

Abstract:

The choice between debt and equity for a business firm has implications on the value of a firm as well as strategic importance for corporate managers. Previous studies have addressed the issue of capital structure decisions from the point of view of large firms. The capital structure of Small and Medium - sized Enterprises (SMEs) has become a research topic only recently despite the fact that SMEs play a very crucial role in fostering growth and employment in many countries. Some research studies have investigated the relationship between capital structure mix as an independent variable and specific corporate characteristics as dependent variables. This paper reverses this order by investigating the influence of various corporate characteristics on the capital structure of deposit taking microfinance institutions (DTMs) in Kenya. DTMs are a special group of SMEs in Kenya, which create money through deposit mobilization and lending and are regulated by the Central Bank of Kenya (CBK). Using secondary data from financial reports of 7 out of 9 Licensed DTMs in Kenya for the period 2008 to 2012, this study has applied ordinary least squares (OLS) fixed - effect regression models to estimate the influence of firm corporate characteristics on capital structure measure of debt equity ratio. The corporate characteristics considered are: size, profitability, liquidity, growth, tangibility of assets and volatility of earnings. The study findings suggest that size and growth positively influence, in a significant way, the capital structure of DTMs in Kenya. Furthermore, liquidity, profitability, and tangibility of assets have been found to be negatively influencing the capital structure of the DTMs. These findings generally concur with the predictions of the pecking order theory and the signaling effects of capital structure decisions of firms.

Key Words: Deposit taking microfinance institutions (DTMs), Microfinance institutions (MFIs), Small and Medium Enterprises (SMEs), Capital Structure and Corporate characteristics