INFLUENCE OF FINANCIAL STRUCTURES ON PROFITABILITY OF SUPERMARKETS IN CENTRAL BUSINESS DISTRICT NAIROBI CITY KENYA

Stephen Kimani Kiarie[1] (Corresponding author), DR. Clement O. Olando (PhD)[2]

[1]Mount Kenya University, School of Business and Economics,
[2]Mount Kenya University, School of Business and Economics,
P.O Box 13495- 00100 Nairobi, Kenya

Abstract

Financial structure is combination of preference capital, equity capital, internal reserves and debt capital. Supermarkets in Nairobi have been facing financial challenges in their operations that have resulted to poor performance of Supermarkets. The poor performance has resulted to closure of major supermarkets in Nairobi CBD and other parts of the country. Thus, this research aims to investigate influence of financial structures on profitability of supermarkets in central business district Nairobi city Kenya. Specific objectives of research were to determine influence of long term financing on profitability of supermarkets, to establish influence of medium term financing on profitability of supermarkets, to examine influence of short term financing on profitability of supermarkets in CBD Nairobi City Kenya. The investigation used cross sectional descriptive research design. Target populace were 36 branch managers and accountants of all supermarket branches in CBD Nairobi city. The study used census approach. Primary information was gathered using questionnaires and secondary data was extracted from financial statements and annual reports. Descriptive statistics were involved to evaluate the information utilizing SPSS model 22. The study used a Pearson's correlation and multiple regression to show influence of the financial structures on profitability of supermarkets. Information was displayed in figures, tables and graphs. The study established that long term financing, medium term financing and short term financing positively and insignificantly influences profitability of supermarkets in CBD Nairobi city. Study concluded that long term financing, medium term financing and short term financing positively and insignificantly affects the profitability of supermarkets in CBD Nairobi City. Study recommends that supermarkets should employ more long term finances, medium term finances and short term finances since they are best choice of expanding productivity. Further recommends that government ought to boost retail sector through special loan scheme with terms that are not oppressive for supermarkets.

Keywords: Long term financing, Medium term financing, Short term financing, Profitability.

1.0 INTRODUCTION

1.1 Background to the Study

Worldwide financial structure of a company is known as daily concern for the managers of any organization, financial analysts and investors. Financial structure constitutes of short term-liability, medium term- liability, long term liability together with share capital that a corporate utilize to fund its activities. Financial structure decision is the association between a corporate preference stock, internal reserves, equity stock, together with obligation stock so as to figure out what capital blend would be most appropriate to maximize the profitability of the organization. Financial structure and financing alternative can decide the going concern of an organization as it can prompt to collapse of an organization [1]. As per [2] profitability is estimated by the capacity of a corporate to produce profits on a regular basis. Return on Asset looks at the how effectively management uses organization assets to produce profit. In a similar vein, return on equity estimates how profitable an organization is for the proprietor of the investment, and how profitably an organization utilize its equity.

In USA, UK, Japan and Germany financial structure is essential in determining growth and financial development. Sub Sarah Africa countries majority of which are portrayed by underdeveloped financial frameworks. The most of the financial systems were acquired from the countries' previous colonies which are portrayed by directed credit, state ownership of financial institutions and financial repression [3]. In United States, there have been nine retail insolvencies in 2017 the same number in 2016. Macy's, Sears, J.C. Penney and RadioShack independently declared in excess of 100 store terminations. The terminations have been credited to a few patterns including the ascent of internet business, lack of adequate finances and the overflow of shopping centers [4].

The financial structures of Nigeria, South Africa, Cote d'Ivoire and Zimbabwe countries is still overwhelmed by the banking sector, with less trading activity in financial markets. In Nigeria, financial structure of organization with high asset value has positive impact on budgetary execution. In Sri Lanka, growth and development opportunities for retails is positively linked to their using of debt and equity in organization. In Ghana corporate which adopt financial structure mix long-term liability together with short-term liability showed improvement and constructive correlation of retail liquidity and financial performance of the organization index in Ghana Stock Exchange [5].

In South Africa supermarkets development is due to different supply side determinants and interest on buyers. Supply side drivers include institutional and administrative changes, a flood in retail FDI and the modernization of supermarket store acquisition techniques. Interest side incorporate the fast urbanization of growing nations, expanded cooperation of gender in the work power and improved family unit stockpiling limit. Botswana is additionally the main nation that have experienced growth in general stores, which have developed worldwide, contending with South African general stores all through southern and East Africa [3].

In Eastern Africa, there is a developing interest for more outlets because of expanded urbanization. It is evaluated that the number of outlets will achieve 129,000 of every 2018 from the current 112,000 [6]. Uganda supermarket stores are predominantly confronting poor financial performance regarding low benefit, lacking liquidity and decreased profits for value and resource which has prompted the conclusion of goliath general stores like Cash and carry, Metropole, ShopRite branch, Uchumi, Nakumatt, Payless. In Tanzania the principle challenge of supermarkets is the absence of infrastructure, adequate financial and supermarkets are stood up to with distribution problems [7].

The first supermarket store in Kenya was Westland general store (1960), Abraham self-administration store (1970), uchumi supermarket (1975) all in Nairobi. In Kenya retail area is still amongst the best appealing for long haul speculators in Africa with an expansion rate of 30% regardless of financial issues that have left giants on the very edge of breakdown [8]. In Kenya retails which rely on borrowings they record poor financial performance as the organization becomes highly leverage as debt inflate the organization statement of financial performance. Long term debt is a means through which an organization can increase its productivity and investments strategy [9]. As [10] In Kenyan listed supermarket financial performance is weakly and favourably linked to reserves. Negative relationship between reserve, organization size and growth opportunities exists in listed supermarkets. Retail bankruptcy in Kenya is due to high level of debt in financial structure on which have led to numerous cases of insolvency of them, further uncovered that the supermarket in Nairobi confronted difficulties of lacking of capital for extension, government regulation, inadequate space for development and competition from hawkers who sell goods at low price.

Supermarkets in Nairobi city have been performing poorly due to financial constrains like Uchumi supermarkets has been under legislative supervision owing to unfortunate financial execution. There has been information on Nairobi supermarkets facing financial and market threats resulting into low-slung profit, closures and amalgamation. This has been accredited to lack of capital and stiff rivalry in the sector. This has made the supermarkets industry development in nation competing for scarce resources [10].

In the year 2016, Uchumi and Nakumatt encountered challenges of lack of adequate cash flows and mismanagement of working capital which resulted in closure of operative outlets and dispose off their asset to increase additional capital. Nakumatt supermarket has been undergoing financial difficulties in compensating providers together with lack of adequate inventories, this is due to high operating costs and cash flow difficulties. In the case of Uchumi, it was reported that some suppliers were taking advantage of poor bookkeeping to demand double payment and the new management could not prove whether they had supplied and payment made or not [10].

1.2 Statement of the Problem

Retail supermarkets in Kenya play a noteworthy role in the development of the Kenyan economy. As per Kenya National Bureau of Statistics 2018, retail sector is fifth major benefactor to Kenya Gross Domestic Product and third biggest supporter of private sector occupation, employing more than 238,500 Kenyan as well as accounted for more 10% of nation GDP. The profitability in retail sector reduced down by 18.4% in 2018. The supermarket in Nairobi city are riddled with a substantial obligation burden as well as continuous poor performance. As a result, several supermarkets have been experiencing decreasing in profitability leading to the stores being placed under insolvency [11].

In the year 2016, Uchumi and Nakumatt encountered challenges of lack of adequate cash flows and mismanagement of working capital which resulted in closure of operative outlets in Nairobi, Tanzania and Uganda leaving behind a trail of debt [12]. CBD Nairobi branches where Tuskys closed down Beba Beba and Sheik Karume Road branches, Nakumatt closed down Haile

Vol. 4, No. 04; 2020

ISSN: 2456-7760

Selassie and Ronald Ngala branches [13]. Early 2017 closure of Karrymart Supermarket Nairobi CBD which had creditors obligation claims worth 10 million of shillings [14]. In 2018 Ukwala Supermarket petitioned for liquidation, after it was unable to manage its suppliers due to financial constrains. In 2019 Ebrahim supermarket sold all its inventory at discount and stop its operation [15]. The issue of supermarket failure in CBD Nairobi is vigorous and real thus there is intense demand to determine whether this is connected to their financial framework they employ.

Local studies like [16] on impact of capital structure on financial performance of licensed microfinance banks in Kenya. [17] on capital structure decisions on financial performance of sugar manufacturing corporations in Kisumu County Kenya. [18] on capital structure and financial performance of SMEs in embu County Kenya. Thus its evident that above studies focused on capital structure on financial performance but not financial structures and profitability, further above studies factors under investigation were different and were conducted on different sector but not supermarket sector thus showing the existence of a knowledge gap that needs to be addressed. Therefore, this research concentrated on influence of financial structures on profitability of supermarkets in central business district Nairobi City Kenya.

1.3 Objectives of the Study

The aim of this investigation was to determine the influence of financial structures on profitability of supermarkets in central business district Nairobi City Kenya. Further specific objectives were:

i. To determine influence of long term financing on profitability of supermarkets in CBD Nairobi City Kenya.
ii. To establish influence of medium term financing on profitability of supermarkets in CBD Nairobi City Kenya.
iii. To examine influence of short term financing on profitability of supermarkets in CBD Nairobi City Kenya.

1.4 Research Questions

i. How does long term financing influence profitability of supermarkets in CBD Nairobi City Kenya?
ii. To what extent does medium term financing influence profitability of supermarkets in CBD Nairobi City Kenya?
iii. How does short term financing influence profitability of supermarkets in CBD Nairobi City Kenya?

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Pecking Order Theory (POT)

POT hypothesis was established by Donaldson 1961. It is a hypothesis which recommends that management likes finance first from retained earnings, at that point with obligation, trailed by crossbreed types of account, for example, convertible credits, and finally by utilizing external issued equity, with liquidation costs, agency expenses, and data asymmetries assuming little job in influencing the financial structure strategy. Firms usually capitalize expenditure through internally generated funds initially, after that through obligation finance, furthermore when thing go wrong they use shareholders' funds. The pecking order hypothesis of firm financing is one technique firms may use to address profitability problems. The fundamental segment of pecking request hypothesis is time. As indicated by the hypothesis, entrepreneurs should utilize individual funds first. Further indicated that obligation financing is empowered when a firm encounters inadequate profits, and furthermore when the value is underestimated [19].

2.1.2 Agency Theory

Theory was founded in year 1976 by Meckling and Jensen. Hypothesis uphold that there are two parties that is Agent and Principal. The agent is required to propel objectives of the principal. The agent is qualified for consult in the interest of a principal or bring the principal into a legally binding connection with an outsider. In any case, these relations result in to agency conflicts because of conflicts destinations of the individual parties. The founder contends that the thought processes of directors are regularly not lined up with those of investors and if administrators have a lot of money available to them, they utilize these advantages for addition individual advantages instead of increase the worth of the firm. Theory predicts organizations with higher free income results to increment in company's money property. The clarification of organization is to a great extent conflicting with changes in real money possessions of the firm [20].

2.1.3 Cash Conversion Cycle Theory (CCC).

This theory was founded in year 1980 by Laughlin together with Richards. They found that there need to focus on WCM together with it is segments. They perceive that regardless of the fact that a significant bit of monetary director's time is used decision relating to shorter resources and obligation, no consideration have been stated by analyst and scholars in this area. In like manner, they portray the creditors, stock and debtors as main components of CCC hypothesis. CCC hypothesis is significant in expounding on working capital since stressed over on view and elements of working capital. Decreasing CCC would expand firm productivity as found by [21].

2.2 Empirical Review

2.2.1 Long term Financing and Profitability of Supermarkets.

As per [22], examined influence of debt finance on monetary executions of manufacturing organization index NSE. Multiple relapse model was employed to evaluates information. They established a favourable and significant connection among ROA and debentures, existed favourable and critical association among record payables together with ROA among manufacturing organization index NSE. Interest on tax unfavourably affected ROA. Unit increment of interest on tax reduces return on asset by 1.6 units.

Another assessment by [23] assessed equity finance on monetary executions of small medium enterprises Embu county Kenya. They employed lapse model along with inferential statistic, the outcomes were that Small Medium Enterprises have significant partiality for ploughing back profit together with contribution from friends as a wellspring of owner fund. Conclusion were that owner funds have beneficial relation with money related execution of the small medium enterprises. Further concluded executions of this small medium enterprises were with great extent impacted by the liquidity position and wellspring of fund.

According to [9] analyzed impact of fixed debt on fiscal execution of public Sugar organization in Kenya. Investigation concluded that permanent obligations negatively affected corporate executions, thus opposite relationship among permanent obligations and corporate financial Performance. Long term obligation negatively influences corporate financial achievement yet not statistically consequential. Sugar corporate has used permanent obligations which has adversely affected their financial achievement. Sugar corporate should not depend on long term obligation in their financial structure, since larger ratio of long term debt negatively influence corporate financial performance.

According to [24], conducted an investigation on obligation asset and money related execution: An investigation in South Africa organization in retail sector together with wholesalers. The motivation behind this investigation was to analyze how Obligation asset in recorded organizations working in general stores at South Africa influence the money related execution. Examination affirms that obligation capital, regarding short term obligations and long haul obligation, negatively impact on money related execution of general Stores.

As per [25], conveyed an investigation on the influence of obligation funding and corporate execution: an investigation in non-monetary sector of Pakistan from 2006 – 2014. The examination used non primary information, Statistics were evaluated via Housman test and Panel least square. The study established that obligation funding had adverse and furthermore substantial influence on organization execution. Investigation presumed debt had negative influence on the presentation of companies in non- budgetary sector of Pakistan. That upsurge in obligation cause the fall in performance of the corporations since debt is the costly source of finance.

2.2.2 Medium term Financing and Profitability of Supermarkets.

[26], surveyed financial leasing of Jordanian Islamic banks during the financial period 2010-2016. The examination used regression to analyses data. Conclusion were that there is no influence of the leasing income on the ROE and there is influence of the financial lease income on the ROA.Further effective use of leased assets had a positive influence on profits of Islamic bank and more financing had a positive influence on profits of Islamic bank. Lastly lease financing has significant influence on the ROE together with ROA as indicated by financial performance. Examination recommend banks ought to adopt rent funding like strategy for funding the organization operations which will expand profitability.

Another survey by [27], Examined impact of lease financing and financial execution of corporate index at NSE. Survey employed relapse examination together with SPSS were utilized to dissect information. Outcome were that liquidity and lease financing effectively affected ROA. Leverage together with magnitude adversely affected ROA.Further presumed existed constructive connection among ROA and lease financing therefore, level of lease financing affect monetary execution in organization index security exchange. Further investigation concluded magnitude of the corporate do not impact on corporate financial execution, liquidity of a corporate had significant impact of corporate index at NSE.Thus, the fiscal performance corporate index at NSE is affected by the levels of firm liquidity, leverage of the corporate had no impact on monetary performance of corporate index at NSE.

[28], studied the asset based financing solutions on development of SMEs in Nairobi County Kenya. Causal investigation strategy together with SPSS were utilized to analyze information. On the single asset based financing solutions, research found that local purchase order financing had significant impact on small medium enterprises developments including giving working capital, upgrade technology, aiding them procure workforce and establish quick delivery of goods and services. High liquidity was found through using cheque discounting in Small medium enterprises, which was important for future business feasibility and empowering them can foresee better costs and limits when paying in real money. Leasing have distinct advantage in Small medium enterprises such as leased assets were paid after some time with profit they earn, include an insurance policy that lessen risk and required no security.

Another investigation by [29] directed an investigation to determine impact of lease finance on Execution SMES Pakistan. Data was analyzed using regression and cross- sectional method. The outcome was that favourable and consequential relation between ROA together with lease finance. ROE and lease finance had a favourable and consequential relation. Conclusion were that Medium size firm's financial performance improved and increase by enhancing lease financing. Budgetary execution of SMEs is directly affected by the lease financing resolutions. Increment in lease financing improve organization productivity.

As per [30] found that lease choice doesn't had a consequential influence on the firm's credit rankings. The cost of capital for index firm do not appear to diverge with lease option, where un-index organization perceive high decrease in their value of capital when they incorporate capital leases overworking leases. Conclusion were that adopting a distinct lease option do not have numerical significant impact on credit ratings where adopting a working lease consequentially reduce price of obligation. Index status does not affect the connection among credit ratings and lease selection, but adopting working lease reduce price of obligation barely of un-index firms.

2.2.3 Short -term Financing and Profitability of Supermarkets.

As per [31] determined impact of short-term funding on achievement of organization and productivity in Pakistan. Outcome were that short-term financing is constructive however inconsequential identified with firms' productivity. To the extent risk adjusted benefit together with short term financing is distressed, outcome affirms assumption that short-term funds had none effect on risk adjusted profitability. Study concluded that more dependency on short term funds they are constructive connected to organization productivity because of its monitoring role and lower cost, nevertheless, a higher level of intermediate funds is forecasted in expand threat of indebtedness or financial distress.

Another analysis by [32], assessed the impact of short-term financing choices on monetary execution of non-money related corporate index on NSE. Relapse outcome establish that stock turnover choices had favorable impact in ROA and ROE, although only the relation between return on assets together with inventory turnover firmness is significant. Further result was that

ISSN: 2456-7760

accounts debtor's turnover firmness had consequential unfavourable influence on ROE together with ROA where accounts creditors turnover firmness had consequential favourable influence on ROE together with ROA. Lastly analysis revealed relation among working capital choice element has consequential impact in ROA and ROE.

[33] On effect of trade credit for value of profitmaking and services organization index on NSE Kenya, Study employed Multiple linear regression and SPSS for data analysis. Analysis found that trade credit had a solid relationship with value of commercial and services organizations, further assets of organization and trade credit are measurably significant determinants of value of commercial and services organizations. Study concluded that trade credit had a significant and constructive impact on value of organization thus increase in trade credit leads to an expand in value of organization. Lastly assets of organization consequential and unfavorable impact on value of organization. [34] seeks to analyze the impact of exchange credit on corporate productivity in Pakistan found that trade credit to suppliers and buyers would increase the profitability and growth in non-financial corporate, be that as it may, it tends to be related with the risk component. Further they established that a connection related to receivable and payable with bank loan.

Additionally, [35], did an examination in establishing influence on firm Trade Credit in Korean Firms. Regression model and t-test were used to analyze information for period of 1992- 2011. Outcome were that older firms with bigger size, higher profits and lower growth, tend to extend debtors. Further organization with greater leverage and larger size, just as youthful firms, seem to utilize creditor liabilities.

Another investigation by [36], conveyed an investigation on impact of WCM and monetary performance of general store in Nairobi. Investigation reasoned that Day on Sales Accrued together with Day on Sales in stock had no huge relationship on financial performance in the grocery store. Further Days of Payables Outstanding had modestly critical effect on the budgetary execution on supermarket. This therefore infers that current liabilities and current asset are main focus to ensure uniformity and capability by utilizing them thus expands in sales eventually productivity may decrease as cash is invested in operating capital.

[37] analyzed WCM in South Africa supermarkets. Reason for the examination was to explore on impact on WCM in productivity of supermarket. The result demonstrated that a system of lessening interest in stock, debtors, expanding creditors, seems upgrading the productivity of supermarkets. Stock control appears being most grounded measurably critical effect on the organization productivity. Henceforth, suggested on organization that execute propelled stock administration frameworks so as upgrade stock levels and improve profitability.

2.3 Conceptual Framework

Conceptual framework provides an intelligent arrangement of associated ideas that aid to give a depiction of concepts of an examination identify with each other within the investigation.

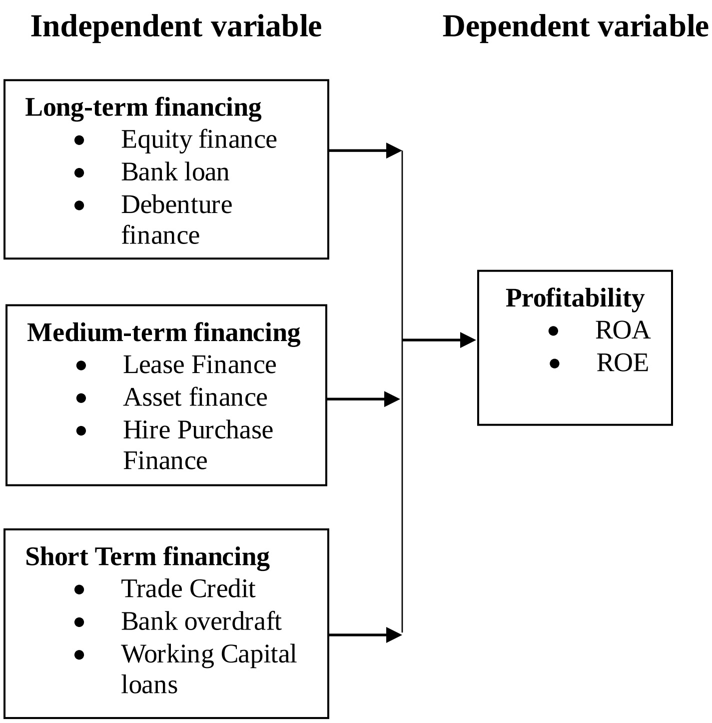

Figure 1 Conceptual framework

Source: Researcher 2019

3.0 RESEARCH METHODOLOGY

3.1 Research Design

It refers to methods used by a researcher to investigate relationship between factors, to shape items into gathering, to oversee treatments and analyze data [38]. Research employed cross sectional descriptive research design to obtain information for financial structures and profitability of supermarket in Nairobi CBD. Design was selected since it enables the specialist to assemble descriptive data to evaluate the connection among explanatory variable and response variable.

3.2 Location of the Study

Investigation was carried out at CBD Nairobi. Central Business District is the center point of business and economic activities and most of the supermarkets have branches at Nairobi central district business. The researcher opted to use this location because is where the research problem was found.

3.3 Target Population

Target populace of the examination comprises of branch managers and accountants of all 18 supermarkets branches in Nairobi CBD licensed by Nairobi city council as shown in table 1 below.

ISSN: 2456-7760

Table 1: Target Population

Number of Supermarkets	Branch managers & Accountants
18	36
Totals	36

Source: Nairobi City Council (2019)

3.4 Sampling Procedures and Techniques

The way toward choosing two or three cases from the objective population so as to give data that can be used to make judgments about a much larger number of cases is called sampling [38]. Since the sample was small the study used census. A census study involves the inclusion of all the elements in a sampling frame or population in a study [39].

3.5 Sample Population

A sample is designated objects chosen to act as the entire populace. The research study used census approach. Therefore, census approach was chosen since population was small and manageable [39].

Table 2: Sample Population

	Population Frequency	Percentage
Branch managers	18	50%
Accountants	18	50%
Totals	36	100%

Source: Researcher 2019.

3.6 Construction of Research Instruments

The information was gathered utilizing questionnaires. The reason for choosing of questionnaires is because it collects a lot of data, uniformity of responses and simple data analysis.

3.7 Piloting of Research Instrument

The pilot examination was conducted on the questionnaire involving respondents who did not partake in the information gathering process for principle survey. Pre-testing of instrument was undertaken by 10 respondents. As per [40] indicated 10 to 30 respondents are adequate for pilot study.

3.8 Validity Test

Research tested both content and face validity. Face validity is to the external appearance and appeal of research instruments. Content validity measures the appropriateness, the comprehensiveness and the adequacy of the content of a study [38]. To assurance content validity in the study, the questionnaires were exposed to a board of 3 finance expert.

3.9 Reliability Test

Research used internal control measure based on Cronbach Alpha method. Alpha worth changes somewhere in the range of 0 and 1 with dependability expanding with the expansion in value. As indicated by [41] the threshold for the Cronbach Alpha is 0.7, such that when Alpha (α) > or = to 0.7 the instrument is reliable, else it inconsistent.

Vol. 4, No. 04; 2020

ISSN: 2456-7760

3.10 Data Collection Methods and Procedures.

Research used information gathered from primary sources using questionnaires and secondary sources from financial statements and annual reports of supermarkets. Researcher sought authorization letter from university to permit researcher conduct study and further sought authorization from the important authority prior to conducting research.

3.11 Proposed Data Analysis Techniques and Procedures

Information from questionnaires was coded and broke down by descriptive measurements utilizing SPSS. Group of information was narrated through standard deviation, percentage and mean and was displayed utilizing figures, tables, charts, graphs and diagrams. Inferential measurements of Correlation Coefficients were commenced to conclude connections from the information gathered. Further regression review was used to evaluate profitability in terms of financial structures as shown in equation below

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \qquad (1)$$

Where: Y is profitability.

α = constant.

X_1, X_2, and X_3=Long term financing, Medium term financing and Short term financing respectively.

ε: Error.

β_1, β_2, and β_3: are the coefficients of Long term financing, Medium term financing and Short term financing.

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 Descriptive Statistics

4.1.1 Long term financing and Profitability

The first objective of the study was to determine the influence of long term financing on profitability of supermarkets in CBD Nairobi City Kenya. Table 3 indicates that respondent strongly agreed with the assertion that organization is financed by equity (M =3.84; SD = 0.735), they strongly agreed that organization is financed by bank loan (M = 4.29; SD = 0.588). They also disagreed that organization is financed by Debenture, (M = 2.42; SD = 0.848). They also agreed that long term financing directly influence profitability of organization (M = 3.77.; SD = 0.56), agreed long term financing increased profitability of organization (M=3.65; SD=0.709). Further accord with the assertion that lack of finance has led to poor profitability of the organization (M= 3.74; SD=0.514). These outcomes revealed that on normal long term financing had a modest impact on profitability of supermarkets in CBD Nairobi City (M = 3.66; SD =0.661).

Table 3: Long term financing

Long term finance	Mean	Std. Deviation
Organization is financed by equity	3.84	0.735
Organization is financed by bank loan	4.29	0.588
Organization is financed by Debenture	2.42	0.848
long term financing directly influence profitability of organization	3.77	0.560
Have long term financing increased profitability of organization	3.65	0.709
Lack of finance has led to poor profitability of the organization	3.74	0.514
Effect of long term finance	3.66	0.661

Source: Field Data (2019)

4.1.2 Medium term financing and Profitability

The second objective of the study was to establish influence of medium term financing on profitability of supermarkets in CBD Nairobi City Kenya. Table 4 indicates that respondent strongly agreed with the assertion that asset finance is used as financing method for fixed asset (M =3.81; SD = 0.601), they agreed that lease finance is employed by the organization (M=3.61; SD=0.615). Respondent remained neutral on organization uses lease financing to invest in additional assets (M = 2.84; SD = 0.898). They also strongly agreed fixed asset have purchased by hire purchase finance (M=3.84; SD=0.523), additionally respondent strongly agreed with the assertion that Medium term financing have led to growth in revenue (M=4.00; SD=0.632). Consent that medium term financing has improved profitability of organization (M = 3.77; SD =0.617). These outcomes revealed that on normal medium term financing had a high influence on profitability of supermarkets in CBD Nairobi City (M = 3.65; SD =0.65).

Table 4: Medium Term Financing

Medium Term Finance	Mean	Std. Deviation
Asset finance is used as financing method for fixed asset.	3.81	0.601
Lease finance is employed by the organization.	3.61	0.615
Organization uses lease financing to invest in additional assets.	2.84	0.898
Fixed asset have purchased by hire purchase finance.	3.84	0.523
Medium term financing have led to growth in revenue.	4.00	0.632
Medium term financing have improved profitability of organization.	3.77	0.617
Effect of medium term financing	**3.65**	**0.650**

Source: Field Data (2019)

4.1.3 Short term financing and Profitability

The third objective of the study was to examine influence of short term financing on profitability of supermarkets in CBD Nairobi City Kenya. Table 5 indicates that Respondents strongly agreed with assertion that trade credit is used as financing for the organization working capital (M=4.45; SD=0.506), respondents strongly accord that bank overdraft is source for short term financing in the organization (M=4.39; SD=0.558). Respondents additional agreed firm uses working capital loans to finance its daily operations (M=3.97; SD=0.547). Further accord that short term financing influences profitability of the organization (M=3.65; SD=0.486), agreed that Short term financing has improved Liquidity of organization (M=3.84; SD=0.583). They agreed with the assertion that Short term financing has improved profitability (M=3.74; SD=0.514). These outcomes revealed that on normal short term financing had a high influence on profitability of supermarkets in CBD Nairobi City (M = 4.01; SD =0.531).

Table5: Short term financing

Short term finance	Mean	Std. Deviation
Trade credit is used as financing for the organization working capital.	4.45	0.506
Bank overdraft is source for short term financing in the organization	4.39	0.558
Firm uses working capital loans to finance its daily operations.	3.97	0.547
Short term financing influences profitability of the organization.	3.65	0.486
Short term financing has improved Liquidity of organization	3.84	0.583
Short term financing has improved Profitability.	3.74	0.514
Effect of Short term financing	**4.01**	**0.531**

Source: Field Data (2019)

4.2 Inferential Statistics

4.2.1 Correlation Analysis

The survey established Correlation examination on research factors to find whether there existed any noteworthy correlation among financial structures and profitability of supermarkets in CBD Nairobi city Kenya. The correlation tested using the Pearson's Product Moment Correlation as indicated in Table 6 below.

Table 6: Correlation Matrix

Correlations

		Profitability	Long term financing	Medium term financing	Short term financing
Profitability	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	31			
Long term financing	Pearson Correlation	.596**	1		
	Sig. (2-tailed)	.000			
	N	31	31		
Medium term financing	Pearson Correlation	.579**	.864**	1	
	Sig. (2-tailed)	.001	.000		
	N	31	31	31	
Short term financing	Pearson Correlation	.612**	.813**	.931**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	31	31	31	31

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Field Data (2019)

The outcomes of correlation analysis in Table 6 showed that long term financing, medium term financing and short term financing positively related to profitability of supermarket in CBD

ISSN: 2456-7760

Nairobi City Kenya, because p-value for each was less than 0.05. i.e. long term financing (r = 0. 596, p-value = 0.000) this implies that it was positive and statistically significant hence a unit upsurge in long term financing result to upsurge in profitability. Medium term financing (r=0. 579, p -value = 0.001) this implies that it was positive and statistically significant, hence a unit expand in medium term financing effect to expand in profitability. Short term financing (r=0.612, p-value=0.00) this implies that it was positive and statistically significant, hence a unit increment in short term financing result to increment in profitability.

4.2.2 Regression Analysis

A multiple regression examination was conducted to analyze association between independent variable together with dependent variable. Regression results in Table 7 show that the goodness of fit for the regression of independent variables and dependent variable. Regression result show a coefficient of determination R of 0.639 which indicate a positive relation between financial structures and profitability. Further R squared of 0.408 designates that 40.8 % of the variations in profitability of supermarket are jointly accounted for by the variations in long term financing, medium term financing along with short term financing. Subsequently, different variables not secured by the examination add to 59.2% of the variance.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639[a]	.408	.343	.607
a. Predictors: (Constant), Long term financing, Medium term financing Short term financing,				

Source: Field Data (2019)

4.2.3 Analysis of Variance

The investigation used One-way ANOVA to establish significance of lapse model statistics was used to check whether the whole model was statistically forecasting that predictable variable had influence on profitability of supermarket in CBD Nairobi city. The general significance of the model on Table 8 provided an (F= 6.211: p value < 0.002) that is long term financing, medium term financing along with short term financing are good explanatory variables for profitability of supermarket in CBD Nairobi city. This indicated that the overall model was a good fit.

Table 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.875	3	2.292	6.211	.002[b]
	Residual	9.963	27	.369		
	Total	16.839	30			
a. Dependent Variable: Profitability						
b. Predictors: (Constant), Long term financing, Medium term financing, Short term financing						

Source: Field Data (2019)

4.2.4 Regression Coefficients

According to regression equation below holding all other variable constant at zero profitability would increase with 0.867. The result designate that long-term financing had a positive and insignificant influence on profitability (β = 0.428: p-value = 0.231). This infers that an increase in long term financing effectiveness by 1 unit prompts an expansion in profitability at 42.8%. Further result designate that medium term financing had a constructive and inconsequential influence on profitability (β = 0.25: p-value = 0.638). This infers that an increment in medium term financing effectiveness by 1 unit prompts an expansion in profitability at 25%. The result designate that short term financing has a positive and insignificant influence on profitability (β = 0.584: p-value = 0.205). This infers that an expand in short term financing effectiveness by 1 unit prompts an expansion in profitability at 58.4%.

Table 9: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.867	.785		1.104	.279
	Long term financing	.428	.349	.361	1.227	.231
	Medium term financing	.250	.526	.223	.475	.638
	Short term financing	.584	.450	.526	1.297	.205

The multiple relapse equation is as shown below:

$Y = 0.867 + 0.428\ X_1 + 0.250\ X_2 + 0.584\ X_3$

Source: Field Data (2019)

4.3 Trend Analysis

4.3.1 Return on Asset (ROA)

Figure 7 shows the trend results for the companies ROA for a period of 3 years. This means that return on asset has constantly increasing from year 2016 to 2018. Trend line shows that the R^2 is +1 an indication that return on asset has been increasing at increasing rate across the years.

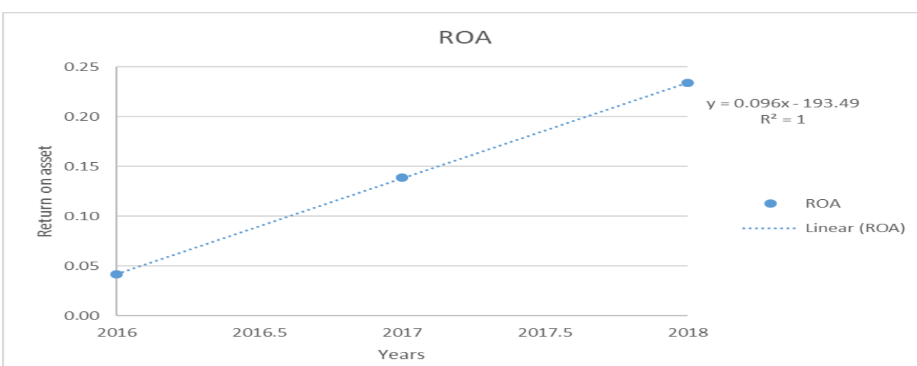

Figure 2: Return on Asset

Source: Researcher 2019

ISSN: 2456-7760

4.3.2 Return on Equity (ROE)

Figure 8 shows trend results for the companies return on equity for a period of 3 years. This means that return on equity has constantly increasing from year 2016 to 2018. Trend line shows that the R² is +0.9985 an indication that return on equity has been increasing at increasing rate across the years.

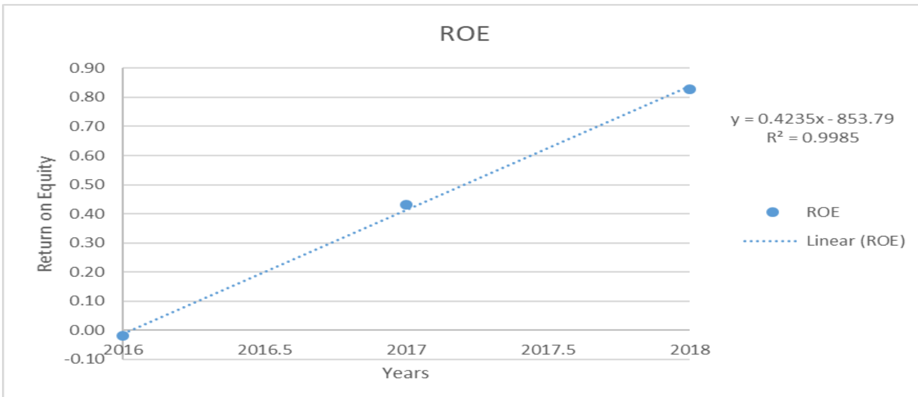

Figure 3: Return on Asset

Source: Researcher 2019

4.3 Discussion of Individual Objectives Results.

4.3.1 Influence of long term financing on Profitability of Supermarkets.

The study found that long term financing positively and significantly associated with the profitability that is (r=0.596 and P value <0.00). Further regression found that long term financing had a positive and insignificant influence on profitability (β = 0.428: p-value =0.231). This implies that an expand in long term financing prompts an expansion in supermarket profitability that is a unit upsurge in long-term financing result to 42.8% growth in profitability. Study found that Organization is financed by equity and bank loan. Further study found that long term financing directly influences profitability of organization, long term financing increased profitability of organization and lack of finance has led to poor profitability of the organization. These outcomes showed that on normal the long term financing had a modest impact on profitability of supermarkets in CBD Nairobi City. The results agree with [22], that debt and equity financing positively and significantly influence productivity and return on asset. Finding further support [23], that equity financing expands fiscal performance of organization. Agreed with Abor [5] corporate which adopt financial structure that consist of long-term liability together with short-term liability showed improvement and constructive correlation of retail liquidity and financial performance. The result disagrees with [9], and [24], who posit that long term financing negatively impact on profitability of supermarkets.

4.3.2 Influence of Medium term financing on Profitability of Supermarkets.

The research found that medium term financing positively and significantly associated with the profitability that is (r=0.579 and P value <0.001). Regression found that medium term financing had a positive and insignificant impact on profitability (β = 0.25: p-value =0.638). This implies that an expand of medium term financing leads to an increment in supermarket profitability hence a unit upsurge in medium term financing out-turn to 25% increment in profitability. Analysis found that Asset finance is used as financing method for fixed asset, lease finance is employed by the organization, further study found that fixed asset have purchased by hire purchase finance, Medium term financing have improved profitability of organization and medium term financing have led to growth in revenue. These outcomes showed that on normal the Medium term financing had a high influence on profitability of supermarkets in CBD Nairobi City. This outcome agreed with [26] that leasing financing had a strong positive influence on profitability of firm. Further results concur with [28], that Asset financing had significant impact on SMEs. Additionally, outcomes are consistent with [29] that medium term finance especially lease financing improve organization productivity. Result still agreed with [27] that liquidity and lease financing effectively affected return on asset and equity. Further finding differ with [30], that lease option does not have consequential impact on firms credit ratings.

4.3.3 Influence of Short term financing on Profitability of Supermarkets

The survey found that short term financing positively and significantly associated with the profitability that is ($r=0.612$ and P value <0.00). Further regression established that short-term financing had a constructive and insignificant influence on profitability ($\beta = 0.584$: p-value = 0.205). This indicates that an increase in short term financing leads to an upsurge in supermarket profitability, hence unit increment in short term financing result to 58.4% increment in profitability. Study further found that trade credit is used as financing for the organization working capital, bank overdraft is source for short term financing in the organization, firm uses working capital loans to finance their daily operation. Short term financing influences profitability of the organization. Further investigation found that Short term financing has improved Liquidity of organization long with profitability. These outcomes showed that on normal the short-term financing had a high influence on profitability of supermarkets in CBD Nairobi City. The outcomes agree with [31], that short-term financing had constructive effect however inconsequential identified with firms' productivity. Further outcomes are consistent with that of [32] that short term financing had consequential favorable effect on ROA together with ROE. The discoveries are again in line with that of [33] that trade credit had a solid relationship with value of firm.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

5.1.1 Influence of Long term financing on Profitability of Supermarkets

The first aim of research was to determine Influence of long term financing on profitability of supermarkets in CBD Nairobi City Kenya. The study found that long term financing had a positive influence on profitability. Further found that effect was statistically insignificant. This implies that employing more long term financing result to increase in profitability of organization. According to findings most respondent agreed that supermarkets are financed by equity and bank loan. They also disagreed that supermarkets are financed by debenture. Further agreed that long term financing directly influence profitability of supermarkets, that long term financing increased profitability of supermarkets and that lack of finance has led to poor profitability of the supermarkets. These outcomes showed that on normal the long term financing had a modest impact on profitability of supermarkets in CBD Nairobi City.

5.1.2 Influence of Medium term financing on Profitability of Supermarkets

The second objective of study was to establish influence of medium term financing on profitability of supermarkets in CBD Nairobi City, Kenya. The study found that medium term financing positively and significantly affects the profitability. This finding indicate that an increase in medium term financing improves profitability of organization thus positive relationships. According to findings most respondent agreed that Asset finance is used as financing method for fixed asset, that lease finance is employed by the supermarkets as medium term financing, that fixed asset have been purchased by hire purchase finance. Further they agreed that Medium term financing have improved profitability of supermarkets and medium term financing have led to growth in revenue. These outcomes showed that on normal the Medium term financing had a high influence on profitability of supermarkets in CBD Nairobi City.

5.1.3 Influence of Short term financing on Profitability of Supermarkets

Third aim of study was examining Influence of short term financing on profitability of supermarkets in CBD Nairobi City Kenya. The study established that short term financing had a positive influence on profitability of supermarkets. This effect was statistically significant. This finding shows that when organization utilize more short term financings it expands and improve profitability of organization. According to findings most respondent agreed that trade credit is used as financing for the supermarkets working capital, that bank overdraft is source for short term financing in the supermarkets, that supermarkets uses working capital loans to finance their daily operation.

5.2 Conclusions

5.2.1 Influence of Long term financing on Profitability of Supermarkets

The study concluded that long term financing had a positive and statistically insignificant influence on profitability of supermarkets in CBD Nairobi City, Kenya. The study further concluded that long term financing had a modest impact on profitability of supermarkets in CBD Nairobi City.

5.2.2 Influence of Medium term financing on Profitability of Supermarkets

The study concluded that medium term financing positively and insignificantly influences the profitability of supermarkets in CBD Nairobi City, Kenya. Further concluded that medium term financing had a high influence on profitability of supermarkets in CBD Nairobi City.

5.2.3 Influence of Short term financing on Profitability of Supermarkets

The study concluded that short term financing had a positive and statistically insignificant influence on profitability of supermarkets in CBD Nairobi City, Kenya. Further concluded that short term financing had a high influence on profitability of supermarkets in CBD Nairobi City.

5.3 Recommendations for Practice

First objective revealed that increase in long term financing had a positive influence on profitability of supermarkets in CBD Nairobi city. Based on this outcome, the study recommends that investors should input more long term finances since they enhance profitability of organization. They can improve this through formulating and choosing the best combination of equity and debt for their organization that is optimal financial structure. The study further recommend that they should involve financial specialists in evaluating organization financial needs.

Secondly research established that medium term financing positively and significantly affects the profitability of supermarkets in CBD Nairobi city. Based on this outcome, the study recommends that shareholders should look for more medium term financing since medium term finances are best choice of expanding productivity. Further the study recommend that medium term financing should have considered source of finance for new asset in organization.

Thirdly study established that short term financing had a positive influence on profitability of supermarkets in CBD Nairobi city. Grounded on this outcome the survey recommended that managers should establish measures that would ensure increase in using short term financing in organization since it leads to increase in profitability. Further study recommends that following measure should have employed better credit policies, trade credit policy and procedures, implementing aggressive stock management in order to avoid stock out cost thus improving on productivity.

Further the analyst recommends that government ought to boost retail sector through special loan scheme with terms that are not oppressive for supermarkets, leasing, venture capital funds. Further government should create conducive environment such as generalization of licensing procedures, tax holidays and havens for easier capital access and improving their performance.

Study recommend that Retail Trade Association of Kenya and Ministry of Industry, Trade and Cooperative to ensure right regulation, control and supervision of retail sector is done on professional manner. Further to defend the enthusiasm of the stakeholder’s.

5.4 Recommendations for further Research

This study provides insight into the relation between financial structures and profitability of supermarkets in CBD Nairobi city Kenya. The outcomes show that the indicators of financial structures namely short term financing, long term financing and medium term financing are not merely factors. Therefore, researcher recommend forthcoming researchers are stimulated to take into account the effect of the other variables that may affect profitability.

Secondly, the study was undertaken in Nairobi city yet the supermarkets have expanded to other counties in Kenya. Moreover, the study of only 18 supermarkets could be considered not to be representative of retail business within retail sector therefore study recommend that forthcoming investigations ought to be carried out to others counties in Kenya.

Vol. 4, No. 04; 2020

ISSN: 2456-7760

Additionally, study recommend that future studies should debate the interrelationships and pinpoint more comprehensive indicators of profitability. Future research may be diversified to include mini supermarkets provide a superior platform for analysis together with evaluation. Furthermore, an investigation can be carried through to establish whether these findings hold in other industry sectors. Lastly study recommends analysis on determinant of optimal financial structure in supermarkets

REFERENCES

[1] Swain, R.N., & Patnaik, B. (2015). Financial structure analysis of Indian companies: A review of literature. Asia Pacific Journal of research in business management,4,87-94.

[2] Shuaibu, H. (2015). Capital structure and profitability: Evidence from listed deposit money banks (dmbs) in Nigeria, Kaduna state university, Kaduna.

[3] das Nair, R., & Chicora, S. (2016). The expansion of regional supermarket chains and implications for local suppliers: A comparison of findings from South Africa, Botswana, Zambia and Zimbabwe. WIDER Working Paper 2016/169. Helsinki: UNU-WIDER.

[4] Thompson, D. (2017). What in the world is causing the retail meltdown of 2017? The Atlantic journal, 10.

[5] Abor, J. (2015). The influence of capital structure on productivity; empirical investigation of listed firms in Ghana. Journal of Risk Finance, 438-445.

[6] Gains Report (2015). The growth of general store africa: indications for agriculture nourishment systems and the rural poor. Author.

[7] Odyek, J. (2017). Major as well as last outlets of nakumatt liquidation. New vision 2017.

[8] Chesula, O. W., & Nkobe, K.D. (2018). Evaluating the course of havoc in Kenya's retail segment. The International Journal of Business & Management,6(8),221-228.

[9] Ikapel, O. F., & Kajirwa, I.H. (2017). Analysis of long term debt and financial performance of state owned sugar firms in Kenya, International Journal of Commerce and Management Research,3(2),108 -111.

[10] Ogwang, K. P. (2016). Strategic role of big data analytics on the competitive advantage of supermarket chains: A Case Study of Nakumatt Holdings Limited. Doctoral dissertation, United States International University-Africa.

[11] Cytonn Investments Report, (2018). Kenya's retail segment report 2018: Retail sector recovers in key urban cities except Nairobi. Author.

[12] Anyanzwa, J. (2018). East African Business report 2018.

[13] Guguyu, O. (2018). Local top tier supermarket chains report 2018.

[14] Ngugi, B. (2017). Suppliers lodge claims on coal tycoon's Karrymart Supermarket. Business Daily Africa.

[15] Shawiza, V. (2019). The ailing Retail Sector in Kenya: Which Way for Supermarkets as Giants continue to fall?

[16] Wangombe, B. G., & Kibati, P. (2019). Influence of capital structure on financial performance of licensed microfinance banks in Kenya. The Strategic Journal of Business & Change Management 6, (2), 815 – 835.

[17] Ongombe, K.O., & Mungai, J. (2018). Capital structure decisions and financial performance of sugar manufacturing firms in Kisumu City, Kenya, International academic journal of economics and finance 3(2), 336-356.

[18] Njagi, I. K. (2017). Capital structure and financial performance of small and medium enterprises in Embu county, Kenya. Master Thesis, University of Embu, Kenya.

[19] Borad, S. (2018). Pecking Order Theory. Finance Management, Oxford Publishers.

[20] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3.

[21] Lyngstadaas, H., & Berg, T. (2016). Working capital management: Evidence from Norway. International Journal of Managerial Finance, 12(3), 295–313.

[22] Karuma, M. N., Ndambiri, A. N., & Oluoch, J. O. (2018). Effect of debt financing on financial performance of manufacturing firms in nairobi securities exchange. The Strategic Journal of Business & Change Management ,5(2),1674- 1691.

[23] Maina, K.E., Kariuki, S., & Njagi, I.K. (2017). Equity funding on monetary performance of small medium enterprises in Embu town, Kenya. International Academic Journal of Economics and Finance,2(3), 74-91.

[24] Magoro ,K.M.R., & Abeywardhana ,D.K.Y. (2017). Obligation capital along with money related execution: An investigation of South African organizations. Global Journal of Scientific Research and Innovative Technology, 4(4), 71-84.

[25] Aziz, S., & Abbas, U. (2019) Influence of obligation funding on corporate presentation: An investigation on non-monetary area of Pakistan. Journal of economics and commerce 2(1), 8-15.

[26] Alkhazaleh, A.M.K., & Al-Dwiry, J.M. (2018). Impact of financial leasing on financial performance of Islamic banks: a case study of Jordan. Academy of Accounting and Financial Studies Journal,22(1), 1-14.

[27] Obiero, J. (2016). Impact of lease funding and fiscal execution of companies registered at NSE. Unpublished Master Project, UoN, Nairobi.

[28] Kimathi, J. (2017). Asset-based financing solutions and the evolution of processing (sme) at nairobi City, Kenya. Master Thesis, United States International University Africa.

[29] Khalil, M.J., Ahemad, I., Javed, H., Atta, S., & Nadeem, M. (2017). Impact of lease finance on performance of SMES in Pakistan. Journal of Management Research and Analysis, 4(4),133-136.

[30] Park, Y., & Na, K. (2018). The effect of lease accounting on credit rating and cost of debt: evidence from firms in Korea. Journal of social science,7, 1-18.

[31] Shah, S.H., & Shah, A. (2017). Short-term financing and risk adjusted profitability: Evidence from Pakistan, Pakistan business review Oct 2017,723-743.

[32] Makori, M.D. (2017). Short term funding choices and fiscal performance of non fiscal corporations registered at the NSE Kenya. Ph.D. Thesis, Kenyatta University.

[33] Katiwa, P.K. (2017). Impact of exchange credit on estimation of business and administrations enterprises enlisted by NSE Kenya. Unpublished Master Project, University of Nairobi, Nairobi.

ISSN: 2456-7760

[34] Rehman, M., & Khurshid, K.M. (2016). A review of impact of trade credit on firm's profitability: A study of non-financial firms in Pakistan. Journal of Poverty, Investment and Development,25,33-36.
[35] Kim, W.S. (2016). Determinants of corporate trade credit: An empirical study on korean firms. International Journal of Economics and Financial Issues, 6(2), 414-419.
[36] Nyoike, K. J. (2015). The effects of working capital management on the financial performance of retail supermarkets in Nairobi City, Kenya.Master Project, UoN, Nairobi.
[37] Louw, E., & Hall, J. (2016). Working capital management of South African retail firms. Journal of Economic and Financial Sciences, 9(2), 545-560.
[38] Oso, W. Y. (2016). Social science research. Nairobi: The jomo kenyatta foundation.
[39] Creswell, J.W., & Creswell, J.D. (2018). Research Design:qualitative, quantitive, and mixed methods approaches (5 ed.). Sage Publishers.
[40] Mugenda, A., & Mugenda, O. (2009). Research methods: Quantitative and qualitative approaches. Nairobi: ACTS Press.
[41] Gitau, N.R. (2018). Impact of internal control practices on monetary performance of supermarket chains in Nairobi central business district. Master project, KCA University.

Author Profile

Stephen Kimani Kiarie: MBA Postgraduate Student Mount Kenya University