intensified to create off-farm employment through the establishment of small-scale enterprises' diversification (County Government of Kajiado, 2013).

3.4. Sampling Frame

According to Kothari (2009) a sampling frame contains names of all items of a universe and includes the list of individuals included in the population (Nesbury, 2000). A well-constructed sampling frame allows a researcher to get hold of the defined target population without the worry of incorrect entries which represent elements associated with the excluded population (Ross, 2005). According to Douglas. B. Currivan (2011), the sampling frame is a list or other device used to define a researcher's population of interest. It defines a set of elements from which a researcher can select a sample of the target population. A researcher rarely has direct access to the entire population of interest in social science research. Therefore, he or she must rely upon a sampling frame to represent all of the elements of the population of interest.

In this study, all women-led SMEs operating in Kajiado County were eligible to be included in the study. According to the Kajiado County Population and Housing census data, approximately 17,480 SMEs are operating in the county, with women-led SMEs at around 49.94% totaling to about 8,729 women-led SMEs. Consequently, this formed the target population of the study. As indicated earlier, SMEs cover a range of establishments in all sectors of the economy, they operate formally or informally, seasonally or year round and are located in some areas including urban and rural markets, shops, eateries etc.

3.5 Sample and Sampling Technique

Kothari (2010) defines a sample as the selected respondents who represent the entire population. The study was guided by the Saunders, Lewis and Thornhill (2012) formula

shown in Table 2 to establish the sample size. According to Saunders, Lewis & Thornhill (2012), the sample size was 290 respondents. The sample from the population of 1,746 was obtained through interpolation as below;

Table 3.1: Sample Size Determination Table

Population	Margin of Error			
	5%	3%	2%	1%
50	44	48	49	50
100	79	91	96	99
150	108	132	141	148
200	132	168	185	196
250	151	203	226	244
300	168	234	267	291
400	196	291	343	384
500	217	340	414	475
750	254	440	571	696
1,000	278	516	706	906
2,000	322	696	1,091	1,655
5,000	357	879	1,622	3,288
10,000	370	964	1,936	4,899
100,000	383	1,056	2,345	8,762
1,000,000	384	1,066	2,395	9,513
10,000,000	384	1,067	2,400	9,595

Source: Saunders, Lewis and Thornhill (2012)

The study then used proportionate stratified sampling to establish the sample size from each section (area of trade), which was determined as the ratio of some women-led SMEs in a section to the total number of women-led SMEs in the section multiplied by the sample size. Then simple random technique was used to select the respondents. For each section, a sampling interval was developed, depending on the number of respondents required in that section. The sampling interval was obtained by dividing the total women-

led SMEs in that section with the number of respondents required from that section. After that, a random starting point was determined and the respondents then selected based on the predetermined sampling intervals.

3.5. Data Collection Methods

Burns and Grove (2003) define data collection as the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observations, focus group discussions, narratives and case histories. There are several methods of collecting data. Each of them differs considerably from the other regarding cost, time and other resources at the disposal of the researcher. These methods of data collection include observation, interviews, schedules, questionnaires etc. In this study, the researcher will obtain primary data through semi-structure questionnaires.

3.6. Data Collection Procedure

According to Jane Sutton and Zubin Austin (2015), data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes. The data collection component of research is common to all fields of study including physical and social sciences, humanities, business, etc. While methods vary by discipline, the emphasis on ensuring accurate and honest collection remains the same.

Whatever philosophical standpoint the researcher is taking and whatever the data collection method (e.g., focus group, one-to-one interviews), the process will involve the generation of large amounts of data. In addition to the variety of study methodologies available, there are also different ways of making a record of what is said and done during an interview or focus group, such as taking handwritten notes or video-recording. If the researcher is audio- or video-recording data collection, then the recordings must be transcribed verbatim before data analysis can begin.

Many researchers will also maintain a folder of “field notes” to complement audio-taped interviews. Field notes allow the researcher to maintain and comment upon impressions,

environmental contexts, behaviors, and nonverbal cues that may not be adequately captured through the audio-recording; they are typically handwritten in a small notebook at the same time the interview takes place. Field notes can provide important context to the interpretation of audio-taped data and can help remind the researcher of situational factors that may be important during data analysis. Such records need not be formal, but they should be maintained and secured similarly to audiotapes and transcripts, as they contain sensitive information and are relevant to the research.

The researcher used questionnaires to collect primary data and secondary data collection sheet for secondary data. The researcher further put in place accurate data collection procedures to address and maintain the integrity of the research study. This was facilitated by both the selection of appropriate data collection instruments and delineated instructions for their correct use which reduced the occurrence of errors. Conceivably, the primary rationale for preserving data integrity is to support the detection of errors in the data collection process, whether they are made intentionally (deliberate falsifications) or not (systematic or random errors).

3.6.1 Primary data

The primary data which is basically original was used due to its proximity to truth and ease of control over errors (Cooper & Schindler, 2008). In this case, the researcher administered the questionnaires, with mainly closed-ended questions to the respondents. However, the researcher used a questionnaire as the main primary data collection technique. The questionnaire was structured to capture data using a 5-point type Likert scale. The Likert scale has scales that assist in converting the qualitative responses into quantitative values (Mugenda & Mugenda, 2003, Upagade & Shende, 2012). The questionnaire was administered by drop and pick later.

The researcher obtained an introductory letter from the Chairman, Department of Entrepreneurship, Technology, Leadership and Management that did explain the reason for the study. After that, the researcher proceeded to get permission from the Kajiado County Government to research the selected Sub-Counties. The researcher then made

preliminary visits to the respondents to verbally explain the purpose of the study and made arrangements for the administration of the questionnaires and data collection. The questionnaires were distributed to the respondents indicated in the sample frame on a drop and collect later basis preferably given about two days to fill them. The actual owners of SMEs or Managers were interviewed by either the Researcher or the Research Assistants. These respondents provided cell phone contacts to facilitate follow up a mechanism to ensure 100 % response or thereabouts. The researcher and the respective research assistants where necessary assisted the respondents to fill the questionnaires and requested the respondents to confirm any issues arising out of the data given (Kombo & Tromp, 2006).

3.6.2 Secondary data

Due to the nature of financial studies, the study also used secondary data sources. Secondary data was sourced from statistics maintained by the Kenya National Bureau of Statistics (KNBS) as well as internet sources. The data were also collected using a data collection sheet (institutional tool) developed by the researcher. Data of interest included firm size, firm growth, cash flow structure, profit borrowing policy (dividend policy), financial information quality as well as business financing structure. The study collected data from the financial statements of the women-led SMEs using a data collection sheet. Because of the qualitative nature of the information relating to the fourth objective, this study used cross-sectional survey approach because it enables study variables to be examined all at the same time and more informative and reliable data. The growth data covered a time series period of 5 years from 2013 to 2017.

3.7. Pilot Study.

Before data is collected, the study first conducted a pilot test on the research tools where data for testing were collected from 10% of the sample size i.e. 10% of 290 firms. This was in line with Mugenda and Mugenda (2003) who asserts that, a sample of 10% is adequate for pilot testing purposes. The pilot sample was therefore 29 women-led SMEs. The respondents were given two days to respond and were not be included in the main

study to avoid contamination of the respondents (Mugenda & Mugenda, 2003). This was a replica and rehearsal of the main study.

A pilot testing may bring to the fore weaknesses or otherwise of the questionnaire for respective improvements to be made. This test was used to ensure the reliability and validity of the research tools. Further, it ensured that, the items in the questionnaire are stated clearly to give the same meaning to all respondents and also provided an idea to the researcher how long it took to complete the questionnaire. Such tests help identify possible problems, clarity on the instruments and appropriateness of the language during the main study, Kvale, (2007). The pilot test assesses the relevance of the research objectives as it tests the understandability of the research tools.

3.7.1 Validity

According to Kothari (2009), validity indicates the degree to which an instrument measures what it is supposed to measure. It can also be thought as a utility. In other words, it is the extent to which the differences found within the measuring instrument reflect true differences among those being tested. It is appropriateness and usefulness of the research instrument that is employed by the study, Donald and Delno (2006). A test measure is valid if it measures what it is supposed to measure and does so clearly without accidentally including other factors Hayduk (2007). The immediate focus is on inferences made from the instrument i.e. behavioral inferences that one can extrapolate from test scores.

According to Saunders. And Pickering (2013) to be valid, the inferences made from the scores need to be appropriate, meaningful and useful. Given this, there is an inextricable link between validity and reliability. The research used the content related methodology to test the validity of the research instruments. This choice is informed by the objectives of the study. Content validity is the extent to which a measuring instrument provides adequate coverage of the topic under study.

Further, Kothari (2009) observes that, if the instrument contains a representative sample of the universe, the content validity is good. Its determination is judgmental and intuitive. It can also be determined by using a panel of persons who shall judge how well the

measuring instrument meets the standards but there is no numerical way to express it. Content validity considers whether or not the items on a given test accurately reflect the theoretical domain of the latent construct it claims to measure. Items need effectively act as a representative sample of all the possible questions or hypotheses that could have been derived from the construct.

Chou and Bender (2009) suggest employing the following four steps to effectively evaluate content validity as follows: identify and outline the domain of interest, gather resident domain experts, develop construct matching methodology and analyze the results from the matching task. The study was guided by these steps. The assessment of content validity was carried by two professional experts; financial expert and the supervisor. The supervisor assessed the tools to establish what concept the instrument is trying to measure. The expert from the financial management sector determined whether the sets of items can accurately measure the business financing structure regarding the sustainable performance of women-led SMEs in Kajiado County. The Expert was requested to comment on the representativeness and suitability of questions and give suggestions on the structure of the tools. This helped to improve the content validity of the data that was collected.

3.7.2 Reliability.

Kothari (2009) asserts that, a measuring instrument is reliable if it provides consistent results. The reliable measuring instrument does contribute to validity but a reliable instrument need not be a valid instrument, however a valid instrument is always reliable. If the quality of reliability is satisfied by an instrument then while using it, we can be confident that the transient and situational factors are not interfering. This suggests that, the reliability of the data collected was judged through tests. Reliability is the stability or consistency of scores over time, Golafshani (2003). Therefore, reliability is the degree to which measures are free from error and in effect yield consistent results. It does involve consistency or reproducibility of test score i.e. the degree to which one can expect relatively constant deviation scores of individuals across testing situations on the same or parallel testing instruments.

According to Leedy and Ormrod, 2009, reliability estimates are a function of the test scores yielded from an instrument not the test itself. Bacon (2008) articulates that, two dimensions underlie the concept of reliability: repeatability or stability over time and internal consistency or homogeneity of the measure. Reproducibility may be measured with the test-retest method whereby the same scale or measure is administered to the same respondents at two separate points in time Bacon, (2008) i.e. comparing the scores from repeated testing of the same participants with the same test. Indeed, reliable measures should produce very similar scores. Nevertheless, test-retest procedures may not be useful when participants may be able to recall their earlier responses and simply repeat them upon retesting.

On the other hand, internal consistency may be measured by using either the split-half method, alternate-form method or Cronbach alpha method. The split-half method is one that measures the degree of internal consistency by checking one-half of the results of a set of scaled items against the other half i.e. comparing scores from different parts of the test. This method requires equal item representation across the two halves of the instrument. Comparison of dissimilar sample items cannot yield an accurate reliable estimate. Bacon, (2008) confirms that, one can ensure equal item representation through the use of random item selection, matching items from one half to the next or assigning items to halves based on an even / odd distribution.

The alternate-form method is one that measures the correlation between alternative instruments designed to be as equivalent as possible administered to the same group of subjects i.e. by comparing scores from alternate forms of the test Bryman & Bell (2007). The most popular method of assessing internal consistency reliability estimates is through the use of coefficient alpha. The most widely used measure is Cronbach coefficient alpha. According to Sanders. M.R. & Pickering, J.A. (2013) Cronbach coefficient alpha is an average of all possible split-half reliability estimates of an instrument. Cronbach alpha is a reliability coefficient that measures inter-item reliability or the degree of internal consistency between variables measuring one construct/concept i.e. the degree to which different items measuring the same variable attain consistent results.

The data were tested for reliability to establish issues such as data sources, methods of collection, time of collection, the presence of any biases and the level of accuracy (Kvale, 2007). The test for reliability established the extent to which results were consistent over time. The data from the pilot study were used to test the instrument reliability and validity and the results to pertinent adjustments to the instruments. The reliability test was done using the internal consistency test, based on Cronbach alpha.

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N - 1) \cdot \bar{c}}$$

Here N is equal to the number of items, c-bar is the average inter-item covariance among the items and v-bar equals the average variance (Sekaran, 2013).

Internal consistency of data is determined by correlating the scores obtained from one time with scores obtained from other times in the research instrument. According to Anderson 2010, the coefficient varies from 0 to 1 and a value of 0.6 or less generally indicates unsatisfactory internal consistency reliability. In the social sciences, acceptable reliability estimates range from 0.70 to 0.80. Kothari, 2010 asserts that, Cronbach alpha value indicates higher consistency for a given scale if the alpha value is greater than 0.7, then it was accepted.

The result of the correlation is the Cronbach coefficient Alpha which is a value between -1 and 1. The coefficient is high when its absolute value greater than or equal to 0.7 otherwise it is low. A high coefficient implies a high correlation between these items which means there is high consistency among the items and such items should be retained in the tools. This correlated study items in the instruments to determine how best they relate. Where the coefficient is very low, then the item was to be reviewed by either removing it from the tool or correcting it.

3.8 Data Processing and Analysis

Data Sampling, classification and analysis was done to come up with clear, understandable, up-to-date, genuine and reliable information aimed at achieving the

objectives of the research study. The collected data was thoroughly examined and checked for errors and tabulated accordingly. The study used descriptive statistics to analyze the data to establish patterns, trends and relationships. The various representation of information included: figures, tables, and narratives. In the analysis of the descriptive statistics, the mean, standard deviation, maximum and minimum values were used to analyze the trends of the data.

3.8.1 Model Specification

After that, regression was carried out to estimate a model to explain business financing structure by women-led SMEs regarding; firm size, firm growth, financial information quality, cash flow structure and, dividend policy. The study carried out both bivariate regression to establish the separable effect of each of the independent variables on business financing structure of women-led SMEs as well as multiple regression analysis to establish the relationship between the independent variables (predictor) and dependent variable (response) and measure the strength of the relationship based on the regression models below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \dots\dots\dots$$

(3.1)

Where:

β_0 = is a constant, which is the value of a dependent variable when all the independent variables are 0

$\beta_1 - \beta_5$ = Regression coefficients of independent variables or change induced by X_1 and X_5

ε The = error of prediction

Y = business financing structure

X_1 = firm growth rate

X₂ = firm dividend policy

X₃ = cash flow structure

X₄ = financial Information quality

X₅ = firm size

The study used the mean of means where it first obtained the mean for each variable using the means of each variable's indicators. The mean obtained was used to obtain the values for the response variable (business financing structure) and independent variables (firm size, firm growth, financial information quality, cash flow structure and dividend policy.), which was then used to estimate the study model. The means thus obtained were regressed using multiple regressions to estimate the study model. Inferential statistics were used to analyze the relationship of the independent, dependent variables and the moderating effect. ANOVA tests were used to test the hypothesis.

3.8.2 Variable Operationalization

Table 3.2. Operationalisation of study Variables

Variables	Type	Description	Scale	Measure
Business Financing structure	Dependent Variable (DV)	Debt used in financing Equity used in financing Hybrid funds	Ratio	Debt Equity Ratio
Firm Growth	Dependent Variable IV	Change in Sales levels over time	Ratio	The rate of Change in Sales Revenue over the 2015-2017 period
Firm Dividend Policy	IV	Withdrawals from the business by the owner for business use	Ratio	Dividend payout ratio or withdrawals ratio
Cash Flow Structure	IV	The relationship between operating and non-operating cash flows	Ratio	Operating cash flow ratio
Quality of Financial information	IV	The relevance and reliability of financial information	Ratio	Likert Scale Index ratio
Firm Size	IV	The asset base of the firm	Interval	Natural logarithm of total assets

3.8.3 Diagnostic Tests

Diagnostic tests were carried out to test for normality, heteroscedasticity, multicollinearity and autocorrelation. The normality tests are supplementary to the graphical assessment of normality that compared the scores in the sample to a normally distributed set of scores with the same mean and standard deviation. If the test is significant, the distribution is

non-normal that is, with zero mean and constant variance of 1 (Gezu, 2014). In the study normality test statistics used the Kolmogorov-Smirnov test and otherwise Shapiro-Wilks test if the sample elements were less than 50. If the P-Value is > 0.05 then this implies that residual is asymptotically normal or the opposite is true.

One of the basic assumptions in a linear regression model is Homoscedasticity. This assumption states that, the probability distribution of the disturbance term remains the same for all observations. That is, the variance of each error term is the same for all values of the explanatory variable. However, if the disturbance terms do not have the same difference, this condition of a non-constant variance or non-homogeneity of variance is known as heteroscedasticity (Babulo & Hassen, 2005). To detect the heteroscedasticity problems, the study used the Breusch-Pagan or Cook-Weisberg test. This test states that, if the P-value is significant at 95% confidence interval, the data has heteroscedasticity problem, whereas if the p-value is insignificant (greater than 0.05), the data has no heteroscedasticity problem.

The term Multicollinearity indicates the existence of exact linear association among some or all IVs in the regression model. When independent variables are multicollinear, there is overlapping or sharing of predictive power. Thus, if multicollinearity is perfect, the regression coefficients of the independent variables are undetermined and their standard errors are immeasurable. The multicollinearity makes significant variables insignificant by increasing p-value since increased p-value lowers the t-statistics value. Thus, the panel regression results with multicollinearity are expected to show significant variables as insignificant variables. The multicollinearity problem is solved by dropping highly correlated variables (Fawad & Taqadus, 2013). Then, the results provide more significant variables than before. This is because, when IVs are highly correlated with one another, they share the same information. Thus, the multicollinearity problem reduces the individual IVs' predictive power. That is none of the predictor variables may contribute uniquely and significantly to the prediction model after the other independent variables are included (Theodros, 2011). The Statistical Package for Social Sciences (SPSS) software version 21.0 was used to analyze the data.

3.8.4 Descriptive Statistics

The study analyzed the data using quantitative analysis to produce descriptive statistics. Descriptive analysis was carried out first for each variable to describe that variable and how it relates to crime reduction. Descriptive statistics especially, means, frequencies, and the standard deviation were applied to help establish patterns, trends and relationships, and to make it easier for the researcher to understand and interpret implications of the study.

3.8.5 Tests of Hypotheses

Tests of Hypotheses of the study are specified in the null format as follows:

- H₁** Firm size has no significant effect on the business financing structure among women-led SMEs in Kenya.
- H₂**: Firm growth has no significant effect on the financing structure of women-led SMEs in Kenya.
- H₃** Firm cash flow structure has no significant effect on the financing structure among women-led SMEs in Kenya.
- H₄** Firm profit drawings' policy has no significant effect on the financing structure among women-led SMEs in Kenya.
- H₅** Quality of financial information has no significant effect on the financing structure among women-led SMEs in Kenya.

The study tested for the null hypotheses (H_0) using 5% level of significance where the Null hypothesis is not rejected -accepted when the P-value (Probability Value) is greater than 0.05 and the alternate hypothesis (H_α) rejected where P-Value is less than or equal

to 0.05 then the Null hypothesis is rejected and the alternate hypothesis accepted. During estimation of the study model, the study tested the hypotheses using Analysis of Variance (ANOVA), using Pearson's product method. The study used Pearson's product method at 0.05 level of significance ($p\text{-value} \leq 0.05$). Various interpretations were made based on regression results to establish the significance, at the 95% confidence level (i.e. 0.05 level of significance) of the independent variables in determining the dependent variable. The Statistical Package for Social Sciences (SPSS) software version 21.0 was used to analyze the data.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter is presented the findings of the study and the corresponding discussion. It sets off by providing the cleaning procedure of the primary data collection tool as provided by the pilot test that was done on the questionnaire. It then provides the descriptive statistics of the various variables used in the study accompanied by the appropriate interrogation. It also provides the various cleaning procedure by the diagnostic tests fashioned on the multiple linear regression model as applied to the cross-sectional approach implemented in the study. It finally provides the findings on the tests of hypotheses presented in chapter one first on a bivariate basis and then finally on a multivariate basis. The inferential findings are provided alongside comparison and contrast with extant literature.

4.2 Pilot Test

The initial questionnaire that related to one of the variables in the study (quality of financial information used by women-led SMEs) was subjected to pilot testing to ensure it was internally consistent on the various components of the quality of information. This according to Sekaran (2013) is to assure the validity of the measures used in the questionnaire. The pilot test was done on 29 questionnaires which represented 10% of the sample size of 290 as established in chapter three as per the Mugenda and Mugenda (2003) recommendations.

For preliminary purposes, the pilot test of the research tool was done to not only evaluate if the questionnaire was operational, but to adjust the questions to ensure that they conform to the internal and external expectations of consistency. The test applied to the questions 3, 4, 5 and that presented the financial quality aspects of financial information being the primary quality (relevance and reliability) as well as the secondary quality (understandability and comparability). Full care was taken to ensure that the pilot test is personally administered. This was ensuring the concerns of the respondents as to the actual

meaning of the questions was noted for adjustment following the pilot test. The study was sensitive to the time and convenience of the respondents. The time taken to fill the pilot test questionnaire was therefore noted. This was to ensure possible changes had it been found to be very lengthy. The findings are indicated in table 4.1.

Table 4.1: Descriptive Aspects of Time Taken in Minutes on Pilot Questionnaires

Time Taken in Minutes	
Mean	15.54
Median	15.50
Mode	18.50
Standard Deviation	4.55
Minimum	9.50
Maximum	27
Count	27

The questionnaire was found to be of reasonable length given that on average, it took 15.54 minutes to complete the questionnaire with a standard deviation of 4.55 minutes. This compared favorably with the median time of 15.5 minutes although the minimum was 9 minutes and 30 seconds while the maximum was 27 minutes. Accordingly, no adjustment was made on the number of questions especially because it was considered that the 15 minutes were negligible given that the actual questionnaires involved dropping and collecting later after at least two days. The format of the questionnaire was also retained in the final questionnaire.

Then the study evaluate content validity of the tool to; identify and outline the domain of interest, gather resident domain experts, develop construct matching methodology and analyze the results from the matching task. The assessment of content validity was carried by two professional experts; financial expert and the supervisor. The supervisor assessed

the tools to establish what concept the instrument is trying to measure. The expert from the financial management sector determined whether the sets of items can accurately measure the business financing policy regarding the sustainable performance of women-led SMEs in Kajiado County. As the expert gave their comments on the representativeness and suitability of questions, they provided suggestions on the structure of the tools. This helped to improve the content validity of the data that was collected. The questionnaire was reviewed accordingly and made available for administration

Concerning the four aspects of the quality of financial information available to women-led SMEs, there was a response rate of 100% given that the questionnaires were personally administered. Also, all the 29 questionnaires were found to be valid following testing. Table 4.2 provides the findings concerning the preliminary internal consistency of the relevance, reliability, understandability and comparability aspects of the quality of financial information used by the women-led SMEs. The Cronbach's alpha coefficient measured this consistency. Sekaran (2013) suggests that Cronbach's alpha values of 0.70 and above are acceptable. The findings from the pilot showed that the adjusted Cronbach's alpha values for information relevance, reliability, understandability and comparability were 0.942, 0.857, 0.832 and 0.769 respectively.

Table 4.2: Cronbach's Alpha Findings on Financial Information Quality

Question	Attribute	Standardized Cronbach's Alpha	No of Items	Status
3	Information Relevance	0.942	6	Reliable
4	Information Reliability	0.857	8	Reliable
5	Information Understandability	0.832	6	Reliable
6	Information Comparability	0.769	6	Reliable

The findings from the pilot showed that the adjusted Cronbach's alpha values for information relevance, reliability, understandability and comparability were 0.942, 0.857, 0.832 and 0.769 respectively. In line with Sekaran (2013), the pilot study findings indicated that all the questions were consistent in the representation of the various aspects of the quality of financial information. The initial findings indicate that the questions used in measuring accruals quality index are internally consistent since the coefficients are all above 0.70. The questionnaire was subsequently used in the study without modification.

4.3 Response Rate

The initial sample size as determined from chapter three was 290. In line with Mugenda and Mugenda (2003), 10% of these were used in pilot testing. Accordingly, the remaining 261 were used in the actual study. 201 of these were returned representing 77.01 response rate. Out of these, 13 were not valid due to the inappropriate filling. This left only 188

valid responses for the analysis. This translates into a valid response rate of 72.03% as indicated in figure 4.1

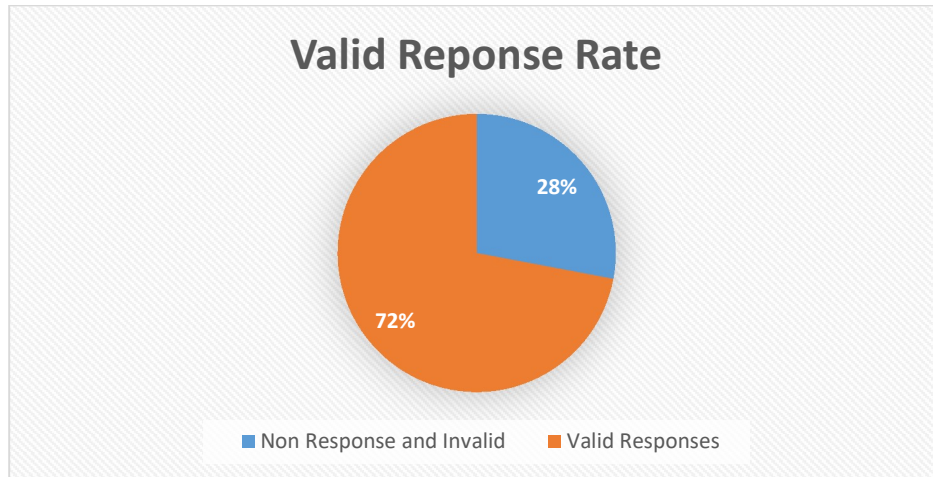


Figure 4. 1: Valid Response Rate.

This response was considered satisfactory because Werner, Praxedes and Kim (2007) indicate that, response rates of at least 60% are satisfactory and useful in concluding generalizable on the entire study sample.

Since the primary data needed to be paired with secondary data to enable objectives 1 to 4 to be achieved alongside objective 5, only the enterprises in the valid response category were analyzed both for the primary and secondary data. This is because this was a cross-sectional study that required values on the variables for all the 188 enterprises that provided the valid primary and secondary data.

4.4 Descriptive Statistical Findings

This section provides the nature of the variables used in the study as indicated by the various descriptive statistics.

4.4.1 Firm Financing Structure - Descriptive Statistics

The financing structure of the women-led SMEs was indicated by the ratio of debt used by the firm's to equity as indicated by the owner's funds. The findings about the mean, standard error, the standard deviation and the coefficient of variation are provided in table

4.3. Results show that mean of the debt equity ratio was 0.21124 while the median was 0.11712. This indicates that the ratio is skewed to the left a clear indication that a majority of the enterprises rely on equity rather than debt to finance their enterprises. This indicates that the dominant form of financing among the women-led SMEs is equity. This finding seems to agree with what Hogan and Hutson (2005) found among the Irish firms that in the Irish Software sector, firms finance more by equity rather than debt. It however contradicts the Modigliani and Miller (1958) hypothesis that capital structure is an irrelevant financial decision.

Table 4.2: Firm Financial Structure Descriptive Statistics

	<i>FP</i>
Mean	0.21124
Median	0.11712
Standard Deviation	0.24535
Coefficient of Variation	1.16147
Range	1.84016
Minimum	-0.93791
Maximum	0.90225
Count	188
Confidence Level (95.0%)	0.03530

Figure 4.2 is indicative of the wide range in the debt-equity ratio of 1.84016. This wide disparity in the use of these two forms of finance among the women-led SMEs since the lowest value is indicated as -0.93791 for the enterprises with negative retained earnings to a high of 0.90225.

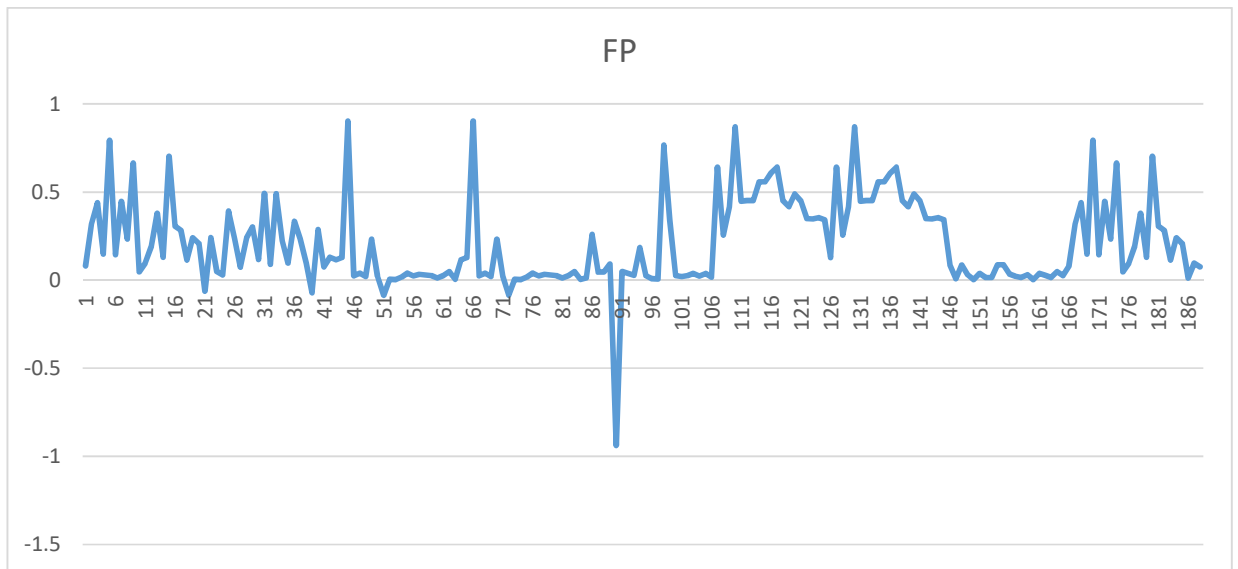


Figure 4.2: Cross Section of Debt-Equity Ratio

This wide range is confirmed by a highly significant coefficient of variation of 1.16147 obtained when the standard deviation of 0.24535 is compared with the mean of 0.21124. The findings may be in support of Brounen, De Jong and Koedijk (2004) who indicated that, in the European setting, SMEs may not really be out to seek an optimal debt-equity ratio and that the observed values are down to individual enterprise circumstances.

4.4.2 Firm Size Descriptive Statistics

Firm size as indicated by the natural logarithm of total assets was one of the independent variables researched for women-led SMEs in this study. The descriptive statistical findings are indicated in table 4.4.

Table 4.4: Firm Size Descriptive Statistics

	<i>LnTA</i>
Mean	0.22472
Median	0.12311
Standard Deviation	0.23755
Coefficient of Variation	1.05706
Range	0.95104
Minimum	0.00349
Maximum	0.95453
Count	188
Confidence Level (95.0%)	0.03418

The table 4.4 findings demonstrate that, the mean of the natural logarithm of assets was 0.22474 while the median was 0.12311. Just like the case of debt-equity ratio, this finding points to a negatively skewed direction indicating that many firms are small on average than medium or large given the sample under observation. The finding seems to be in line with the implied slow growth of SMEs in Kenya based on Afande (2015) who established the several factors contributing to the slow growth of SMEs in Nairobi, Kenya. Figure 4.3 is indicative of the wide range in the natural logarithm of total assets of 0.95104. This wide disparity in the size of the women-led SMEs is expected since they are at varying stages of the business life cycle some being very small at 0.00349 while others medium at 0.95453.

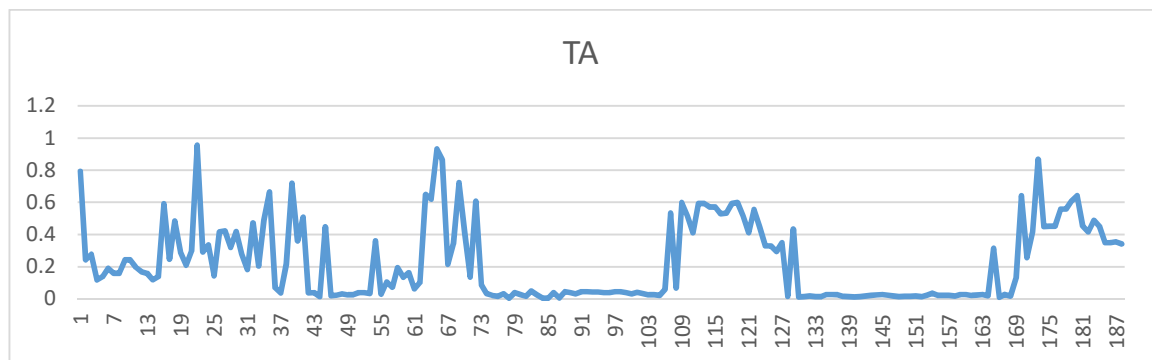


Figure 4.3: Cross Section of Natural Logarithm of Assets

The extensive variation in the size of the SMEs wide range is confirmed by a highly significant coefficient of variation of 1.05706 obtained when the standard deviation of 0.23755 is compared with the mean of 0.22472.

4.4.3 Firm Growth Descriptive Statistics

Change in sales turnover or revenues was over three years 2015-2017 was used as the indicator of growth. The descriptive statistics findings are provided in table 4.5.

Table 4.5: Firm Growth Descriptive Statistics

	<i>GR</i>
Mean	0.13633
Median	0.05504
Standard Deviation	0.22325
Coefficient of Variation	1.63761
Range	1.09301
Minimum	-0.11034
Maximum	0.98267
Count	188
Confidence Level (95.0%)	0.03212

The findings in table 4.5 are specified at a 95% confidence interval. They indicate a mean growth of 13.633% and a median growth of 5.504%. The result is indicative of a negatively skewed distribution of the growth rates with most of the women-led SMEs registering lower growth rates than mean. This may not be unique to this segment because the World Bank (2017) placed the economic growth in Kenya at 5.8% in 2016 and 5.5% in 2017. The figures seem to correlate perfectly with the growth rates observed among the female-led SMEs in this study. This points to a structural rather than particularly idiosyncratic aspects of the women-led SMEs.

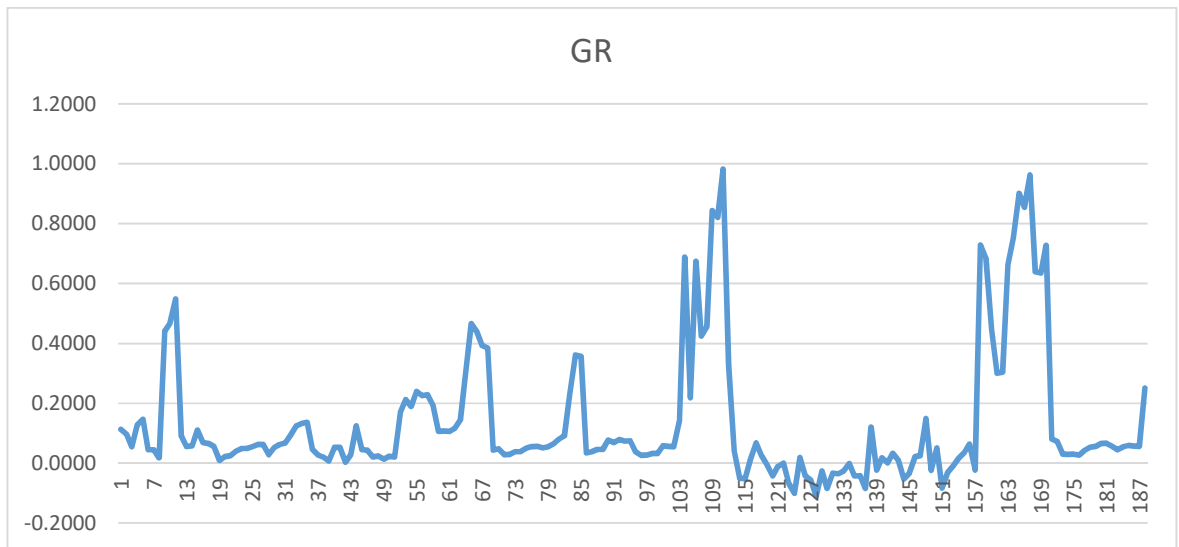


Figure 4.4: Cross Section of Sales Growth Rates over 2015-2017 Period

Taken on a whole, the growth ranges from negative 11.034% to positive 98.267%. This is plausible given that in the whole continuum, some of the enterprises experience negative growth while others achieve extreme high growth nearly doubling up of the turnover. In line with Nazzart and Foroughi (2012), there is expected to be a high attrition rate for firms that fall in the SME category and therefore the findings of the study perfectly fall in this framework. This is even more so when the volatility in the growth rates across the 188 cross-section of enterprises that form this study is evaluated. This as indicated in table 4.5 and illustrated in figure 4.4 shows a high level of volatility. This is indicated in a coefficient of variation of 1.63761. This indicates that for every mean growth of 1%, there is an expected fluctuation in growth of plus or minus 1.638%. This is an extremely high level of volatility but it fits well in the Nazzart and Foroughi (2012) business growth framework. The varying growth levels and the explicit volatility also compares favourably with Afande (2015) who established the several factors contributing to potentially slow growth of SMEs in Kenya.

4.4.4 Cash flow Structure Descriptive Statistics

Cash flow structure was also evaluated as a determinant of business financing structure of women-led SMEs in Kenya. Cash flows according to Oluoch (2014) are critical for the

survival of organizations and need to be maintained at the optimum to not only save the organizations from operational difficulties, but to also avoid high opportunity costs of holding cash since cash is a non-return generating asset. Using the ratio of cash flows from operations to total cash flows, the descriptive findings for the 188 enterprises in the sample are presented in table 4.6.

Table 4.6: Cash Flow Structure Descriptive Statistics

	<i>CS</i>
Mean	0.05357
Median	0.03275
Standard Deviation	0.26902
Coefficient of Variation	5.02152
Range	3.49480
Minimum	-2.61368
Maximum	0.88111
Count	188
Confidence Level (95.0%)	0.03871

The findings indicate that the mean of the cash flow from operations to total cash flows ratio was 0.05357. This compares to a median of 0.03275. Just like the case of the quality of financial information, size and growth, this also points to a negatively skewed distribution of the ratio for the women-led SMEs. This is indicative of the reliance on financing cash flows to run the business. Typical to SMEs as indicated by Afande (2015), firms in their formative stages of establishment may be over-reliant on the contributions of the owners relative to cash emanating from operations. The distribution is confirmed by a seemingly wide range of 3.4948 ranging from a low of -2.61368 (for firms that have more cash outflows from operations than cash inflows from operations) to a high of 0.88111 (indicative of enterprises where majority, in this case 88.111%, rely on cash flows from operations rather than those from financing and investing activities).

Moving away from the central tendency measures of mean and median as well as the range dispersion measure, table 4.6 also provides measures of dispersion as well as a relative description as provided by standard deviation and coefficient of variation of 0.26902 and 5.02152 respectively. These measures of actual and relative dispersion point towards a very wide-ranging levels of the ratio of cash flow from operations to overall cash flows for the women-led SMEs. Figure 4.5 illustrates the cross section disparity in the cash flow ratio.

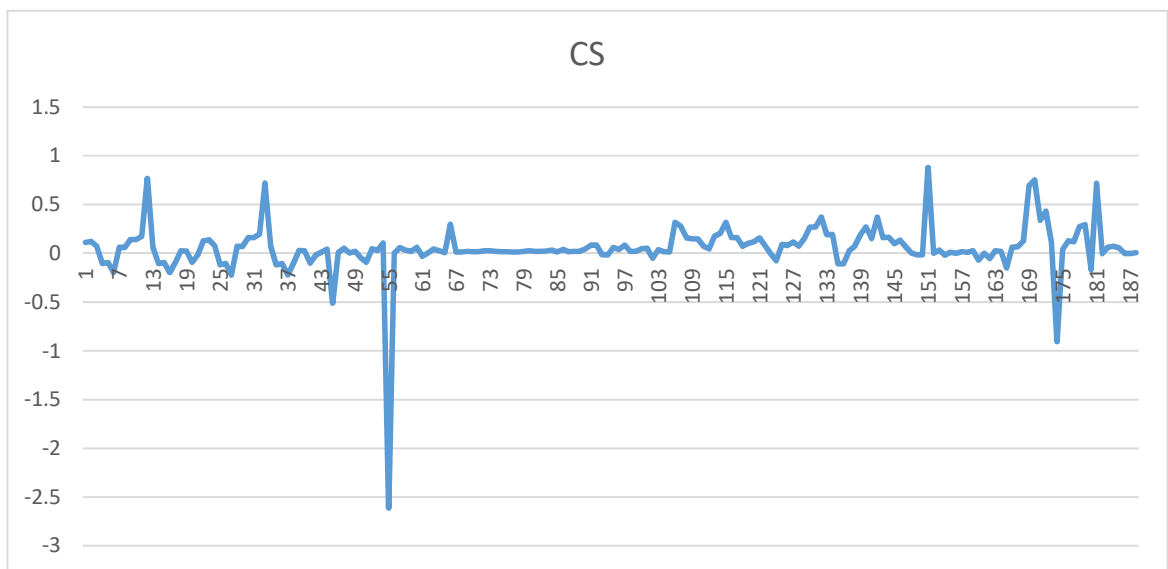


Figure 4.5: Cross Section of Operating Cash Flow Ratio

Belghitar and Khan (2013) attributes cash holdings and the inter-firm variations to the ownership structure. This explanation can equally apply to the women led SMEs in Kenya because they fall under a wide range of ownership structures stretching from sole proprietorships to private limited companies.

4.4.5 Firm Drawings Policy

Whereas SMEs may not have an elaborate dividend policy, the drawings made by owners of the SME as part of the distribution of earnings reflect the profit management, reinvestment and dividend tendencies of the enterprises. In this study the drawings ratio,

being the number of withdrawals from the business as a ratio of the profits was used to proxy for the dividend policy or simply the withdrawals policy. The descriptive statistics findings at 95% confidence interval are indicated in table 4.7.

Table 4.7: Firm Drawings Policy Descriptive Statistics

	<i>DP</i>
Mean	0.06610
Median	0.03171
Standard Deviation	0.19024
Coefficient of Variation	2.87796
Range	1.81015
Minimum	-0.90489
Maximum	0.90526
Count	188
Confidence Level (95%)	0.02737

The findings in table 4.7 provide a mean of 0.0661. This implies that on average, the SMEs led by women withdraw Sh.0.0661 for every Sh.1 made from profit. This can be stated alternatively as that women-led SMEs on average withdraw 6.61% of the profits they make or that they have a dividend pay-out ratio of 6.61%. This finding complements the earlier finding in this study where it was revealed that the SMEs are mostly financed by equity rather than debt. The relatively small drawings levels are a way of increasing the equity and potentially supporting the growth of the SMEs.

It had been shown by Hogan and Hutson (2005) that among the Irish firms' equity dominates debt in the financing structure of SMEs contrary to the expectations of Modigliani and Miller (1958) where this should be irrelevant. From table 4.7, the fact that, the median of the operating cash flow ratio of 0.003171 is less than the mean confirms a negatively skewed distribution of the ratio among the cross-section of the women-led

SMEs evaluated in this study. This affinity of these enterprises to retain most of their earnings is affirmed by preceding withdrawals. This as per Afande (2015) is a core attribute of SMEs in Nairobi. The study also evaluated the dispersion attributes of the withdrawals ratio. The findings are displayed in Table 4.7 and illustrated in figure 4.6.

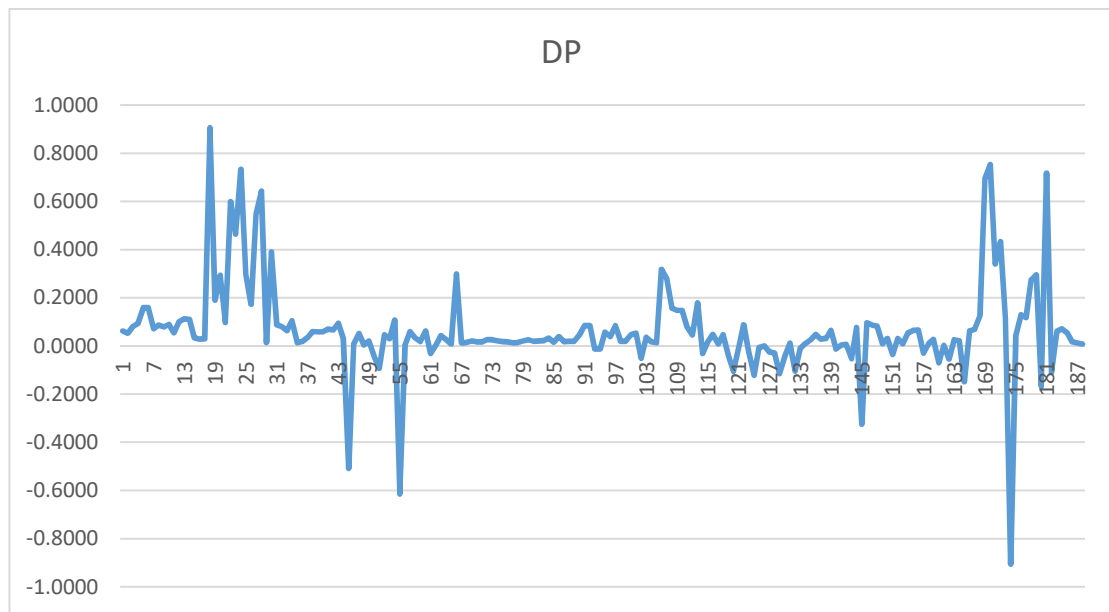


Figure 4.6: Cross Section of the Drawings Ratio

The high level of volatility indicated in figure 4.6 is confirmed by an extremely high coefficient of variation of 2.87796 after comparing a standard deviation of 0.19024 with the mean of 0.06610. This is also reflected in the range that records a 181.015% with a minimum of -0.90489 and a maximum of 0.90526. This is expected given that the majority of SMEs are run by individuals having the business as their sole source of income (Fatoki, 2014). The variations in the withdrawals ratio, which is similar to dividends for larger corporates seem to be in line with the Modigliani and Miller (1958). It may also be a good explanation as to why SMEs fail in their formative years following set up as was pointed out by Fatoki (2014).

4.4.6 Descriptive Characteristics of the Quality of Financial Information

The last independent variable of the study was the quality of financial information available to women-led SMEs in Kenya. According to Oluoch (2014), there are four qualitative characteristics of accounting information. These include relevance, reliability, understandability and comparability. These attributes abstained from a cross-section of questionnaires for the 188 sample units of the women-led enterprises in Kenya. The findings are presented in the series of the ensuing tables and figures in this section culminating in the overall quality of information. The first aspect relates to reliability. In line with Oluoch (2014), this relates to the ability of financial information to have a bearing on decision making. The descriptive findings on this are established in table 4.8.

Table 4.8: Descriptive Statistics on Relevance of Financial Information

Relevance Attribute of Financial Information	N	Mean	Median	Mode	Std Dev	CV
Financial information greatly influences financing decisions	188	2.8883	3.00	3.00	1.16696	0.41180
Accountants provide timely information	188	4.0319	4.00	5.00	1.10857	0.27495
Reliance on Financial Information to make Financing Decisions	188	3.9628	4.00	4.00	0.93288	0.23541
Ease of comparison of current with previous financial accounts in DM	188	3.7500	4.00	3.00	0.97906	0.26108
Useful explanatory notes in accounts	188	3.6649	4.00	4.00	0.79399	0.21665
On average there is very relevant information	188	3.3564	4.00	4.00	0.91664	0.25012

The findings indicate that all the indicators except the first one have a mode of 4.00 the frequency of which is reflected in figure 4.7.

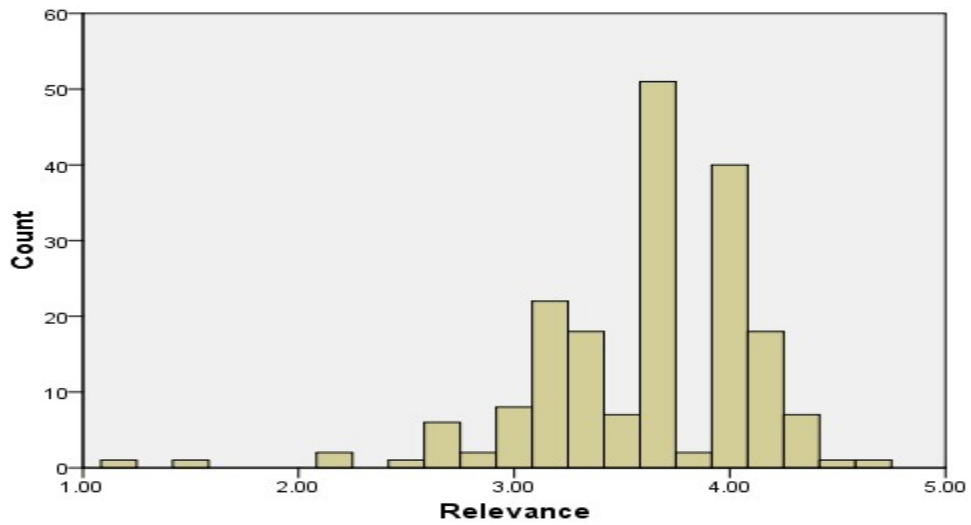


Figure 4.7: Cross-Sectional Relevance

The findings indicate that the women-led SMEs agree that, the financial and accounting information available to them is largely relevant for their decision making. This is in line with Oluoch (2014) who indicates that, relevant information must be timely, have a forecast value and have a feedback value. The small values in the coefficient of variation indicate that the quality is not very volatile and that as the mode values revolving around 3, 4 and 5 indicate, the financial information available to them is largely relevant. The finding is not surprising and may be explained from a behavioral perspective in line with the functional fixation theory of Sloan (1996).

The theory presupposes that investors and other users of financial information seldom carry out deep analysis of the statements and that they focus on obvious data like sales, expenses and profit. It is in this line that they are likely to find the statements very adequate for their needs. The second aspect pursued concerning quality of financial information was reliability. This is the ability of financial information to be accurate and to faithfully represent the financial condition of a business enterprise (Oluoch, 2014). The findings are presented in table 4.9.

Table 4.9: Descriptive Statistics on Reliability of Financial Information

	Mean	Median	Mode	Std Dev	CV
Management has no undue influence on accountant	3.4787	4.00	4.00	1.0314	0.296
Credible financial information by financial reports	3.3777	3.00	3.00	0.9080	0.269
Firm places great value on financial information	4.0745	4.00	5.00	0.9999	0.245
All material information are reported in financial statements	3.9894	4.00	4.00	0.8527	0.214
There is discouragement of Accounts manipulation	3.7394	4.00	4.00	0.8085	0.216
Annual statements are accurate	3.6862	4.00	4.00	0.8093	0.220
Accounting team is highly competent	3.6968	4.00	4.00	0.7660	0.207
Firms seriously take recommendations of external auditors	3.7021	4.00	4.00	1.0376	0.280

The findings in table 4.9 indicate that all the indicators except the second one have a mode of 4.00. This indicates that, the women-led SMEs agree that the financial and accounting information available to them is largely reliable for their decision making. This is in line with Oluoch (2014) who indicates that, reliable information must be neutral, complete, accurate, conservative, and have an element of substance over form. The small values in the coefficient of variation indicate that, the quality is not very volatile and that as the mode values revolving around 3, 4 and 5 indicate, the financial information available to them is largely relevant.

The finding is not surprising and may be explained from a behavioral perspective in line with the functional fixation theory of Sloan (1966). The theory presupposes that investors and other users of financial information seldom carry out deep analysis of the statements and that they focus on obvious data like sales, expenses and profit. It is in this line that

they are likely to perceive the statements very reliable for their needs. The tendency of the reliability values to tend towards the right are reflected in the frequency Table indicated in figure 4.8.

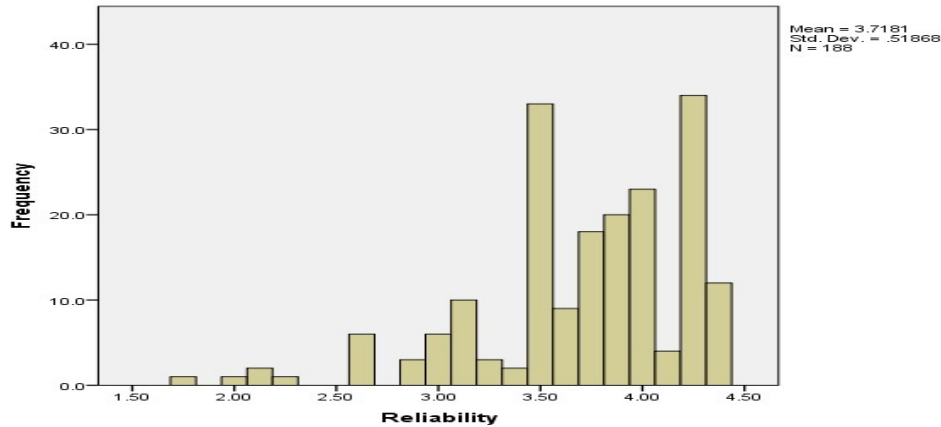


Figure 4.8. Cross-Sectional Reliability

The third aspect of information quality evaluated in this study was understandability of the financial reports prepared by the women-led SMEs. The findings are reflected in Table 4.10.

Table 4.10: Descriptive Statistics on the Understandability of Financial Information

	N	Mean	Median	Mode	Std. Dev	CV
Standardized format of accounts	188	3.5106	4.0000	4.00	0.71268	0.2030
Understandable explanatory notes	188	3.7394	4.0000	4.00	0.73211	0.1958
Reliance on IFRS	188	3.8830	4.0000	4.00	0.74369	0.1915
Reliance on legal stipulations	188	3.9255	4.0000	4.00	0.83043	0.2115
Financial statements are simple to understand	188	3.8191	4.0000	4.00	0.76645	0.2007
Overall very understandable financial information	188	3.7660	4.0000	4.00	0.71539	0.1900

The findings in table 4.10 indicate that all the indicators have a mode of 4.00. This indicates that, the women-led SMEs agree that, the financial and accounting information available to them is largely understandable for their decision making. This could be explained by the fact that they rely on international financial reporting standards in the preparation of financial statements as is implied the mean of 3.8830. This is in line with Oluoch (2014) who indicates that, reliable information must rely on international financial reporting standards and provide explanatory notes on policies and assumptions used in accounting. The small values in the coefficient of variation indicate that the quality is not very volatile and that as the mode values revolving around 4 indicate, the financial information available to them is largely understandable.

The high quality could also be a factor external to the reporting needs of the firm. It may relate to the fact that, the revenue authority is efficient in revenue collection and that the target firms require understandable accounting records to avoid extra taxation that may arise from poor records (Balakrishnan, Blouin & Guay, 2014). The tendency of the understand-ability values to tend towards the right are reflected in the frequency Table indicated in figure 4.9.

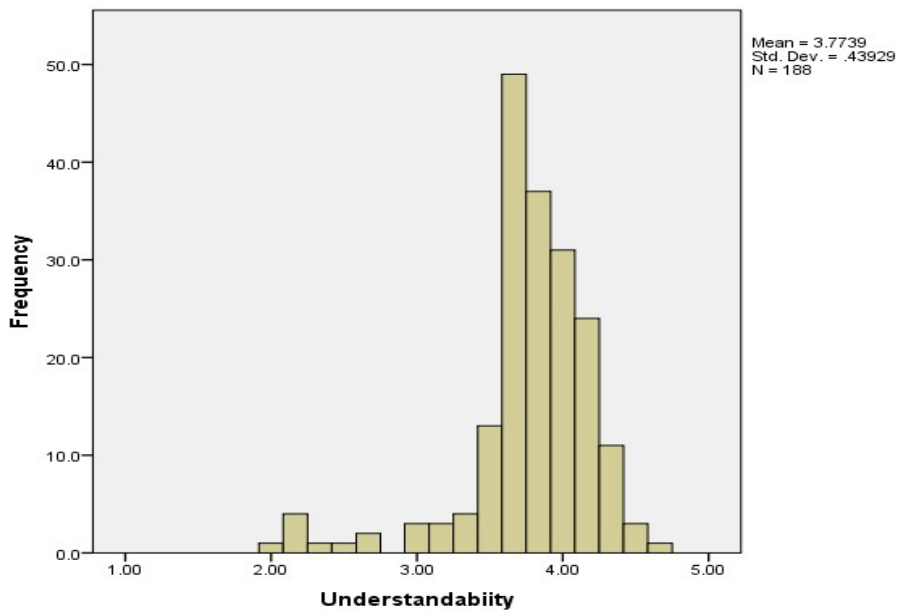


Figure 4.9. Cross-Sectional Reliability

The last aspect of the quality of financial information available at the disposal of women-led SMEs to be evaluated related to the comparability of the financial information. The descriptive statistics findings from the questionnaire analysis are presented in table 4.11

Table 4.11: Descriptive Statistics on Understandability of Financial Information

Comparability	N	Mean	Median	Mode	Std. Dev	CV
Consistent reporting format	188	3.9096	4.0000	4.00	1.10290	0.282
Regulatory compliance in presentation of statements	188	4.0053	4.0000	4.00	.79097	0.197
Legal Compliance in presentation	188	3.8138	4.0000	3.00	.82890	0.217
Consistent accounting policies over time	188	3.8511	4.0000	4.00	.79379	0.206
Comparable financial statements	188	3.7287	4.0000	4.00	.64238	0.172
Generally statements are easy to compare	188	3.8670	4.0000	4.00	.88866	0.230

The trends observed are comparable to those posted for relevance, reliability, and understandability. It is found that, the quality of financial information resulting from comparability aspect is very high. The mean of 3.86 shows comparability above average as is confirmed by the median and mode of 4. The arguments advanced by Oluoch (2014) as well as Balakrishnan, Blouin and Guay (2014) can help explain this trend. They can also be supported by a behavioral expectation of Sloan (1996) which would see the SMEs perceiving the information to be of high quality because of their functional fixation of few

numbers as opposed to the real quality of the financial information. On the overall, the descriptive findings of quality of information spanning relevance, reliability, understandability and comparability attribute are reflected in Table 4.12.

Table 4.12. Overall Descriptive Statistics on Quality of Financial Information

	<i>QI</i>
Mean	0.37409
Standard Error	0.00977
Median	0.37917
Standard Deviation	0.03731
Coefficient of Variation	0.09974
Count	188
Confidence Level (95.0%)	0.01927

The values are scaled by a constant of 10 to be in line with the other variables used in the study which are ratios. Sekaran (2013) suggests this scaling approach when combining Likert scale data and ratio or index-based data. The findings provide a scaled mean of 0.37409 or a non-scaled value of 3.7409. This is indicative of the finding that on average, the SMEs led by women find financial information at their disposal to be quite useful for decision making concerning their financing options as between debt and equity.

When understood from the behavioral orientation angle, the reality may be that, the quality may not be as high as portrayed by the study, given that Sloan's (1996) functional orientation theory presupposes that users of information fixate on particular figures especially the profit and may miss out a great detail of the other aspects of financial information. Holding these behavioral reservations constant, the findings in table 4.12 point to a relatively high quality of information as is confirmed by the low level of the coefficient of variation and as portrayed in figure 4.10.

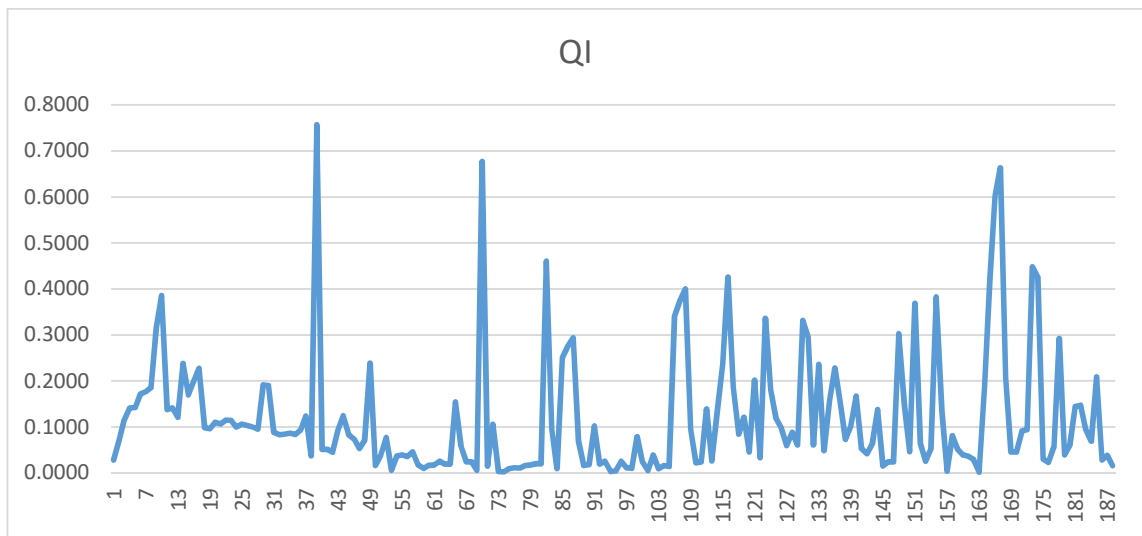


Figure 4.10: Cross Section of the Drawings Ratio

The last aspect of the descriptive statistics that the firm evaluated related to the general age of the firms since inception. Four age categories were considered: 0-3 year; 4-6 years; 7-9 years and 10 years and over. The descriptive statistical findings are indicated in Table 4.13. The findings indicate that whereas 13.3% had been 3 years and younger, 39.9% were 10 years and older. Of the remaining, 24.5% which is roughly a quarter of all the firms were between 4 and 6 years of age while the remaining 22.3% fell in the 7-9 years' age category.

Table 4.13: Age of the Women-Led Enterprise

Mean			2.8883	
Median			3	
Mode			4	
Std. Deviation			1.08133	
Range			3	
		Frequency	Percent	Cumulative %
Valid	0-3 Years	25	13.3	13.3
	4-6 years	46	24.5	37.8
	7-9 years	42	22.3	60.1
	10 Years and Over	75	39.9	100
	Total	188	100	

When aggregated, this implies that 60.1% of the firms are nine years old and below while the remaining 39.9% are at least 10 years older. The implication is that, there has been a small growth of firms over the 10 years to 2017. This could be attributed to some factors including the slow economic growth rate in the county as alluded to by Afande (2015).

The finding seems to be in line with the implied slow growth of SMEs in Kenya based on Afande (2015) who established the several factors contributing to the slow growth of SMEs in Nairobi, Kenya. In line with Nazzart and Foroughi (2012), there is expected to be a high attrition rate for firms that fall in the SME category and therefore the findings of the study perfectly fall in this framework. This is even more so when the volatility in the growth rates across the 188 cross-section of firms that form this study is evaluated. This explains the few firms at the age of 10 years and over.

4.5 Model Diagnostic Tests

The study used a multiple linear regression model to evaluate the effect of the financial determinants on the business financing structure of women-led enterprises in Kenya. Before the analysis, diagnostic tests to check if the model represented the best linear unbiased estimation of financial structure. For this purpose, the model diagnostic tests of normality, homoscedasticity, linearity and multicollinearity were undertaken. The findings are indicated in this subsection.

4.5.1 Tests of Normality

In testing for normality of the random error term, the Kolmogorov-Smirnov statistic was used and complimented by the Shapiro-Wilk Statistic. The findings are indicated in table 4.14

Table 4.14: Tests of Normality

Kolmogorov-Smirnov	Statistic	0.108
	Df	188
	Sig.	0.212
Shapiro-Wilk	Statistic	0.857
	Df	188
	Sig	0.692

a. Lilliefors Significance Correction

Sekaran (2013) indicates that, multiple linear regression model is devoid of statistically significant normality problems when it returns Kolmogorov-Smirnov statistics that are greater than the significance level. In this study, the confidence interval was 95% indicating a significance level of 0.05. The findings provide a Kolmogorov-Smirnov value

of 0.108 with a corresponding significance value of 0.212. It can be observed that, this value is greater than 0.05.

Accordingly, the null hypothesis that the random error term is not normally distributed is rejected and it is concluded that the non-normality problem is statistically insignificant for the model and that the error term is largely normally distributed. This finding is supported by the Shapiro-Wilk Statistic. According to Sekaran (2013), just like for the Kolmogorov-Smirnov statistic, the value needs to be greater than the significance level given the confidence interval. In this respect, the Shapiro-Wilk statistic from the test was of 0.857 with a significance probability value of 0.692 which is greater than 0.05, the significance level at 95% confidence interval. This confirms the normality conclusion.

4.5.2 Tests of Heteroscedasticity

Mugenda and Mugenda (2013) indicate that the random error term from a multiple linear regression must have constant variances. If that is the case, the error term is said to be homoscedastic otherwise it is heteroscedastic. Accordingly, the diagnostic test for heteroscedasticity was conducted. The findings based on the Breuch-Pagan Lagrange multiplier (LM) and Koenker LM are presented in Table 4.15

Table 4.15: Tests of Homoscedasticity

Breuch-Pagan LM	Statistic	2.467
	Df	188
	Sig	0.436
Koenker LM	Statistic	5.531
	Df	188
	Sig	0.358

Sekaran (2013) intimates that, the error term is homoscedastic if the Breuch-Pagan LM has a significant value greater than the standard model level of significance. In this study, the Breuch-Pagan LM is 2.467 with a significance level of 0.436. Since the significance value is greater than 0.05, the null hypothesis that there no significant level of heteroscedasticity is rejected with the conclusion that the error term is homoscedastic. This is confirmed by the Koenker LM of 5.531 with a corresponding significance value of 0.358 which again is greater than 0.05 and therefore meets the homoscedasticity criteria in line with Sekaran (2013).

4.5.3 Tests of Collinearity

Collinearity is also called multicollinearity (Sekaran, 23013). It is the reality that one independent variable in a multiple linear regression analytical model can be predicted from the rest of the explanatory variables because of the underlying relationship. They may imply that, some of the variables in the model are redundant in explaining the changes in the dependent variables as a consequent of the changes in the dependent variable. In this study, collinearity was tested using the Tolerance and Variance Inflation Factor (VIF). The findings are indicated in Table 4.16. Size (LnTA), Growth rate, cash flow structure (Operating cash flow ratio), Drawings Policy (drawings ratio) and financial information quality are the independent variables X_1 , X_2 , X_3 , X_4 and X_5 respectively.

Table 4.16: Multicollinearity Diagnostic Test Results

		<i>Collinearity Statistics</i>	
		<i>Tolerance</i>	<i>VIF</i>
Size	X_1	0.864	1.157
Growth	X_2	0.857	1.167
Cash Flow Structure	X_3	0.851	1.175
Drawings Policy	X_4	0.901	1.110
Financial Information Quality	X_5	0.779	1.284

They were subjected to the multicollinearity test. The findings returned Tolerance Values of 0.864, 0.857, 0.851, 0.901 and 0.779 respectively. Mugenda and Mugenda (2003) indicate that, when Tolerance Values are close to one, then there is no statistically significant problem of multicollinearity. It can be seen that the values are close to one hence the variables are deemed to be devoid of statistically significant collinearity.

The failure to reject the null hypothesis that there is no significant multicollinearity is confirmed by the variance inflation factors. These are also indicated in Table 4.16 where the VIF are presented as 1.157, 1.167, 1.175, 1.110 and 1.284 for X_1 , X_2 , X_3 , X_4 and X_5 respectively. In Line with Sekaran (2013) for the variables not to be significantly correlated, the VIF need to be close to one and far away from 5. The VIF findings conform to these conditions hence the model does not have a problem associated with statistically significant collinearity. According to Sekaran (2013), this is the most important diagnostic

test. Accordingly, the fact that, the data is conforming to collinearity expectations provides room for further analysis especially because the random error term has been shown to be homoscedastic.

4.5.4 Tests of Linearity

Testing for linearity was based on scatter plots of the dependent variable (Y) against the independent variables X_1 , X_2 , X_3 , X_4 and X_5 respectively. The visual analysis indicated that, the variable relationships are largely linear. Sekaran (2013) recommends individual plots for the dependent variable against each of the independent variables. He however suggests that, linearity is not a serious problem when compared with the other three conditions for using multiple linear regression model in analysis i.e. collinearity, heteroscedasticity and normality.

4.6 Analysis of Variances

Before the tests of hypotheses, analysis of variances was conducted for all the variables. This involves arranging the variables in ascending order and then grouping the data into two portfolios one comprising the high half of the variable while the other representing the bottom half enterprises concerning the variable. The ideas were to check if the characteristics of the high-value components of the women-led SMEs were similar to the low-value components of these SMEs. The findings are presented in this subsection.

4.6.1 Financial Structure ANOVA

The financial structure was the dependent variable of the study. The structure was measured using the debt-equity ratio. This measure is in line with the approach used by Amanuel (2011) among Ethiopian companies. After computation, the SMEs in the study were ranked from the lowest debt-equity ratio to the highest and then split into half forming 94 enterprises for each half. An ANOVA test was then conducted to check if the financial structure of the top half was significantly different from that of the bottom. The findings are shown in Table 4.17.

Table 4.17: ANOVA Test for Financial Structure

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
FPL	94	2.340006	0.024894	0.01157
FPH	94	37.37276	0.397583	0.039272

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	6.528158	1	6.528158	256.8014	7.09E-37	3.89194
Within Groups	4.728314	186	0.025421			
Total	11.25647	187				

The ANOVA was evaluated using the F-test in line with the recommendations of Sekaran (2013). The findings indicate that the critical F is 3, 89194. This is less than the SMEs F of 256.8014. This implies that the financial structure of the smallest SMEs is significantly different from that of their larger counterparts. This can be confirmed from figure 4.11 indicating the split half structures.

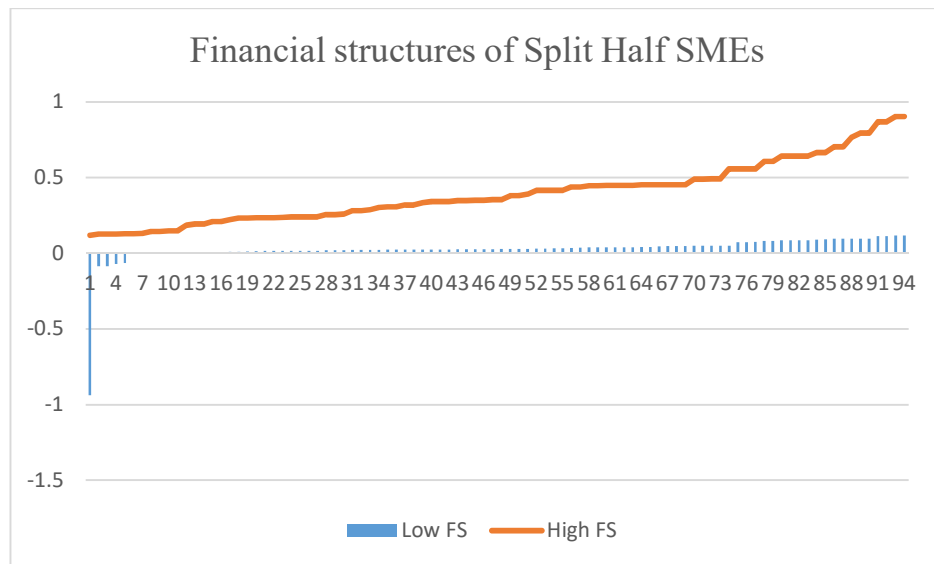


Figure 4.11: Cross-Sectional Split-Half Financial Structure

The finding makes this study relevant because it implies that the financial structures of SMEs vary with their size. This conforms to the findings by Brounen, De Jong and

Koedijk (2004) who indicate that in the European setting, SMEs may not really be out to seek an optimal debt-equity ratio and that the observed values are down to individual firm circumstances, in this case size. Sogorb-Mira (2005) also arrives at the same conclusion for Spanish firms. To further validate this conclusion, the paired t-test was undertaken to check if there was a difference in means between the two split-half samples. The findings are presented in Table 4.18.

Table 4.18: Financial Structure t-Test: Paired Two Sample for Means

	<i>FPL</i>	<i>FPH</i>
Mean	0.024894	0.397583
Variance	0.01157	0.039272
Observations	94	94
Pearson Correlation	0.464631	
Hypothesized Mean Difference	0	
Df	93	
t Stat	-20.5113	
P(T<=t) two-tail	2.79E-36	
t Critical two-tail	1.985802	

The tested null hypothesizes that, the difference between the two means is zero. This hypothesis is rejected since table 4.18 shows that whereas the computed t is 20.5113, the critical t from the standard t-distribution tables is 1.986. Since the computed t is greater than the critical t, the null hypothesis is rejected with the conclusion that the SMEs led-by women have diverse financial structures. It is the concern of this study to establish how the various determinants of the financial structure affect the financing structure of the firms.

This is confirmed by the p-value of 0.000. The finding contradicts that of Hyytinen and Pajarinen (2002) who find that Finnish SMEs rely more on internal sources than external.

This finding on the other hand implies a wide range of alternative funding sources from both debt and equity.

4.6.2 Firm Size ANOVA

Firm size was one of the independent variables of the study. The size of women-led SMEs was measured using the natural logarithms of total assets held by the firms. This measure is in line with the approach used by Omowunmi (2012) among Nigerian companies. After computation, the SMEs in the study were ranked from the lowest LnTA value to the highest and then split into half forming 94 enterprises for each half. An ANOVA test was then conducted to check if the size of the top half was significantly different from that of the bottom. The findings are shown in Table 4.17.

Table 4.19: Single factor ANOVA for Firm Size

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
TAL	94	2.984285	0.031748	0.000518
TAH	94	39.26388	0.417701	0.037666

<i>ANOVA</i>						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	7.001111	1	7.001111	366.704	7.37E-46	3.89194
Within Groups	3.551111	186	0.019092			
Total	10.55222	187				

The ANOVA was evaluated using the F-test in line with the recommendations of Sekaran (2013). The findings indicate that the critical F is 3.89194. This is less than the SMEs F of 366.704. This implies that the size of the smallest SMEs is significantly different from that of the larger women led SMEs. This finding can be confirmed from figure 4.12.

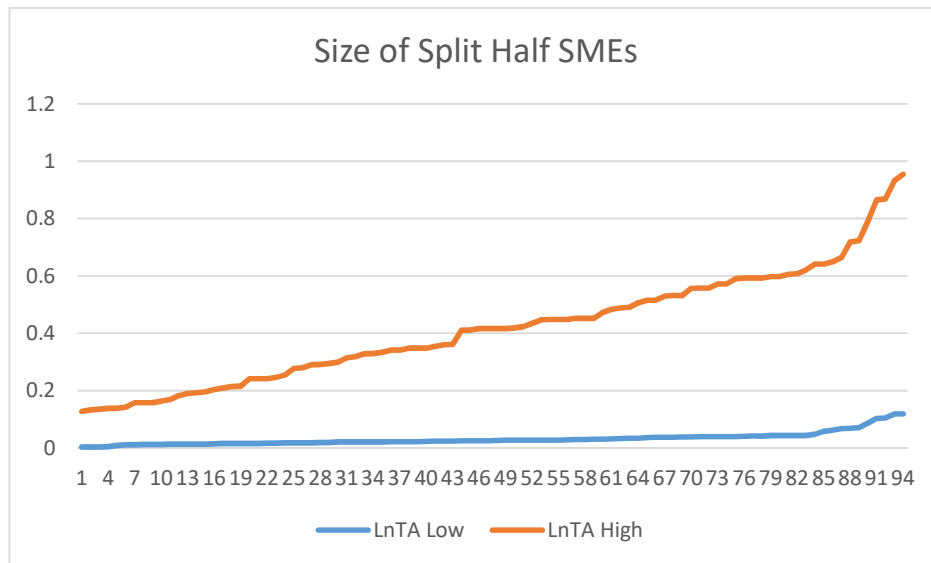


Figure 4.12: Cross-Sectional Split-Half Financial Structure

This finding makes this study relevant because it implies that the sizes of SMEs vary which makes this a viable independent variable. This conforms to the findings by Afande (2015) who established varying firm sizes of SMEs in Nairobi and indicated that, various in growth rates depend on many macro and micro level factors. It is also in line with the categorization of firms as small and medium-size enterprises (SMEs). Hogan and Hutson (2005) also measure the size of Irish SMEs using turnover as is done in this study.

To further validate this conclusion, the paired t-test was undertaken to check if there was a difference in means between the two split-half samples. The findings are presented in Table 4.20. The test null hypothesizes that, the difference between the two means is zero. This hypothesis is rejected since the table 4.20 shows that whereas the computed t is 21.6176, the critical t from the standard t-distribution tables is 1.986. Since the computed t is greater than the critical t, the null hypothesis is rejected with the conclusion that the SMEs led by women have diverse sizes. It is the concern of this study to establish how the various determinants of the financial structure affect the business financing structure of the firms. This is confirmed by the p-value of 0.000. The finding is in line with Afande (2013) that SMEs are of a wide size range.

Table 4.20: Firm Size t-Test: Paired Two Sample for Means

	<i>TAL</i>	<i>TAH</i>
Mean	0.031748	0.417701
Variance	0.000518	0.037666
Observations	94	94
Pearson Correlation	0.930929	
Hypothesized Mean Difference	0	
Df	93	
t Stat	-21.6176	
P(T<=t) two-tail	4.87E-38	
t Critical two-tail	1.985802	

4.6.3 Firm Growth ANOVA

Firm growth was one of the independent variables of the study. The size of women-led SMEs was measured using the ratio of the change in sales between 2015 and 2017 to the baseline sales of 2015. Oluoch (2014) indicates that, firm size can be measured by asset base, turnover, and market share or employees. Since asset base formed the measurement of size while market share would be inappropriate because the SMEs serve different markets, change in turnover was identified as the best measure of firm growth. After computation, the SMEs in the study were ranked from the lowest change in turnover ratio value to the highest and then split into half forming 94 enterprises for each half. An ANOVA test was then conducted to check if the growth of the top half was significantly different from that of the bottom. The findings are shown in Table 4.18.

Table 4.21: Single factor ANOVA for Firm Growth

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
GRL	94	0.988917	0.01052	0.001601
GRH	94	24.64098	0.262138	0.066624

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	2.975638	1	2.975638	87.23057	3E-17	3.89194
Within Groups	6.344893	186	0.034112			
Total	9.32053	187				

The ANOVA was evaluated using the F-test in line with the recommendations of Sekaran (2013). The findings indicate that the critical F is 3.89194. This is less than the SMEs F of 87.23057. This implies that the growth rate of the slowest growth SMEs is significantly different from that of the faster growth women-led SMEs. It is confirmed in figure 4.13. The finding makes this study relevant because it implies that, the growth rates of the SMEs vary which makes this a viable independent variable. This conforms to the findings by Afande (2015) who established varying growth rates among SMEs in Nairobi. The variations in growth rates fit very well in the Nazzart and Foroughi (2012) business growth framework and life cycle model where growth vary from the stages of introduction, growth, maturity to decline.

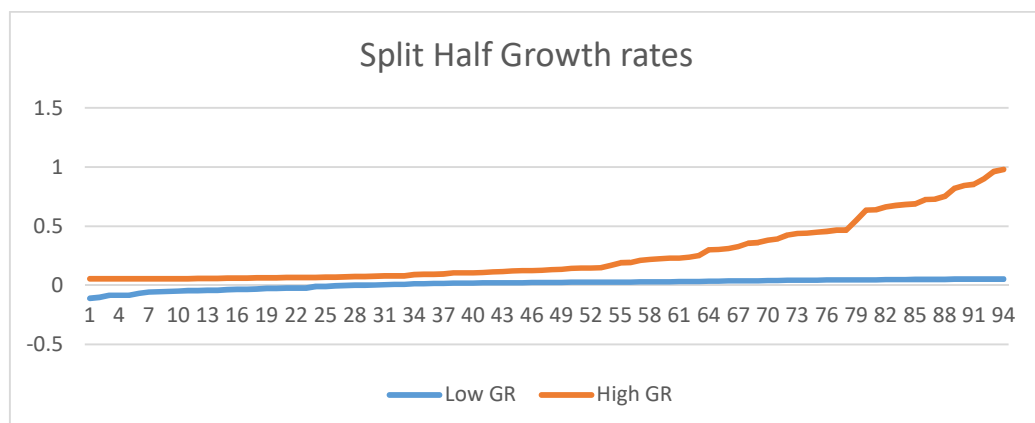


Figure 4.13: Cross-Sectional Split-Half Growth Rates

Figure 4.13 clearly shows that; the slow growth firms provide significantly different growth patterns from the high growth rate firms. To further validate this conclusion, the paired t-test was undertaken to check if there was a difference in means between the two split-half samples. The findings are presented in Table 4.21. The tested null hypothesizes that the difference between the two means is zero. This hypothesis is rejected since table 4.21 shows that whereas the computed t is 10.4781, the critical t from the standard t-distribution tables is 1.986. Since the computed t is greater than the critical t, the null hypothesis is rejected with the conclusion that the SMEs led by women have diverse growth rates.

Table 4.22: Firm Growth t-Test: Paired Two Sample for Means

	<i>GRL</i>	<i>GRH</i>
Mean	0.01052	0.262138
Variance	0.001601	0.066624
Observations	94	94
Pearson Correlation	0.678746	
Hypothesized Mean Difference	0	
Df	93	
t Stat	-10.4781	
P(T<=t) two-tail	2.01E-17	
t Critical two-tail	1.985802	

It is the concern of this study to establish how the various determinants of the financial structure affect the business financing structure of the firms. This is confirmed by the p-value of 0.000. The finding is in line with Afande (2013) that SMEs are of a wide range of growth rates.

4.6.4 Cash Flow Structure ANOVA

Firm cash flow structure was one of the independent variables of the study. The size of women-led SMEs was measured using the ratio cash flows from operations to the total cash flows generated by the firms. Oluoch (2014) indicates that cash flows are critical for operations of the firm and that a firm must plan for sustainable cash flows from operations to avoid disruption of operations and unnecessary opportunity costs of excess cash flows. After computation, the 188 SMEs in the study were ranked from the lowest cash flow ratio value to the highest and then split into half forming 94 enterprises for each half. An ANOVA test was then conducted to check if the cash flow structure of the top half was significantly different from that of the bottom. The findings are shown in Table 4.22 and figure 4.14.

Table 4.23: Single factor ANOVA for Cash Flow Structure

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
CSL	94	-6.23822	-0.06636	0.085181
CSH	94	16.31012	0.173512	0.031264

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	2.704403	1	2.704403	46.44937	1.27E-10	3.89194
Within Groups	10.8294	186	0.058223			
Total	13.5338	187				

The ANOVA was evaluated using the F-test in line with the recommendations of Sekaran (2013). The findings indicate that the critical F is 3.89194. This is less than the SMEs F of 46.44937. This implies that the cash flow structure of the lowest cash flows from operations is significantly different from that of the highest cash flows from operations of the women-led SMEs. It is confirmed in figure 4.14.

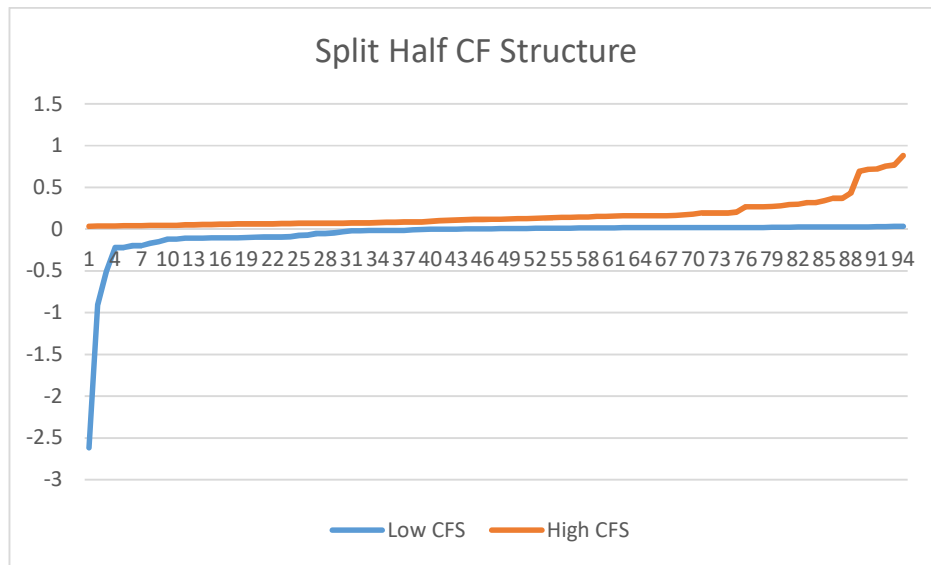


Figure 4.14: Cross-Sectional Split-Half Cash Flow Structures

The finding makes this study relevant because it implies that the growth rates of the SMEs vary which makes this a viable independent variable. This conforms to the findings by Afande (2015) who established varying growth rates among SMEs in Nairobi. The variations in cash flow structures may be typical to SMEs as indicated by Afande (2015), firms in their formative stages of establishment may be over-reliant on the contributions of the owners relative to cash emanating from operations.

To further validate this conclusion, the paired t-test was undertaken to check if there was a difference in means between the two split-half samples. The findings are presented in Table 4.23. The tested null hypothesizes that the difference between the two means is zero. This hypothesis is rejected since table 4.23 shows that whereas the computed t is 7.61699, the critical t from the standard t-distribution tables is 1.986. Since the computed t is greater than the critical t, the null hypothesis is rejected with the conclusion that the SMEs led by women have diverse cash flow structures.

Table 4.24: Cash flow Pattern t-Test: Paired Two Sample for Means

	<i>CSL</i>	<i>CSH</i>
Mean	-0.06636	0.173512
Variance	0.085181	0.031264
Observations	94	94
Pearson Correlation	0.224973	
Hypothesized Mean Difference	0	
Df	93	
t Stat	-7.61699	
P(T<=t) two-tail	2.12E-11	
t Critical two-tail	1.985802	

It is the concern of this study to establish how the various determinants of the financial structure affect the financing structure of the firms. That cash flow structure is a significant dependent variable is confirmed by the p-value of 0.000.

4.6.5 Drawings Policy ANOVA

Firm drawing (dividend) policy was one of the independent variables of the study. The drawings policy of women-led SMEs was measured using the drawings ratio i.e. the ratio of drawings made to the profit generated by the SME. The drawings policy of an SME affects projected growth rate such that lower drawings lead to increased capital for growth and vice versa (Vasilescu, 2010). It is therefore expected that firms with lower drawings or dividend policy should end up with high growth rates (Vasilescu, 2010).

After computation of the drawings ratio, the SMEs in the study were ranked from the lowest drawings ratio to the highest and then split into half forming 94 enterprises for each half. An ANOVA test was then conducted to check if the drawings ratio of the top half was significantly different from that of the bottom. The findings are shown in Table 4.24 and figure 4.15. The ANOVA was evaluated using the F-test in line with the recommendations of Sekaran (2013). The findings indicate that the critical F is 3.89194.

This is less than the SMEs F of 65.08457 for the drawings ratio among the split half groups of SMEs.

Table 4.25: Single factor ANOVA for Drawings Policy

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
DPL	94	-2.86668	-0.0305	0.017654
DPH	94	15.29396	0.162702	0.036255

<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1.754303	1	1.754303	65.08457	8.61E-14	3.89194
Within Groups	5.013484	186	0.026954			
Total	6.767788	187				

This implies that the drawings policy of the lowest drawings ratios SME are significantly different from that of the highest drawings ratio SMEs. It is confirmed in figure 4.15.

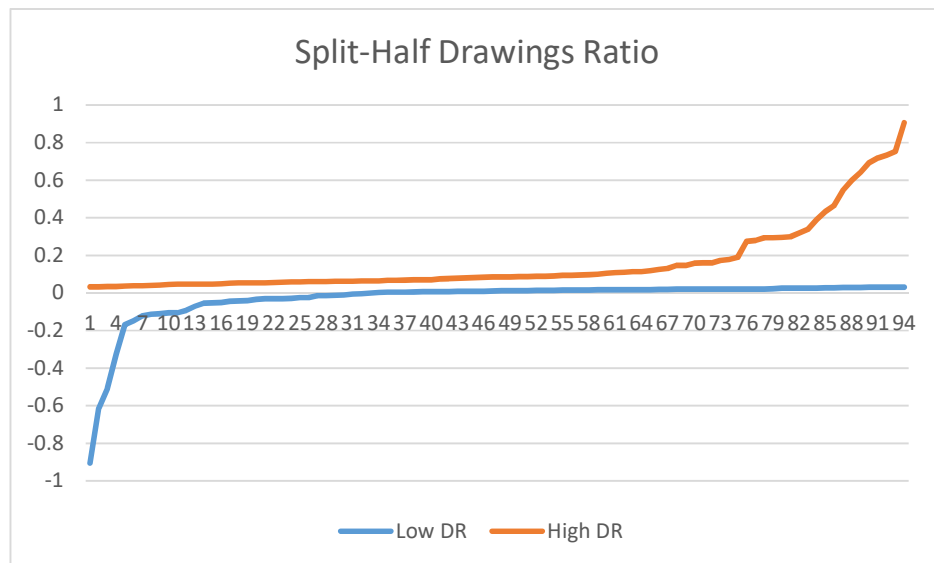


Figure 4.15: Cross-Sectional Split-Half Drawings Ratio

The finding makes this study relevant because it implies that, the drawings' policies of the women-led SMEs are varied concerning varying characteristics as was confirmed by

Afande (2015). The variations in the drawings ratio among the SMEs makes this a viable independent variable. This conforms to the findings by Afande (2015) who established varying growth rates among SMEs in Nairobi.

To further validate this conclusion, the paired t-test was undertaken to check if there was a difference in means between the two split-half samples. The findings are presented in Table 4.25. The tested null hypothesizes that the difference between the two means is zero. This hypothesis is rejected since table 4.25 shows that whereas the computed t is 9.3513, the critical t from the standard t-distribution tables is 1.986. Since the computed t is greater than the critical t, the null hypothesis is rejected with the conclusion that the SMEs led by women have diverse cash flow structures.

Table 4.25: Drawings Policy t-Test: Paired Two Sample for Means

	<i>DPL</i>	<i>DPH</i>
Mean	-0.0305	0.162702
Variance	0.017654	0.036255
Observations	94	94
Pearson Correlation	0.272455	
Hypothesized Mean Difference	0	
Df	93	
t Stat	-9.3513	
P(T<=t) two-tail	4.82E-15	
t Critical two-tail	1.985802	

In line with these findings, the values in table 4.25 confirm that the drawings policy of the firms varies over a wide range of possibilities. Because the drawings ratio is statistically significant, it makes the variable to be a viable independent variable to the multiple linear regression model used in the testing of this study's hypotheses.

4.6.6 Quality of Financial Information ANOVA

The last independent variable used in the study was the quality of financial information available to women-led SMEs for their financing decisions. The qualitative nature of the variable demanded that, primary data relating to the relevance, reliability, understandability and comparability of information be collected. It suited the analysis because the study is cross-sectional and therefore the primary data related to the same period as the secondary data. The quality of financial information was therefore scaled (to base 10) mean responses from the respondents on the four attributes of quality. The scaled values were arranged in ascending order and split into two halves of 94 enterprises each.

An ANOVA test was then conducted to check if the information quality index of the top half indicating high quality information was significantly different from that of the bottom half. The findings are shown in Table 4.26 and figure 4.16.

Table 4.27: Single factor ANOVA for Quality of Financial Information

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
QIL	94	3.100978	0.032989	0.000456
QIH	94	19.47474	0.207178	0.020294

<i>ANOVA</i>						
<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1.426064	1	1.426064	137.4491	4E-24	3.89194
Within Groups	1.92979	186	0.010375			
Total	3.355855	187				

The ANOVA was evaluated using the F-test in line with the recommendations of Sekaran (2013). The findings indicate that the critical F is 3.89194. This is less than the SMEs F of 137.4491 for the quality of information index among the split half groups of SMEs. This implies that the quality of financial information of the lowest information SME is

significantly different from that of the highest quality index SMEs. It is confirmed in figure 4.16.

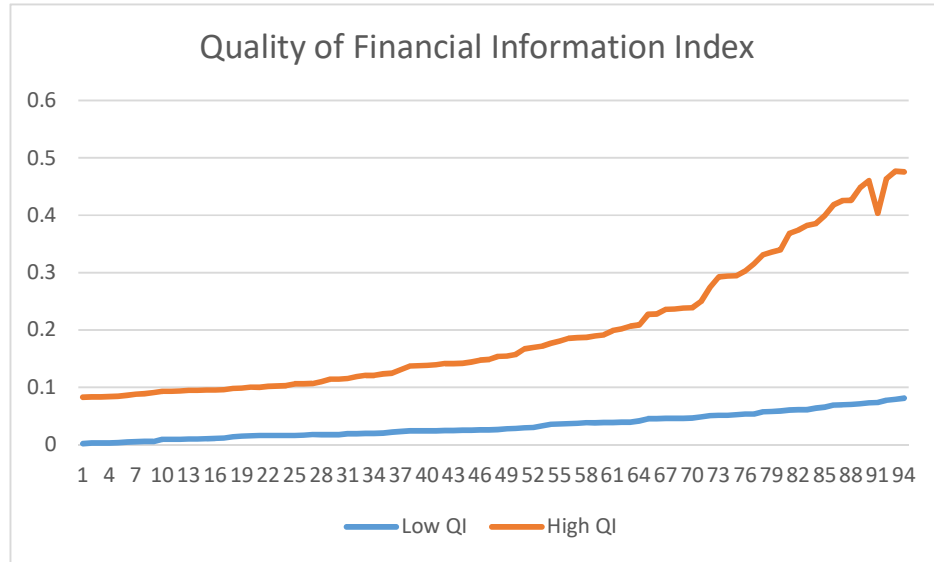


Figure 4.16: Cross-Sectional Split-Half Information Quality Index

The rejection of the null hypothesis is that, there is no significant difference in quality of financial information among women-led SMEs makes the quality of information to be a viable independent variable because it implies that the quality of financial information of the women-led SMEs are varied with respect to varying characteristics as was confirmed by Afande (2015).

To further validate this conclusion from the ANOVA test, the paired t-test was undertaken to check if there was a difference in means between the two split-half samples. The findings are presented in Table 4.27. The tested null hypothesizes that, the difference between the two means is zero. This hypothesis is rejected since table 4.27 shows that, whereas the computed t is 13.7521, the critical t from the standard t-distribution tables is 1.986. Since the computed t is greater than the critical t, the null hypothesis is rejected with the conclusion that the SMEs led by women have diverse quality of financial information available for making financing decisions for their firms.

Table 4.28: Qualitative Information t-Test: Paired Two Sample for Means

	<i>QIL</i>	<i>QIH</i>
Mean	0.032989	0.207178
Variance	0.000456	0.020294
Observations	94	94
Pearson Correlation	0.931693	
Hypothesized Mean Difference	0	
Df	93	
t Stat	-13.7521	
P(T<=t) two-tail	3.89E-24	
t Critical two-tail	1.985802	

In line with these findings, the values in table 4.27 confirm that the quality of financial information available to women-led SMEs for decision making varies over a wide range of possibilities. Because the quality of the information index is statistically significant, it makes the variable to be a viable independent variable to the multiple linear regression model used in the testing of this study's hypotheses.

4.7 Bivariate Tests of Hypotheses

Before the final multiple linear regression was undertaken, individual bivariate analysis was done to establish how each of firm size, growth rates, cash flow structure, drawings policy and quality of financial information affect the business finance policy (use of equity and debt) of women-led SMEs in Kenya. The findings are established and interrogated in this subsection.

4.7.1 Effect of Firm Size on Financial Structure of Women-Led SMEs

A bivariate analysis of the effect of firm size on business financing structure of women-led SMEs was done. The findings are established in Table 4.28. The model reveals a weak

coefficient of correlation of 0.28809 which translates into a coefficient of determination of 0.083.

The implication of this is that 8.3% of the changes in the business financing structure as indicated by the debt-equity ratio are caused by changes in firm size as indicated by LnTA. The coefficient of correlation shows a positive correlation such that as firm size increases so does the reliance of debt as opposed to equity. This is in agreement with Hogan and Hutson (2005) who found among the Irish firms that in the Irish Software sector, firms finance more by equity rather than debt. It however contradicts the Modigliani and Miller (1958) hypothesis that capital structure is an irrelevant financial decision.

Table 4.29: Simple Linear Regression of Financial Structure on Firm Size

Multiple R	0.28809					
R Square	0.08300					
Standard Error	0.23558					
Observations	188					
	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	0.93426	0.93426	16.83485	6.09E-05	
Residual	186	10.32221	0.05550			
Total	187	11.25647				
	<i>B</i>	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.14437	0.02368	6.09653	0.00000	0.09765	0.19109
LnTA	0.29755	0.07252	4.10303	0.00006	0.15448	0.44062

The data fits the model very well because the model F ratio of 16.83485 is greater than the critical value of F shown in Table 4.28 as 0.000. Based on this F test the null hypothesis that the simple linear regression cannot be used in relating firm size to financing structure is rejected with the conclusion that the model is suitable for analysis.

Using the t-test at a 95% confidence interval, the fixed term is set at 0.14437 while the coefficient of the size indicator is established at 0.29755. Their respective t-statistic values are 6.09653 and 4.10303. The critical t at 187 degrees of freedom from the standard t-tables is 1.973. Accordingly, the study finds that, firm size (assets) has a positive effect on the financing structure (debt-equity ratio) of the women-led SMEs since the regression t is greater than the standard t. This is confirmed by comparing the p-value to 0.05, the level of significance at a 95% confidence interval. Since the P-value of 0.00006 is less than the significance level (0.05), the null hypothesis that firm size does not affect financing structure is rejected with the conclusion that it indeed has a positive effect on the debt-equity ratio that reflects the financing structure of the firm. The implication is that, as the size of the firm increases through an enhanced asset base, so does the proportion of debt in the overall capital of the SME.

The findings fit well with those of Lisboa (2017) which indicated that firm size is a determinant of a firm's capital structure especially for the SMEs in Portugal. Accordingly, the findings of this study, just like those of Lisboa (2017) fit the expectations of the pecking order theory of Myers and Majluf (1984). The findings are also in support of Sosman (2016) who showed that among other factors, size is an important determinant of firm capital structure which reflects the financing structure of the firm. The findings may conform with the reality that large firms enjoy economies of finance and therefore can easily access debt finance when compared to smaller firms.

On the other hand, contrary to the pecking order theory of Myers and Majluf (1984) the findings do not support what Olakunle and Jones (2014) who in Nigeria, found no evidence to support the supposition that firm size positively impacts the debt-equity ratio and thereby the financing structure of SMEs. In their study, the effect was positive but statistically insignificant hence size had a zero effect on the financial structure.

The findings similarly counter the empirical evidence of Krasauskaite (2011) who found an inverse relationship between size and debt-equity ratio with small firms relying more on debt than their larger counterparts.

4.7.2 Effect of Firm Growth Rate on Financial Structure of Women-Led SMEs

Besides size as indicated in section 4.7.1, there was a simple linear regression of firm financing structure as reflected by the debt-equity ratio on the firm growth rates. The results are shown in Table 4.29. The model reveals a weak negative coefficient of correlation of -0.16688 which translates into a coefficient of determination of 0.02785. The implication of this is that, only 2.785% of the changes in financing structure as indicated by the debt-equity ratio are caused by changes in firm growth rate as indicated by the linearized rate of change in revenues over successive financial periods.

Table 4.30: Simple Linear Regression of Financial Structure on Growth Rates

Multiple R	-0.16688					
R Square	0.02785					
Standard Error	0.24256					
Observations	188					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Signif. F</i>	
Regression	1	0.31348	0.31348	5.32820	0.77090	
Residual	186	10.94300	0.05883			
Total	187	11.25647				
	<i>B</i>	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.2144	0.0210	10.1955	0.0000	0.1729	0.2559
LnGR	-0.0235	0.0806	-0.2916	0.7709	-0.1824	0.1354

The coefficient of correlation shows a weak negative correlation such that as firm growth rate increases, the reliance of debt as opposed to equity declines, albeit by a small degree of association. The finding seems to be in line with the implied slow growth of SMEs in Kenya based on Afande (2015) who established the several factors contributing to the slow growth of SMEs in Nairobi, Kenya.

The linearized growth data does fit the model very well because the model F ratio of 5.32820 is greater than the critical value of F shown in Table 4.29 as 0.77090. Based on this F test the null hypothesis that the simple linear regression cannot be used in relating firm growth to financing structure is rejected with the conclusion that, the model is suitable for analysis. Following log-transformation of the growth rates to ensure the model fits the data, the findings for t and p-value were evaluated.

Using the t-test at 95% confidence interval, the fixed term is set at 0.2144 while the coefficient of the firm growth indicator is established at -0.0235. Their respective t-statistic values are 10.1955 and -0.2916. The critical t at 187 degrees of freedom from the standard t-tables is 1.973. Accordingly, the study finds that, firm growth (linearized growth rate) does not have any effect on the financing structure (debt-equity ratio) of the women-led SMEs since the regression t is less than the standard t. This is confirmed by comparing the p-value to 0.05, the level of significance at a 95% confidence interval. Since the P-value of 0.7709 is greater than the significance level (0.05), the null hypothesis that firm growth does not affect finance policy is not rejected with the conclusion that it indeed does not affect the debt-equity ratio that reflects the financing structure of the firm. The implication is that, as the growth of the firm increases through enhanced sales over successive financial periods, the proportion of debt in the overall capital of the SME remains largely unmoved.

From a theoretical point of view, the findings seem to be contrary to the expectations of the firm growth cycle where there are varying financing expectations as firms go through their various stages of innovation, growth, maturity and decline. Empirically, the findings that growth does not affect financing structure seem to be consistent with those of Olayinka (2011) for Nigerian firms and Pinkova (2012) for Czech automotive firms. They however seem to be contrary to those of Lisboa (2017) in Portugal, who established that firm growth is an important determinant of capital structure. The findings may stem from the fact that, the window of growth provided in the study is only three years from 2015 to 2017 which may not be long enough to establish significant growth rates that may tremendously change the financing structure of the firm.

4.7.3 Effect of Firm Cash Flow Structure on Financial Structure of Women-Led SMEs

Besides size as indicated in section 4.7.1 and growth rates in section 4.7.2, there was a simple linear regression of firm financing structure as reflected by the debt-equity ratio on the firm cash flow structure as indicated by the operating cash flow ratio. The findings are recorded in Table 4.30. The model reveals a weak positive coefficient of correlation of 0.12657 which translates into a coefficient of determination of 0.01602. The implication of this is that only 1.602% of the changes in financing structure as indicated by the debt-equity ratio are caused by changes in firm cash flow structure as indicated by the operating cash flow ratio. The coefficient of correlation shows a weak positive correlation such that as firm cash flow ratio increases, so do the reliance of debt as opposed to equity, albeit by a small degree of association. The finding seems to be in line with the implied overreliance on operating cash flows by SMEs in Kenya based and around the world (Hogan & Hutson, 2005).

Table 4.31: Simple Linear Regression of Financial Structure on Cash Flow Ratio

Multiple R	0.12657					
R Square	0.01602					
Adjusted R Square	0.01073					
Standard Error	0.24403					
Observations	188					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Signf F</i>	
Regression	1	0.18032	0.18032	3.02809	0.01349	
Residual	186	11.07615	0.059549			
Total	187	11.25647				
	<i>B</i>	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.20505	0.01815	11.29848	0.00000	0.16925	0.24086
CS	0.18175	0.06633	2.74014	0.01349	0.01543	0.24629

The cash flow ratio data fits the model very well because the model F ratio of 3.02809 is greater than the critical value of F shown in Table 4.30 as 0.01349. Based on this F test the null hypothesis that the simple linear regression cannot be used in relating firm cash structure to financing structure is rejected with the conclusion that, the model is suitable for analysis. Following the determination of the suitability of the model in analysis, the implication of the coefficient of the cash flow ratio was evaluated.

Using the t-test at a 95% confidence interval, the fixed term is set at 0.20505 while the coefficient of the firm cash structure indicator is established at 0.18175. Their respective t-statistic values are 11.29848 and 2.74014. The critical t at 187 degrees of freedom from the standard t-tables is 1.973. Accordingly, the study finds that, firm cash flow structure has a significant positive effect on the financing structure (debt-equity ratio) of the women-led SMEs since the regression t is greater than the standard t. This is confirmed by comparing the p-value to 0.05, the level of significance at a 95% confidence interval. Since the P-value of 0.01349 is less than the significance level (0.05), the null hypothesis that firm cash flow structure does not affect financing structure is rejected with the conclusion that, it indeed has a positive effect on the debt-equity ratio that reflects the financing structure of the SMEs.

The implication is that, as the operating cash flow ratio increases through enhanced cash flows from operating activities, the proportion of debt in the overall capital of the SMEs also increases. This is possible because with more cash flows from operations, the firm can easily be able to finance the debt obligations. From a theoretical orientation, this finding is in line with the signaling effect hypothesis of Ross (1977) that points towards a positive relationship between financial structure and cash flows. The findings however contrast those inherent in the pecking order theory of Myers and Majluf (1984) that implies a negative effect. From an empirical perspective, the findings support the assertion by Hasanaj (2014) that capital adequacy is the cornerstone of firm stability and that it can be improved through enhanced cash flows. Typical to SMEs as indicated by Afande (2015), firms in their formative stages of establishment may be over-reliant on the contributions of the owners relative to cash emanating from operations.

4.7.4 Effect of Firm Drawings Policy on Financial Structure of Women-Led SMEs

In addition to size as indicated in section 4.7.1, growth rates in section 4.7.2 and cash flow structure in section 2.7.3, there was a simple linear regression of firm financing structure as reflected by the debt-equity ratio on the firm drawings policy as indicated by the drawings ratio. The findings are recorded in Table 4.31.

Table 4.32: Simple Linear Regression of Financial Structure on Drawings Ratio

Multiple R	-0.03157					
R Square	0.00100					
Standard Error	0.24588					
Observations	188					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Signf F</i>	
Regression	1	0.11220	0.11220	1.18557	0.026713	
Residual	186	11.2453	0.06046			
Total	187	11.3575				
	<i>B</i>	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95</i>	<i>Upper 95%</i>
Intercept	0.21393	0.01899	11.2654	8.92E-23	0.176466	0.25139
DP	-0.23141	0.09452	-2.43078	0.026713	-0.22718	0.14575

The model reveals a weak negative coefficient of correlation of -0.03157 which translates into a coefficient of determination of 0.00100. The implication of this is that only 0.1% of the changes in financing structure as indicated by the debt-equity ratio are caused by changes in firm drawings ratio when identified as a stand-alone variable. The coefficient of correlation shows a weak negative correlation such that, as firm drawings ratio increases, the reliance of debt as opposed to equity decreases, albeit by a small degree of association. The finding makes this study relevant because it implies that the drawings policies of the women-led SMEs are varied concerning varying characteristics as was confirmed by Afande (2015).

The drawings ratio data fits the model very well because the model F ratio of 1.18557 is greater than the critical value of F shown in Table 4.31 as 0.026713. Based on this F test the null hypothesis that the simple linear regression cannot be used in relating firm drawings ratio to financing structure is rejected with the conclusion that the model is suitable for analysis. Following the determination of the suitability of the model in analysis, the implication of the coefficient of the drawings ratio was evaluated.

Using the t-test at a 95% confidence interval, the fixed term is set at 0.21393 while the coefficient of the firm drawings indicator is established at -0.23141. Their respective t-statistic values are 11.2654 and 2.43078. The critical t at 187 degrees of freedom from the standard t-tables is 1.973. Accordingly, the study finds that, firm drawings policy has a significant negative effect on the financing structure (debt-equity ratio) of the women-led SMEs since the regression t is greater than the standard t. This is confirmed by comparing the p-value to 0.05, the level of significance at 95% confidence interval. Since the P-value of 0.026713 is less than significance level (0.05), the null hypothesis that firm drawings ratio has no effect on financing structure is rejected with the conclusion that, it indeed has a negative effect on the debt-equity ratio that reflect the financing structure of the SMEs. The implication is that, as the drawings ratio increases through enhanced drawings from the business, the proportion of debt in the overall capital of the SMEs decreases.

The findings support the signaling hypothesis of Ross (1977) since a firm that pays dividend signals less reliance on debt especially in an imperfect market. It also supports the pecking order theory since one can only pay dividend once debt obligations are settled. From an empirical angle, the study implies high dividend payout especially for family owned firms.

4.7.5 Effect of Quality of Financial Information on Financial Structure of Women-Led SMEs

The last bivariate analysis in the study involved evaluation of the stand-alone effect of the quality of information available to women-led SMEs on the financing structure of those firms. The findings are established in Table 4.32. The model reveals a weak coefficient of

correlation of 0.19457 which translates into a coefficient of determination of 0.03786. The implication of this is that 3.77% of the changes in financing structure as indicated by the debt-equity ratio are caused by changes in firms' quality of financial information as indicated by the quality of information index. The coefficient of correlation shows a positive correlation such that as firm size increases so does the reliance of debt as opposed to equity. This is in agreement with Hogan and Hutson (2005) who found among the Irish firms that in the Irish Software sector, firms finance more by equity rather than debt. It however contradicts the Modigliani and Miller (1958) hypothesis that capital structure is an irrelevant financial decision

Table 4.33: Simple Linear Regression of Financial Structure on Information Quality

Multiple R	0.19457					
R Square	0.03786					
Adjusted R Square	0.03268					
Standard Error	0.24130					
Observations	188					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sign F</i>	
Regression	1	0.42612	0.42612	7.31821	0.00746	
Residual	186	10.83035	0.05823			
Total	187	11.25647				
	β	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.16845	0.02366	7.11868	0.00000	0.12177	0.21513
QI	0.35634	0.13172	2.70522	0.00746	0.09648	0.61620

The data fits the model very well because the model F ratio of 7.31821 is greater than the critical value of F shown in Table 4.32 as 0.00746. Based on this F test the null hypothesis that the simple linear regression cannot be used in relating firm quality of financial information to financing structure is rejected with the conclusion that the model is suitable

for analysis. Using the t-test at a 95% confidence interval, the fixed term is set at 0.16845 while the coefficient of the size indicator is established at 0.35634. Their respective t-statistic values are 7.31821 and 2.70522. The critical t at 187 degrees of freedom from the standard t-tables is 1.973.

Accordingly, the study finds that, quality of financial information (quality index) has a positive effect on the financing structure (debt-equity ratio) of the women-led SMEs since the regression t is greater than the standard t. This is confirmed by comparing the p-value to 0.05, the level of significance at a 95% confidence interval. Since the P-value of 0.00746 is less than the significance level (0.05), the null hypothesis that firm quality of financial information does not affect financing structure is rejected with the conclusion that, it indeed has a positive effect on the debt-equity ratio that reflects the financing structure of the firm. The implication is that, as the quality of financial information of the firm increases through an enhanced accounting policy, so does the proportion of debt in the overall capital of the SMEs.

4.8 Multivariate Tests of Hypotheses

In the final analysis, the study evaluated the joint effect of firm size, firm growth rate, firm cash flow structure, firm drawings policy and firm quality of financial information on the financing structure of women-led SMEs in Kenya. Multivariate regression of firm financial structure as indicated by debt-equity ratio was evaluated. It is this regression that was used to test for the null hypotheses stated in chapter 1. The regression model specification statistics are presented in table 4.33.

The multivariate analysis of the effect of firm size, growth, cash structure, drawings policy and quality of financial information on financing structure of women-led SMEs was done. The output model reveals a strong positive coefficient of correlation of 0.761344. This is a great improvement on the individual coefficients of correlation that were 0.28809, -0.16688, 0.12657, -0.03157 and 0.19457 for size, growth, cash flow structure, drawings ration and quality of financial information respectively. This means that, the joint correlation of the independent variables is far stronger than the individual effects. This is

in line with Serakan (2013) who indicates that the explanatory power of a multiple linear regression model increases as statistically significant terms is added to the model.

Table 4.34: Multiple Linear Regression Model Specification Statistics

Multiple R	0.761344
R Square	0.579644
Adjusted R Square	0.567815
Standard Error	0.130075
Observations	188

The coefficient of correlation as indicated by the multiple R in figure 4.33 translates into a coefficient of determination (as indicated by the R-square value) of 0.579644. The implication of this is that, 57.9644% of the changes in financing structure as indicated by the debt-equity ratio are caused by the joint changes in firm size, growth, cash flow structure, drawings policy and quality of financial information. This is a great improvement on the explanatory power of the variables from the respective individual coefficient of determinations of 8.3%, 2.785%, and 1.602%, 0.1% and 3.786% respectively. This confirms that, the factors have a great joint explanatory power.

The coefficient of correlation shows a positive correlation such that as firm size, growth, cash flow structure, drawings policy and quality of financial information index increases so does the reliance of debt as opposed to equity. This is in agreement with Hogan and Hutson (2005) who found among the Irish firms that in the Irish Software sector, firms finance more by equity rather than debt. It however contradicts the Modigliani and Miller (1958) hypothesis that capital structure is an irrelevant financial decision. Before the analysis was completed, the suitability of the model in the multiple linear regression analysis was evaluated based on ANOVA and F-test. The findings are reflected in figure 4.35.

Table 4.35: Multiple Linear Regression Model Goodness of Fit

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	1.622391	0.324478	6.129803	2.83E-05
Residual	182	9.634081	0.052935		
Total	187	11.25647			

The data fits the model very well because the model F ratio of 6.129803 is greater than the critical value of F shown in Table 4.35 as 0.000028. Based on this F test the null hypothesis that the 5-variable multiple linear regression cannot be used in relating firm size, growth, cash flow structure, drawings policy and quality of financial information to financing structure is rejected with the conclusion that the model is suitable for analysis. Sekaran (2013) suggests that, for a stable model, the model F must be greater than the critical or significance F. With this finding, the analysis of the multiple regression was done. The findings are indicated in table 4.36.

Table 4.36: Multiple Linear Regression Output

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.1216	0.0279	4.3521	0.0000	0.0665	0.1767	0.0665	0.1767
LnTA	0.3025	0.0731	4.1362	0.0001	0.1582	0.4469	0.1582	0.4469
LnGR	-0.0415	0.0769	-0.5404	0.5896	-0.1932	0.1101	-0.1932	0.1101
CS	0.1695	0.0727	2.3323	0.0208	0.0261	0.3129	0.0261	0.3129
DP	-0.2320	0.1056	-2.1965	0.0293	-0.4405	-0.0236	-0.4405	-0.0236
QI	0.2798	0.1286	2.1768	0.0308	0.0262	0.5335	0.0262	0.5335

The interrogation of the findings are discussed in the ensuing subsections. It is on the basis of the table 4.36 findings that the hypotheses in chapter one are evaluated.

4.8.1 Effect of Firm Size on Financial Structure

The first null hypothesis stated that firm size has no significant effect on the financing structure of women-led SMEs in Kenya. The findings in table 4.36 lead to the rejection of this null hypothesis. This is because the multiple regression output provided the coefficient of LnTA, the measure of firm size as 0.3025 while the corresponding t-value is 4.1362. In line with Sekaran (2013), since this regression t value is greater than the critical t at 95% confidence interval of 1.973, the conclusion is that the null hypothesis is false and that in fact size has a positive effect on the financing structure as indicated by the debt-equity ratio. This conclusion is confirmed by the statistically significant p-value which at 0.0001 is less than the critical level of 0.05.

The findings imply that large SMEs are likely to deploy more debt than equity when compared to the small SMEs led by women. From a logical point of view, this could be explained by the financial economies of scale that make it easier for the large firms to access debt. In this respect, Hogan and Hutson (2005) made a persuasive argument that large firms tend to rely on debt when compared to the small firms. From a theoretical perspective, the findings support the Gordon's (Brusov, Filatova, Orehova, Brusov & Brusova, 2011) model, where debt has the cheapest cost while equity is quite expensive. It makes sense for firms to rely on more debt than equity in their bid to reduce the weighted average cost of capital.

In the same vein, the findings can be explained in the context of pecking order theory of Myers and Majluf (1984). Empirically, the findings are comparable to those of Lisboa (2017) which indicated that firm size is a determinant of a firm's capital structure especially for the SMEs in Portugal. The findings are also in support of Sosman (2016) who showed that among other factors, size is an important determinant of firm capital structure which reflects the financing structure of the firm. The findings may be in

conformity with the reality that large firms enjoy economies of finance and therefore can easily access debt finance when compared to smaller firms.

The study findings agree with Acedo-Ramírez, Ayala-Calvo and Rodríguez-Ose's (2013), who using a sample of Spanish footwear SMEs indicate that, in an environment devoid of information asymmetry firms that generate positive cash flows have a preference for debt for three reasons. Firstly, to maintain the existing capital structure; secondly to benefit from the tax shield by avoiding the exposure of the cash flows to taxes and lastly as an agency problem management approach that dissuades managers from overinvestment.

On the other hand, contrary to the pecking order theory of Myers and Majluf (1984) the findings do not support what Olakunle and Jones (2014) who in Nigeria, found no evidence to support the supposition that firm size positively impacts the debt-equity ratio and thereby the financing structure of SMEs. In their study, the effect was positive but statistically insignificant hence size had a zero effect of financial structure. The findings similarly counter the empirical evidence of Krasauskaite (2011) who found an inverse relationship between size and debt-equity ratio with small firms relying more on debt than their larger counterparts.

4.8.2 Effect of Firm Growth Rates on Financial Structure

The second null hypothesis stated that, firm growth has no significant effect on the financing structure of women-led SMEs in Kenya. The findings in table 4.36 lead to the failure of rejection of this null hypothesis. This is because the multiple regression output provides the coefficient of LnGR, the modified measure of firm growth as -0.0415 while the corresponding t-value is -0.5404. In line with Sekaran (2013), since this regression t value is less than the critical t at 95% confidence interval of 1.973, the conclusion is that the null hypothesis is true and that in fact growth has no significant effect on the financing structure as indicated by the debt-equity ratio. This conclusion is confirmed by the statistically significant p-value which at 0.58966 is higher than the critical level of 0.05.

The findings imply that the changes in financing structure are independent of the firm growth rate and that both small and large SMEs are unlikely use growth of the firm as a reference point in deploying a financing structure. Psillaki and Daskalakis (2009) arrive at the same findings for SMEs in Greece, France, Italy and Portugal where they find that growth has no significant effect of determination of leverage for all these four countries. Their conclusion is that, it is the firm idiosyncratic factors rather than country factors that determine the financing policies of small and medium size enterprises.

This result is in conflict with that of Acedo-Ramírez et al. (2013) who found that there, exists a positive relationship between debt level and firm growth opportunities. They explained their findings from the need to financing the expanding needs of a firm that is unlikely to be fully met by inside equity and thereby forcing the firm to procure debt funds to meet the needs. Findings similar to Acedo-Ramírez et al. (2013) are revealed by Zhao and Wijewardana (2012) for Sri Lankan firms. Other studies have found a negative relationship between financing structure as indicated by debt-equity ratio and firm growth rate. Such a study includes Sheikh and Wang (2011) who found this negative relationship among manufacturing firms in Pakistan. Lisboa (2017) also found growth to be a critical determinant of financial structure and therefore financing structure.

The findings of this study however find support from the Olayinka (2011) for Nigerian firms and Pinkova (2012) for Czech automotive firms. The findings may stem from the fact that, the window of growth provided in the study is only three years from 2015 to 2017 which may not be long enough to establish significant growth rates that may tremendously change the financing structure of the firm. In addition, this study used change in revenue as an indicator of growth yet there are other indicators that may provide different results. Such include growth in market share, asset base and employee base.

4.8.3 Effect of Cash Flow Structure on Financial Structure

The third null hypothesis of the study stated that the firm cash flow structure has no significant effect on the financing structure of women-led SMEs in Kenya. The findings in Table 4.36 lead to the rejection of this null hypothesis. This is because the multiple

regression output provides the coefficient of the cash flow ratio, the measure of firm cash flow structure as 0.1695 while the corresponding t-value is 2.3323. In line with Sekaran (2013), since this regression t value is greater than the critical t at 95% confidence interval of 1.973, the conclusion is that the null hypothesis is false and that cash flow structure has a positive effect on the financing structure as indicated by the debt-equity ratio. This conclusion is confirmed by the statistically significant p-value which at 0.0208 is less than the critical level of 0.05.

The findings imply that SMEs with relatively huge cash flows from operations are likely to deploy more debt than equity when compared to the SMEs with relatively small cash flows from operations. From a logical point of view, this could be explained by the fact that, enterprises with large cash flows can service debt obligations far easily than those without such capacity. Similar for the case of bivariate evaluation of the effect of cash flow structure on financing structure- it is evident theoretical orientation. This finding of a positive effect is in line with the signaling effect hypothesis of Ross (1977) that points towards a positive relationship between financial structure and cash flows. The findings however contrast those inherent in the pecking order theory of Myers and Majluf (1984) that implies a negative effect.

From an empirical perspective, the findings corroborate those of Faulkender et al. (2012) who found out that a firm's cash flow characteristics affect the firm's leverage target and more so the speed of adjustment to meet the target. Also finding support for the findings is Hasanaj (2014) who asserts that, capital adequacy is the cornerstone of firm stability and that it can be improved through enhanced cash flows. Typical to SMEs as indicated by Afande (2015), firms in their formative stages of establishment may be over-reliant on the contributions of the owners relative to cash emanating from operations. Memon, Chen, Tauni, and Ali (2017) find that cash flow volatility is inversely related to the leverage of Chinese state-owned enterprises.

4.8.4 Effect of Drawings Policy on Financial Structure

The second last hypothesis of this study stated that firm drawings policy has no significant effect on the financing structure of women-led SMEs in Kenya. The findings in Table 4.36 lead to the rejection of this null hypothesis. This is because the multiple regression output provides the coefficient of DP, the measure of the drawings policy indicated as the drawings ratio as -0.2320 while the corresponding t-value is -2.1965. In line with Sekaran (2013), since this regression t value is greater than the critical t at 95% confidence interval of 1.973, the conclusion is that, the null hypothesis is false and that in fact drawings policy has a negative significant effect on the financing structure as indicated by the debt-equity ratio. This conclusion is confirmed by the statistically significant p-value which at 0.0293 is less than the critical level of 0.05.

The findings imply that the changes in financing structure are inversely dependent of the firm drawings ratio and that the higher the drawings ratio, the lower the debt-equity ratio. This implies that high drawings correspond with over-reliance on equity rather than debt and vice versa. The logic behind this confounding finding could be that, it is only firms that have stable equity positions that can afford to offer dividend payouts. This argument revolves around the argument brought forth by the pecking order theory of Myers and Majluf (1984) and the signaling hypothesis of Ross (1977) since a firm that pays dividend signals less reliance on debt especially in an imperfect market. Concerning the, pecking order theory an SME can only pay a dividend once debt obligations are settled. From an empirical angle, the study implies high dividend payout especially for family-owned firms.

4.8.5 Effect of Quality of Financial Information on Financial Structure

The last null hypothesis evaluated by the study was that the quality of financial information available at the disposal of women-led SMEs has no significant effect on financing structure of those firms. The findings are also reflected in table 4.36. According to those findings, quality of financial information as measured by the quality index of relevance, reliability, understandability and comparability indicated a coefficient of

0.2798 with a corresponding t statistic of 2.1768. Because the model t value is greater than the critical t, the null hypothesis is rejected.

The conclusion, which is in support of the bivariate analysis is that the quality of financial information has a positive effect on financing structure as represented by the debt-equity ratio. As a confirmation of this conclusion, table 4.36 provides a p-value for the coefficient as 0.0262. Since the 95% confidence interval is used in this study, the regression p is dwarfed by the significance level of 0.05. This confirms the rejection of the null hypothesis with the implication that, as the quality of financial information available for decision making improves, so does the reliance on debt in the financing structure of the SMEs.

The finding contradicts the Modigliani and Miller (1958) postulation that expected the financing structure to be irrelevant since it does not affect firm value. In the context of the findings of this study, this is not the case because the capital structure is a function of the quality of financial information available to the SMEs. From an empirical point of view, the findings of this study are in agreement with those of Oluoch (2015) which indicated that, quality of information is positively related to the cost of capital. The implication of the findings is that, with improved quality of financial information, one is able to make reliable decisions as to the financing structure.

The overall conclusion from this study is that whereas size, cash flow structure and quality of financial information have a positive effect on the financing structure of a firm as indicated by the debt equity ratio, drawings policy has a negative effect while growth has no effect on such financing structure. These are summarized in table 4.37.

Table 4.37: Summarized Findings

Variable	Measure	Effect on H_{0i}	Findings
Firm size	LnTA	Reject H_{01}	Positive effect
Firm Growth	LnGR is Sales	Fail to Reject H_{02}	No effect
Cash flow structure	Operating cash flow ratio	Reject H_{03}	Positive effect
Drawings policy	Drawings Ratio	Reject H_{04}	Negative Effect
Quality of Information	Information Quality Index	Reject H_{05}	Positive Effect

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter are provided a summary of the findings of this study. The findings were reached following conclusive testing of the hypotheses to meet the research objectives. Based on the findings, conclusions are made on the basis of individual and collective research objectives. This chapter also makes recommendations based on its limitations as well as the findings.

5.2 Summary

This research was based on the hitherto confounding literature as to how the various financial determinants affect business financing structure of women-led SMEs. The research dilemma was hinged on extant empirical and theoretical literature that pointed towards conflicting results as to how the financial determinants affect the financing structure of women led SMEs in Kenya. Whereas the Modigliani and Miller (1958) hypothesis predicted that the financing structure is an irrelevant decision, the Pecking Order Theory of Myers and Majluf (1984) predicted exhaustion of internal sources before venturing to outside source of finance. The signalling effect theory of Ross (1977) indicates that firms can send signals to information users by how it positions its financing and dividend policy. Amid this theoretical conflicts, the study thus sought to establish how firms' size, growth, cash flow structure, drawings policy and quality of financial information separately and jointly affected the financing structure of the firms.

Both descriptive and inferential analysis was done on the data. The analysis was based on multiple linear regression as well as simple linear regression. The multiple linear regression model was used after diagnostically testing for its suitability in the analysis on the basis of multicollinearity, normality, heteroscedasticity and linearity. The resultant findings are summarized in the ensuing subsections.

The findings provided a wide range of SME sizes and age. From a point of view, majority of the firms had been operational for a period of four years and above. This pointed towards the general resilience of firms, earlier studies had indicated that most SMEs and start-ups fail within the first year of their establishment.

Both primary and secondary data were used in this cross sectional study. In this respect, data from all variables except quality of financial information was derived from financial statements. The quality of financial information variable was collected on relevance, reliability, understandability and comparability of financial information using a questionnaire. For the purposes of analysis, the questionnaire was subjected to pilot testing. Data was collected from 188 SMEs which represented 72% of the original post pilot-test sample.

5.2.1 Nature of Overall Financing structure of Women-Led SMEs

The financing structure of women led SMEs was based on the proportion of debt and equity they use in financing their enterprises. This was based on the debt –equity ratio. From a descriptive point of view, the enterprises were found to rely more on equity than debt with some enhanced level of cross sectional variations among the enterprises. The implication was that, whereas equity dominates debt in the capital structures of the enterprises, in reality the variations are wide and spread such that the capital structure is really dependent on each and every SME's situation.

The reliance on equity could point out to the level of risk averseness among the SMEs given that debt is riskier than equity although on the flip side it ultimately involves a lower cost than the cost of equity. It also points to the inability of the SMEs to access cheap sources of finance because of their perceived high risk exposure for the debt financiers. The cost of finance in Kenya is exorbitant and banks add a risk premium for the SMEs which they often rank in higher risk brackets than the regular corporate entities like the blue chip companies listed at the Nairobi Securities Exchange. In addition, the SMEs do not enjoy the financial economies of scale that could allow them to access a wide array of

cheap external sources of finance be they short term, medium term or long term finance sources.

5.2.2 Nature of Women-Led SMEs' Enterprise Characteristics

The study evaluated five characteristics of women led SMEs. These were firm size, growth, cash flow structure, drawings policy and the quality of financial information available at their disposal for making decisions including the financing structure.

Firm size was based on the value of assets controlled by the SME. Size was measured as the natural logarithm of total assets in millions of shillings. The findings indicated mean that varied widely from the median providing a negative skewness in the distribution of the assets. There seemed a wide disparity in the sizes of the firm as was confirmed by the range and the coefficient of variation. This was expected because firms are of varied sizes ranging from start-ups to SMEs in the upper limits of the company life cycle. Accordingly, this wide disparity in the size of the women-led SMEs is normal and expected since they are at varying stages of the business life cycle some being very small at 0.00349 while others medium at 0.95453.

The other characteristic or financial determinant that was evaluated in the study was growth rate in the SME over the 3-year period to December 2017. The growth was measured by comparing the turnover at the start of the period and that at the end. The change in turnover as a fraction of the original turnover was considered to be the growth rate by the firm. Following diagnostic testing, this change was linearized by applying natural logarithms. The findings describe a wide range of growth rates with the low end firms recording negative growth rates while at the extreme end some were recording near 100% growth rates. This led to the conclusion that the growth in the SMEs was dependent on both firm characteristics and other economic aspects of the operating environment.

Besides firm size and growth, the cash flow structure of the women-led SMEs was also considered. This was evaluated as the proportion of net cash flows arising from operations to the overall net cash flows. This was an important attribute of SMEs because it was

recognized that the growth and operations of SMEs can only be assured on the basis of stable cash flows from operations. The findings indicated that, the SMEs cash flow structure is characterized by cash flows other than that from operations. This indicated an overreliance on cash flows from financing activities especially the owner's finance given that the financing structure showed an overreliance on equity rather than debt finance. This again may be a characteristic of SMEs because at the operational level they are still in the early stages of the firm life cycle and may thus be unable to have adequate operational cash flows.

The other characteristic that was evaluated in the study was the drawings policy of the firm. It was recognized that, at this level they may not have a consistent dividend policy but the owners nevertheless withdraw cash from the firm for personal use. The variable was measured using drawings ratio which was established as the ratio of drawings to the profits of the SME. Descriptive findings indicated that, women led SMEs on average withdraw 6.61% of the profits they make or that they have a dividend pay-out ratio of 6.61%. This finding tallied very well with a corresponding finding that SMEs rely on equity. The relatively low level of the drawings ratio perhaps was a strategy of the SMEs to build up their equity base and avoid overreliance on debt or personal equity. The cross sectional variations in the drawings ratio was however very enhanced. This is expected given that majority of SMEs are run by individuals having the business as their sole source of income (Fatoki, 2014). The variations in the withdrawals ratio, which is similar to dividends for larger corporates seems to be in line with the Modigliani and Miller (1958).

The last determinant of financing structure that was interrogated was the quality of financial information available for decision making at the SMEs led by women. For this determinant a questionnaire was used to collect information that was instrumental in gauging the quality of information available to the SMEs for decision making. All attributes of quality including relevance, reliability, understandability and comparability showed that, the SMEs accessed moderate to above average quality of information. In line with Nazzart and Foroughi (2012), there is expected to be a high attrition rate for firms

that fall in the SME category and therefore the findings of the study perfectly fall in this framework. This is even more so when the volatility in the growth rates across the 188 cross section of firms that form this study is evaluated. This explains the few firms at the age of 10 years and over.

5.2.3 Effect of firm Size on Financing Structure of Women-Led SMEs

At the inferential level of evaluating the data collected for the study, an effort was made to establish how the various financial determinants of financial policy affected the actual financial policy of the women led SMEs. This was done using multiple linear regression although for supportive evidence a bivariate analysis was also done for each of the determinant against the financing structure of the SME as was indicated by the debt equity ratio.

With respect to size, the findings indicated that firm size both at the bivariate and the combined model level had a positive effect of the debt equity ratio. The null hypothesis that firm size has no effect on finance policy was rejected with the conclusion that it indeed has a positive effect on the debt-equity ratio that reflect the finance policy of the firm. The implication is that, as the size of the firm increases through an enhanced asset base, so does the proportion of debt in the overall capital of the SME.

5.2.4 Effect of firm Growth on Financing Structure of Women-Led SMEs

With respect to growth, the findings indicated that, firm growth both at the bivariate and the combined model level had no effect of the debt equity ratio. The null hypothesis that firm growth has no effect on finance policy was not rejected with the conclusion that it indeed has a null effect on the debt-equity ratio that reflect the financing structure of the firm. The implication is that the growth rate of the firm had no bearing on the financing structure of the SMEs. The implication is that as the growth of the firm increases through an enhanced sale over successive financial periods, the proportion of debt in the overall capital of the SME remains largely unmoved.

5.2.5 Effect of Cash Flow Structure on Financing Structure of Women-Led SMEs

The summary in table 5.1 also relates to the effect of cash flow structure on the financing structure of the SME. As is indicated, the firm cash flow structure as was shown by the operating cash flow ratio had a positive significant effect on debt equity ratio. The null hypothesis that firm cash flow structure has no effect on financing structure is rejected with the conclusion that, it indeed has a positive effect on the debt-equity ratio that reflect the financing structure of the SME. The implication is that, as the operating cash flow ratio increases through enhanced cash flows from operating activities, the proportion of debt in the overall capital of the SME also increases. This is possible because with more cash flows from operations, the firm can easily be able to finance the debt obligations. The rejection of the null hypothesis was done at both the bivariate analysis level and the multivariate analysis level.

5.2.6 Effect of Drawings Policy on Financing Structure of Women Led SMEs

The only variable that seemed to have a negative significant effect of the financing structure of the SMEs as reflected in the debt equity ratio was the drawings policy. This is because the findings led to the rejection of the null hypothesis that firm drawings ratio has no effect on financing structure is rejected with the conclusion that, it indeed has a negative effect on the debt-equity ratio that reflect the finance policy of the SME.

The implication is that, as the drawings ratio increases through enhanced drawings from the business, the proportion of debt in the overall capital of the SME decreases. This seems to be related to the fact that, drawings are likely to be more pronounced for firms that build profit levels that positively affect equity and therefore drastically reduce the debt equity ratio. This finding is therefore consistent with those established for the effect of firm size and cash flow structure of the women-led SMEs.

5.2.7 Effect of Quality of Financial Information on Financing Structure of Women-Led SMEs

Quality of financial information available to SMEs is very critical in supporting the soundness of the resultant financial policy and other decisions made by the SMEs. At the

heart of quality financial information lies the sub-qualities of relevance, reliability, understandability and time series as well as cross sectional comparability of information. From the summary indicated in table 5.1, it can be seen that, quality of financial information had a positive effect on the financing structure of the women led SMEs. Accordingly, the null hypothesis that firm quality of financial information has no effect on financing structure is rejected with the conclusion that it indeed has a positive effect on the debt-equity ratio that reflect the financing structure of the firm. The implication is that, as the quality of financial information of the firm increases through an enhanced accounting policy, so does the proportion of debt in the overall capital of the SME.

5.3 Conclusions

The conclusion made in this study relates to the effect of the various financial determinants on the financing structure of the women led SMEs. These are outlined in the ensuing sub-sections.

5.3.1 Effect of Firm Size on Financing Structure

Firm size has a positive effect on financing structure. This implies that large firms are more likely to have higher proportions of debt in their financing than smaller firms. This further implies that, large SMEs enjoy financial economies of scale and thereby can access cheaper debt in the market than the small undercapitalized SMEs.

5.3.2 Effect of Firm Growth on Financing Structure

SMEs' growth rate has no significant effect on the financing structure of women-led SMEs in Kenya. In a nutshell, firm growth is irrelevant in the determination of the financing structure. This is especially true when the time consideration for the growth potential is short up to three years. This is possible because within a short period of time, the growth potential is not only limited, but so is the ability to redefine and reshape the financing structure of the firm under consideration. It is conceivable that, over a long period of time, the growth rate in the size of the firm is likely to affect the financing structure of the firm.

5.3.3 Effect of Firm Cash Flow Structure on Financing Structure

Cash flows are one of the important variables that determine the long term survival of a firm. This is especially the case for operating cash flows because they relate to the core business of a business organization. The conclusion from the findings of this study is that cash flow structure as defined by the operating cash flow ratio has a positive effect on the debt equity ratio used to indicate the financing structure of the women-led SMEs. SMEs with high proportions of operating cash flows are seen to have a high ability of relying on debt for their financing needs. This is particularly true because it is easier to service debt obligations when a firm can access high amounts from operations than from financing activities.

5.3.4 Effect of Firm Drawings Policy on Financing Structure

The penultimate conclusion from the study is that drawings policy as shown by the drawings ratio has a negative effect on financing structure as indicated by the debt equity ratio. This conclusion can otherwise be stated as follows-firms with higher levels of drawings are characterized with a low debt equity ratio (implying high relative levels of equity when compared to levels of debt). The obvious lesson drawn from the finding is that, firms that have stable equity bases are able to afford high levels of drawings and that small undercapitalized firms are unlikely to have excessive drawings levels simply because they may not have the requisite borrowing capacity and that they may in fact be low profit making or in deed loss making.

5.3.5 Effect of Firm Financial Information Quality on Financing Structure

Ultimately, the study in line with the last objective concludes that the quality of financial information positively affects the financing structure of a firm as indicated by the debt equity ratio. That to make better financing decisions, it is incumbent upon the women-led SMEs to improve the quality of their financial information possibly by employing and deploying competent accounting and internal audit departments. The conclusion from the study is that, as the relevance, reliability, understand-ability and comparability of financial

information increases, so is the ability to make high quality decisions with respect to the debt-equity mix to be used by a firm.

5.4 Recommendations

Various recommendations can be drawn from the study. Firstly, it is recommended that efforts must be made to grow the size of women-led SMEs given that, their financing structure is dependent on their size and that large SMEs are capable of accessing outside cheap finance especially debt when compared to small firms whose access to capital is largely limited to equity from the owners of the firm. Perhaps the government can adopt strategies to help the sector to grow in size through such programmes as supportive regulatory environment, tax holidays and tax exemptions. Facilitating access to credit on cost friendly terms is also a way that the women- led SMEs can be assisted to enhance their sizes and thereby increase their capacity to benefit from financial and other economies of scale. Other strategies to improve size could be mergers, acquisitions and joint ventures. The strategies are likely to help the women-led SMEs to move through the higher growth phases of the company life cycles.

The second recommendation is that since growth of firms especially in the very short term has no effect on financing structure, the SMEs must make efforts to divorce financing decisions from the growth potential of the firm. This recommendation only applies for a short run period up to three years that was covered in this study. In the long term, deeper analysis may be required to check if the growth potential may require tinkering with the existing financing structure.

Thirdly, it is recommended that firms structure their financing structure in line with the cash flow patterns they expect to experience. They should strive to derive majority of their net cash flows from operating activities if they wish to rely more on debt in their long term financing than equity. This is because operating cash flows are sustainable into the long term future yet financing cash flows may be transitory and dependent on the short term financing programmes drafted by the women-led SME.

Lastly, it is recommended that women-led SMEs should structure their drawings policy to reflect their financing needs. A reliance on the residual dividend policy is one way of ensuring that this is possible. In the residual dividend policy, drawings are only to be made once all the other investing and operating needs of cash flows of the firm have been made. This policy is likely to benefit the firm given that drawings have a negative effect of the financing structure of these kind of SMEs.

5.5 Areas for Further Research

Several recommendations for further study are made in line with the limitations experienced in this study. Firstly, the scope of the study was limited to SMEs led by women. This was motivated by the fact that women managers have been shown to have varied managerial success rates from their male counterparts. It is recommended that, a study be done along the same lines with this one but with a different focus. It could focus on all SMEs regardless of the gender of the managers or it could involve a cross sectional comparison of the women led and the male led SMEs.

The other limitation of the study emanated from the limited time of 3 years over which the growth of the firms was evaluated. It is recommended that a study be done to focus on a longer period of study say 5 to 10 years. Over such a time, pronounced growth patterns could be expected and it is likely to provide results that may vary from those reflected by this study. This could allow for observation of time series models and rely on panel data evaluation that could provide more robust findings than those reflected in the study.

In addition, the study was limited in scope to five independent variables of size, growth cash flow structure, drawings policy and quality of financial information. An alternative study could choose a different set of equally important variables such as firm age, firm financial performance and perhaps quality of the managerial team. Further, this study did not take into account the effect of a moderating variable. It may be worthwhile to use a moderator or intervening variable like employee base firm age, industry type or financial objectives to check if the moderating effect would be statistically significant.

Lastly, this study focused on SMEs. It may be interesting to have a similar study done for large establishments in various industry segments. The findings could provide room to compare the determinants of the financing structure of SMEs with those of large firms like for instance those listed at the Nairobi Securities Exchange.

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APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

I am Saad Minado Okwiri a PhD candidate at the Jomo Kenyatta University of Agriculture and Technology. As part of the requirements for the award of the degree, I am carrying out a study to evaluate the “Influence of Financial determinants of Financing Policy among Women-Led Small and Medium Size Enterprises in Kenya”. I humbly request you to participate in this study through your assessment of quality of financial information at the disposal of these type of companies. This is in addition to supplying secondary data as requested in the secondary data collection sheet attached on the questionnaire.

The findings of the study will be used only purely for academic purposes and will therefore be treated with utmost confidentiality. Your anonymity and the confidentiality of your responses will be fully protected. The completed questionnaire will be securely stored and made available only to my project supervisors and me. The results will be contained in the thesis that will be available at the Jomo Kenyatta University of Agriculture and Technology library in Juja. It is also hoped that, aspects of the results will be published in aggregate in various professional and academic journals. Should you have any need for clarifications kindly contact me or the College of Human Resource Development at JKUAT.

Thank you.

Yours faithfully,

Minado Saad Okwiri

Appendix II: Research Questionnaire

1. Firm Identity _____

2. For how long has your firm been in operation

A1. 0-3 years []

A2. 4-6 years []

A3. 7-9 years []

A4. 10 years and over []

3. To what extent do you agree with the following statements with respect to the relevance of the financial information for decision making as provided by the financial records you have in your business. Tick (✓) in the appropriate box.

S/N	Statement	Strongly Agree	Agree	Not	Disagree	Strongly
i.	The information reported in the financial records of the firm has a capacity to greatly influence the financing decisions we make					
ii.	The firm accountants provide financial reports on a timely basis to facilitate our financial decision making					
iii.	We rely on the financial information provided in the financial records to make long term financing budgets.					

iv.	We always compare the current with the previous financial accounts while making financial decisions					
v.	The financial statements provide useful explanatory notes on the financial numbers reported					
vi.	We on average have very relevant financial information we use for financing decision making					

4. To what extent do you agree with the following statements with respect to the reliability of the financial information for decision making as provided by the financial records you have in your business. Tick (✓) in the appropriate box.

S/N	Statement	Strongly	Agree	Not	Disagree	Strongly
i.	The management of the firm do not unduly influence the reports provided by the accountant					
ii.	The firm usually provides credible accounting information in financial reports					
iii.	The firm places great value on the economic value of financial information reported					

iv.	All material information are reported in the financial report of the business					
v.	The firm actively discourages manipulation of accounting reports					
vi.	Annual financial statements of the firm are largely accurate with scarcely any misrepresentations					
vii.	The accounting team is highly qualified and competent					
viii.	The firm seriously takes the recommendations of external auditors and fully implements them					

5. To what extent do you agree with the following statements with respect to the understandability of the financial information for decision making as provided by the financial records you have in your business. Tick (✓) in the appropriate box.

	Statement	Strongly	Agree	Not	Disagree	Strongly
i.	The firm has a standardized format of presenting financial reports					
ii.	The accounting reports is accompanied by understandable explanatory notes					

iii.	The firm's financial reports are fully guided by International Financial Reporting Standards					
iv.	The firm's financial reports are fully guided by legal stipulations of the Companies' Act					
v.	The financial reports of the business are very simple to understand					
vi.	On the overall, financial information available for decision making is very understandable					

6. To what extent do you agree with the following statements with respect to the comparability of the financial information with other similar firms for decision making as provided by the financial records you have in your business. Tick (√) in the appropriate box.

Code	Statements	Strongly	Agree	Not	Disagree	Strongly Disagree
i.	The firm ensures a consistent format of reporting is used over all accounting periods					
ii.	The firm fully complies with regulatory demands when presenting financial information					
iii.	The firm fully complies with legal demands when presenting financial information					
iv.	The firm relies on consistent accounting policies over successive accounting periods					

v.	Financial statements of the firm are comparable to other similar firms					
vi.	It is generally easy to compare financial reports of the firm with other similar firms					

Appendix III: Secondary Data Collection Sheet

	Sales (sh)	Loans	Owner's Capital	Drawings	Total Assets	Operating cash flows	Total Cash flows
2017							
2016							
2015							