

INFLUENCE OF EQUITY FINANCING DECISIONS ON THE FINANCIAL SUSTAINABILITY OF MANUFACTURING FIRMS IN NAKURU, KENYA

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Abstract: Managers have to decide how much to finance capital investments and they usually consider various factors in making financing decisions. The study therefore investigated the influence of equity financing decisions on the financial sustainability of manufacturing firms in Nakuru, Kenya. Theory that was used in this study included pecking order theory. The study employed descriptive survey research method. The target population of the study included the general managers and financial managers in manufacturing firms in Nakuru town Kenya. The target population comprised of 33 general managers, and 33 finance managers. Data collection was done through the use of questionnaires constructed on a 5 point Likert scale. The questionnaire was tested for validity and reliability where Cronbach's coefficient Alpha was computed for the instrument. The collected data was analyzed using statistical package for social sciences (SPSS). Data was analyzed using descriptive statistics which included frequency, percentages, mean and standard deviation and inferential statistics which included regression and correlation analysis and was presented in tables and figures accompanied by relevant discussions. The study established that equity financing had positive significant relationships with financial sustainability of manufacturing firms in Nakuru town. Hence, the study concluded that equity financing, had a significant influence on financial sustainability of manufacturing firms in Nakuru town Kenya. It was recommended that the manufacturing firms top management team should set up policy measures to guide in financing decisions of the firms. This would aid in helping the firms attain a good balance of the financing options and enhance the financial sustainability of the firms.

Keywords: Debt Financing, Equity Financing, Equity Financing Decisions, Financial Sustainability, Manufacturing Firms.

1. INTRODUCTION

Financing decision has always been an important decision made by firms. Finance manager needed to optimize the best financing method either using debt or equity in order to maximize their firm performance (Sagara, 2015). Financial Performance is the blue print of the financial affairs of a concern and it reveals the organization's ability to translate its financial resources into mission related activities. The importance of financing decisions cannot be over emphasized since many of the factors that contribute to business failure can be addressed using strategies and financial decisions that drive growth and the achievement of organizational objectives. The finance factor is the main cause of financial distress. Financing decisions result in a given capital structure and suboptimal financing decisions can lead to a firm's failure. A great dilemma for management and investors alike is whether there exists an optimal capital structure. The objective of all financing decisions is wealth maximization and the immediate way of measuring the quality of any financing decision is to examine the effect of such a decision on the firm's performance (Majumdar, 2009).

A financial decision is the adaptation of the broad objectives, strategies and other plans of an organization into financial terms (Hilton & Gordon, 2008). According to Atieno (2013), financial decision is a continuous process of directing and allocating financial resources to meet strategic goals and objectives. The output from financial planning takes the form of budgets. Understanding past performance and translating that insight into forward looking targets to align business results with the corporate strategy is key to driving shareholder value. A financial plan consists of sets of financial statements that forecast the resource implications of making business decisions. For example, a company that is deciding to expand e.g. by buying and fitting out a new factory will create a financial decision which considers the resources required and the financial performance that will justify their use (Arnold & Chapman, 2014).

An important financial decision firm's face is the choice between debt and equity capital. The capital structure (or financial structure) of a firm is a specific mixture of debt and equity the firm uses to finance its operations. Capital structure decisions are crucial for any business organization. The decision is important because of the need to maximize returns to various organizational constituencies and also because of the impact such a decision has on an organization's ability to deal with its competitive environment. The key is for firms to choose a portfolio of capital structure that will maintain sustainability and generate more wealth. In general, a firm can choose among many alternative capital structures. It can issue a large amount of debt or very little debt. It can arrange lease financing, use warrants, issue convertible bonds, sign forward contracts or trade bond swaps. In an attempt to set a capital structure that maximizes overall market value, firms do differ in the way they deal with the issue of optimizing capital structure requirements (Khan, et al. 2013).

High performance is more than high returns. It is the ability to generate high returns for the level of risk assumed by a firm (Kester, 2010). Credit risk, liquidity risk, market risk and so on are some of the risks firms assume in order to earn optimal returns. Financial sustainability firms are those that manage and control their risk the best by employing effective trade-off between risk and returns. Firms are constantly looking for ways to achieve high financial sustainability and therefore a lot of theories have been formulated and studies conducted by firms in efforts to determine the factors that influence financial sustainability of firms (Kester, 2010). A set of these theories and studies identify capital structure as one of the factors affecting a firm's financial sustainability on one hand and on the other hand these theories and studies contradict the view that capital structure does affect a firm's performance arguing that capital structure is irrelevant to a firm's performance. The capital structure of a firm is basically the way a firm finances its assets through some combination of debt and equity that a firm deems as appropriate to enhance its operations (Stewart, 2011).

Global Perspectives on Effect of Financing Decisions on Financial Sustainability of Manufacturing Firms

In UK, USA, Canada, Brazil, India and China, the positive impact of strategic financial decisions on the profitability of manufacturing firms has been pointed out in recent studies (Patro & Arpita, 2009). A strategic financial management practice in these countries has helped to improve the profitability position of the concern with the help of strongly financial control devices such as capital structure and liquidity practices (Patro & Arpita, 2009). Dawson (2013) revealed that the finance strategy selections and finance decisions capabilities are shown to influence the advancement of rapidly growing firms along the globalization process. The more efficient strategic financial decisions practices, the higher profitability. By raising the efficiency of financial decisions practices, most SMEs and Blue-Chip companies (manufacturing companies, banking industries and telecommunication companies) have proved to improve their profitability (Abu-Rub, 2012).

Serrasqueiro and Marcia (2009) conducted a study to analyze the company capital structure. In the study the result of Portuguese companies is examined which shows a negative and statistically significant relationship between the profitability of listed Portuguese companies and their level of debt. The results of the study further show that there is great influence of tangibility of assets, size and profitability on the structure of Portuguese companies. Findings of the study suggest that most firms rely on internal source of financing or bank debt to fulfil their financing needs in less developed capital markets.

Gill, et al., (2011) carried out a study on the effect of capital structure on profitability by examining the effect of capital structure on profitability of the American service and manufacturing firms. A sample of 272 American firms listed on New York Stock Exchange for a period of 3 years from 2005 – 2007 was selected. The findings of this paper show also a positive relationship between short-term debt to total assets and profitability, long-term debt to total assets and profitability, and between total debt to total assets and profitability in the manufacturing industry.

A study Mohammad and Jaafer (2012) on effect of capital structure on profitability of the industrial companies listed on Amman Stock Exchange found that the capital structure decision is crucial for any business organization because of the need to maximize returns to various organizational constituencies, and also because of the impact such a decision has on an organization's ability to deal with its competitive environment. An appropriate mix of capital structure should be adopted in order to increase profitability

Regional Perspectives on effect of Financing Decisions on Financial Sustainability of manufacturing Firms

Management has numerous capital structure choices that they may adopt at their discretion. The choice of the type of capital structure to be adopted may not mean value maximization but may be for the protection of the management self-interest, especially in businesses where the decisions are dictated by the managers and the voting power of the shares they own (Dimitris & Psillaki, 2008). Funds used for firms operations may be generated internally or externally. When raising funds externally, firms choose between equity and debt. Most of the effort of financial decision making process is centered on the determination of the optimal capital structure of a firm (Narayanan, 2008). Capital structure decisions affect all businesses, but they vary from one business to another based on financial requirement for the business success primarily depends on the ability of the finance manager to effectively manage firm's financial resources (Narayanan, 2008).

In determining the financing decisions of listed and non listed firms in Ghana, Andani and Seidu (2013) examined the financial decisions of 19 listed companies in comparison with 16 non listed companies in Ghana. The study sought to find out whether the financing decisions of companies differ significantly between listed companies and non-listed companies operating in Ghana. The major conclusion is that both listed and non-listed companies rely largely on external finance particularly trade credit and short-term bank financing. Long-term bank financing contributed little to the financing of the corporate sector especially among non-listed firms.

The relationship between capital structure decisions and the Nigerian capital market lies on how often companies place offers on NSE and on the number of equities listed and traded on NSE. The Nigerian corporate sector is characterized by many firms operating in a largely diversified, competitive and deregulated environment. This is because of financial liberalization that was brought about by the introduction of Structural Adjustment Programme (SAP). SAP influenced many changes in the operating environment of firms and thus gives more flexibility to firms in determining their capital structure and made the basis for the determination to become more expanded and deepened both at the money and capital markets (Abdul, 2015).

Local Perspectives on effect of Financing Decisions on Financial Sustainability of Manufacturing Firms

Business organizations aim to improve on their production and operations efficiency and to increase their profit margin. A number of factors may influence efficiency and effectiveness of business operations including capital structure. The capital structure of a firm is a mix of debt and equity that a firm uses to finance business. The finance manager is therefore concerned with a capital structure that increases the profit margin at least cost (Ehrhardt & Brigham, 2013). According to Chepkemoi (2013) earlier studies on general small firm capital structure have presupposed small and medium sized enterprises to (predominantly) act in such a way as to maximize their financial wealth.

Capital structure represents the proportionate relationship between the different forms of long term financing. Making appropriate decision on the financing option may look simple, but sometimes it require time. Management is often faced with dilemma on whether to obtain funds from internal sources (retained earnings) or external sources which include loans from financial institutions, trade credit, and issuance of equity shares. The creation of a capital structure in any organization influences the governance structure of a firm which, in turn, has direct impact on strategic decisions made by the managers (Mwangi, Makau & Kosimbei, 2014). Murefu and Ouma (2012) focused on linking dividend payout to firm performance. The Study used regression analysis. The study results revealed that dividend policy positively affect firm performance. The study results concluded that dividend policy was the main factor affecting the performance of the firms in Kenya. Furthermore the study concluded that the current dividend policy was positively related to future earnings growth.

A study on the relationship between leverage investment decisions for companies quoted at the NSE was conducted by Nyale (2010). The study methodology was designed with the objective of establishing relationship between leverage and investment decisions by use of multi linear regression analysis method. The study considered diversification that involved

investments in new products, investments in totally new service lines and venture into new geographical with different political and economic environments. Findings indicated that 36% of listed companies at the NSE engaged in diversification investment decisions. The study further found out that, there was a weak relationship between the levels of leverage of a company and how much money the company can commit to a diversification investment decision. This insinuates that companies view each diversification investment decision on their own merit and how much money is committed to an investment decision is not entirely dependent on the level of leverage of the company.

Financial Decisions in Manufacturing Firms

Financial decisions are judgments an organizations makes about its current operations and its sustainability in the future. It determines its continuity and existence in achieving its laid down vision, mission and goals. These are decisions that involve: determining the proper amount of funding required by an organization; selecting projects and capital expenditure analysis; raising funds on the most favorable terms possible; and managing working capital such as inventory, cash, accounts payable and accounts receivable. An organization has a choice to choose a project that can be sustained by the organization when there will be no donor funding or choose a project that is donor dependent. For sustainability an organization would rather opt to implement projects that in the long term would be sustainable without donor funds (Chumbe, 2013).

Financial decisions involves the determining when, where and how much capital to acquire in pursuit of making profit. Leverage decision is useful in showing the extent of the total assets financed by the loans. Working capital management are the management accounting strategies that balances current assets and liabilities. There is need for the firms to obtain a balance between profitability and liquidity while conducting daily operations to ensure smooth running of the company, the company should not just concentrate on maximizing profitability and increasing shareholders wealth (Cui, De Jong & Ponds, 2011).

Al-Malkawi, Rafferty and Pillai (2010) noted that a decision which is also key for firms is the dividend decision which ascends when the firm starts to make profits. The decision involves a query of whether a company should allocate all or a fraction of the profits it earns in the form of dividends to the stakeholders, or should it plough all the profits back into the business. In regard to investment decisions, Donald (2010) argues that it is a key decision involving mobilization of resources to undertake a given activity with expectations of future returns.

2. STATEMENT OF THE PROBLEM

The major aim of all corporate organizations and institutions is growth and sustainability. Organizations across the world consider their financial investment decisions as key in ensuring the sustainability of their institutional growth and also in the maximization of the organizational portfolio. As such the management committees comprises of key personnel including accounting experts to guide in the making of the capital investment decisions. Poor investment decisions would cost the organization a great deal of loss.

The Kenya vision 2030 plan had manufacturing as part of its social economic pillar. The first medium term plan of the vision 2030 intended to make manufacturing sector to increase its contribution to gross domestic product (GDP) by at least 10% per annum. The Kenya economic survey report (2017) indicated that the contribution of the manufacturing sector in 2016 was 6.3%. The KNBS report (2018) indicated that the contribution of manufacturing sector to GDP was 9.2%. Given that the first medium term plan for vision 2030 was ending in 2017, the target of 10% contribution to GDP was not attained.

Previous scholars have attributed poor firms' performance to poor financing decisions. Ayaydin and Karaaslan (2014) found a positive relationship between investment decisions and firms performance. Iavorskyi (2013) showed a negative significant relationship between leverage and financial performance. Waithaka (2012) showed a negative significant relationship between average credit collection period and financial performance among firm listed in Agricultural segment in NSE. These studies were however lacking in giving conclusive evidence on the linkage between financing decisions and financial performance. Further the results were mixed and thus difficult to conclude on how financing decisions influence organizational performance. This study sought to examine the influence of financing decisions on financial sustainability specifically in manufacturing firms in Nakuru town Kenya.

3. OBJECTIVES OF THE STUDY

The study sought to examine the effect of equity financing decisions on the financial sustainability of manufacturing firms in Nakuru, Kenya

4. RESEARCH HYPOTHESES

Equity financing decisions do not significantly influence the financial sustainability of manufacturing firms in Nakuru, Kenya.

5. CONCEPTUAL FRAMEWORK

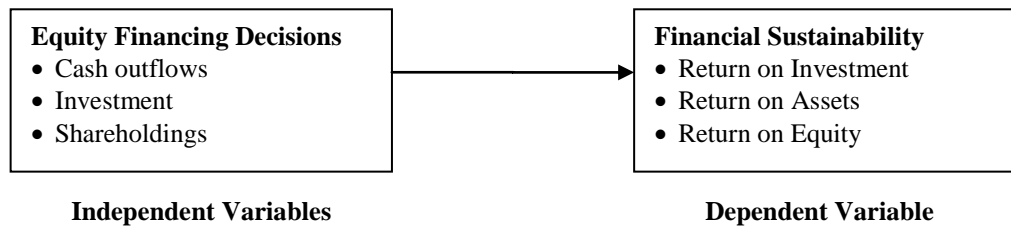


Figure 1: Conceptual Framework

Equity Financing Decisions and Financial Sustainability

Equity financing offers another source of funding besides arranging for loans from banks or other financial companies. A company may use funds from business investors when it begins its business operations to cover the start-up costs. The company can then use the cash flow from its operations to directly grow the company or to diversify into other areas. Related to this is the fact that investors tend to take a long-term view, and typically don't expect an immediate return on their investment. This allows the company to keep more cash on hand to expand the business, rather than having to pay a portion of its profits to repay loans. For this reason, this method of financing is less risky than debt financing because the company doesn't have to pay back its shareholders. This fact also makes equity financing a good option when a company cannot afford to take on (more) debt (Akeem et al., 2014).

More recent studies have used large samples and a variety of performance measures to more directly assess whether private equity makes a difference in the management of the firms in which they invest. Bloom et al. (2009) surveyed over 4,000 firms in Asia, Europe and the US to assess their management practices. They showed that private equity-backed firms are on average the best-managed ownership group in the sample, though they cannot rule out the possibility these firms were better managed before the Private Equity transaction. Davis et al. (2009) compared all US-based manufacturing establishments that received Private Equity investments between 1980 and 2005 with 5 similar establishments that did not receive PE investments. They showed that private equity-backed firms experienced a substantial productivity growth advantage (about two percentage points) in the two years following the transaction. About two-thirds of this differential is due to improved productivity among continuing establishments of the firms. Cao and Lerner (2009) examined the three- and five-year stock performance of 496 RLBOs between 1980 and 2002. RLBOs appear to consistently outperform other IPOs and the stock market as a whole. Large RLBOs that are backed by Private Equity firms with more capital under management perform better, while quick flips – when Private Equity firms sell off an investment soon after acquisition meaning that they underperform.

Dewa and Ibrahim (2010) conducted a study about the factors that can affect and influence a firm to issue private placement of equity (PPE) in Malaysian firms. Their research objective was to test the relationships between earning performance, asymmetric information, stock price run-up, agency cost and firm size with the choice to raise equity privately. They found that small firms that suffer asymmetric information and negative earnings performance tend to choose equity private placement as a tool to raise their capital. Their study considered pecking order theory, which states that firms tend to avoid using external funds whenever internal funds are available.

Financial Sustainability of Manufacturing Firms

Financial sustainability should be viewed by firms as a dynamic and continuous process. Firms should create a clear strategic plan that defines the mission and builds programs and collaborative partnerships that closely align with the mission that may help firms to overcome the challenge of establishing sustainability in the short and long term. Financial

sustainability is measured through an analysis of various indicators which include: operating surplus the difference between day to day income and expenses for the period, operating surplus ratio by what percentage does the major controllable income source vary from day to day expenses, net financial liabilities; what is owed to others less net of money you already have or is owed to the firm, net financial liabilities ratio; how significant is the net amount owed compared with income, asset sustainability ratio are assets being replaced at the rate they are wearing out (William, 2017).

Financial sustainability is achieved when a business is able to deliver products and services to the market at a price that covers their expenses and generates a profit. In financially sustainable businesses, long term profitability takes priority over any short term gains. Any organization to operate a financially optimally, it needs to develop long term goals that outline where you want your business to stand financially in the future and conduct (Ek, 2011). Financial Sustainability is a result of better financial performance which is viewed as measurement of the results of a firm's policies and operations in monetary terms. The results are reflected in the firm's return on investment, return on assets, value added. Firms must try to improve Financial Sustainability by making various forms of internal reconstruction like alteration of share capital, reduction of share capital, writing off lost assets, improve the management of working capital areas like cash management, inventory management and credit management in order to regulate the liquidity position and improve administrative and operation management which in turn was reduce the production and operating cost. (Dhandapani, Ganesh & Babu, 2013).

Financial sustainability enables organizations to cover their annual budgets without constraints, it is the ability of income or revenue of an organization to covers its operational costs for a sustainable future, regardless, whether these funds come from donors, subsidies or internally generated (Bowman, 2011; Mutinda & Ngahu, 2016). It is the ability of an entity to generate sufficient funds to sustain the costs of its activities which are not limited to product pricing, costs of funds, administrative overheads, loan transactional cost and inflation and each cost has its own significance way of being controlled in order to influence financial sustainability (William, 2014; Gibson, 2012; Nganga & Kibati, 2016).

Organizations' maintaining their cash flow requirements is another crucial part of operating a financially sustainable organization. Performance evaluation of a company is usually related to how well a company can use it assets, shareholder equity and liability, revenue and expenses. Financial sustainability of an organization being as a measure of the organization's ability to meet its financial obligations, is characterized by the way managers are able to mobilize resources for purposes of reinvesting or ensuring that the operation of the organization are met when they fall due (Hossan & Habib, 2010).

Wambugu and Ngugi (2012) investigated the factors influencing financial sustainability of microfinance institutions in Kenya. The study looked at the influence of factors such as Service delivery, branch network, staff training and capital adequacy. The study targeted a population of 135 lower and middle managers from Kenya Women Finance Trust (KWFT) Deposit taking microfinance. The study established that capital adequacy influenced sustainability of KWFT to a great extent. KWFT had sufficient capital to cover default in the loan portfolio and that adequate capital had given KWFT a power to apportion funds for the realization of prudential regulations, which encouraged KWFT to avail more services like allowing voluntary deposit taking

6. THEORETICAL REVIEW

Pecking Order Theory

The Pecking Order Theory was put forth by Myers and Majluf in 1984. Pecking order theory of capital structure states that firms have a preferred hierarchy for financing decisions. Firms will borrow instead of issuing equity when internal cash flow is not sufficient to fund capital expenditure. The highest preference is to use internal financing before resorting to any form of external funds. Internal funds incur no flotation costs and require no additional disclosure of financial information that may lead to a possible loss of competitive advantage. If a firm must use external funds, the preference is to follow a certain order of financing sources: debt, convertible securities, preferred stock, and common stock, Myers (1984). This order reflects the motivations of the financial manager to retain control of the firm, reduce the agency costs of equity, and avoid negative market reaction to an announcement of a new equity issue. The amount of debt will reflect the firms' cumulative need for external funds. The theory has two key assumptions about financial managers. The first of these is the likelihood that a firm's managers know more about the company's current earnings and future growth opportunities than outside investors. There is a strong desire to keep such information proprietary. The use of internal funds prevents managers from having to make public disclosures about the company's investment opportunities and

potential profits to be realized from investing in them. The second assumption is that managers will act in the best interests of the company's existing shareholders. The managers may even forgo a positive-NPV project if it would require the issue of new equity, since this would give much of the project's value to new shareholders at the expense of the old, Myers & Majluf (1984).

However the theory has some limitations since it does not explain the influence of taxes, financial distress, security issuance costs, agency costs, or the set of investment opportunities available to a firm upon that firm's actual capital structure. It ignores the problems that can arise when a firm's managers accumulate so much financial slack that they become immune to market discipline. As such the theory is offered as a complement to, rather than a substitution for, the traditional trade-off model Fama and French (2005). In this study, this theory was used to support the use of equity financing and retained earnings and if exhausted firms can issue the use of debt capital. Firms should consider the issue of equity-debt financing to be the last alternative. Firms do not have to necessarily depend much on equity financing.

7. EMPIRICAL REVIEW

Financial decision is a major factor every business enterprise must consider at start-up and during operations. These decisions will however affect the survival and sustainability of such business entity. At start-up of every business enterprise, after generating the business idea, it is expedient that the owners of the business consider the various factors of production that will be relevant to the successful execution of the business idea. In the process of doing this, the owners will need to answer the question: "How do we finance the project at hand?" In an attempt to find an answer to this question, all the available sources of finance is then explored and this is reflected in the business plan or the feasibility report prepared. Finance is a very important issue every business organization must put into consideration at the start-up or expansion of a business venture (Obigbemi, 2016).

Capital structure is an important element in determining the success of the firms. Any erroneous decision in optimizing financial structure would cause financial distress to the firms and lead to bankruptcy. Therefore, selection of capital structure which reflects financial resources is a very crucial factor in determining the performance of the firm. Firms may raise capital through the issuance of equity in good economic time but reluctant to issue undervalue shares to avoid from depress in share price. Firms are looking at financial flexibility in managing their organization, which lead them to choose debt financing. However, it depends on interest rate as well as market value of equity as main determinant factors regardless of economic situation (Wan et al., 2016).

An investigation was carried out on how listed firms in Kenya financed their investment in capital market. The objective of the study was to establish sources of funds for the firm and to find out whether cash flows and debt influenced the firm's investment decisions. The study showed a significant positive relationship between debt and investment levels in the firm. It was concluded that corporate investments in firms did not respond to market fundamentals and liquidity position. The findings support corporate life cycle hypothesis whereas firms become mature, past investments generate higher cash flows, making present investment rates to slow down and become less attractive, hence the negative empirical relationship between investment and cash flow (Kemboi, 2010).

There is need for the entities to manage capital with an aims to maintain an optimal balance between all components and this will have eventual influence on financial sustainability. An organization's long-term financial capacity is facilitated by adoption of sustained and willingness to shift toward more resource sharing and sustainable practices that gives managers ability to focus on targets needed to achieve this objective but despite the willingness without action and change the challenges on the basic survival will continue to threaten organizations (Rosaly, 2017).

A study was also conducted by Wafula (2016) to examine the determinants of financial sustainability of microfinance institutions in Kenya. The study focused on the influence of liquidity level, operational expense, profitability and leverage of the institution on financial sustainability of MFIs. The study established that liquidity, capital adequacy and leverage were significantly correlated with financial sustainability of microfinance institutions in Kenya. He noted that the higher the amount of capital available for investment and spending, the more financially stable MFIs become. Higher debt to equity ratio leads to poor financial sustainability. A higher debt leads to a higher debt to equity ratio which affects the amount of available equity to be used for investment purposes. This negatively affects financial sustainability.

In Pakistan, Abdul, (2012) conducted a study to determine the relationship between the decisions of capital establishment and the performance of firms in the engineering sector in Pakistan. He found that financial leverage when measured by short term debt to total assets and total debt to total assets had a significant negative association with the firm performance

when measured by return on assets (ROA), while return on equity (ROE) had a negative and insignificant relationship with leverage. Pakistan engineering sector firms mainly depended on short term debt with strong covenants which affected their performance. Most commonly used performance proxies are Gross profit margin (GP) Net profit margin (NP), operating ratio and return on capital employed (ROCE).

8. RESEARCH METHODOLOGY

The study employed a descriptive survey research design. This study sought to obtain descriptive and self-reported information from the managers and financial officers of manufacturing firms in Nakuru town, Kenya. . In this study, the target population comprised of the general managers and financial managers in manufacturing firms in Nakuru town Kenya. Nakuru town has a total of thirty three manufacturing firms. Therefore the study targeted 33 general managers and 33 financial managers in manufacturing firms in Nakuru town making a total of 66 respondents. The study adopted a census since the population of the study is not so huge. The study used structured questionnaires that were distributed to all general managers and financial managers in manufacturing firms in Nakuru town. Structured questionnaires are data collection forms that comprises of a list of close-ended questions (Mugenda & Mugenda, 2003). Content validity of the research instrument was established in order to make sure that it reflected the content of the concepts in question. Data collected was processed and analyzed based on the objectives and research hypotheses using Statistical Package for Social Sciences (SPSS). This was done using both descriptive and inferential statistics. Descriptive statistics (percentages, frequencies, standard deviation and means) were presented in tables which were used to organize and summarize data and to describe the characteristics of the sample.

9. FINDINGS AND DISCUSSIONS

A total of 66 questionnaires were distributed to the respondents for them to fill. Out of the 66 questionnaires, 57 of them were properly filled and returned. This represented a response rate of 86.4%. A response rate below 51% is considered inadequate in social sciences (Pinsonneault & Kraemer, 1993). Babbie (1990) suggested that a response rate of 60% is good; 70% is very good. As such the response rate of this study which was 86.4% was considered excellent for data analysis

9.1. Descriptive Statistics Results

9.1.1 Equity Financing Decisions

Respondents' views regarding equity financing decisions were sought. The findings from the analysis were shown in table 1

Table 1: Descriptive Statistics on Equity Financing Decisions

	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
Through equity financing our manufacturing firm have managed to increase their profits	15.1	58.9	15.1	9.6	1.4	3.77	.874
Due to equity financing our firm have managed to improve the operation activities	23.3	52.1	21.9	2.7	0	3.96	.753
Our manufacturing firm create investments hence higher leverage to the organization	27.4	45.2	19.2	5.5	2.7	3.89	.966
Our manufacturing firm is capable of generating more cash flows that sustain the obligations of higher debt levels.	27.4	54.8	6.8	9.6	1.4	3.97	.928
Our manufacturing firm raises its capital though equity financing	16.4	47.9	30.1	4.1	1.4	3.74	.834
Equity financing has enabled our firm to be prudent in financial management	16.4	47.9	26.0	6.8	2.7	3.68	.926
Equity financing has made our firm to experience a substantial productivity growth advantage	15.1	63.0	13.7	6.8	1.4	3.84	.817
Valid N (listwise)	57						

From the table findings indicated that respondents agreed that through equity financing their manufacturing firm have managed to increase their profits. 58.9% of the respondents agreed while 15.1% of them strongly agreed. This statement

had a mean of 3.77 and a standard deviation of .874. Also majority of the respondents were in agreement that due to equity financing their firm have managed to improve their operation activities where 75.4% of the respondents strongly and/or agreed registering a mean of 3.96 and a standard deviation of .753. A mean of 3.89 and a standard deviation of .966 were recorded where the respondents agreed that their firm create investments hence higher leverage to the organization. 45.2% and 27.4% of the respondents agreed and strongly agreed respectively. Further, the researcher observed that respondents agreed that their manufacturing firm is capable of generating more cash flows that sustain the obligation of higher debt levels. 82.2% of the respondents strongly and/or agreed registering a mean of 3.97 and a standard deviation of .928. In addition, respondents agree that (M=3.74, SD=.834) their manufacturing firm raise its capital through equity financing where 47.9% of the respondents agreed while 16.4% strongly agreed. On the other hand, respondents agreed that equity financing has enabled their manufacturing firm to be prudent in financing management. A mean of 3.68 and a standard deviation of .926 were registered where 47.9% and 16.4% of the respondents strongly and/or agreed. Finally, respondents agreed that equity financing has made their firm to experience a substantial productivity growth advantage. 63.0% of the respondents agreed while 15.1% of them strongly agreed. This aspect had a mean of 3.84 and a standard deviation of .817.

9.1.2 Financial Sustainability

Descriptive statistics regarding financial sustainability were established. The findings were as presented in table 2.

Table 2: Descriptive Statistics on Financial Sustainability

	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
There is accountability in financial management in our manufacturing firm	24.7	56.2	19.2	0	0	4.05	.664
Our organization is able to generate more net income hence return on equity	21.9	61.6	12.3	1.4	2.7	3.99	.808
Due to the increased profits our organization is able to reinvest into the business	17.8	56.2	21.9	1.4	2.7	3.85	.828
Our firm accounts for its financial status when comparing the profits and the total assets	32.9	45.2	21.9	0	0	4.11	.737
Increased profits in our organization has led to increase in size and growth	37.0	37.0	21.9	4.1	0	4.07	.871
Our firm generates financial statements that shows it's wealth and can be used by their shareholders	30.1	50.7	16.4	2.7	0	4.08	.759
Valid N (listwise)	57						

Findings established that respondents were in agreement that there is accountability in financial management in their manufacturing firm where 56.2% of the respondents agreed while 24.7% of them strongly agreed. This had a mean of 4.05 and a standard deviation of .664. They also agreed that their organization is able to generate more net income hence return on equity. 83.5% of the respondents strongly and/or agreed recording a mean of 3.99 and a standard deviation of .808. Further respondents agreed that due to company's profits their organization is able to reinvest into the business. As such, 56.2% of the respondents agreed while 17.8% of them strongly agreed. 78.1% of the respondents strongly and/or agreed that their firm accounts for its financial status when comparing their profits and the total assets where a mean of 4.11 and a standard deviation of .737 were registered. Moreover, respondents agreed that increased profits in their organization has led to increase in size and growth where 74.0% of the respondents strongly and/or agreed registering a mean of 4.07 and a standard deviation of 8.71. Finally, respondents agreed that their firm generate financial statements that shows their wealth and can be used by their shareholders. 50.7% and 30.1% of the respondents agreed and strongly agreed respectively recording a mean of 4.08 and a standard deviation of .759.

9.2 Correlation Analysis

The study utilized Pearson correlation coefficient to examine the relationship between the independent variable and the dependent variable. Pearson product moment correlation coefficient was used to indicate the relationships. Findings from the analysis were as presented hereafter.

Relationship between Equity Financing Decisions and Financial sustainability

The two variables equity financing decisions and financial sustainability were correlated. Finding from the analysis were as indicated in table 3.

Table 3: Correlations between Equity Financing Decisions and Financial Sustainability

		Financial Sustainability
Equity Financing Decisions	Pearson Correlation	.430**
	Sig. (2-tailed)	.000
	N	57

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

Results from the findings established that there was an average positive significant ($r=.430$, $p=.000$) relationship between equity financing decisions and financial sustainability. Findings indicated that equity financing decision has significant influence on financial sustainability of manufacturing firms. As such equity financing decisions has a vital role in determining financial decisions of manufacturing firms in Nakuru town, Kenya. Findings were in agreement with findings of Bloom et al. (2009) who surveyed over 4,000 firms in Asia, Europe and the US to assess their management practices. They showed that private equity-backed firms are on average the best-managed ownership group in the sample, though they cannot rule out the possibility these firms were better managed before the Private Equity transaction. Davis et al. (2009) compared all US-based manufacturing establishments that received Private Equity investments between 1980 and 2005 with 5 similar establishments that did not receive PE investments. They showed that private equity-backed firms experienced a substantial productivity growth advantage (about two percentage points) in the two years following the transaction. About two-thirds of this differential is due to improved productivity among continuing establishments of the firms

10. CONCLUSIONS AND RECOMMENDATIONS

10.1 Conclusions of the Study

It was observed that equity financing decisions had a positive significant relationship with financial sustainability. As such, equity financing decision had a crucial role in determining financial sustainability of manufacturing firms. Through better equity financing decisions, firms are able to create investments giving them higher leverage since they are able to generate more cash flows that sustain their obligations of higher debt. As such, the study concluded that equity financing decisions play an important role in determining financial sustainability of manufacturing firms in Nakuru town.

10.2 Recommendations of the Study

It was recommended that the manufacturing firms in Nakuru should put policy measures in place to guide them while making equity financing decisions. Equity financing decisions were shown to be paramount in enhancing the sustainability of the manufacturing firms. Hence, instituting measures to ensure the right decisions are made in regard to equity financing will assure the firms of their financial sustainability.

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