Financial Structure and Financial Performance of Domestic Commercial Airlines in Kenya

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Abstract: *The study sought to investigate the relationship between financial structure and financial performance of domestic commercial airlines in Kenya. As much as there is fluctuating growth in domestic commercial airlines, the profitability of the airlines has been on the decline as it recorded a net loss of Kshs 8 billion in 2018 compared to Kshs 7.1 billion in 2017, debt financing hit a record high of Kshs 23 billion in 2018 while retained earnings declined in the same period. Evidence elsewhere has linked financial structure to financial performance with little or no empirical evidence to establish such a relationship in the context of domestic airlines in Kenya. The study adopted explanatory research design. The sample was 11 domestic commercial airlines which were actively registered over the years, 2012 to 2018. Data was analysed using Panel Regression analysis. Using significance level of 0.05, the study found that: Lease financing had an insignificant effect on financial performance of domestic commercial airlines in Kenya as indicated by p-values of (p=0.425) and (p=0.377). Share financing has a significant effect on financial performance of domestic commercial airlines in Kenya as indicated by p-values of (p=0.027) and (p=0.005). Also, debt financing had a significant effect on financial performance of domestic commercial airlines in Kenya as indicated by p-values of (p=0.042) and (p=0.035). Retained earnings had a significant effect on financial performance of domestic commercial airlines in Kenya as indicated by p-values of (p=0.000). The study recommends policy makers to provide information and actively market the leasing services and products that are available to the domestic commercial airlines in Kenya. The study further recommends that since the retained earnings affects financial performance, the management of domestic commercial airlines in Kenya should adopt more use of retained earnings as it is readily available and reduces additional expenses thus improving on financial performance.*
Key words: *Debt financing, financial performance, financial structure, firm size, lease financing,   profit margin, retained earnings, return on assets and share financing.*

List of Acronyms
IATA   : International Air Transport Association
SEO   : Seasoned Equity Offerings
KCAA   : Kenya Civil Aviation Authority
NPM   : Net Profit Margin
ROE   : Return on Equity
ROA   : Return on Asset

I.   Introduction and Background

Globally, the aviation industry contributes 2.7 trillion dollars to the world's GDP which is 3.6% (Lenzen et al., 2018). However, the aviation industry has witnessed turbulent trends in terms of financial performance caused by fluctuating fuel prices, inflation and general economic conditions (ICAO, 2018). It is evident that the traffic in aviation sector is growing faster than the infrastructure to support it. Therefore, it is prudent for the sector to have sufficient financial resources and utilize it efficiently to allow for necessary infrastructural investment (Stuckler, Reeves, Karanikolos, & McKee, 2015).

In 2018, the net profit margin for worldwide airlines was of 2.5 % (Dantas, Oliveira, & Repolho, 2018). According to the International Air Transportation Association (IATA), some airlines worldwide have been able to record historic net profit margins since 2004. In the last fifteen years, 2004-2018, airlines worldwide have reported positive net profit margins in eight years. This was mainly attributed to the significant increase of passenger numbers from approximately 2.1 to 4.3 billion, translating to an increase of approximately 100% (Lainamngern & Sawmong, 2019). Although, the passenger increase was supposed to improve the airline businesses, many airlines have displayed poor financial performance.

Lease financing has turned out to be one of the main reasons for improvement in aviation in emerging economies of Asia and South America. As a result of increase in the number of low-cost carriers (LCCs) joining

the aviation industry, industrial production and international trade has also improved (Malighetti, Paleari, & Redondi, 2016). This therefore explains why only 100 out of 3,980 planes were rented in 1980 and 7,390 out of 19,594 planes were rented in 2012, representing 37.7%. It is projected by 2022 that 50% of new aircrafts will be transacted through financial leasing (IATA, 2019).

Share financing, according to Bessler, Drobetz, Seim, and Zimmermann (2016), consists of IPOs and Seasoned Equity Offerings (SEOs) offered by an airline as a way of acquiring funds by selling stock rather than acquiring debt. Unlike IPOs, SEOs are released by airlines that have advanced beyond IPO with important performance records and with stocks already in stock trading, whereas the IPO entails the first sale of stocks or equity in stock trading (Jiao, Kutsuna, & Smith, 2017). Capital need by firms for investment in projects such as acquisitions of heavy machinery, research and development and availability of debt financing, available investment opportunities are some of the reasons why firms to utilize share financing (Schwarz, 2018).

Debt financing refers to funds that are borrowed and must be repaid, with or without interest. There are several sources of debt financing for businesses and these include; commercial finance companies, hire purchase, share capital, funds from credit unions, funds from friends, family finance and welfare groups (Nyanamba, Nyangweso, & Omari, 2013; Bonham & Langdon, 2010), supplier credit, leasing arrangements (Tariq, 2013). Other sources include resource based banks, exchange credit, hardware providers, Stock financier houses, government bonds, insurance agencies, securities and Small Business Lending Companies.

Retained earnings are as a result of net income of the airline that is retained after a specific reporting period (Aparicio, 2019). Although retained earnings are considered to be the most ideal financial source for small airlines businesses in most of the countries, some airlines show varied mix of high equity to debt ratio mainly because they aren't able to produce retained earnings (Paulo, 2018). The results of Etiennot, Vasolo, Hermelpo, and McGahan (2017), held that retained earnings are used as sources to finance new projects in emerging airlines where they venture into new markets. The study further notes that Companies in the start-up era, however, when original investments have not yet matured or with investment projects significantly bigger than their present income, will not have sufficient economic resources from retained earnings and will be constrained in their development projects.

The performance of the airline industry has been improving globally as a result of improvements in technology, increase in investments and increase in demand for air transport (Endrizalová, & Němec, 2014). As a result, the commercial airline Industry was one of the fastest increasing economic industries in the world. All industries around the globe seek to increase their revenue with the aim of improving their general performance (IATA, 2019). Airline performance is measured by Revenue per Kilometre (RPK), Freight per Kilometre (FTK), airline service quality, profitability among others (Malighetti *et al.*, 2016). The airline industry worldwide has experienced tough times in the aftermath of the global financial crisis. Achievement of financial efficiency may also be pertinent to warrant the success of airlines and to support their competitiveness to attract more shareholders and clients. Hence, revenue inefficiencies could also have a strong influence on the financial viability of airlines.

Farah, Munga and Mbebe, (2018) indicate that in 1988 Kenya, with other African nations, signed Yamoussoukro's Declaration on a New African Air Transport Policy. This statement was designed to ensure airlines are integrated and regional control bodies set up. This would take place through initiatives on the growth of inter-state air infrastructure, exchange of air traffic freedoms so that every nation has open access and ongoing use of a fair and open system of reservations among multiple other means. The statement is to be enforced until today as it was not signed by other African States.

Kenya has Strong attempts have been created to modernize the aviation sector to satisfy the enhanced demand for global transport. Because Kenya and the rest of the world trade is opened up, traffic demand has risen significantly over the past decade. Other variables include tourism, horticulture and more affordable, simpler and quicker movement of individuals from one town to another. According to Irandu (2010), the significance of an effective national air transport network is an addition to the insufficient ground transport scheme in the sub-region.

II. Research Problem

In Kenya, the air transport industry is estimated to have contributed an amount of $1.9 billion to Kenya's GDP in 2018 (IATA, 2019). However, the airline sector contribution to the GDP has been fluctuating over the years that is in 2010 at 0.5%, the year 2013 at 0.4%, the year 2014 at 0.3%, the year 2017 at 0.4% and the year 2018 at 0.5% (KNBS, 2019). Furthermore, the growth in airline sector has been inconsistent such that in 2013 it declined by 0.3%, in 2014 and 2015 it declined further by 1.1% and 1.4%. However, there was successive growth in 2017 and 2018 where it witnessed a growth of 5.4% and 7.8% respectively (KNBS, 2019). As much as there is fluctuating growth in domestic commercial airlines, the profitability of the airlines has been on the decline as it recorded a net loss of Kshs 8 billion in 2018 compared to Kshs 7.1 billion in 2017, leasing cost increased to Kshs. 16 billion in 2018 up from Kshs. 14.1 billion in 2017 and Kshs 13.3 billion in 2016, debt

financing hit a record high of Kshs 23billion in 2018 (Farah *et al.,* 2018). Evidence elsewhere has linked financial structure to financial performance. However, in the context of airlines in Kenya, little literature exists on this relationship. This is the motivation for the current study to fill this gap.

According to Hazel (2018) US airlines owing to powerful income development, cost efficiencies and capacity management, profitability enhanced considerably in 2006. It is estimated that industry-wide operating profit rose from $24.3 billion in 2015 to $25.4 billion in 2016, translating to an operating profit margin of 3.9 percent. Twelve U.S. airlines produced operating profit of more than $400 million compared to 10 in 2016, while only four U.S. airlines produced operating losses compared to nine year-round carriers 2015. This is in contrast to airlines in African carriers who are expected to report a $300 million net loss in 2019 which will be a slight improvement from the $400 million net loss in 2018, making Africa the weakest region. While worldwide Airlines are making profit, the Africa airlines collectively didn't make any profit since 2010 (Amankwah-Amoah, 2018). Considering that American and European countries have well developed industries unlike here in Africa, including Kenya which is a developed country. Therefore, there is a contextual gap that exist when trying to link the financial structure to financial performance across continents.

Lesivan (2012) sought to investigate the effects of financial structure on financial performance of microfinance institutions in Jordan, Israel. The study found that short and long term debt financing have a substantial and negative effect on ROA. Séverin (2012) sought to investigate financial structure and financial performance for French SMEs for 11436 firms for the year 1999-2008. The study showed that SMEs lease more when young, leveraged, solvent and small and are highly vulnerable to bankruptcy. From the aforementioned studies there is context variation as they were done in the financial sector and in a developed country. Also, return on assets was used to measure financial performance. The gaps will be addressed as this study will be carried out in the airline industry in Kenya, a developing country. Also, net profit margin and return on assets will be used to measure financial performance.

With numerous studies having been conducted both in Kenya and beyond, not much has been done in terms of seeing to determine the relationship between the financial structure and financial performance of domestic commercial airlines in Kenya. Therefore, it was prudent to investigate the relationship between financial structure and financial performance of domestic commercial airlines in Kenya.

III.   Objectives

The overall objective of this study was to assess the effect of financial structure on financial performance of domestic commercial airlines in Kenya. The study also sought to address the following specific objectives:
a) To examine the effect of lease financing on financial performance of domestic commercial airlines in Kenya.
b) To determine the effect of share financing on financial performance of domestic commercial airlines in Kenya.
c) To assess the effect of debt financing on financial performance of domestic commercial airlines in Kenya.
d) To establish the effect of retained earnings on financial performance of domestic commercial airlines in Kenya.

*Null hypotheses were formulated (for each specific objective) and tested at significance   level of 0.05.

IV. Review of Literature

a.   Theoretical Review

The study was anchored on agency theory, pecking order theory and trade off theory. The agency theory originated form Jensen and Meckling (1976). The theorists argued that the primary theoretical explanation for the connection between property and profitability. Controversies between agency holders and shareholders and/or between executives and shareholders can occur and can result in asset replacement and reduced levels of investment. Lainamngern and Sawmong (2019) argue that the non-cancellable lease can be used to mitigate the problem of asset replacement since the non-cancellable lease requires the renter to use leased property over the duration of the lease agreement. This theory implies that leasing financing and share finance will lead to the effective management of the company, which in turn will add to the financial performance of the airline companies.

Modigliani and Miller's second proposal (1963) launched the concept of trade-off theory. This theory brought about the concept of bankruptcy to occur and further indicated that debt funding had an advantage and that debt financing costs (the bankruptcy cost of debt) had a price. Furthermore, the theorists asserted that the marginal benefit of additional debt increases reduced with the debt rising while marginal costs increased to focus on this trade-off when choosing how much debt or share to use for financing were selected. This theory clarified the share to debt ratios but it failed to clarify the industry distinctions. Airlines in Kenya can use trade

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off theory by using debt funding in their economic framework to take advantage of the interest tax shield (Calabrese, 2011).

Pecking -Order theory is attributed to Myers (1984) and Myers and Majluf (1984). The theorists affirmed that businesses first opt to use their income to finance their investments due to information asymmetry. Companies issue debt first and share funding last, according to the theorist, when internal financing is not enough. The theory of pecking order indicates that companies have a specific capital preference order used to finance their companies. The preferences order represents the relative expenses of the different funding alternatives (Poschke, 2018). This theory was evaluated to anchor the retained earnings variable. It describes why managers merely prefer external borrowing to inner resources (Penrose, 2013). Investors consider equity (stock) issuance negatively, businesses prefer to finance capital from retained income, and then debt and new equity having only exhausted these options. (Song, 2016).

The stakeholder theory is attributed to Edward Freeman (1984). The theory strives to balance between stakeholder's interests and the social relationships between a company and the stakeholders. This is in contrast to the agency theory in a number of ways since management don't work for the stakeholders but they also foster good relationships between the firm and the organization. In the airline industry, as much as company seek to make profits customer experience and stakeholders interests has gained popularity in the last decade (Gramani, 2012). This has pushed airlines to consider the interest and feedback from the customer and shareholders as a key strategic asset (IATA, 2019).

b. Empirical Review

The study reviewed empirical literature so as to document the research gaps. Mezine (2007) investigated the influence of leasing on real estate firms. The study used a sample of 2,343 UK cited businesses over a period of 15 years, producing 17,862 pooled time series observations. The complete sample of businesses was first divided into the leasing propensity defined as the leased asset ratio over the amount of freehold and rented real estate. Thus, a 0 percent lease propensity referred to firms that used only freehold real estate, while a 100 percent lease propensity stated that firms depend only on leased real estate. The findings showed that firms owning real estate tend to mature first, while companies leasing their real estate tend to grow. The results concurred with Lasfer and Levis (1998) indicating that companies with high growth are more probable to use lease financing.

Muhammad, Naveed, and Hammad (2012) studied the factors affecting Pakistan's leasing companies ' profitability. For the period 2006-2008, they evaluated a data pool of 28 leasing firms. Size, liquidity, leverage, age and net investment in lease finance were the factors used to determine profitability. The research used normal least square models (OLS) and logistic models (Logit) to estimate outcomes. The findings showed that size, net investment in lease finance and liquidity were positively and significantly related with leasing companies' profitability, while leverage and age had a negative and significant with leasing companies' profitability.

Lesivan (2012) sought to determine the impact of capital structure on the performance of microfinance organizations. Regression findings where return on assets was used as a financial performance measure indicated that only debt financing is negatively and significantly related with return on assets. In determining the return on share funding in Jordan's banking industry, Taani (2013) found out that long-term debts have a significant effect on net profit margin and return on assets.

Timothy and Peter (2012) sought to evaluate the effect of share financing on profitability in NSE listed companies for the period 2002-2010. The study used multiple regression analysis that indicated a positive relationship between share financing and the profitability of the companies. The results also stated that a significant factor influencing return on investments was share financing. It is normal that managers prefer the company to maintain more finances to guarantee development as it is possible to take advantage of present prospective possibilities as perceived by management by using what has been provided back to the company. On the other side, shareholders would prefer reduced retentions as they are affected by the dividends they receive, hence for them whenever there is a retention there is a sacrifice that is always created.

Kanwal (2012) found that retention ratio and share financing have a significant impact on the financial performance of the Pakistan's chemical and pharmaceutical industry. The main concept behind income retention, is that the more the business maintains the quicker it has opportunities for development. Retained earnings are typically reported on the balance sheet by shareholders. Khan, Zulfiqar and Shah (2012) assessed the impact on future profitability and inventory yields of retained income and established that there is an insignificant relationship between retained income and bank financial performance in Pakistan.

Ramasamy, Ong and Yeung (2005) indicated that the relationship between the firm's financial performance and the company's size was ambiguous and therefore called for caution in considering the need for industry-specific account of this factor, while encouraging researchers to continue on a case-by-case basis of

assessment and avoiding the inclination to generalize. For their study, Oladele and Adebayo (2013) asserted that the nature of the relationship between company size and profitability is an important issue that can shed some light on the variables that increase earnings in companies.

Salam (2013) sought to evaluate the relationship between company performance using Return On Asset (ROA) and Return On Equity (ROE) with various small and medium-sized enterprises. The findings underlined the connection between lease funding and ROA and ROE were studied by 23 medium-sized businesses SMEs and 30 tiny businesses SMEs. The findings showed that in a linear relationship between lease finance and ROA and ROE, medium companies were statistically important and positively correlated.

Chigurupati and Hegde (2010) investigated leasing and investment on the capital market. All S&P 100, S&P 400 and S&P 600 were gathered by using panel data. There were 7012 company-year observations on the information panel. He used the rental expenditure ratio with net PPE as an extensive lease ratio measure. He discovered that companies with elevated data were leasing more and those with low agency costs were leasing less. Furthermore, he discovered out that companies with important tax losses that move forward were unable to take complete benefit of the tax advantages of ownership of assets, hence leasing more.

However, there exists knowledge gaps that this study sought to address. These gaps also include conceptual, contextual and methodological spheres. From past studies on financial structures' influence on financial performance of domestic commercial airlines in Kenya debate is inconclusive. Conceptually, the relationship found in financial frameworks, profitability, the firm size and financial performance have been studied. There still remains unresolved issues; first, while some researchers reported that financial structure enhances a firm's performance (Tharmila & Arulvel, 2014) others found that capital structure affects both overall performance and profitability to the growth (Dada, 2014). Thus there is need to establish if the components of the financial structures adopted by most firms locally actually affects financial performance of domestic commercial airlines.

V. Methodology

The study was quantitative in nature hence the adoption of explanatory research design. Explanatory study in terms of its probable causes was used to comprehend the phenomenon. This sort of study was used to assess the effect on current standards and assumptions that a particular change would have. Explanatory study suggests that the study in question is designed to explain the phenomena studied rather than merely describe those (Maxwell & Mittapalli, 2010).

The sample for the study was the 11 domestic commercial airlines in Kenya firms listed at the African Airlines Association (AFRAA) which were actively registered over the years, 2012 to 2018.This study used secondary data. The Secondary data was retrieved from the airlines websites, Kenya Civil Aviation Authority and African Airlines Association library. The study sourced secondary data from the published financial reports.

The study used descriptive statistics, correlation analysis and panel regression analysis to analyze the data. The data analysis was conducted by Stata software. Correlation analysis was in the form of Pearson's correlation coefficient. The study used panel regression model to show the significance and relationship between the financial structure and financial performance. Consequently, the regression model aided the study combine cross-sectional data on the listed airlines in Kenya (N) and the seven-year time period from 2012 to 2018 (T) so as to produce a dataset of N*T observations. The panel regression model adopted is indicated below:

$ROA_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2\,it} + \beta_3 X_{3\,it} + \beta_4 X_{4\,it} + \varepsilon_t$

$NPM_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2\,it} + \beta_3 X_{3\,it} + \beta_4 X_{4\,it} + \varepsilon_t$

Where: **Y** – Financial Performance measured by ROA and NPM for airline i time period t.

β_0 – Intercept

P_{it} – Net Profit Margin for airline i at time t.

X_{1t} – Lease financing for airline i at time t.

X_{2t} – Share financing for airline i at time t.

X_{3t} – Debt financing for airline i at time t.

X_{4t} – Retained earnings for airline i at time t.

B_1-β_4 – Co-efficient.

ε_t – Is the error term at time t.

VI. Results, Findings and Discussion

The findings are captured to indicate the significance of the relationship between financial structure and financial performance of domestic airlines in Kenya. The results are presented in form of correlation analysis, descriptive statistics and inferential statistics. The findings are compared to the results of other studies and the key findings of this study are also indicated.

a) Correlation Analysis

Correlation analysis was done to calculate Karl Pearson Correlation Coefficient between dependent variables (ROA and net profit margin) and independent variables (lease financing, share financing, debt financing and retained earnings). Correlation analysis was performed at 95% confidence level. The results shows that lease financing and NPM are positively and significantly related with (r= 0.759, p=0.001). Share financing and NPM are positively and significantly related with (r= 0.697, p=0.010). Correlation results also indicated that debt financing and NPM are positively and significantly related with (r= 0.556, p=0.011). Lastly, the correlation results indicated that retained earnings and NPM are positively and significantly related with (r= 0.472, p=0.004).

Results also shows that lease financing and ROA are positively and significantly related with (r= 0.779, p=0.002). Share financing and ROA are positively and significantly related with (r= 0.717, p=0.012). Correlation results also indicated that debt financing and ROA are positively and significantly related with (r= 0.578, p=0.001). Lastly, the correlation results indicated that retained earnings and ROA are positively and significantly related with (r= 0.498, p=0.003).

The results concur with Salam (2013) who concluded that there was a linear relationship between lease finance and ROA and net profit margin of domestic commercial airlines in Kenya. He further noted that the lease finances provide organizations with additional capital to add to its business so as to improve on its income. The results also concur with Shubita and Alsawalhah (2012) who suggested that high-performing organizations rely on share finances as their primary source of funds. They also noted that there is a positive relationship between share financing and financial performance. The findings also agree with Abor (2007) who established a significant relationship between short-term and long term debt and ROA and net profit margin. and respectively. Additionally, Kanwal (2012) established that retained earnings as expressed by retention ratio and financial performance have a positive and significant relationship.

b) Diagnostic Tests

Four diagnostic tests were done prior undertaking the regression analysis. These were the multicollinearity, normality, heteroscedasticity, stationarity and model specification test. The study used variance inflation factors (VIF) to test for multicollinearity which indicated that there was no multicollinearity as the VIF<2 for all the variables. Normality test was done using shapiro- Wilk test and indicated normality as the values were greater than 0.05 (p=0.15389) and (p=0.13739). For heteroscedasticity, the study used the breusch-pagan test that indicated a value of 0.8501 and 0.1085 which was greater than the critical p value of 0.05 thus the data didn't suffer from statistically significant heteroscedasticity. For the model specification test, the value of the hausman test is 0.9930>0.05, thus the random effects are independent of the explanatory variables. Therefore, the random effect estimator is used to analyse the regression model.

c) Regression Analysis

The coefficient of determination (R^2) and correlation coefficient (r) shows the degree of relationship between financial structure and net profit margin. The R value of (0.934) indicates a strong and positive relationship between financial structure and net profit margin. The adjusted R^2 indicates that 86.6% of changes in financial performance are explained by net profit margin of the domestic airlines in Kenya. The R value of (0.823) indicates a strong and positive relationship between financial structure and ROA. The adjusted R^2 indicates that 65.9% of changes in ROA are explained by financial structure of the domestic airlines in Kenya.

Analysis of Variance (ANOVA) was used to find out whether the variation in the financial structure would explain the variance in financial performance. In view of the results, the model overall is a good fit (p=0.000) hence, financial structure explains financial performance of domestic airlines in Kenya. This means that debt financing, lease financing, retained earnings and share financing jointly have a statistically significant effect on the financial performance of the firms under study.

The regression coefficient was used to indicate the coefficient values between the dependent variables of net profit margin and ROA and the independent variables (lease financing, share financing, debt financing and retained earnings).

From the results, the regression functions are captured below:

$NPM_{it} = -15.576 + 1.487X_{2\,it} + 1.434X_{3\,it} + 1.525X_{4\,it}$

$ROA_{it} = 18.031 - 1.827X_{2it} - 1.439X_{3\,it} + 0.424X_{4it}$

Where: **NPM_{it}** – Net profit margin for airline i at time t.

ROA_{it} – Return on Asset for airline i at time t.

X_{1it} – Lease financing for airline i at time t.

X_{2it} – Share financing for airline i at time t.

X_{3it} – Debt financing for airline i at time t.

X_{4it} – Retained earnings for airline i at time t.

For the regression model with NPM as the dependent variable, the results indicates that lease financing and NPM of domestic commercial airlines in Kenya are insignificantly related (p=0.425). Share financing and NPM of domestic commercial airlines in Kenya are significantly related (β=1.487, p=0.027). This means that an increase by 1 unit in share financing would lead to a subsequent increase in net profit margin by 1.487 units. Results also shows that debt financing and NPM of domestic commercial airlines in Kenya are significantly related (β=1.434, p=0.042). This means that an increase by 1 unit in debt financing would lead to a subsequent increase in net profit margin by 1.434 units. Retained earnings and NPM of domestic commercial airlines in Kenya are positively and significantly related (β=1.525, p=0.000). This means that an increase by 1 unit in retained earnings would lead to a subsequent increase in NPM of domestic commercial airlines in Kenya by 1.525 units.

For the regression model with ROA as the dependent variable, the results indicates that lease financing and ROA of domestic commercial airlines in Kenya are insignificantly related (p=0.377). Share financing and ROA of domestic commercial airlines in Kenya are significantly related (β=-1.827, p=0.005). This means that an increase by 1 unit in share financing would lead to a subsequent decrease in ROA by 1.827 units. Results also shows that debt financing and ROA of domestic commercial airlines in Kenya are significantly related (β=-1.439, p=0.035). This means that an increase by 1 unit in debt financing would lead to a subsequent decrease in ROA by 1.439 units. Retained earnings and ROA of domestic commercial airlines in Kenya are positively and significantly related (β=0.424, p=0.000). This means that an increase by 1 unit in retained earnings would lead to a subsequent increase in ROA of domestic commercial airlines in Kenya by 0.424 units.

VII.   Discussion

The overall objective of this study was to evaluate the effect of financial structure on financial performance of domestic commercial airlines in Kenya. The results of this study indicate that financial structure has a significant relationship with financial performance of these firms, at 0.05 levels of significance. The study result is in tandem with the study conducted by Lesivan (2012) on the effects of financial structure on financial performance of microfinance institutions in Jordan, Israel. The study found that financial structure has a substantial and negative effect on ROA. Dembele (2012) sought to investigate financial structure and financial performance for French SMEs for 11436 firms for the year 1999-2008. The study showed that there is a significant relationship between financial structure and performance.

The first objective of the study was to examine the effect of lease financing on financial performance of domestic commercial airlines in Kenya. The study concluded that lease financing does not have a significant effect on financial performance of domestic commercial airlines in Kenya. The findings concur with Dita and Murtaqi (2014) who found an insignificant relationship between lease financing and net profit margin. Also, Mutune (2016) established that there is an insignificant relationship between lease financing and net profit margin of leasing companies in the Nairobi Securities Exchange.

The second objective of the study was to determine the effect of share financing on financial performance of domestic commercial airlines in Kenya. The study concluded that share financing has a significant effect on financial performance of domestic commercial airlines in Kenya. The findings concur with Shubita and Alsawalhah (2012) who concluded that share financing is significantly related with financial performance. Also the results, Velnampy and Niresh (2012) established a significant relationship between share financing and financial performance of SMEs specifically ROA. However, Chiang *et al*. (2002) established that share financing negatively impacts net profit margin of firms as the shareholders' interest have to be catered for at the expense of the company.

The third objective of the study was to assess the effect of debt financing on financial performance of domestic commercial airlines in Kenya. The study concluded that debt financing has a significant effect on financial performance of domestic commercial airlines in Kenya. The findings concur with Baimwera and Muriuki (2014) who concluded that debt financing is significantly related to financial performance of SACCOs in Kenya. The results also agree with Lesivan (2012) who established that long term debts affects net profit margin of firms. Also, Muigai (2016) noted that debt financing negatively and significantly impacts financial performance of companies as the excessive use of debt to finance corporate activities generally results in a considerably adverse impacts.

The fourth objective of the study was to establish the effect of retained earnings on financial performance of domestic commercial airlines in Kenya. The study concluded that retained earnings has a significant effect on financial performance of domestic commercial airlines in Kenya. The results concur with that of Ouma (2012) who established that retained earnings positively and significantly affects financial performance of NSE listed companies. Also, Kanwal (2012) noted that retention ratio and Share financing positively influences ROA and net profit margin.

VIII. Conclusion and Recommendations

The study concluded that lease financing does not have a significant effect on financial performance of domestic commercial airlines in Kenya since it did not affect neither net profit margin nor the Return on Asset. The study concluded that debt financing has a significant effect on financial performance of domestic commercial airlines in Kenya. The domestic commercial airlines in Kenya use debt financing to increase its capital, maintain ownership and become risk averse thus attain higher net profit margin. Further, the study established that retained earnings has a significant effect on financial performance of domestic commercial airlines in Kenya. Retained earnings can be used by the domestic commercial airlines in Kenya since it is readily available and reduces additional expenses related to issuance of external equity gain thus improving on its financial performance.

The study recommends the management of domestic commercial airlines in Kenya to adopt less use of lease financing since it was found to be statistically insignificant. Thus, the management should prioritize other sources of finances so as to improve on financial performance. However, it is very important for the management of domestic commercial airlines in Kenya to assess the value addition of lease finances in their operations in the absence of the other financial sources. The study further recommends policy makers to provide information and actively market the leasing services and products that are available to the domestic commercial airlines in Kenya. This will be beneficial to managers of domestic commercial airlines in Kenya to have the right information that they require.

The study recommends that since share financing affects financial performance, the management of domestic commercial airlines in Kenya should adopt more use of debt financing. They should also use the debt finances for investments only and not for the recurrent expenses so as to get sufficient income to enable them pay the debts in time. The study also recommends the management of domestic commercial airlines in Kenya to adopt more use of share financing. Thus, the management should brand their products so as to get more investors on board. This will improve on their ROA. The study further recommends that since the retained earnings affects financial performance, the management of domestic commercial airlines in Kenya should adopt more use of retained earnings. The benefit of using retained earnings is that it is readily available and reduces additional expenses related to issuance of external equity thus improving on net profit margin and Return on Assets of the airlines.

Contribution to Knowledge

The results from this study will also add to the current literature on the subject related to influence of financial structure on financial performance. This may benefit future research scholars who may consider using this information for reference purposes. The study will be important to airlines management as they will get insight of impact of their management practices. It may also be important because it will give an indication of how financial management practices in place are and also give recommendations on how to make improvements in the weak areas. The policy makers may also obtain knowledge of the financial management in place and the responses that are suitable and specific, they may hence get direction from this study in outlining fitting strategies that can encompass financial management practices that may be unique to different airlines.

Areas for Further Studies

It is expected that the findings of this study will contribute to the existing body of knowledge and also form the basis for future researches. The following are the areas recommended for further research under this study. First, the study established that lease financing had an insignificant effect on financial performance of domestic commercial airlines in Kenya. Therefore, the study suggests to researchers to find out why lease financing is insignificant in explaining the financial performance of domestic commercial airlines in Kenya.

Secondly, the results indicated that 65.9% of changes in ROA are explained by financial structure of the domestic airlines in Kenya. This indicates that 34.1% of the variation can not be explained by the model. Thus, the researcher recommends further studies on these firms to explain the unexplained part of the variations, bearing in mind the focus of this study.

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