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**EFFECT OF CAPITAL STRUCTURE ON FINANCIAL  
PERFORMANCE OF SMALL TIERED DEPOSIT TAKING  
SAVINGS AND CREDIT COOPERATIVES SOCIETIES IN  
NAIROBI COUNTY**

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NAIROBI COUNTY**

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**Abstract**

**Purpose:** The study is focused to determine the effects of capital structure on financial performance of small tiered deposit taking savings and credit cooperatives societies (DTS) in Nairobi County.

**Methodology used:** systematic review research design. It involved the evaluation of relevant studies that address the dependent and independent variables using specific criteria.

**Major findings and conclusions:** The reviewed studies indicated that a conceptual framework gap exists. Empirical literature does not offer conclusive results on the nature of relationship between capital structure and financial performance. In addition, the studies were conducted for other prior periods and in other markets presenting a contextual gap.

**Unique contribution to theory, practice and policy:** The study used the pecking order theory to put forth the preference of external funds (debt) over internal funds (equity), in making capital structure decisions, in addition to the trade-off theory, which indicated to mutual exclusivity of debt and equity financing decisions. The study will be beneficial to deposit taking SACCOs in Kenya to adopt capital structure strategies to sustain consistent superior financial performance. The models developed from this study will aid the regulatory institutions that regulate DTS in Kenya to develop policies on Capital structure. The study will add new knowledge on capital structure and financial performance of DTS

**Key words:** *Capital Structure, Financial Performance, Small Tiered DTS*

## INTRODUCTION

Savings and Credit Cooperative Societies (SACCOS) are voluntary associations or cooperative financial institution owned and controlled by their members and operated for the purposes of promoting saving, providing credit at low interest rates and providing other financial services to its members (Waweru, 2011). Members regularly pool their savings, and subsequently may obtain loans which they may use for different purposes. Largely, the idea behind establishment of SACCOS is to promote savings and make credits available to the members. SACCOS are the important micro-financing institutions for mobilization of financial resources for various development activities. The modern co-operative concept started in 1844 in Rochdale village, Manchester, England. It has since developed globally as a social and economic movement with its own distinct identity, history and purpose. (Tache, 2006). This was an early consumer co-operative, and one of the first to pay a patronage dividend, forming the basis for the modern co- operative movement.

World over, systems in these organizations vary from slightly to significantly in terms of total system assets, average institutions' asset price and regulatory control. This ranges from volunteer operations with a few members' organizations to the institutions with several billion asset value. The members who hold accounts in the SACCOS are at the same time the owners, and they conduct their voting mandate on the one member-one vote basis irrespective of the members' shareholding. This means that only the members of these institutions can deposit and borrow from them (Mumanyi, 2014). In promotion of financial inclusion and financial deepening SACCOS worldwide recently have experienced major financial innovation in their effort of offering financial services to the marginalized persons and middle-income earners. This has been highly embraced in countries like Colombia, India, Brazil and USA (Duguma & Han, 2018).

In Africa, cooperative societies are characterized by the intrinsic values and principles on which they are founded. They are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. The end product of these co-operatives is to attain the high living standards of its members (Mumanyi, 2014). The financial innovations in SACCOS are of much importance more so to Africa in its fight against poverty as enshrined in sustainable development goals. Africa contribute to 48 percent of poverty level worldwide (Omilola & Lerven, 2019). Since African SACCOS are members owned, they need to finance themselves without relying on grants and donor funding which are not fully sustainable (Tumwine, 2015).

In Kenya, the idea of SACCOS date back to 1908 when the first cooperative society was established as a dairy cooperative. In the early 1930, enough societies had been registered which were predominantly marketing oriented and auxiliary focus e.g., Kenya cooperative Creameries (KCC-1925), Kenya Planters Co-operative Union (KPCU- 1923) and Kenya Farmers Association (KFA-1923). The organizations were originally registered as companies and only became registered as cooperatives in 1931 when the first cooperative ordinance was promulgated. In 1975, the government recognized cooperatives as vital organs for mobilizing material, human and financial resources for national development.

Kenyan SACCOs have been in the forefront in Africa and ranked 11th position globally (WOCCU, 2018). The sector consists of Deposit Taking Savings and Credit Co-operative Societies (DT-SACCOs) and non-Deposit Taking Savings and Credit Co-operative Societies Mugo (2018). SACCOs that offer back office services activities are supervised by the Commissioner for Co-operatives. Additionally, those that offer front office services activities are licensed and regulated by SASRA but they have to be fully registered under the Cooperative Societies Act CAP 490. A 6.3 percent of Kenyans are members of DT-SACCOs which employ over 250,000 people and over 60 percent of the population depends on SACCO related activities (FinAccess, 2016). They also contribute by 45 percent to the Kenya's gross domestic product. The asset base of these societies has grown from Kshs 442 billion in 2017 to Kshs 627.68 billion in 2020. The total deposits portfolio increased to Kshs 431.46 Billion in 2020 from Kshs 380.44 Billion recorded in 2019, representing a 13.41% growth rate compared to a growth rate of 11.27% recorded in the previous year (SACCO Supervision Annual Report (2020)

Firm's financial performance is a particular firm's ability to generate new resources from day to day operations over a given period (Bora, 2008). It involves enhancing shareholders' wealth and profit making which are among the major objectives of a firm (Pandey, 2005). Literature employs a number of different measures of firm performance to test agency cost hypotheses. These measures include; financial ratios from balance sheet and income statements (e.g., Demsetz and Lehn 1985, Gorton and Rosen 1995, Mehran 1995, Ang, Cole, and Lin 2000), stock market returns and their volatility (e.g., Saunders, Strock, and Travlos 1990, Cole and Mehran 1998) and Tobin's q, which mixes market values with accounting values (e.g., Morck, Shleifer, and Vishny 1988, McConnell and Servaes 1990, Mehran 1995, Himmelberg, Hubbard, and Palia 1999, Zhou 2001). The principal parameters for measuring performance of financial institutions such as SACCOs, that mobilize deposits and issue credit facilities include their total assets, total deposits, gross loans, allowance for loan losses and core capital (SASRA, 2020).

Capital structure refers to the source of funds for organizations. SACCOs must ensure that their capital structure is sufficient, not only to sustain them against the environmental impact, but also to steer forward their growth and development. SACCOs Savings mobilization should be backed by adequate institutional capital which ensures permanency, provide cushion to absorb losses and impairment of members' savings (Evans, 2001). The capital structure of the SACCOs comprises members' shares and debt capital, savings/deposits and retained surpluses, (Maina, 2007). In fact, it helps the SACCOs to grow and remain economically and financially viable (Gijssels & Devetere, 2007).

### **Equity and financial performance**

Equity refers to the owners' funds invested in a business. It incorporates share capital, retained earnings and reserves. It's the core capital of a SACCO. Core capital means the fully paid up members' shares, capital issued, disclosed reserves, retained earnings, grants and donations all of which are not meant to be expended unless on liquidation of the SACCO society, (Republic of Kenya, 2008) and has the following requirements; -



(a) Core capital of not less than ten million (10,000,000)

(b) Ratio of Core capital to total assets of not less than ten percent (10%)

$$(C.C.A) = C.C/\text{total assets}=10\%$$

(c) Institutional Capital to Total Assets of not less than eight percent (8%). (I. C.A = I.C/total assets= 8%)

(d) Core capital of not less than eight percent (8%) of the total deposits (C.C.D) = C.C/total deposits = 8%.

### **Debt and financial performance**

Debt and firm's performance decisions have remained the most crucial interesting issues among financial analysts and scholars for years on end. According to (Banafa, Muturi, Ngugi 2015), debt is one of the key components of capital structure decisions, and therefore it is necessary for firm's management in developing countries to examine the benefits and threats before incurring debt for their operations. Debt is one sources for generating funds for financing business operations and the decisions made by both the financial manager and management can positively have an impact on firm performance through the acquisition of assets and expansion of their activities. Moreover, the decision on debt can increase the firm profit depending on the company activities or have a negative impact on performance due to default payment of borrowed funds. The ratios of short-term liabilities, long-term liabilities, and total liabilities to total assets are used as proxies for debt. (Nguyen & Nguyen 2020).

### **Liquidity and financial performance**

Liquidity remains the key criteria for monitoring, evaluating and measuring the financial performance, soundness and stability of DT-SACCOs. This is in addition to Capital adequacy, asset quality and earnings (Ngui & Jagongo 2017). Liquidity is measured in terms of current ratio (Mwatu and Abdul 2018).

### **Firm size and financial performance**

Firm size is one of the areas that has received little attention and hence less researched despite its ability to moderate the Capital Structure versus performance relation and it is viewed as a significant factor that can affect the firm's relation with its external environment. The role of larger firms is more critical in corporate environment as they have more capability to influence their stakeholders. It is imperative to consider firm size's moderation effect while studying the relationship between Capital structure and financial performance (Mouhammed, Farooq, & Waheed, 2016)

### **Financial performance**

The prosperity and growth of a firm are largely dependent on the financial performance. Financial performance is the overall financial wellbeing of an institution. It is an indication of managerial competence and operational efficiency, credit worthiness, return on investments, profits of the business and return on assets (Rahman, 2014).

### **Small-tier Deposit Taking SACCOs in Kenya**

The Kenya's financial sector consists of the Deposit-taking institutions, the non-deposit taking institutions, the financial market infrastructure, the informal financial service providers and the Financial Regulators. The deposit-taking financial institutions segment consists on the one hand, of the Commercial Banks, the Mortgage Refinance Companies, and the Microfinance Banks which are all regulated by the CBK; and on the other hand, of the DT SACCOs which are regulated by SASRA. Commercial banking institutions continue to be the dominant segment of the deposit-taking financial sector of the economy followed by the SACCO subsector, and the Microfinance Banks in that order in terms of total assets, total deposits, as well as gross loans and advances. This study will focus on small –tiered deposit taking SACCOs that have been licensed by SASRA to carry out deposit taking business for the year 2020. They are 99 in number. The principal parameters for measuring performance of financial institutions such as SACCOs, that mobilize deposits and issue credit facilities include their total assets, total deposits, gross loans, allowance for loan losses and core capital.

DT-SACCOs are categorised into three (3) categories based on their total asset sizes. These are the large-tiered DT-SACCOs whose total assets are in excess of Kshs 5 Billion; the medium-tiered DT-SACCOs whose total assets are between Kshs 1 Billion and Kshs 5 Billion; and the small-tiered DT-SACCOs whose total assets are below the Kshs 1 Billion threshold. (SASRA Annual supervision report ,2020). This study seeks to find out the relationship between capital structure and financial performance of small tiered DT- Saccos in Nairobi County in Kenya.

### **Statement of the Problem**

Kenya's SACCO sector is the largest in Africa and is a key player in the provision of financial services access to Kenyans. They spur economic growth through mobilization of savings from members and advancement of credit to their members (WOCCU, 2020). The importance of the subsector to the economy is evidenced by their inclusion in the Kenya Vision 2030 economic blueprint as drivers of economic growth (Republic of Kenya, 2007). It has been established that 6.3 percent of Kenyans are members of DT-SACCOs which employ over 250,000 people and over 60 percent of the population depends on SACCO related activities. They also contribute by 4.5 percent to the Kenya's gross domestic product (FinAccess, 2016). However, the small-tiered DT-SACCOs experienced a decline in the average year to year net assets growth (Market share) from 2016 to 2020, with an average growth rate of 8.94% in 2016, 7.78% in 2017, 9.88% in 2018, 5.52% in 2019 and 5.21% in 2020. This shrinking, has reduced the market share of the small tiered DT-SACCOs which has impaired their competitiveness and sustainability (SASRA, 2020).

The literature has shown that financial performance of DTS is affected by its capital structure (Salim & Yadav, 2012). It has been established that small-tiered SACCOs have been unable to successfully carry out their mandate due to lack of sufficient internal funds, high cost of debt, and under capitalization (Mwende & Kalio, 2014; Kivuvo & Olwenyi, 2014; Onyango, 2016). Mwatu and Abdul (2018) established that the capital structure of DTSs is crucial for

their success. Capital structure is critical to the success of every organization, including DT-SACCOs as it influences the attainment of its objectives and goals. Management of SACCOs has a responsibility of determining the optimal mix of debt and equity that will ensure maximization of members' wealth. A way measuring the quality of a financing decision is to examine its effect on financial performance (Njeri & Kagiri, 2015).

Olando (2012) observed that capital structure, as a financial practice significantly contributes to growth of SACCOs in Meru County, Kenya. The study focused on rural, urban and transport saccos and studied periods between 2005 and 2009, during which period, the SACCOS were under the regulation by commissioner of cooperatives. This study proposes to study small-tiered DT saccos in Nairobi after SASRA became the regulator. It will use quantitative data to minimise bias.

Various empirical studies have been undertaken to determine the nature of the relationship between capital structure and financial performance. Most of the studies have produced mixed results. Shibusse, Kalunda and Achoki, (2019), established that the level of debt has a significant and negative effect on financial performance of DTS in Kenya. These findings were consistent with many studies conducted in Nigeria (Imoter, Richard, 2018), in Indonesia (Paminto, Setyadi, Sinaga, 2016, Siddik, Kabiraj, & Joghee, 2017), in Vietnam (Nguyen and Nguyen 2020), but contradict the findings of studies conducted in Bangladesh (Parvin, Hussain & Mohiuddin, 2020), Nigeria (Ganiyu, Adelopo, Rodionova & Samuel 2019). Murkomen, Njeje and Cheron (2017) noted that capital structure has a positive effect on financial performance of DTS in Kenya. According to Khan (2012), the contradictions in findings can be attributed to benefits of tax shields, cost of borrowing versus costs of issuing equity, research methodologies and measures of financial performance. Different scholars have given different definition and measures of financial performance. Some academicians measure performance by using the total market value of a firm or the sum between the market value of stocks, or economic value added and value of equity options (Nakhaei, & Jafari, 2015); Merz & Yashiv, 2007). Other scholars consider market capitalization to be too limited in defining a firm's performance and they prefer to include the value of the firm's operational assets (Mehran, 1995; Ang, Cole, & Lin, 2000; Allen, Carletti, Marquez, 2007), while other scholars have adopted accounting based measurements to indicate firm's performance. These accounting based measurements include return on assets, return on equity and Tobin's Q measures (Mwaniki, Oluoch and Ndambiri, 2018; Gitagia, 2020; Ngui, Jagongo, 2017). Consequently, the empirical findings of the study suggest different effects of capital structure on performance. This study will be accounting based measures i.e. return on assets as an indicator of financial performance.

In light of the gaps set out in the preceding paragraphs and the value of DTS in the economic development, there remain unresolved issues on the relationships between the study variables in context of small tiered DTS in Nairobi County Kenya. This study seeks to fill the existing gap and establish the moderating effect of size of SACCO on relationship between Capital Structure and financial performance of small tiered DTS in Nairobi County, Kenya.

### **Significance of the study**

The information acquired from this study will be useful to policy-makers both in the government, such as SASRA, and Deposit Taking SACCOs, in strengthening policy considerations with regard to capital structure and financial performance. This will be handy in enhancing the guidelines on how to improve the performance and effectiveness of SACCOs in an effort to enhance their efficiency for the benefit of the members. Information on the use of financial resources and their influence on the financial performance of SACCOs will be useful in ensuring prudent investment and efficiency in the management of the members' Assets. This may also improve efficiency in financial practice of SACCOs wealth. This may lead to members' satisfaction and trust in the SACCOs and hence increased share contribution.

The scholars and academicians will also benefit from the study findings as it will provide information on successful strategies of capital structure management in order to enhance financial performance and maximisation of members' wealth and also identify areas of further research. It will benefit them by providing relevant information as they interrogate SACCOs financial performance in Kenya.

### **Scope of the study**

The study examines the relationship between the capital structure and financial performance in small-tiered deposit taking SACCOs in Kenya. The capital structure has been conceptualised in the following aspects Equity, Debt and Liquidity. On Financial performance, the study will evaluate return on assets, which is measured as Net income divided by Total Assets. It involves a review of the financial statements of a sample of the 30 licensed small-tiered DT SACCOs in Nairobi County, in Kenya for a period of 5 years from 2016 to 2020.

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **Agency Theory**

SACCOs' management boards run SACCOs so as to maximise returns to members. This theory subtly puts forth the relationship between the principal and their agents. Agency theory (Jensen & Meckling, 1976) can be used to explain how the relationship between SACCO members and management boards can be harnessed to address SACCOs' financial performance. The importance of agency theory in explaining the financial performance of organizations is influenced by simply reducing an organization into two participants, the managers (agents) and the shareholders (principals), and also the notion of human beings as self-interested parties (Daily, Dalton & Canella, 2003).

#### **Market Timing Theory (MTT)**

Market timing theory (MTT) as proposed by Baker and Wurgler (2002) postulates that capital structure evolves as the cumulative outcome of past attempts to time the equity market. It argues that when a firm needs external financing, managers must be opportunistic (this is



behavioural). They should issue equity when the cost of equity is relatively low (high stock price) and issue debt when the cost of equity is relatively high (low stock prices). It is therefore the managers' expectation to time the equity markets to establish the rightful opportunity to guide their behaviour – in terms of decision to be made. In this case the theory supports the financial managers to make security issuance decisions based on cost of equity capital and cost of debt capital (Ritter & Huang 2008). This theory anchors the general objective of the study.

### **Pecking Order Theory**

Pecking order theory by Myers and Majluf (1984) argues that there is preference for internal funds over external funds and a preference of issuing debt over issuing equity. These are decisions by individual firms. It further argues that retained earnings are better than debt and debt is better than equity. In this study the pecking order theory encourages debt financing. In fact, the internal financing is preferred to external financing. The theory supports the suggestion that debt is cheapest and most attractive of the external sources of capital. In this light, the pecking order theory anchors the second and third objective of the study. This theory touches on the managerial behaviour in decision making as well as the importance of the right information at hand whilst making decisions (Consciousness on the part of management). This is applied in the sense that when the firm's projects/investments are undervalued by the market, managers would prefer to finance its projects using internal finances until the market finally understand the value of the project and adjusts accordingly. If the internal funds are sufficient to finance the projects, debt may be considered to raise the funds. On the flipside, if the manager is of the opinion that the firm's projects are overvalued by the market, they will tend to issue new shares at an overvalued price to take advantage of this scenario. By this argument, the theory anchors the dependent variable.

### **Trade off Theory**

Trade off theory as postulated by *Kraus and Litzenberger (1973)*, has been applied in this study as it puts forward that in a world full of market friction, leverage brings in tax benefits due to interest deductibility of pre-tax earnings, but at the risk of potential bankruptcy. In this study, trade off theory encourages borrowing for the firm to enjoy the tax advantages associated with debt interest. This is a behavioural approach as it encourages firms to gain from the tax advantage in debt financing. The debt decision is taken by the managers. Managers must make financing decisions by making a trade-off between tax benefits and risks of bankruptcy. The trade-off theory anchors the moderating variable and the independent variable in this study.

### **Empirical Review**

Berger (2002) conducted a study to test a new approach of corporate governance theory in testing the influence of capital structure on firm performance in the banking industry in the US. It was realized that the banking industry is consistent with the theory. The results were statistically significant, economically significant and robust. This study proposes to test the influence of capital structure on Financial performance of Small-tiered SACCOs in Kenya.

Karago and Okibo (2014) studied the financial factors influencing performance of SACCOs - fund misappropriation, investment decisions, loan default and SACCO's members' withdrawals and found out that investment decisions made by SACCOs influences their performance and hence should invest in prudent projects. However, the extent to which investment affect the performance was not studied. However, the study did not consider other financial management decisions such as capital structure. This study proposes to look at the relationship between capital structure and financial performance, and the moderating effect of size of SACCO.

Siddik, N., Kabiraj, J., & Joghee, S. (2017) studied Impacts of capital structure on performance of banks in a developing economy, Bangladesh. The study showed that capital structure inversely affects bank performance. The performance was measured in terms of Returns on assets and earnings per share. This study seeks to fill the contextual gap by studying impact in the context of Kenya.

Chang, Wang, Lee, and La (2014) studied the relationship between financial structure and performance of non-financial companies listed on Ho Chi Minh Stock Exchange in Vietnam from 2007 to 2011. This period covers the time before, during and after the global economic crisis. The paper measured financial performance by ROA, ROE, and Tobin's Q (calculated by the market price of equity plus book value of liabilities divided by total assets) and MBVR (market to book value ratio). Financial structure is measured by the ratios of short-term debt, long-term debt, and total debt to total assets. Control variables are firm size, ratio of fixed assets to total assets, and corporate income tax rate. It employed FEM, REM and OLS regression techniques and Hausman test to select FEM model to conclude on the relationship between capital structure and performance which indicated a negative correlation between debt (including short-term debt, long-term debt and total debt) and ROA. Firm size is statistically significant and positively related to ROA in all forms of capital structure. A negative relation exists between the ratio of fixed assets to total assets and ROA. I. Having ROE as a measure of business results, the research reported that the ratios of short-term debt and total debt to total assets are negatively related to ROE, while long-term debt is insignificant to ROE. The results of this study contradicts the pecking order theory on preference of debt over equity.

Gathara (2019), observes that leverage, liquidity and owners' equity has positive and significant effect on financial performance and that the use of various components of financial structure jointly enhanced the financial structure's power to explain the variations in financial performance of firms listed in the Nairobi Securities Exchange. The focus of the study was on firms listed on the NSE, this study seeks to fill a contextual gap by focusing on the small tiered DTS

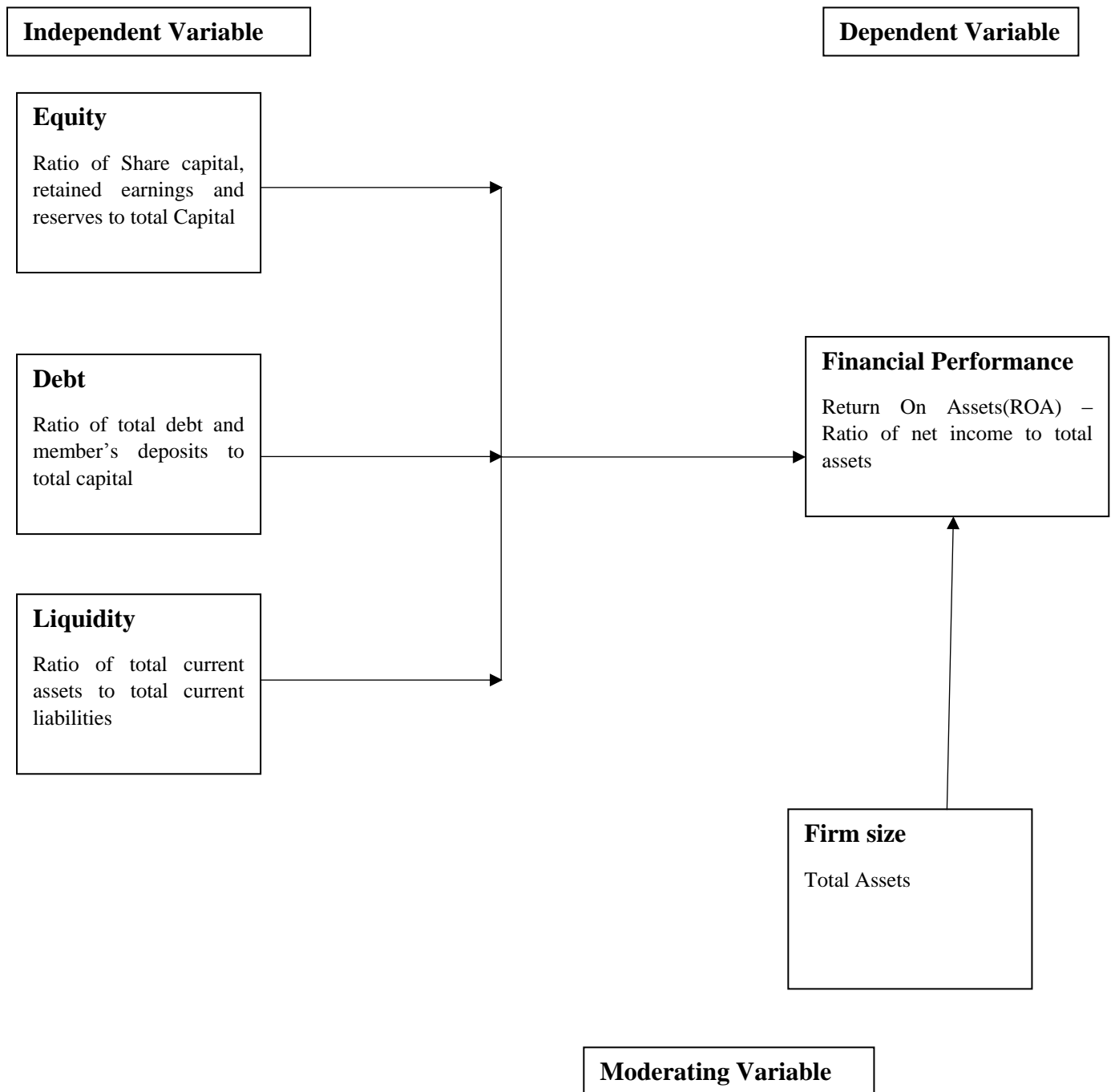
Paminto, Setyadi and Sinaga (2016) conducted a study to analyse the effect of capital structure on profitability and firm value of oil palm plantation companies in Indonesia. The research revealed that capital structure negatively and significantly influence profitability and firm value. The study conceptualised capital structure in terms of debt-equity ratio. It failed to consider the impacts of liquidity and size of company on financial performance. The study

revealed a conceptual and contextual gaps which this study seeks to fill by studying the influence of capital structure on financial performance of small-tiered SACCOs in Kenya.

Olando (2012) conducted a study to assess financial practice as a determinant of growth of SACCOs' wealth in Meru County, Kenya. The study conceptualizes capital structure as an indicator of financial practice. It also concentrated on SACCOs in Meru County only. The study used primary data from filled questionnaires. It focused on rural, urban and transport SACCOs and studied periods between 2005 and 2009, during which period, the SACCOs were under the regulation by Commissioner of Cooperatives. The results indicated that growth of SACCOs wealth significantly depend on capital structure. This study proposes to study small-tiered DT SACCOs in Nairobi after SASRA became the regulator in 2010. It will use quantitative data to minimise bias. This study seeks to fill the methodological gap by using secondary data, to minimise bias, from sampled small-tier deposit taking SACCOs in Nairobi County, Kenya. It also seeks to fill conceptual and contextual gaps by studying the influence of capital structure on Financial performance of small-tiered DT-SACCOs in Nairobi County, Kenya.

### **Conceptual Framework**

Conceptual framework brings out a representation of how variables are related to each other in this study as perceived by the researcher. It thus distinguishes the study variables into different classes, the dependent, independent (or explanatory), the intervening and moderating variables. The concept of this study is as expressed in Figure 1.



*Fig 1 Conceptual Framework. (Source: Researcher, 2022)*

The dependent variable in this study is the financial performance of small-tier DT Saccos in Kenya. It has been indicated by return on total assets. In this study, the independent variable is capital structure indicated by Equity, debt, and Liquidity. This was arrived at with the argument that when SACCOs in Kenya attain the right capital structure, they tend to post better financial performance sustainably. Financial performance of the SACCOs in Kenya would be reported by SASRA. The moderating variables refer to those factors that may either support or hinder the relationship between the independent and dependent variables. In this case SACCO size is a moderating variable in the relationship between capital structure and growth of SACCOs.

## **METHODOLOGY**

The researcher adopted a systematic review research design. It involved the evaluation of relevant studies that address the research variables using specific criteria (capital structure and financial performance). Secondary data on published studies, reports and statistics was available in journals and library.

## **RESULTS**

### **Conceptual Gap**

Shibutse, Kalunda and Achoki, (2019), (Imoter, Richard, 2018), (Paminto, Setyadi, Sinaga, 2016, Siddik, Kabiraj, & Joghee,2017), (Nguyen and Nguyen 2020) established that the level of debt has a significant and negative effect on financial performance. These studies contradict the findings of studies conducted by (Parvin, Hussain & Mohioddin, 2020), (Ganiyu, Adelopo, Rodionova & Samuel 2019), Murkomen, Njeje and Cherono (2017) that noted that capital structure has a positive effect on financial performance. According to Khan (2012), the contradictions in findings can be attributed to benefits of tax shields, cost of borrowing versus costs of issuing equity, research methodologies and measures of financial performance.

### **Contextual Gap**

(Imoter, Richard, 2018), (Paminto, Setyadi, Sinaga, 2016, Siddik, Kabiraj, & Joghee,2017), (Nguyen and Nguyen 2020) (Parvin, Hussain & Mohioddin, 2020), (Ganiyu, Adelopo, Rodionova & Samuel 2019) conducted the studies in other geographical regions This presents a geographical and contextual gap. Examining the Kenyan market will provide conclusive results.

## **RECOMMENDATIONS AND CONCLUSION**

The study will be of great importance to DTS in Kenya to adapt optimal capital structure strategies that maximises their financial performance, which leads to greater members and stakeholders returns. In addition, these DTS will provide more stable employment owing to their sustainable financial performance thereby contributing positively to the country's Gross Domestic product (GDP). The models developed on capital structure will aid DTS regulatory government institutions in Kenya in developing policies on effective capital structure management. The study will add new knowledge on capital structure effects on financial performance of small- tiered DTS in Kenya.



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