

# **Influence of Selected Factors on the Choice of Capital Structure of Small and Medium Enterprises (SMEs) in Kiambu County, Kenya**

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## **Abstract**

This study is on the effect of selected factors influencing the capital structure of small and medium size enterprises in Kiambu County, Kenya. SMEs play a pivotal role towards the achievement of the broad goals outlined in vision 2030 and are critical drivers towards making Kenya an industrialized country with high quality of life for its citizens. The study observes that despite their significance, past statistics indicate that 3 out of 5 SMEs fail within the first few months of operation and those that continue 80 per cent fail before the fifth year; it is therefore necessary to eliminate the many constraints facing these small businesses for Kenya to become an industrialized state by the year 2030. The objectives of the study were to determine the effect of firm size, information availability, purpose of finance, cost of finance, and collateral requirement on the capital structure of SMEs in Kiambu County. The study findings will assist Government planners in understanding how to come up with policies that will help the SMEs sector in raising affordable capital as this will have a great impact on the country's economic growth; financiers will benefit from the findings by developing a better understanding of the factors that influence the capital structure of SMEs. In addition, the findings from the study will contribute to knowledge about financing decisions of SMEs. The study was guided by pecking order theory, credit rationing theory, the agency theory, and the life cycle approach. This study utilized descriptive research design, employing survey methods. The population of interest are the 889 SMEs in Kiambu County registered in the Kiambu Business Directory. The study used proportionate sampling by utilizing a sample of 268 respondents, determined by Fisher's formula. The data were collected from interview schedules using questionnaires. Descriptive and inferential statistics (Pearson's correlation and regression). Data were presented in figures and percentages on pie charts and frequency distribution tables for easier interpretation. The study findings indicated that the size of the business influenced the capital structure of the firms to great extent (33.6%) and to greatest extent (33.6%) respectively compared with those who were not sure at 18.7%. Availability of information influenced choice of capital structure to a great extent (36.2%) and to greatest extent (45.5%) respectively. The purpose of the finance influenced choice of capital structure to a great and greatest extent according to 39.9% and 47.8% of the respondents. Personal savings were generally recommended for SMEs with 22.0%, 29.1% and 48.9% of the respondents indicating average, high and very high recommendation. Family and friends borrowing got mixed recommendation with 23.5% and 24.3% of the respondents indicating low and high recommendation respectively, compared with 45.1% who gave average recommendation. Finally, the research sought to test the hypotheses in order to fulfill the objectives of the study by using Pearson's correlation and regression model and applying t-test to test for the significance in the relationship. All of the null hypotheses were rejected on the basis that the significance of the t-statistic was 0.000 which was less than p-value 0.05 set for the study. Therefore, all the selected factors had an impact on the choice of capital structure for SMEs in Kiambu County.

**Keywords:** Capital Structure, Small and Medium Enterprises

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