CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF MICRO-FINANCE INSTITUTIONS IN MOMBASA COUNTY, KENYA

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CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF MICRO-FINANCE INSTITUTIONS IN MOMBASA COUNTY, KENYA

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ABSTRACT

Microfinance institutions play a key role in serving financially excluded demographics where commercial banking may be scarce or entirely nonexistent. However, outreach to the economically disadvantaged in remote geographic regions remains hindered by considerations of financial feasibility. The financial performance of microfinance institutions has been on the decline in the recent past. Most businesses fail resulting from poor financing decisions. To date, the mechanisms behind the positive relationship between capital structure and business performance have received great attention from various scholars. However, empirical studies examining the effect of capital structure on firm performance have yielded mixed conclusions. The purpose this quantitative correlational study was to examine the effect of capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. Specifically, the study sought to examine the effect of short-term debt capital structure, long-term debt capital structure, short-term equity capital structure and long-term equity capital structure on performance of microfinance institutions in Mombasa County, Kenya. The theoretical framework is anchored on the capital irrelevance theory, pecking order theory, and the trade-off theory. The study employed the correlational, cross-sectional survey research design to test non-causal relationships among study variables. The target population consisted of 56 branch managers and 56 operations managers of the 56 microfinance institutions in Mombasa County, Kenya. The proportionate stratified random sampling technique was utilized to select a sample size of 44 branch managers and 44 operations managers of 44 microfinance institutions. The unit of analysis consisted of the microfinance institution, while the unit of observation consisted of the branch manager and operations manager. A pilot study was conducted to ascertain the validity and reliability of the constructed survey questionnaire. The pilot trial sample size of 16 branch managers and 16 operations managers of 16 microfinance institutions in Mombasa County, Kenya. The pilot study results suggested that the items in the developed survey questionnaire passed the validity test and reliability test. A cross-sectional survey-based approach was used to collect primary data. With the help of 3 research assistants, the researcher utilized the drop and pick method to distribute a total of 88 survey questionnaires. Out of the 88 survey questionnaires distributed, only 75 usable survey questionnaires were received. Therefore, there was a valid response rate of 85.2%, which was sufficient for data analysis and reporting purposes. The collected data were processed and entered into the statistical

package for social sciences (SPSS) version 26 to create a data sheet used for statistical analysis. The collected data was analyzed using descriptive statistics and inferential statistics. The Pearson's product moment correlation analysis was performed to confirm or deny the relationship between the study variables. The Pearson's correlation results showed that short-term debt capital structure, long-term debt capital structure, short-term equity capital structure and long-term equity capital structure had positive and significant relationship with the financial performance of microfinance institutions in Mombasa County, Kenya. A standard multiple linear regression analysis was performed with financial performance as the dependent variable and short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure as the predictor variables. The regression results indicated thatshort-term debt capital structure, long-term debt capital structure, short-term equity capital structure and long-term equity capital structure had positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Based on the research findings, the authors offer valuable recommendations to companies, investors, business leaders, and policymakers to make informed decisions in selecting an optimal and sensible capital structure.

Key Terms: *Capital Structure, Debt Capital Structure, Equity Capital Structure, Financial Performance*

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INTRODUCTION

Capital structure is one of the most critical issues for companies. Capital structure is the mixture of funding sources, both debt and equity, that a business utilizes to fund its operations (Sunandar & Sugiarti, 2023). Capital structure can also be referred to as the composition of different securities used by a company to finance its investment activities (Kofi, 2021). The capital structure of an enterprise is essentially a combination of many types of capital related to the variety of debt and equity that the company applies in its corporate activities (Khatima, Haeruddin, & Sahabuddin, 2023). In general, a firm's capital structure places emphasis on a mixture of debt and equity financing. The capital structure is the blend of debt financing and equity financing by a firm (Mehzabin, Shahriar, Hoque, Wanke, & Azad, 2023). Based on the concept in corporate finance, the capital structure is understood not only to include debt and equity but is made up of a variety of debts and a variety of equity capital and convertible bonds of the company (Huong, 2023).

In the context of Vietnam, Cuc, Vinh, Anh, Thuy, and Trinh (2023) examined the influence of capital structure on profitability of listed companies in Vietnam Stock Market. The capital structure was measured by the ratios of total debt to assets, short-term debt to assets, and long-term debt to assets. In contrast, profitability was measured by return on equity. The findings showed that short-term debt-to-asset ratio and total debt-to-asset ratio had positive and significant influence on the profitability of listed companies. In contrast, the results indicated that the long-term debt-to-asset ratio had a negative and significant influence on the profitability of listed companies. The findings showed positive shocks in capital structure increases the profitability of companies, while negative shocks in capital structure decrease the profitability of companies.

In the South Korean context, Kim, Jung, and Kim (2023) examined the influence of capital structure on the profitability performance of information and communication technology (ICT) firms. The results indicated that capital structure had a positive and significant effect on the profitability performance of

ICT firms. The research suggested that large companies can employ external capital more efficiently since they have the resources, financial stability, and professional know-how to manage risks.

In the Nigerian context, Anozie, Muritala, Ininm, and Yisau (2023) examined the influence of capital structure on financial performance of oil and gas firms. The findings showed that while long-term debt to total assets had a negative significant influence on return on assets, short-term debt to total assets and total debt to total equity had positive insignificant influence on return on assets. The study recommends that managers of oil and gas companies should reduce the amount of long-term debt, because long-term debt to total assets has a negative effect on financial performance.

In the Kenyan context, Kwena*et al.* (2023) examined the influence of capital structure and financial performance of micro-finance institutions (MFIs) in Kenya. The results indicated that shareholders equity financing and retained earnings financing had a statistically significant influence on financial performance of MFIs. However, the findings indicated that deposit financing had an insignificant influence on financial performance of MFIs.

In Kiambu County, David and Njogu (2023) examined the effect of credit financing on financial performance of small and medium enterprises (SMEs) in Thika Town. The findings indicated that trade credit had a significant effect on financial performance of SMEs. Additionally, the results showed that bank credit and micro-finance credit had a significant effect on financial performance of SMEs.

Microfinance institutions (MFIs) contribute greatly to the economic growth. The MFIs offer financial services to the poor in the society and people who cannot afford commercial bank services (Okech & Njeri, 2023). The MFIs supply banking services to supposedly poor families and micro enterprises (Makena, Kambura, & Mugoche, 2023). The microfinance services have continued to play an important role in Kenyan economy (Menganyi, Abayo, & Muraguri, 2023). However, the MFIs have been posting dwindling performances as evidenced by increase in the levels of loan default rates standing and financial losses (Nyabiba & Kimani, 2023). In Kenya, the MFIs have continued to experience fluctuating financial performance (Odongo, 2022).

Statement of the Problem

Despite the importance and reforms in the growth of MFIs in Kenya, MFIs have reported poor financial performance (Menganyi*et al.*, 2023). The MFIshave been posting dwindling performances as evidenced by increase in the levels of loan default rates standing and financial losses (Nyabiba & Kimani, 2023). Most businesses fail resulting from poor financing decisions (Anozie *et al.*, 2023; Wu *et al.*, 2023). Selecting an incorrect capital structure could result in a company experiencing financial difficulties and, ultimately, bankruptcy (Ahmed *et al.*, 2023). Equally, the capital structure choices can lead to the failure of the business or result in financial distress (Kofi, 2021). When making decisions, managers may lack understanding of the relationship between the capital structure practice and financial performance (Ahmed *et al.*, 2023).To date, the mechanisms behind the positive relationship between capital structure and business performance have received great attention from various scholars (Nguyen *et al.*, 2023). However, some studies suggest that although the capital structure is significantly related to business failure, such a relationship has been inconclusive (Kalash, 2023; Hasan, Wahid, Amin, & Hossain, 2023).

Many scholars have concluded that the relationship between capital structure in a business and its financial health is not clearly defined (Anozie *et al.*, 2023). The general business problem is that lack of understanding of the relationship between capital structure practice and financial performance leads managers to make erroneous financing decisions that could lead their businesses into economic difficulties. The specific business problem is the poor financing decisions by managers of micro-finance

institutions resulting from the lack of understanding of the relationship between capital structure practices and financial performance. An understanding of the relationship between the prevailing capital structure and financial performance could assist managers of businesses in avoiding their firm falling into financial distress through improved financing decisions (Kofi, 2021). There was a lack of research regarding the relationship that may exist between capital structure and financial performance of microfinance institutions in Mombasa County, Kenya.

Research Objectives

The general objective of this study was to examine the effect of capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The specific objectives were;

- To determine the effect of short-term debt capital structure on financial performance of microfinance institutions in Mombasa County, Kenya.
- To establish the effect of long-term debt capital structure on financial performance of microfinance institutions in Mombasa County, Kenya.
- To assess the effect of short-term equity capital structure on financial performance of microfinance institutions in Mombasa County, Kenya.
- To examine the effect of long-term equity capital structure on the financial performance of microfinance institutions in Mombasa County, Kenya.

The study tested four null hypotheses;

- $H_0$1: Short-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.
- $H_0$2: Long-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.
- $H_0$3: Short-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.
- $H_0$4: Long-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

LITERATURE REVIEW

Theoretical Framework

The theoretical framework was anchored on the capital irrelevance theory, pecking order theory, and the trade-off theory. The theories guided the research question to ascertain the relationship between capital structure practice and financial performance.

Capital Irrelevance Theory

The capital irrelevance theory (Barley & Myers, 1932; Eisenhardt, 1989; Jensen & Meckling, 1976) posits that capital structure has no effect on financial distress (Akash*et al.*, 2023). The theory posits that the market value of the businesses does not rely on its capital structure (Ahmed *et al.*, 2023). The irrelevance proposition theorem (Modigliani & Miller, 1958) is a corporate capital structure theory that posits that financial leverage has no effect on the value of a company (Abate & Kaur, 2023). The theory proposes that that financial distress is affected by the mixture of business risk resulting from the cost of capital and earning opportunities based on the return on assets, not how the business is finance (Akbar, Khan, Haq, & Khan, 2023). The theory posits that the combination of debt and equity doesn't affect the firm value but the market must be perfect (Hegde, Masuna, Panda, & Kumar, 2023).

Pecking Order Theory

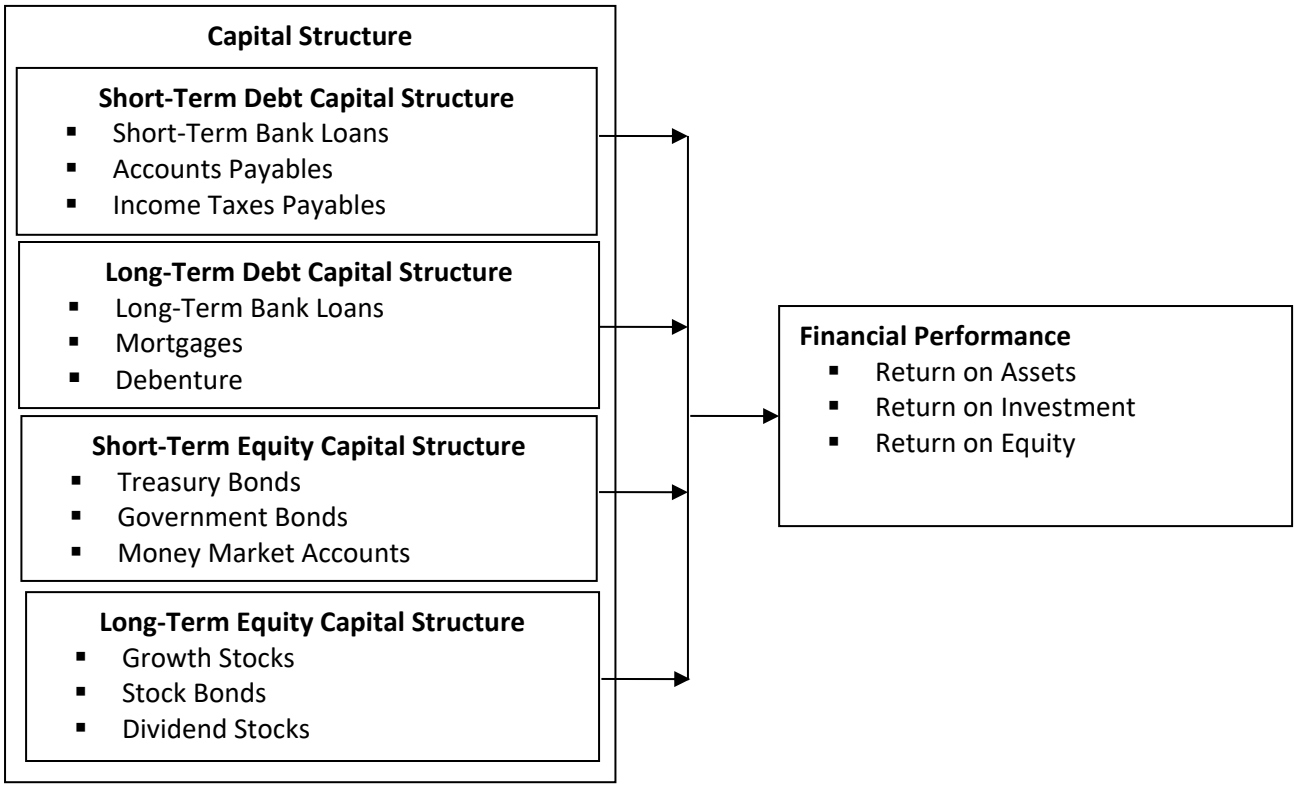
The pecking order theory (Donaldson, 1961; Myers, 1984; Myers & Majluf, 1984) posits that businesses prefer to employ the lowest cost source of funding in their capital structure decisions (Kofi, 2021). The theory suggests that businesses prefer to utilize internally generated funds when available to finance

capital projects (Yulianto & Witiastuti, 2023). The pecking order theory proposes that when internal funds are inadequate or not available, firms employ other external sources of funding, starting with the source of funds with the lowest cost towards the ones with higher costs (Jansen, Michiels, Voordeckers, & Steijvers, 2023). Therefore, the pecking order theory postulates that businesses choose debt funding over equity funding, choosing first low-risk debt followed by high-risk debt before considering equity funding (Oktaviyanti&Sumartik,2023). The pecking order theory implies that the greater use of external funding negatively influences the value of the company with the resultant risk of financial distress (Sulistianingsih & Santi, 2023).

Trade-OffTheory

The trade-off theory (Jensen & Meckling, 1976; Kraus & Litzenberger, 1973; Modigliani & Miller, 1958) posits that there is an inverse relationship between profitability and the firm's debt (Kofi, 2021). The trade-off theory provides that interest on debts, which are tax-deductible, provides the advantage of tax savings in the form of extra cash, increasing the value of the levered firm (Esghaier, 2023). The trade-off theory (Selem, Sinha, Khalid, Raza, & Shahidul Islam, 2023) provides for an optimal financing mix based on a trade-off of the mix between the benefits of debts and the cost of debts (Le *et al.*, 2023). The trade-off theory provides for an optimum debt ratio that the firm must attain or maintain (Selem, Sinha, Khalid, Raza, & Shahidul Islam, 2023). The trade-off theory suggests that although there are benefits associated with the leverage of a firm, the leverage increases the agency cost associated with the business emanating from the conflicting relationship between the managers, shareholders, and debt holders (Abbana & Marimuthu, 2023).

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Empirical Review

This section presented the empirical review relevant to the study. In the Nigerian context, Anozie *et al.* (2023) examined the influence of capital structure on financial performance of oil and gas firms. The results showed that the long-term debt to total assets had a negative significant influence on return on assets. However, the findings indicated that the short-term debt to total assets and total debt to total equity had positive insignificant influence on return on assets.

In the context of Vietnam, Cuc *et al.* (2023) examined the influence of capital structure on profitability of listed companies in the Vietnam Stock Market. The results showed that short-term debt-to-asset ratio and total debt-to-asset ratio had positive and significant influence on the profitability of listed companies. However, the findings indicated that the long-term debt-to-asset ratio had a negative and significant influence on the profitability of listed companies.

In the Ghanian context, Arhinful*et al.* (2023) examined the influence of capital structure on the financial performance of financial institutions. The results showed that short-term debt to total assets had a positive and significant influence on the financial performance of financial institutions. The findings indicated that long-term debt to total assets had a negative and significant influence on the financial performance of financial institutions.

In the South Korean context, Kim *et al.* (2023) examined the influence of capital structure on the profitability of ICT firms. The findings indicated that capital structure had a positive and significant effect on the profitability performance of ICT firms. The results revealed that large companies can employ external capital more efficiently since they have the resources, financial stability, and professional know-how to manage risks.

In the Kenyan context, Kwena *et al.* (2023) examined the influence of capital structure on financial performance of MFIs in Kenya. The results showed that retained earnings financing had a statistically significant influence on financial performance of MFIs. Additionally, the findings revealed that shareholders equity financing had a statistically significant influence on financial performance of MFIs. Nevertheless, the results showed that deposit financing had an insignificant influence on financial performance of MFIs.

In the Chinese context, Nguyen *et al.* (2023) analyzed the relationship between capital structure and firm profitability in the Vietnamese Listed Companies. The results showed that there was a negative relationship between long-term debt and profitability of listed firms. Furthermore, the findings showed that short-term loan had a positive effect on the firm profitability in the context of Vietnam. The preliminary findings negated some previous research, confirming that the higher the leverage, the better the profitability of listed firms.

METHODOLOGY

Research Philosophy: The study is anchored on the positivist research philosophy. The positivist research philosophy regards the world as made up of observable and measurable facts and assumes that there is an objective reality out there (Ma & Xie, 2023).

Research Design: The study employed the correlational, cross-sectional survey research design to test non-causal relationships among variables without controlling any of the variables. This is a non-experimental quantitative research design in which two or more variables are measured at one time point and the statistical relationships among the variables are assessed without controlling or manipulating any of the variables (Bell, Harley, & Bryman, 2022).

Target Population: The target population consisted of 56branch managers and56operations managers of the 56microfinance institutions in Mombasa County, Kenya. This was as per the Association for Micro-finance Institutions (AMFI, 2022)'s database as at 31st December, 2022. The unit of analysis consisted of the microfinance institution, while the unit of observation consisted of the branch manager

and operations manager. Table 1 presents the target population.

Table 1: Target Population

Strata	Target Population	Percentage
Branch Managers	56	50%
Operations Managers	56	50%
Total	**112**	**100%**

Source: The Association for Micro-finance Institutions (AMFI, 2022)

Sampling Frame: Sampling frame is the complete and correct list a listing of the accessible population from which the sample is drawn (Saunders, Lewis, & Thornhill, 2023). The sampling frame consisted of the list of 56 microfinance institutions in Mombasa County, Kenya. This was as per the Association for Micro-finance Institutions (AMFI, 2022)'s database as at 31st December, 2022.

Sample Size and Sampling Techniques: This section presents the sample size and sampling techniques.

Sample Size: Sample size is the number of elements carefully selected from a given target population to represent it (Suddaby, Silverman, Jaskiewicz, De Massis, &Micelotta, 2023). The sample size was calculated based on the Yamane (1967)'s formula at 0.05 level of significance or 95% confidence level, in order toverify that the sample size is sufficiently large.

$$n = \frac{\mathrm{N}}{1 + N(e)^2}$$

Where:
n = Sample Size
N = Target Population
e = Level of Precision
Based on the Yamane (1967)'s formula at 0.05 level of significance or 95% confidence level, the sample size was calculated as:

$$n = \frac{112}{1 + 112(0.05)^2}$$

Therefore, with a target population of 56 branch managers and 56 operations managers of 56 microfinance institutions, the minimum recommended sample size consisted $n = 88$ of 44 branch managers and 44 operations managers of 44 microfinance institutions in Mombasa County, Kenya.

Sampling Techniques: The proportionate stratified random sampling technique was utilized to select a sample size of 44 branch managers and 44 operations managers of 44 microfinance institutions from a target population of 56 branch managers and 56 operations managers of the 56 microfinance institutions in Mombasa County, Kenya. The proportionate stratified random sampling technique is a probability sampling technique that allows researchers to obtain a sample size that best represents the target population in which the sample size of each stratum is proportional to its share in the population (Bellet al., 2022).

Data Collection Methods: A structured survey questionnaire was utilized to collect primary data. The self-administered structured survey questionnaire was anchored on a 5-point Likert scale. A structured survey questionnaire allows researchers to collection of primary data from a relatively large sample in an economic way and facilitates quantitative analysis, testing of hypothesis, and drawing of conclusions (Akpan, 2022).

Data Collection Procedures: Before embarking on data collection, the researcher obtained a letter of introduction from JKUAT - Mombasa CBD Campus. The letter of introduction was presented to the 44 branch managers and 44 operations managers of 44 microfinance institutions in Mombasa County, Kenya. A permit to conduct research was obtained by the researcher from the National Commission for Science, Technology and Innovation (NACOSTI).

Across-sectional survey-based approach was used to collect primary data. With the help of 3 research assistants, the researcher utilized the drop and pick method to distribute a total of 88 survey questionnaires to the 44 branch managers and 44 operations managers of the sampled 44 microfinance institutions in Mombasa County, Kenya. The drop and pick method offer promise for reducing non-coverage error and the low cost-per-completion makes the self-administered survey technique an economical method of surveying large samples (Saunders *et al.*, 2023). Confidentiality was assured to the respondents in a letter that accompanied each the self-administered survey questionnaire. A continuous follow up on responses was made.

Pilot Study: A pilot study was conducted to ascertain the validity and reliability of the constructed survey questionnaire. The pilot trial sample size of 16 branch managers and 16 operations managers of 16 microfinance institutions in Mombasa County, Kenya. Scholars opine that at least 30 representative participants from the target population of interest provides a reasonable minimum recommendation for a pilot study (Marais et al., 2022; Panuccio et al., 2022). However, the respondents in the pilot study were not be included in the main study. Existent literature posits that the participants in the pilot study should not be entered into the full-scale study (Saunders et al., 2023).

Data Processing and Analysis: Data processing and analysis was conducted with respect to the research objectives. Data processing was conducted prior to the data analysis. The collected data was checked for accuracy, completeness and consistency. The data was coded, edited, and entered into the Statistical Package for Social Sciences (SPSS) version 26 to create a data sheet that was used for statistical analysis.

Descriptive analysis of the collected data was conducted to compute, summarize the data in respect to each variable, and describe the sample's characteristics. The descriptive analysis was performed using SPSS software (IBM SPSS Statistic 26). Descriptive analysis aims at summarizing distributions and describing a set of data on factors of the study (Bell*et al.*, 2022). The descriptive statistics, such as percentages, frequencies, means, and standard deviations were used to compute, summarize the data in respect to each variable, and describe the sample's characteristics. The employment of descriptive statistics provides reliable explanatory information on the relationship between the variables understudy (Saunders *et al.*, 2023).

The Pearson's product moment correlation analysis was performed to confirm or deny the relationship between the study variables. The correlation analysis was conducted to determine the nature and the strength of the linear relationship between short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, long-term equity capital structure and financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's product moment correlation analysis is performed to determine the nature and the strength of the linear relationship between the variables (Bell*et al.*, 2022).

A standard multiple linear analysis was performed with financial performance as the dependent variables and short-term debt capital structure, long-term debt capital structure, short-term equity capital structure and long-term equity capital structure as the independent variables. Multiple regression analysis is by far the most widely used in the business and social sciences to explore all types of dependence relationships (Hair Jr *al.*, 2022). The multiple regression analysis provides a means of objectively assessing the magnitude and direction of each predictor's relationship to its outcome variable (Saunders *et al.*, 2023)

The standard multiple linear regressions model was specified as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad \text{.... Model 1}$$

Where:
Y = Financial Performance
β_0 = Constant Term

X_1 = Short-Term Debt Capital Structure
X_2 = Long-Term Debt Capital Structure
X_3 = Short-Term Equity Capital Structure
X_4 = Long-Term Equity Capital Structure
$\beta_1 - \beta_4$ = Regression Coefficient to be estimated
ε = Stochastic Error Term

Hypotheses Testing: In this study, four null hypotheses were tested at 5% level of significance (α = 0.05; t = 1.960) at a 95% confidence level to statistically help draw acceptable and realistic inferences. Therefore, the decision rule was to reject the null hypothesis H_0if the P ≤ 0.05, and otherwise fail to reject the null hypothesis H_0if the P > 0.05. In hypotheses testing at 5% level of significance (α = 0.05) and 95% confidence level, the decision rule is to reject the null hypothesis H_0if the P ≤ 0.05, and otherwise fail to reject the null hypothesis H_0if the P > 0.05 (Hair Jr *al.*, 2022).

FINDINGS AND DISCUSSIONS

Response Rate

Out of the 88 survey questionnaires distributed, only 75 usable survey questionnaires were received. Therefore, there was a valid response rate of85.2%, which was sufficient for data analysis and reporting purposes. Table 2 presented the response rate results.

Table 2: Response Rate

Strata	No. of Survey Questionnaires Distributed	No. of Survey Usable Questionnaires Received	Response Rate
Branch Managers	44	38	86.4%
Operations Managers	44	37	84.1%
Total	**88**	**75**	**85.2%**

Validity Test Results

This section presents the validity test results.

Face Validity Test Results

Face validity was ensured by extensive literature survey on nature of the research problem and strengthened by developing the survey questionnaire based on validated scales. Scholars opine that face validity can be ensured by extensive literature survey on the research problem and developing the data collection instrument based on validated scales (Ishanuddin *et al.*, 2021). For face validity test, the researcher shared the constructed survey questionnaire with an expert panel of 5 judges in the strategic management field to judge whether, on the face of it, the measure seems to reflect the concept concerned. Existent literature posits that for face validity test an expert panel of judges in the field of study is recruited to judge whether, on the face of it, the measure seems to reflect the concept concerned (Cocchi *et al.*, 2023). The results suggested that constructed survey questionnaire passed the face validity test. The feedback from the expert panel of judges was used to refine the structure and layout of the constructed survey questionnaire.

Content Validity Test Results

For the content validity test, the researcher shared the constructed survey questionnaire with an expert panel of 5 judges in the finance and accounting field to judge whether, the measure seemed to cover all relevant parts of the construct it aims to measure. With content validity test, an expert panel of judges in the field of study may be employed to judge whether, subjectively, the measure seems to cover all relevant parts of the construct it aims to measure (Masoud & Mosli, 2023). The responses from the expert panel of judges were used to refine the structure and layout of the constructed survey questionnaire. The feedback from the expert panel of judges was used to establish the percentage representation using the content validity index. The content validity test results indicated that the content validity index was 0.940and the congruency percentage was 94.0%, suggesting acceptable content validity. Table 3 presents the content validity test results.

Table 3: Content Validity Test Results

Variable	No. of Items	Content Validity Index	Congruency Percentage	Decision
Short-Term Debt Capital Structure (X_1)	3	0.940	94.0%	Valid
Long-Term Debt Capital Structure (X_2)	3	0.938	93.8%	Valid
Short-Term Equity Capital Structure (X_3)	3	0.933	93.3%	Valid
Long-Term Equity Capital Structure (X_4)	3	0.948	94.8%	Valid
Financial Performance (Y)	3	0.939	93.9%	Valid
Entire Scale	**15**	**0.940**	**94.0%**	**Valid**

Construct Validity Test Results

For construct validity test, factor analysis with varimax rotation was performed using SPSS package software version 26 for data reduction to detect the factor structure in the observed variables. However, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and the Bartlett's test of sphericity were conducted prior to the extraction of the constructs to determine the appropriateness of the data for factor analysis. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity are conducted prior to the extraction of the constructs to determine whether a variable is suitable for factor analysis (Shah*et al*, 2023).

From the results, the KMO measure of sampling adequacy was 0.826, greater than the threshold of 0.7, while the Bartlett's test of sphericity was significant (Approx. Chi-Square = 517.248; df = 6; $p \leq 0.001$), signifying appropriateness of the data for factor analysis. The rule of thumb is that a KMO value of greater than 0.8,an associated significant Bartlett's test of sphericity with a p-value of ≤ 0.05, and an anti-image correlation statistic of greater than 0.6 indicates that the data is suited for factor analysis (Bell *et al.*, 2022; Obilor & Miwari, 2022). Table 4 presented the results of the Kaiser-Meyer-Olkin (KMO) test of Sampling Adequacy and Bartlett's test of Sphericity.

Table 4: Construct Validity Test Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.826
Bartlett's Test of Sphericity	Approx. Chi-Square	517.248
	df	6
	Sig.	0.000

Reliability Test Results

The Cronbach alpha coefficient was calculated to verify the internal consistency reliability. The reliability test results showed that the Cronbach alpha coefficient of the entire scale (15 items) was 0.896, greater than the threshold of 0.7, suggesting acceptable internal consistency reliability. Furthermore, the reliability test results indicated that Cronbach alpha coefficients of the 5 variables were greater than the threshold of 0.7, ranging from 0.881 and 0.893, signifying acceptable internal consistency reliability. The general rule of thumb is that a Cronbach's alpha coefficient of 0.70 or greater indicates acceptable internal consistency reliability (Hair & Alamer, 2022). Table 5 presented the reliability test results of the study variables.

Table 5: Reliability Test Results

Variable	n	No. of Items	No. of Items Deleted	Cronbach's Alpha (α)	Decision
Short-Term Debt Capital Structure (X_1)	30	3	0	.886	Reliable
Long-Term Debt Capital Structure (X_2)	30	3	0	.882	Reliable
Short-Term Equity Capital Structure (X_3)	30	3	0	.884	Reliable
Long-Term Equity Capital Structure (X_4)	30	3	0	.881	Reliable
Financial Performance (Y)	30	3	0	.893	Reliable
Entire Scale	**30**	**15**	**0**	**.896**	**Reliable**

Correlation Analysis Results

The Pearson's product moment correlations analysis was performed to confirm or deny the relationships between the capital structure and financial performance of microfinance institutions in Mombasa County, Kenya. The correlation results indicated that short-term debt capital structure had moderately strong positive and significant relationship with the performance ($r = 0.587$, $p \leq 0.01$) of microfinance institutions in Mombasa County, Kenya. The correlation results showed that long-term debt capital structure had a strong positive and significant relationship with the performance ($r = 0.739$, $p \leq 0.01$) of microfinance institutions in Mombasa County, Kenya. The correlation results indicated that short-term equity capital structure had a strong and positive significant relationship with the performance ($r = 0.722$, $p \leq 0.01$) of microfinance institutions in Mombasa County, Kenya. The correlation results showed that long-term equity capital structure had a strong positive and significant relationship with the performance ($r = 0.715$, $p \leq 0.01$) of microfinance institutions in Mombasa County, Kenya. Table 6 presents the Pearson's product moment correlations analysis results.

Table 6: The Pearson's Product Moment Correlations Results

Variable		X_1	X_2	X_3	X_4	Y
Short-Term Debt Capital Structure(X_1)	Pearson Correlation	1				
	Sig. (2-tailed)					
	n	75				
Long-Term Debt Capital Structure (X_2)	Pearson Correlation	.491**	1			
	Sig. (2-tailed)	.000				
	n	75	75			
Short-Term Equity Capital Structure (X_3)	Pearson Correlation	.318**	.533**	1		
	Sig. (2-tailed)	.005	.000			
	n	75	75	75		
Long-Term Equity Capital Structure (X_4)	Pearson Correlation	.403**	.522**	.502**	1	
	Sig. (2-tailed)	.000	.000	.000		
	n	75	75	75	75	
Financial Performance (Y)	Pearson Correlation	.587**	.739**	.722**	.715**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	n	75	75	75	75	75

**. Correlation is significant at the 0.01 level (2-tailed).

Multiple Linear Regressions Analysis Results

A standard multiple linear regression analysis was performed with financial performance as the dependent variable and short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure as the predictor variables. The standard multiple linear regression analysis, $\alpha = .05$ (two-tailed), was conducted to examine the extent to which, if any, of the linear combination of short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure predict the performance of microfinance institutions in Mombasa County, Kenya. The null hypothesis was that the linear combination of short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure does not significantly predict the performance of microfinance institutions in Mombasa County, Kenya. The alternative hypothesis was that the linear combination of short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure significantly predict the performance of microfinance institutions in Mombasa County, Kenya.

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Model Summary

The standard multiple linear regression results showed that the model as a whole was able to significantly predict the variance in the performance, $F (4, 74) = 73.429$, $p < 0.001$, $R^2 = 0.808$, of microfinance institutions in Mombasa County, Kenya. From the model summary table, the value of coefficient of correlation (R) was 0.899, while the value of coefficient of determination (R^2) was 0.808and the value of the adjusted R^2 was 0.797. Furthermore, the value of the Std. Error of the Estimate was0.171and the Durbin-Watson statistic was 2.173. The R^2 value of 0.808suggested that the overall model (the model involving constant, short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure) could significantly predict and explain approximately 80.8% of the variance in the financial performance of microfinance institutions in Mombasa County, Kenya.

The Adjusted R Square value of 0.797suggested that the overall model (the model involving constant, short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure) predicted approximately 79.7% of the variance in the performance of microfinance institutions in Mombasa County, Kenya. The Std. Error of the Estimate value of 0.171suggested that there were other factors not included in the model in the current study that could also predict the remaining 20.3% of the variance in the financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, future research should be conducted to discover the other variables not included in the model in the current study that also predict the remaining variance in the financial performance of microfinance institutions in Mombasa County, Kenya. From the model summary table, the Durbin-Watson test statistic had a value of 2.173, falling within the optimum range of 1.5 to 2.5, suggesting that there was no severe autocorrelation detected in the in the residual values in the datasets. Extant literature posits that the Durbin-Watson statistics falling within the optimum range of 1.5 to 2.5 indicate that there is no severe autocorrelation detected in the in the residual values in the datasets (Hair *et al.*, 2020; Hair & Alamer, 2022).

Table 7 presented the standard multiple linear regression's model summary results.

Table 7: The Standard Multiple Linear Regression's Model Summary[b] Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.899[a]	.808	.797	.171	2.173

a. Predictors: (Constant), Long-Term Equity Capital Structure (X_4), Short-Term Debt Capital Structure (X_1), Short-Term Equity Capital Structure (X_3), Long-Term Debt Capital Structure (X_2)
b. Dependent Variable: Financial performance (Y)

Analysis of Variance

From the Analysis of Variance (ANOVA) table results, the overall multiple regression model (the model involving constant, short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure), achieved a high degree of fit, as reflected by $R = 0.899$, $R^2 = 0.808$, adj. $R^2 = 0.797$, $F (4, 74) = 73.429$, $p < 0.001$. The results suggested that the model as a whole was able to significantly predict the financial performance of microfinance institutions in Mombasa County, Kenya. The results led to the rejection of the null hypothesis that the linear combination of predictor variables (short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure) does not significantly predict the financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the linear combination of predictor variables (short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure) significantly predicted the

financial performance of microfinance institutions in Mombasa County, Kenya. Table 8 presents the standard multiple linear regression's ANOVA results.

Table 8: The Standard Multiple Linear Regression's ANOVA[a] Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.591	4	2.148	73.429	.000[b]
	Residual	2.048	70	.029		
	Total	10.639	74			

a. Dependent Variable: Financial performance (Y)
b. Predictors: (Constant), Long-Term Equity Capital Structure (X_4), Short-Term Debt Capital Structure (X_1), Short-Term Equity Capital Structure (X_3), Long-Term Debt Capital Structure (X_2)

Regressions Coefficients

From the coefficients table, when the unstandardized regression coefficients (B) were substituted to the multiple regression model specified for the study, the final predictive equation was:

$$Y = 1.274 + 0.128X_1 + 0.170X_2 + 0.187X_3 + 0.201X_4$$

From the final predictive equation, holding all factors in to account constant (short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure, constant at zero, financial performance would be 1.274. The final predictive equation suggested that with all other factors held constant, a unit increase in short-term debt capital structure would lead to 0.128unit increase in the financial performance of microfinance institutions in Mombasa County, Kenya. Moreover, the final predictive equation suggested that with all other factors held constant, a unit increase in long-term debt capital structure would lead to 0.170 unit increase in the financial performance of microfinance institutions in Mombasa County, Kenya.

The final predictive equation suggested that with all other factors held constant, a unit increase in short-term equity capital structure would lead to 0.187unit increase in the financial performance of microfinance institutions in Mombasa County, Kenya. In addition, the final predictive equation suggested that with all other factors held constant, a unit increase in long-term equity capital structure would lead to 0.201unit increase in the financial performance of microfinance institutions in Mombasa County, Kenya. Based on the magnitude of the unstandardized regression coefficients (B) of the independent variables, the long-term equity capital structure, was the best predictor of the value of in the financial performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that short-term debt capital structure had a positive and significant effect on the financial performance ($\beta_1 = 0.211$; $t = 3.438$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Additionally, the regression results indicated that long-term debt capital structure had a positive and significant effect on the financial performance ($\beta_2 = 0.293$; $t = 4.173$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Moreover, the regression results showed that short-term equity capital structure had a positive and significant effect on the financial performance ($\beta_3 = 0.346$; $t = 5.310$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Additionally, the regression results indicated that long-term equity capital structure had a positive and significant effect on the financial performance ($\beta_4 = 0.304$; $t = 4.618$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. From the coefficients table, it is also clear that the tolerance values were greater than 0.1, while the variance inflation factors (VIF) values were less than 10, indicating that there was no multicollinearity among the predicator variables (Hair *et al.*, 2020). Table 9 presents the standard multiple regression coefficients results.

Table 9: The Multiple Regressions Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1.274	.157		8.141	.000		
	Short-Term Debt Capital Structure (X_1)	.128	.037	.211	3.438	.001	.729	1.371
	Long-Term Debt Capital Structure (X_2)	.170	.041	.293	4.173	.000	.560	1.787
	Short-Term Equity Capital Structure (X_3)	.187	.035	.346	5.310	.000	.646	1.547
	Long-Term Equity Capital Structure (X_4)	.201	.044	.304	4.618	.000	.636	1.574

a. Dependent Variable: Financial Performance (Y)

Hypotheses Test Results

In total, four null hypotheses were tested. The $H_0$1, $H_0$2, $H_0$3 and $H_0$4 were tested at 95% confidence level, $\alpha = 0.05$, and $t = 1.960$ to statistically help draw acceptable and realistic inferences. Therefore, the decision rule was to reject the null hypothesis H_0iif the $P \leq 0.05$, and otherwise fail to reject the null hypothesis H_0iif the $P > 0.05$. In hypotheses testing at 5% level of significance ($\alpha = 0.05$) and 95% confidence level, the decision rule is to reject the null hypothesis H_0iif the $P \leq 0.05$, and otherwise fail to reject the null hypothesis H_0iif the $P > 0.05$ (Hair & Alamer, 2022).

Hypothesis One Test Results

The first null hypothesis ($H_0$1) predicted that showed that short-term debt capital structure has no significant effect on the financial performance of microfinance institutions in Mombasa County, Kenya. The decision rule was to reject the null hypothesis $H_0$1if the $\beta_1 \neq 0$, $t \geq 1.960$, $P \leq 0.05$, and otherwise fail to reject the null hypothesis $H_0$1if the $\beta_1 = 0$, $t < 1.960$, $P > 0.05$. The standard multiple regression results showed that short-term debt capital structure had a positive and significant effect on the financial performance ($\beta_1 = 0.211$; $t = 3.438$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Consequently, the $H_0$1 was rejected, providing the empirical support for $H_1$1. Therefore, conclusion was made that short-term debt capital structure have significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

Hypothesis Two Test Results

The second null hypothesis ($H_0$2) predicted that long-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The decision rule was to reject the null hypothesis $H_0$2if the $\beta_2 \neq 0$, $t \geq 1.960$, $P \leq 0.05$, and otherwise fail to reject the null hypothesis $H_0$2if the $\beta_2 = 0$, $t < 1.960$, $P > 0.05$. The standard multiple regression results revealed that long-term debt capital structure had a positive and significant effect on the financial performance ($\beta_2 = 0.293$; $t = 4.173$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Consequently, the $H_0$2 was rejected, providing the empirical support for $H_1$2. Therefore, conclusion was made that long-term debt capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

Hypothesis Three Test Results

The third null hypothesis ($H_0$3) predicted that short-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The decision rule was to reject the null hypothesis $H_0$3if the $\beta_3 \neq 0$, $t \geq 1.960$, $P \leq 0.05$, and otherwise fail to reject the null hypothesis $H_0$3if the $\beta_3 = 0$, $t < 1.960$, $P > 0.05$. The standard multiple regression results indicated that that short-term equity capital

structure had a positive and significant effect on financial performance ($\beta_3 = 0.346$; $t = 5.310$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Consequently, the $H_0 3$ was rejected, providing the empirical support for $H_1 3$. Therefore, conclusion was made that short-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

Hypothesis Four Test Results

The fourth null hypothesis ($H_0 4$) predicted that long-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The decision rule was to reject the null hypothesis $H_0 4$if the $\beta_1 \neq 0$, $t \geq 1.960$, $P \leq 0.05$, and otherwise fail to reject the null hypothesis $H_0 4$if the $\beta_1 = 0$, $t < 1.960$, $P > 0.05$. The standard multiple regression results showed that long-term equity capital structure had a positive and significant effect on the financial performance ($\beta_4 = 0.304$; $t = 4.618$; $p \leq 0.05$) of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0 4$ was rejected and conclusion was made that long-term equity capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Table 10 presented the hypotheses test results.

Table 10: Hypotheses Test Results

Hypothesis		β	t	Sig.	Decision
$H_0 1$:	Short-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.	.211	3.438	.001	Reject the $H_0 1$
$H_0 2$:	Long-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.	.293	4.173	.000	Reject the $H_0 2$
$H_0 3$:	Short-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.	.346	5.310	.000	Reject the $H_0 3$
$H_0 4$:	Long-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.	.304	4.618	.000	Reject the $H_0 4$

Discussions of Key Findings

This section presents a discussion of the key findings of the study. The general objective of this quantitative non-experimental correlational study was to examine the effect of capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. Specifically, the study examined the effect of short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure on financial performance of microfinance institutions in Mombasa County, Kenya.

The Pearson's product moment correlations analysis results indicated that there was a strong positive and significant relationship between capital structure and financial performance of microfinance institutions in Mombasa County, Kenya. The regression results showed that capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The results are consistent with the results of Kim *et al.* (2023) which indicated that capital structure has a positive and significant effect on the profitability performance of firms. Additionally, the results are in line with the findings of Nguyen and Nguyen (2020) which showed that capital structure is negatively related to firm performance. However, the results are inconsistent with the findings of Nguyen *et al.* (2023) which showed that long-term debt and short-term debt has a negative effect on firm's profitability measured by return on equity and return on assets of firms.

additionally, the results are inconsistent with the results of Cuc *et al.* (2023) which showed that long-term debt-to-asset ratio has a negative and significant influence on the profitability of listed companies.

Effect of Short-Term Debt Capital Structure on Financial Performance

The first specific objective was to examine of short-term debt capital structure on performance of microfinance institutions in Mombasa County, Kenya. The first null hypothesis ($H_0$1) predicted that showed that short-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that there was a moderately strong positive and significant relationship between short-term debt capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The regression results showed that short-term debt capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0$1 was rejected, providing the empirical support for $H_1$1. Consequently, conclusion was made that short-term debt capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

The results are in line with the findings of Co *et al.* (2021) which showed that the short-term debt-to-assets ratio had positive effect on profitability. The findings are consistent with the results Kim *et al.* (2023) which showed that capital structure has a positive and significant effect on the profitability performance of firms. Additionally, the results are consistent with the results of previous studies (Shikumou, 2023; Shikumo, Oluoch, & Wepukhulu, 2023) which revealed that short term debt has a positive and significant effect on financial growth measured by growth in market capitalization. However, the results are inconsistent with the findings of Cuc *et al.*, 2023) which indicated that the short-term debt-to-asset ratio has a negative and significant influence on the profitability of listed companies. Moreover, the results are inconsistent with the findings of Nguyen *et al.* (2023) which showed that short-term debt has a negative effect on firm's profitability measured by return on equity and return on assets of firms. Additionally, the results are not in harmony with the findings of Anozie *et al.* (2023) which revealed that short-term debt to total assets and total debt to total equity had a positive but insignificant influence on financial performance.

Effect of Long-Term Debt Capital Structure on Financial Performance

The second specific objective was to establish the effect of long-term debt capital structure on p financial performance of microfinance institutions in Mombasa County, Kenya. The second null hypothesis ($H_0$2) predicted that long-term debt capital structure has no significant effect on performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that long-term debt capital structure had a strong positive and significant relationship with the financial performance of microfinance institutions in Mombasa County, Kenya. The regression results showed that long-term debt capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Consequently, the $H_0$2 was rejected, providing the empirical support for $H_1$2. Therefore, conclusion was made that long-term debt capital structure has a significant effect on performance of microfinance institutions in Mombasa County, Kenya.

The findings are consistent with the findings of Kim *et al.* (2023) which showed that capital structure has a positive and significant effect on the profitability performance of firms. Additionally, the results are consistent with the results of previous studies (Shikumou, 2023; Shikumo*et al.*, 2023) which revealed that long term debt has a positive and significant effect on financial growth measured by growth in market capitalization. However, the results are inconsistent with the findings of Nguyen

et al. (2023) which showed that long-term debt has a negative effect on firm's profitability measured by return on equity and return on assets of firms. The findings are also inconsistent with the results of Cuc *et al.*, 2023) which indicated that the long-term debt-to-asset ratio has a negative and significant influence on the profitability of listed companies. moreover, the results are inconsistent with the findings of Co *et al.* (2021) which showed that long-term debt-to-assets ratio had a negative effect on profitability. Additionally, the results are not in harmony with the findings of Anozie *et al.*, 2023) which revealed that long-term debt to total assets has a negative effect on financial performance.

Effect of Short-Term Equity Capital Structure on Financial Performance

The third specific objective was to examine the effect of short-term equity capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The third null hypothesis ($H_0$3) predicted that short-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that short-term equity capital structure had a strong positive and significant relationship with financial performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that short-term equity capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0$3 was rejected, providing the empirical support for $H_1$3. Subsequently, conclusion was made that short-term equity capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

The findings are consistent with the results Kim *et al.* (2023) that indicated that capital structure has a positive and significant effect on the profitability performance of firms. Additionally, the results are in harmony with the results of Kwena *et al.* (2023) which indicated that shareholders equity financing has a statistically significant influence on financial performance of MFIs. Additionally, the results are consistent with the results of previous studies (Shikumou, 2023; Shikumo*et al.*, 2023) which revealed that share capital has a positive and significant effect on financial growth measured by growth in market capitalization.

Effect of Long-Term Equity Capital Structure on Financial Performance

The fourth specific objective was to assess the effect of long-term equity capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The fourth null hypothesis ($H_0$4) predicted that long-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated long-term equity capital structure had a strong positive and significant relationship with the performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that long-term equity capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0$4 was rejected, providing the empirical support for $H_1$4. Subsequently, conclusion was made that long-term equity capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that long-term equity capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0$4 was rejected, providing the empirical support for $H_1$4. Subsequently, the fourth conclusion was that long-term equity capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The findings are consistent with the results Kim *et al.* (2023) which indicated that capital structure has a positive and significant effect on the

profitability performance of firms. Additionally, the results are in harmony with the results of Kwena *et al.* (2023) which indicated that retained earnings financing has a statistically significant influence on financial performance of MFIs. Moreover, the results are consistent with the results of previous studies (Shikumou, 2023; Shikumo*et al.*, 2023) which revealed that retained earnings as a long-term equity strategy has a positive and significant effect on financial growth measured by growth in market capitalization.

CONCLUSIONS

The purpose of this study was to examine the effect of capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. Specifically, the study examined the effect of short-term debt capital structure, long-term debt capital structure, short-term equity capital structure, and long-term equity capital structure on performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlations results indicated that the capital structure had positive and significant relationship with financial performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that of microfinance institutions in Mombasa County, Kenya had positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Consequently, the conclusion was that capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the study concludes that capital structure influences financial performance favorably in developed countries.

The first specific objective was to examine of short-term debt capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The first null hypothesis ($H_0$1) predicted that showed that short-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that short-term debt capital structure had moderately strong positive and significant relationship with financial performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that short-term debt capital structure had positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0$1 was rejected, providing the empirical support for $H_1$1. Subsequently, the first conclusion was that short-term debt capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

The second specific objective was to establish the effect of long-term debt capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The second null hypothesis ($H_0$2) predicted that long-term debt capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that long-term debt capital structure had a strong positive and significant relationship with financial performance of microfinance institutions in Mombasa County, Kenya. The regression results showed that long-term debt capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Consequently, the $H_0$2 was rejected, providing the empirical support for $H_1$2. Therefore, the second conclusion was that long-term debt capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

The third specific objective was to examine the effect of short-term equity capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The third null hypothesis ($H_0$3) predicted that short-term equity capital structure has no significant effect on financial

performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that short-term equity capital structure had a strong positive and significant relationship with financial performance of microfinance institutions in Mombasa County, Kenya.

The regression results showed that short-term equity capital structure had a positive and significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. Therefore, the $H_0$3 was rejected, providing the empirical support for $H_1$3. Subsequently, the third conclusion was that short-term equity capital structure has a significant effect on financial performance of microfinance institutions in Mombasa County, Kenya.

The fourth specific objective was to assess the effect of long-term equity capital structure on financial performance of microfinance institutions in Mombasa County, Kenya. The fourth null hypothesis ($H_0$4) predicted that long-term equity capital structure has no significant effect on financial performance of microfinance institutions in Mombasa County, Kenya. The Pearson's correlation results indicated that long-term equity capital structure had a strong positive and significant relationship with financial performance of microfinance institutions in Mombasa County, Kenya.

RECOMMENDATIONS

The study provides important managerial recommendations, policy recommendations and areas for future research.

Managerial Recommendations: The study provides significant managerial recommendations. The research recommends that it is imperative for the management of the microfinance institutions to improve the capital structure decisions to foster the financial performance of microfinance institutions. Specifically, the research recommends that it is imperative for the management of the microfinance institutions to improve the short-term debt capital structure, long-term debt capital structure, short-term equity capital structure and long-term equity capital structure decisions to foster the financial performance of microfinance institutions.

Policy Recommendations: The study provides important policy recommendations. The research recommends that it is imperative for the policy makers to consider initiating policy review to encourage the investors and managers to improve the capital structure decisions to foster the financial performance of microfinance institutions. Specifically, the research recommends that it is imperative for the policy makers to review the policy framework to encourage the investors and managers to improve the short-term debt capital structure, long-term debt capital structure, short-term equity capital structure and long-term equity capital structure decisions to foster the financial performance of microfinance institutions.

Areas for Future Research

The study points to several intriguing paths for future research. First, future researchers should consider examining the effect of capital structure on financial performance of microfinance institutions in other regions or contexts. Second, future researchers should consider utilizing the longitudinal survey to examine the effect of capital structure on financial performance a period to time. Third, future researchers should consider examining the moderating effect of firm size on the relationship between capital structure and financial performance in other sectors or contexts.

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