INFLUENCE OF INTERNAL AND LEASE FINANCING ON BUSINESS SUSTAINABILITY OF ENTERPRISES IN KENYA: A CASE OF DAVIS & SHIRTLIFF LIMITED

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ABSTRACT

Enterprises are critical to the sustenance of the Kenyan economy as they are a source of employment for many citizens both the skilled and unskilled workforce. For businesses to maintain their operations, they require finances to meet both the operational and strategic goals. The purpose of the study was to identify the influence of internal and lease financing on sustainability in the long run. The study was guided by four theories namely; pecking order theory, trade off theory, agency theory and the resource based view theory. As a case study, secondary data in the form of the company's financial statements over a period of five years was used. The records the firm being studied were reviewed to understand how it had ensured it remains sustainable within the period studied. This case study was important because it would assist in the understanding on how financing was a direct underlying driver to effective sustainability of a business or otherwise hence, supporting or disapproving the general applicability of the finance theory. Data was collected and analyzed using MS excel where ratio analyses techniques were used to assist in identifying trends. Correlation coefficients were computed to establish whether there exist a relationship between the variables under study. The findings of the study revealed the firm was financed mainly through retained earnings, then trade credit, leases and finally on debt. The correlation coefficient indicated that each of the sources of finances had a positive correlation with each of the independent variables; revenue and profit. The study stresses that liquidity, leverage and profitability ratios should also be considered while determining the sources and amounts of finance as this would assist in identifying whether financing mix adopted is viable. The study concludes that each of the sources of finance is critical in ensuring a company's sustainability. The study recommends that future studies should be done to other firms that are yet to be publicly listed from various industries to establish the sources of finances used and how they influence their sustainability.

Key Words: *internal and lease financing, business sustainability, enterprises, Davis & Shirtliff Limited, Kenya*

INTRODUCTION

Finances refer to all the types of funds that are used in a business. The amounts differ from one firm to another depending on the size, aim and financial requirement of the firm (ACCA Global, n.d.). Business sustainability can be defined as the ability of a firm to continue with its operations in the future which can be measured in the form of revenue and profit. Revenue is the gross inflow of economic benefits arising from the ordinary business activities while profitability refers to the net income after incurring expenses. (ACCA Global, n.d.).

Internal funds refer to the profits that are made by an organization which are reinvested back into the business. In the USA, The choice to use internal funds is as a result of high costs in accessing external sources of finances which include the asymmetric information problems (Stiglitz & Weiss, 1981), low returns from businesses making them unattractive to creditors (Stiglitz, 1985) and limited collateral especially for risky firms (Berger & Udell, 1990). The sustainability of firms exclusively through internal funds limits the corporate decisions to be made by both the publicly traded firms (Carpenter & Petersen, 2002) and the private firms (Haynes & Brown, 2009) as its dependent on the amounts realized.

Leasing of equipment is a method used to finance business assets which are required but do not necessarily need to be owned. The leasing agreement between the lessor and the lessee determines the lease period and also the terms of the lease, like the maintenance of the assets (ACCA Global, n.d.). According to the 2018 Global Leasing Report done to identify the world's top 50 leasing markets, USA, China, United Kingdom, Germany and Japan were respectively identified as the top leaders in the use of lease financing in the year 2016. The report was done for the period 2015 – 2016 where the growth rate in the uptake of the leasing financing in China was the highest amongst all countries at 61.9% (World Clarke Group, 2018). The continuity of a business using lease financing may be dependent on the importance of the asset to the organization and whether it can be substituted or not, the annual turnover of the organization and its ability to cater for the contractual leasing costs, the ability to diversify or deploy the assets internally after leasing and the industry that the firm is operating in (Morais, 2013).

In Africa, loan syndicates is one form of financing used. A loan syndicate refers to an arrangement between two or more banks to provide an individual or group of borrowers a credit facility using similar loan documentation. It is considered to be a better alternative to firms which may want to access huge amounts of finances yet they have no access of the capital market or are not ready to float a public issue (Echekoba & Victor, 2015). In Ghana, the government through the Ghana Cocoa Board (COCOBOD) was able to raise a $2 billion syndicate loan from the private market to help finance the firms in the cocoa industry (Quandzie, 2011). The success and continuity of continued utilization of the loan syndicate is dependent on the ability of the organization to generate enough revenue to pay for the fixed loan charges, which may not always be possible. This heavy financial commitment may result to a business collapsing especially when revenue projections expected do not match the realized amounts (Echekoba & Victor, 2015).

Trade credit is a form of financing which refers to an arrangement with a supplier to offer goods and services without offering immediate payments in either cash or cheques (ACCA Global, n.d.). It is mainly used to finance working capital by either reducing or managing it, which is beneficial in cash flow management (ACCA Global, n.d.). In South Africa, there is a high utilization of the facility amongst firms listed in the Johannesburg Stock Exchange (JSE) where between 2001 and 2010, trade credit formed 68% of total current liabilities and 56% of the total debts of the 92 companies listed (Kwenda & Holden, 2014). This indicates that the continuity of the firms is significantly reliant on the financing model. In Ghana, the use of trade credit in the construction industry is limited due to the information asymmetry, weak legal environment and the weak macroeconomic indicators resulting to weakened growth of the firms within the industry. (Owusu-Manu, Afrane, & Donkor-Hyiaman, 2014).

The use of retained earnings in African countries is key in boosting future earnings of companies and as such, firms should aim at retaining profits instead of distributing it to its stakeholders as identified in the study of the Niger Mills Limited in Nigeria. (Bassey, Edom, & Aganyi, 2016). Also, the use of retained earnings is said to boost the growth level of the firm amongst the Ethiopian firms (Regasa, Fielding, & Roberts, 2017). In Kenya, the decision to hold retained earnings is influenced by the level of debts that a firm holds whereby a firm would decide to use its retained earnings to pay off debt instead of using it for purposes of advancing growth and profitability. (Mulama, 2014).

In Kenya, credit facility from both the financial state corporations and other privately held institutions like banks are an important source of business financing. Industrial and Commercial Development Corporation (ICDC) is an example of a financial state corporation which offers various credit facilities like corporate loans, wholesale loans, asset finance, lines of credit, bridging finance and contract finance to various institutions in various industries since its establishment in 1954 (ICDC, 2019). Banks offer credit facilities similar to those of state corporations and they clearly indicate the terms and conditions of their facilities on their website to encourage customers' uptake for example, the Kenya Commercial Bank (Kenya Commercial Bank, 2019) and NIC Bank (NIC Bank, 2019). The continuity of businesses financed through loans was affected by the amendment of the Banking (Amendment) Bill in 2015 came into effect in 2016 resulting to the introduction of interest rate capping at 4% above the benchmark rate set by the Central Bank of Kenya (Wafula, 2016). As a result of this, banks have become cautious in lending institutions that depended on loans for survival, especially those with high credit risk, resulting to organization like Deacons East Africa, Nakumatt Holdings, Trans Century, Athi River mining and Kenya Airways to either being put under administration or be bailed out by their shareholders (Juma, 2018).

Trade credit financing in Kenya is also prevalent with the facility being utilized by both the public and private institutions. As of September 2015, Nakumatt Holding Limited, Tuskys Limited and Naivas Limited, the leading companies in retail business, owed manufacturers KShs 8billion while the collapsed Uchumi supermarket owed suppliers KShs 3.6billion. As at the end of June 2015, the national government owed contractors and suppliers KShs 111billion while the county governments owed suppliers KShs 37.46 billion in unpaid payments (Herbling, 2016). This indicates that for most of the institutions to run, the use of trade credit is very important and with proper management, organizations can remain operational. However, poor management of trade credit can result to collapse of firms for instance as was reported in 2017 by Nakumatt Supermarket. At the time of its collapse, the retail chain reported a credit balance of between KShs 30 billion and KShs 40 billion (Kimanthi, 2017). This exposed poor management of trade credit facilities in Kenya which was against the Public Procurement and Asset Disposal Act

(2015) that had been enacted to ensure that entities that fail to pay their suppliers on time are penalized (Herbling, 2016) .

According to the Kenya National Bureau of Statistics, the closure rate of licensed Small and Medium Establishment was identified as 46.3% within the first year, 33.7% within year 3 and 5 and 20% between years 6 and 15. The closure was attributed to shortage of operating funds at 29.6%, few customers at 15.3% lack of stock and materials at 6.2%, huge business debts at 2.8% and other various reasons at 46.1% (Kenya National Bureau of Statistics (KNBS), 2017). Furthermore, another key issue attributed to this, was the failure of the firms to solve a big enough problem in the society (Kangethe, 25 May 2018). This meant that there was limited opportunity for the firms to mature and become large enterprises in Kenya. From the aforementioned introduction, the question that plagues the mind is; do type of finances sourced by a company contribute to their sustainability? As such, the study seeks to elucidate whether there exists a relationship between the type of finances available and the sustainability of enterprises.

STATEMENT OF THE PROBLEM

According to Ngugi(2018) manufacturing companies in the year 2018 were named the biggest bank loan defaulters with KShs 6.6billion having been defaulted by the sector. This was supported by Wafula(2016)who indicated that big multinational companies like the Eveready East Africa had closed and this has been partly attributed to lack finances to pay their high debt obligation to the extent that even Tata Chemicals global office was not able to bail out its Kenyan subsidiary. Juma(2018) also confirmed that the Nakumatt Limited a large retail company had collapsed due to its inability to service its bank loans and pay off its trade creditors. This hence raises the question, does the limitation in the type of finances available and the financing model affect the sustainability of the business in the long-run or are there other contributing factors? The study will review how Davis & Shirtliff Limited has been able to finance and sustain its business expansion over a period of 70 years having withered the market challenges in which it operates in as it seeks to fulfill its purpose in offering water and energy solutions in Kenya.

RESEARCH OBJECTIVE

The general objective of the study was to determine the effect of internal and lease financing and business sustainability at D&S.

REVIEW OF THE THEORIES

The Pecking Order Theory

The Pecking Order Theory was proposed by Myers and Majluf (1984) and it suggested that firms have a particular preference order to raise finances used in their businesses. According to this theory, the firms' choice of financing would be retained earnings to debt, short term debt over long term debt and debt over equity. The financing order chosen is due to the information asymmetry that exists between the potential investors and the firm's management during the process of raising finances and also the transactional costs incurred in obtaining each of the financing option. (Myers & Majluf, 1984).

According to the theory, a firm that only uses retained earnings to support their investments decisions have no information asymmetry as the management of the firm have access to all the information they would require. Issuing of equity is considered to have a large information asymmetry between the insiders and the outsiders. As such, firms with large information asymmetry should issue debt to avoid selling underpriced securities. The firms adopt a conservative approach when it comes to dividends and use debt financing to maximize the value of firm. (Myers & Majluf, 1984).

The key assumptions that can be deduced from the theory is that the shares can only be issued out to external parties and not internal parties. This hence avoids the external transfer of wealth as managers are more aware of the company existing assets and the potential investment opportunities than the shareholders (Abosede, 2012). The managers would hence not want to lose control over firms by having new shareholders and as such they would aim at using the internal funds to ensure continuous control without any restrictions (Holmes & Kent, 1991) (Hamilton & Fox, 1998).

One of the strengths of the pecking order theory is that it does not dictate an optimal capital structure at any one time for the business (Copeland & Weston, 1992). Also, it proposes reduced external financing transactional costs and asymmetric information given that internal revenue has no costs while debt has lower costs as compared to equity. The internal revenue attracts less scrutiny from suppliers, followed by debtors and then by equity (Vasiliou, Eriotis, & Daskalakis, 2009). The use of debt indicates the management beliefs that the equity stock is undervalued and that the debt is either overvalued or fairy valued by the market (Van Horne, 1998). Not having to issue new securities allows the firm to avoid both the flotation costs associated with external funding, the monitoring costs and the market discipline that occurs when accessing capital markets. (Liesz, 2002).

The limitation of the theory is that it doesn't explain the influence that taxes, agency costs, financial distress, security issuance costs or the set of investment opportunities available to firms based on its potential actual structure (Liesz, 2002). It also doesn't explain the problem of financial slack that would arise making a firm not to be affected by the market discipline. Financial slack is defined as a firm's highly liquid assets (cash and marketable securities) plus any unused debt capacity. (Moyer, McGuigan, & Kretlow, 2001).

The theory will guide the study despite its weakness as the study assumes that there exists market controls which regulate the business management on issues like taxes and how businesses should be governed. Also, the research assumes that the management have good investment knowledge and/or are able to hire consultants to advise them on investment decisions before reaching a financial slack.

Trade Off Theory

The Trade off Theory was derived by Modigliani and Miller in 1963 and it sought to explain the formulation of capital structure. The theory assumed that there is an optimal level of financing while taking into consideration the benefits and costs of debt and equity (Myers & Majluf, 1984). According to the theory, the benefit attributed to debt is the reduction of tax after payment of interest while the costs involved are the agency costs and the bankruptcy costs. (Serrasqueiro & Caetano, 2012).

The two bankruptcy costs are the distress costs and the liquidation costs. The distress costs refer to the costs that a firm would incur in the event that there is a possibility that the firm may be discontinued while the liquidation costs refer to the potential loss where the firm may face loss of value in the event that it sells off all of its assets (Serrasqueiro & Caetano, 2012). The agency costs affect both the equity and debt financing. Conflict between the managers and shareholders would result to the agency cost of equity while the conflict between the shareholders and the debt-holders would result to the agency cost of debts. The costs incurred to monitor the conflict between the parties is what is referred to as the agency costs as per the theory (Jensen & Meckling, 1976).

The advantage of the trade off theory is that it implies that a firm can change its capital structure across a period of time as it seeks to have optimal leverage level. This change can be fast or slow depending on some certain internal and external factors such as the firm's size and the capital market imperfections. (Odusanya, Olumuyiwa, & Olowofela, 2017). The assumption of the existence of the transaction or distress costs and taxes paid by the firm to shield the profit of the firms serves as advantages of using debt which conforms to the reality (Myers & Majluf, 1984).

The weakness of this theory is that it fails to explain the extent to which external factors like the availability of credit, financial structure and legal restrictions affect the amounts that the firms can be able to raise (Jibran, Wajid, Wabeed, & Muhammad, 2012). Also, the theory encourages the use of debt which then results to business risks being concentrated on the equity holders as the debt holders receive a fixed and constant return in the form interest income (Cekrezi, 2013).

The theory will guide the study despite its weakness as the study assumes the management of the firm are able to control the finance risks associated with the high debts. Also, it assumes that the financiers of the firms with debts form contractual agreements that protect their interests which then limits the amount of debts that a firm can obtain from them.

The Agency theory

The agency theory was defined as an agreement between one or two more persons whereby the principal would hire another person (an agent) to act on their behalf in performing some services having given them the decision making power (Jensen & Meckling, 1976). The two behavioral assumptions of the theory are that the individuals seek to maximize their utility and secondly is that the individual is likely to benefit from the contract incompleteness (Zogning, 2017). These results in conflict of interest due to the information asymmetry, different risk preferences and separation of ownership from control leads to agency costs being incurred. (Panda & Leepsa, 2017).

In order to confirm that the agents are working for the good of the shareholders, the principals have to incur costs to ensure that their business interests are well protected (ACCA, 2012). The agency costs can be categorized as the bonding costs, residual costs and the monitoring costs (Jensen & Meckling, 1976). The monitoring costs refers to the costs incurred in hiring independent parties like the auditors and consultants who query the management's transactions and report the exceptions in form of independent reports (ACCA, 2012). The bonding expenditure refer to the monetary and non-monetary incentives offered by the shareholders to the managers while the residual costs refer to costs incurred by shareholders for decisions made whose effect did not increase the corporate value (Jensen & Meckling, 1976).

The advantages of this theory is that it recognizes the fact that not all agents have good interest of the stakeholders hence protecting the various rights of stakeholders from being abused by the agent through continuous monitoring. This can be done through the board, introducing an optimal ownership structure, management compensation schemes and the market for corporate control (Carausu, 2015).

The weakness of this theory is that it assumes that the agent needs to comply with the contractual agreement without considering ethics. This however is not the case in the current business environment as ethics and corporate governance are key issues to be complied with (Zogning, 2017). The theory considers that the agreement is for a defined or undefined period of time without considering the uncertainty of the future, it disregards the competency of the managers by emphasizing the opportunistic nature of the agents and it doesn't consider the many hindrances like fraud, information asymmetry and transactional costs that may still be present with the agency theory. (Panda & Leepsa, 2017).

The theory will guide our study despite its weakness as the study assumes involvement of the principals in the management of the firms operations who are able to review business performance on an ongoing basis and make the appropriate decisions. Also, it is assumed that the principal have invested in control measures to ensure that their self-interests and those of the agents are managed and protected and that the agent is working towards the good of the firm.

The Resource Based View Theory

The Resource Based View (RBV) Theory proposes that a firm's resources and capabilities are important in ensuring that an organization remains competitive amongst its peers. The resources that an organization possesses are both tangible and intangible in nature and they include organization resources and processes, management skills and the knowledge that it controls. (Barney, Ketchen Jr, & Wright, 2011). These resources can be categorized as human resources, technological resources, reputation, operational resources, financial resources and physical resources (Grant, 1991). For these resources to have a competitive advantage, they ought to be imperfectly imitable, rare, unsubstitutable, valuable, and they increase in efficiency and effectiveness of the firm's operations (Theriou, Aggelidis, & Theriou, 2009).

The advantage of RBV is that it points out the factors that can create a competitive advantage to the firm such as value, competitive superiority and rarity of resources while enabling an organization function in an effective, efficient and at lower costs than its competitors (Collis & Montgomery, 1995). The theory also allows firms identify the resources to develop that would assist in complementing the consumers' needs and preferences while enhancing the combination and the utilization of the strategic resources to help a firm be differentiated in the market (Clulow, Barry, & Gertsman, 2007).

The weaknesses of RBV is that it ignores the real time value of the resources as it assumes that the product market is stable and it's not able to provide a tangible translation for the operating firms (Priem & Butler, 2001). There exists an uncertainty that the firms will be able to acquire similar resources either by imitation or duplication hence making the once valuable resources be considered to be easily available (Hoopes, Walker, & Madsen, 2003). Also, the theory doesn't apply to small firms as they are considered to have static resources which don't encourage competitive advantage. (Kraaijenbrink, Spender, & Groen, 2010).

The theory will guide our research despite its weakness as it is assumes that the firm would continually innovate or acquire new assets that would make it better. Also, the organization is also not static and it would seek to grow, improve its performance and reap benefits even before others play catch up.

EMPIRICAL REVIEW

Goldhausen (2017) in the study of the access to finance and growth as evident in the Dutch SMEs which are privately owned sought to explain whether there was an impact in the SME growth in the Netherlands during the 2008 - 2011 financial crisis and the years after of 2012 - 2015. The independent variables in the research were the types of financing which were both internal and external financing. The internal financing were determined to be retained earnings while the external financing were identified as trade credit and bank loans. The data sample was collected from the Reach database, the Bureau van Dijk where the population of the initial study was 2,680 companies with country offices in Netherlands and with unconsolidated financial statements. The dependent variable was considered to be growth, the independent variable was considered to be internal and external financing while the control variable was considered to be size, age, asset structure of the firm, financial health of the firm (current ratio) and a crisis dummy to take into consideration the crisis period over which the study is being undertaken. A panel study was undertaken with a focus on the longitudinal studies. The findings of the study were that internal financing was crucial both during and after the crisis, leverage had a negative effect on firm growth due to lack of available finances both during the crisis and after the crisis period hence no tax benefits can be obtained due to low financing, while trade credit is used during crisis period but after the crisis, the results were not conclusive. The evidence from the research shows that the Pecking Order theory holds during and after the crisis.

Saghir & Aston (2017) sought to explain the role that the various economic factors play in accessing finances in the business sector in the UK. A qualitative research method was used where the targeted population of the study was the corporate finance team of five UK Financial Services. The targeted respondent was done for 38 interviewees whose ranks were operational, middle level and senior level. The information received was coded to categorize data with similar meaning as variety of statistical techniques was used. The research revealed a positive relationship between the accessibility of finance in the business sector and the inflation, government regulation, financial crisis and the interest rates separately. The major hurdles identified that affected businesses that want to raise funds included accessibility and availability of finance, economy strength, credit quality and elevated interest rates on loans.

Fowowe (2017) in the study of the effects of access to finance on the growth of firms in the African continent researched on 10,888 firms across 30 African countries. The sample size per country varied for each of the country but the mean size was 362 firms per country. The data used was obtained from the World Bank Enterprise Survey which had earlier been collected through questionnaires and it entailed both subjective and objective data. The dependent variable in the study was the performance of the firm measured by using the financial variables that included profit, revenue, return on investment and return on equity. The non-financial measures were number of employees, revenue growth, employee satisfaction and the social and environmental performance. The key finding from the research was that the higher the access rates of the firms to the financial markets the higher their growth. Also, the firms that were able to access loans, overdraft and credit lines would experience a fastened growth. The impact of finance on the firm growth is dependent on the size of the firm where small firms are affected more than the old firms if both have challenges in accessing finance.

Regasa, Fielding, & Roberts (2017) sought to explain the role that the finances play in enhancing the growth of manufacturing firms in Ethiopia. The country is characterized by a relative developed market institution with good infrastructure but that with low financial depth. The research was done from a sample population of 1,492 Ethiopian firms in the period of 2011 to 2015 whose data was recorded in the Ethiopian Enterprise Survey, a part of the World Bank Enterprise Survey. The independent variables were the access of finance which was measured through the firms' working capital and the fixed capital financed from the external sources. The internal funds and the retained funds were not referred to due to the challenges in obtaining that data. The dependent variable was the firms' growth which was measured by the sales growth and the employment growth which indicated the size of the firm. The Ordinary Least Squares estimates was used to determine the relationship between the dependent and the independent variables. The conclusion from the research was that firms with internal financing in Ethiopia experienced a higher growth as compared to firms with access to external finance. The slow growth rate amongst the externally financed firms was alluded to be the result of inefficiencies in the allocation in the banking sector where loans are given to firms with the best political connections and not necessarily those with investment opportunities.

Wamiori, Namusonge, & Sakwa (2016) researched on the effect of access to finance on financial performance of manufacturing firms in Kenya. The targeted population of the study was 199 manufacturing firms in Nairobi County which were taken as a representation of all the manufacturing companies in Kenya. The independent variables in the study were sources of finance which were highlighted as either financial services, Government financing programmers and informal sources of finance while the dependent variables were the return on equity, return on assets and sales growth. A survey was done with questionnaires being sent to the corporate financial officers where mixed research design was used with both qualitative and the quantitative analytical procedures and techniques which were subjected to Multiple Regression and Pearson correlation review. From the research, it was concluded that access to finance was key as it allowed for businesses to increase in their innovation and dynamism, allowed efficient asset allocations, enabled business expansion and enhanced the firm's ability to exploit growth opportunities.

RESEARCH METHODOLOGY

Research Design

A research design has been described as a plan that outlines the strategies and the techniques on how the information for review is gathered, instruments used and their administration and how the information is subsequently organized and analyzed (Mugenda & Mugenda , 1999). It can also be defined as the logic linking of data being collected and the conclusion to be drawn from the initial research questions coherently (Rowley, 2002). The research design used for this study was descriptive research design. The reason for the descriptive research design was because it used available data and information without changing the dimension and the nature of the data (Kumar, 2011). The research adopted the case study because the analysis unit for the study was one. A case study refers to an investigation of a study within its real life context (Yin, 1994). The main purpose of the case study is to provide a detailed examination of a single subject to determine the factors and relationships that have resulted in the behavior under the study (Mugenda & Mugenda , 1999).

Target Population and Accessible Population

The target population can be referred to as a group of individuals, events or objects that have common observable characteristics in which the relevant information is desired. (Mugenda & Mugenda , 1999). Accessible population refers to members of the target population who can be included in the sample (Kumar, 2011). The target population and the accessible population for this study was Davis & Shirtliff Limited financial reports, which formed the case study research.

Research Instruments

The study used the secondary data that was be extracted from the audited financial statements over the five year period 2013 – 2017. Collection of data was done using a customized worksheet that assisted in collecting accounting data relating to the sources of finances which included retained earnings, lease, debt and trade credit. Also details of revenue performance and profits was obtained so as to determine the growth and continuity of the firm.

Data Collection Procedures

The researcher sought approval from the school department in charge of the study before commencing the research analysis. Also, the researcher sought approval to have access of the financial statements of only the five years under study. The approval had to be sought as the company is privately held and the detail of the firm’s performance is confidentially maintained. Secondary data analysis was used during the study. This analysis refers to the use of data collected by someone else for primary use. It is used by researchers with limited time and resources and it’s a viable method when a systematic process of inquiry is used (Johnston, 2013). The secondary data for the study was collected from the financial statements for the period 2013 – 2017. The period under study was fit as it gave the researcher a large sample size of data that can be interpreted and used to make informative decisions. Also, the time period selected was more current and it incorporated the key changes in the Kenyan business environment especially the introduction of Devolved Governments in 2012 after the enactment of the 2010 constitution.

The analysis tool used for the study was Excel, which was found within the Microsoft Program. The tool was been selected due to the ability to use it to collect data, manipulate, analyze and present it in the form of tables, graphs (Meyer & Avery, 2008). Information on specific financial components were keyed in the Excel Program using the secondary data collection worksheet. Accuracy and completeness of the relevant data was maintained to prevent biasness during data interpretation and analysis. The data was then converted into ratios and presented in form of tables and graphs for analysis. The study also conducted a Pearson Correlation analysis to help determine whether there existed a relationship between the independent and dependent variables. Correlation was used as it would have identified the magnitude of the relationship and the direction of the relationship (Mugenda & Mugenda , 1999). The correlation was computed within excel as it had the capability to do so.

Data Analysis and Presentation Procedures

The data to be collected was also analyzed using Ratio Analysis Methods. Ratios are used to derive the quantitative relationship between two or more variables as obtained from the financial statements. Ratio analysis can be used to assist in indicating the financial strengths and the weaknesses of the company based on its historical and current performance (Saigeetha & Surulivel, 2017). The Ratios were classified on the basis of the balance sheet, income statement and based on the mixture of both the balance sheet and the income statement. The ratio analysis method had also been used by Saigeetha & Surulivel, (2017) and Pavithra, Thooyamani, & Dkhar (2017) to determine the company performance and its sustainability. Four types of ratios were used to measure the financing of an enterprises and in determining its sustainability using the various financing options. These ratios were the common size ratio or simple average ratios, liquidity ratios, leverage ratios and profitability ratios.

Common Size Ratio: This refers to computation of a ratio by calculating a variable as a percentage of the total. This approach was used in computing each source of finance for each year over the total available sources of finance for that year. (Nuhu, 2014). This helped to determine the proportions and the mix for each of the independent variables over the period under study. The formula for the ratio is;

Percentage of the Base = (Amount of an individual item/Amount of base item) x 100

Liquidity Ratios: Liquidity ratios are used to determine the ability of a firm to convert its assets into cash to enable it meet its current liabilities. The liquidity ratio will assist in determining the ability of the firm to pay for costs that may arise relating to the various financing methods (ACCA, 2012). The liquidity ratios to be computed are the current ratios, quick ratios and the cash ratios. The current ratio measures the ability of a firm to liquidate its current assets for purposes of settling current liabilities which are due (ACCA, 2012). The yardstick against which the performance of a form is measured against is the 2:1 which means for every KShs 1 current liability there needs to be KShs 2 current assets to cover it (Dansby, Robert, Kaliski, & Lawrence, 2000). The current ratio will be computed as below:

Current ratio = Current Assets /Current liabilities.

The quick ratio is used to determine the liquidity regarding current assets that can be easily converted into cash to settle a liability that is due. The standard for the quick ratio is 1:1 for companies whose inventory turnover is slow while those with a fast turnover, a ratio below 1 is acceptable without indicating that it is experiencing cash flow challenges (ACCA, 2012). The quick acid ratio will be computed as below;

Quick Acid ratio= (Current Assets-Inventories)/ Current Liabilities

The cash ratio measures the ability of the firm to use its most liquid assets, cash and short term market securities to settle a liability that is due(ACCA, 2012). The cash ratio will be computed as below;

Cash ratio = Cash / Current Liabilities

Leverage Ratio: The ratios measure the capability of the company to meet its long term obligation. The interest coverage ratio, is used to measure how adequate a firm is able to meet its interest payment and other obligations (ACCA, 2012). This is important as inability to do so may affect the sustainability of the business. The liquidity ratios to be computed are the debt to asset, debt to capital, debt to equity and interest coverage ratios. The debt to asset ratio is used to determine the extent to which the assets are financed by debts (ACCA, 2012). The debt to asset ratio will be computed as below;

Debt to assets ratio =Total liabilities / Total assets

The debt to equity ratio is used to determine the extent to which the company's total capital (equity plus liabilities is financed by debt (long-term debt and short term debt). The higher the ratio the more the riskier the company is affecting the sustainability of the firm (ACCA, 2012). The debt to capital ratio will be computed as below;

Debt to capital ratio =Total liabilities / Total capital.

The debt to equity ratio is used to compute the amount of debts that are firm uses when compared to the equity used. If the ratio is 1:1, it means that the creditors would claim all the assets that the firm has leaving nothing for the shareholders hence affecting the business ability to continue (ACCA, 2012). The debt to equity ratio will be computed as below;

Debt to equity ratio = Total debt/Total Equity

The interest coverage ratio measure the ability of a firm to meet its interest costs for the existing finance options utilized by the firm. The higher the ratio, the more likely that a firm is able to meet its obligations when they fall due. An interest coverage ratios of below three times is considered to be too low while the ratio above seven is considered as being safe (ACCA, 2012). The interest coverage ratio will be computed as below;

Interest coverage ratio = Interest expense/Earnings before Interest and Tax (EBITA)

Profitability Ratio: Profit ratios designate a firms overall performance and efficiency. It measure the ability of a firm to utilize the cash earned from is day to day business and from the various sources of finance that it raises to meet its day to day expenses and have an acceptable return for the stakeholders(ACCA, 2012). The profitability of a firm enhances the sustainability of the firm. The profitability ratios to be computed are the net profit margin, return on assets and return on equity. The net profit margin ratio compare the company's net income to its net revenue. The net income is derived after considering the total finance costs incurred by the firm during the period under review. A high margin infers the ability of a firm to meet all of its operating and financial obligations and having enough left for the shareholders (ACCA, 2012). The net profit ratio will be computed as below;

Net profit margin = Net profit /sales

The return on asset ratio computes the efficiency of the firm in utilizing the assets acquired through various financing methods. The higher the rate, the better the utilization of the assets which indicates that the finances are being put into good use (ACCA, 2012). The ROA ratio will be computed as below;

Return on Total Assets = Net income / total assets

The return on equity (ROE) ratio measures the net earnings less the preferred dividends against the total shareholder investments. A large discrepancy may mean that the firm is heavily financed by debt which may negatively affect the shareholders perception of the business resulting to a decrease in their equity investment through sale of shares (ACCA, 2012). The ROE ratio will be computed as below;

Return on common stock equity ratio = Net income / Common stockholders' equity

The data collected and analyzed through the various ratios will be presented in the form of text, graphs and charts.

RESEARCH RESULTS

The main objective of the study was to establish the impact of financing and business sustainability of enterprises in Kenya. The study was guided by four objectives that directed the research questions formed. The independent variables were retained earnings, leases, debt and trade credit while the dependent variables were profit and revenue. The theories that guided the research study were pecking order theory, trade off theory, the agency theory and the resource based view theory. In determining the correlation between financing and sustainability of the business, financing had a positive correlation of 0.73460 to profits and a significant positive correlation of 0.9763 to the retained earnings. This means that an increase in the total financing would result to an increase in the revenue and profits as supported by the Pecking Order Theory.

From the study, the firm's financing was in line with the Pecking Order Theory which highlighted that a firm prefers to finance its operations through retained earnings to debt, short term debt over long term debt and debt over equity. The order of financing over the period under study was identified as being retained earnings, trade credit, leases and debt, starting from the highest to the lowest. Each of the sources of finance had a positive correlation with revenues and profits, though varying for each of the variable. Retained earnings, trade credit, leases and debt related against profits at a correlation of 0.7041, 0.1933, 0.5966 and 0.9634 respectively while their correlation against revenue was 0.9693, 0.7668, 0.9173 and 0.7355. This means that an increase of each of the finances would result to an increase in profits and revenue.

INTERPRETATION OF THE FINDINGS

The financing model adopted by a firm depends on the management of the firm, the geographical region and also on the industry that they operate in. However, an optimal amount of financing needs to be observed where the firm is not financed 100% on debt but on a healthy debt and equity ratio (Gill, 2011). From the study, each of the finance methods had a positive correlation with the sustainability of the firm as measured in the form of revenue and profits. The strength of this correlation varied from one financing option to another. However, it is important to consider that some of the financing sources like debts and leases can be substituted so as to manage the level of liability in the firm (Erickson & Trevino, 1994). This means that finances availed to a firm and put into good use would yield a positive effect to the revenue and profit earned only when they are well planned and managed (Addo, 2017).

While identifying optimal financing model of a firm, it is paramount for further review of other key financial parameters. This is best done through the computation of financial ratios that interpret liquidity, profitability and leverage. Since debts, lease and trade credit represent finances owed to external stakeholders, the firm and the lenders should be aware of the cash flow of the firm, current assets to current liquidity ratios, the level of earnings before taxes against the finance costs required,, so as to determine the capability of the firm to meet their obligations as and when they fall through. Return on asset ratios and return on equity ratios are important for the management and shareholders to determine whether the finances raised are resulting to better returns of the firm. (Addo, 2017).

CONCLUSIONS

The study concludes that the firm's financing structure agrees to the Pecking Order Theory. According to the theory, retained earnings are preferred to debt, short term debt is preferred to long term debt and the long term debt is preferred to equity. From the study, retained earnings was the main source of finance for the firm with the proportions per year being higher than the sum of trade credit, leases and debts. Trade credit was the second highest source of finance with leases and debt financing following thereafter.

Financing has a positive correlation with the revenue and profit, the measures if sustainability in the study. This indicates that an increase in the finances should result to an increase in revenue and profits. However, management of an enterprise should consider other expenses that may arise with obtaining some finances which may result to a negative effect on profits.

From the study, it can be concluded that each source of finance had a positive correlation with revenue and profits. However, as advance by other researchers like Gill (2011), an optimal mix of finances ought to be maintained by the firm's management. This is key for debts financing where a firm may choose to obtain either short term or long term debt without considering the costs that arise like the default and bankruptcy costs (Prempeh, Sekyere, & Asare, 2016).

To ensure the sustainability of a firm is maintained, there needs to be proper financial management in the firm. This activities include cash budget management and risk management as indicated by (Addo, 2017). This would be helpful in the monitoring and management of business parameters like the amounts of cash available for operations, the liabilities due against the cash available, the risks associated with each finance method, the costs and expected returns during and after financing and also the business strategy adopted by the firm. This can be done by monitoring and objectively interpreting the liquidity, leverage and profitability ratios as per ACCA (2012)

RECOMMENDATIONS

Based on the findings, various recommendations can be made to the key stakeholder of enterprises;

Managerial Recommendations

The study recommends that the management of an enterprise can decide on the best form of financing for their businesses on condition that it does not have a negative effect on the revenues and profits. However, optimal levels of the finances mix should be maintained to prevent high debt ratio which may affect the sustainability of a business as it raises the costs associated with default and bankruptcy risk of the business. Also, management should consider other business performance indicators which are able to signal distress to a firm beforehand before undertaking a new source of finance or increasing an existing one. These indicators are computed in the form of liquidity ratio, profitability ratios and leverage ratios.

Policy Recommendation

The study recommends that the regulatory bodies should conduct more research on the various types of finances available to enterprises. This will enable the policy makers develop policies and regulations that would allow for availability of finances and implementation of good financial management for the finances availed to the firm.

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